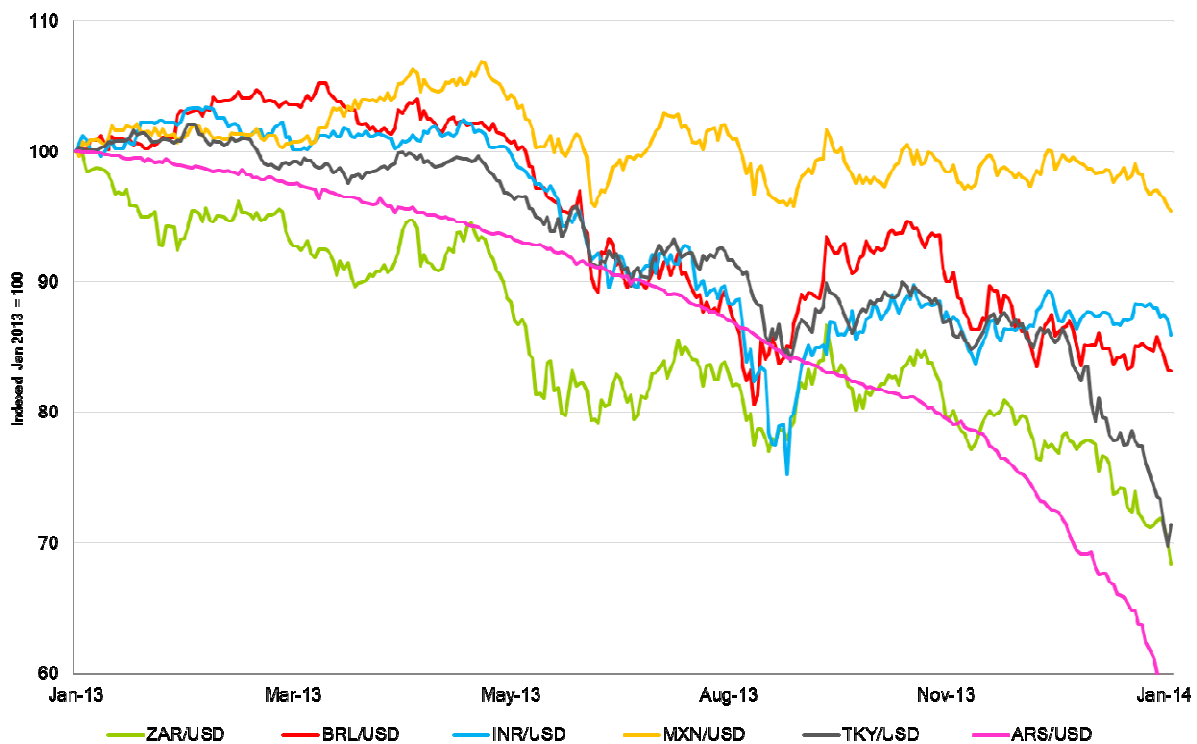


Monthly Newsletter – February 2014

Note from Theo and Warren

South Africans, especially those who travel and import goods for a living, are watching the fall of the rand with absolute dismay. And there's a natural tendency to assume that this trend is unique to South Africa and that it will continue in one direction forever.

However, when reviewing this type of event, it's always important to understand the broader context, because the rand's fall is part of a broader emerging market decline and is certainly not unique to South Africa.



Source: McgregorBFA, Cannon Asset Managers

The chart above shows how the currencies of South Africa, Brazil, India, Mexico, Turkey, and Argentina have fallen against the US dollar over the last year. It is clear that South Africa (green line, 2nd biggest loser) has had a rough time, but so have a range of other countries.

This means that we should be careful of forecasting that the rand will only continue in one direction in future due to our domestic issues. It is already clear that the rand has fallen too far. It certainly can fall further but it is logical to assume that the rand will eventually recover again.

We feel that it would be a mistake for investors to aggressively send money overseas now. People who made this decision when the rand dropped dramatically in the early 2000s lost a significant portion of their capital when the rand recovered.

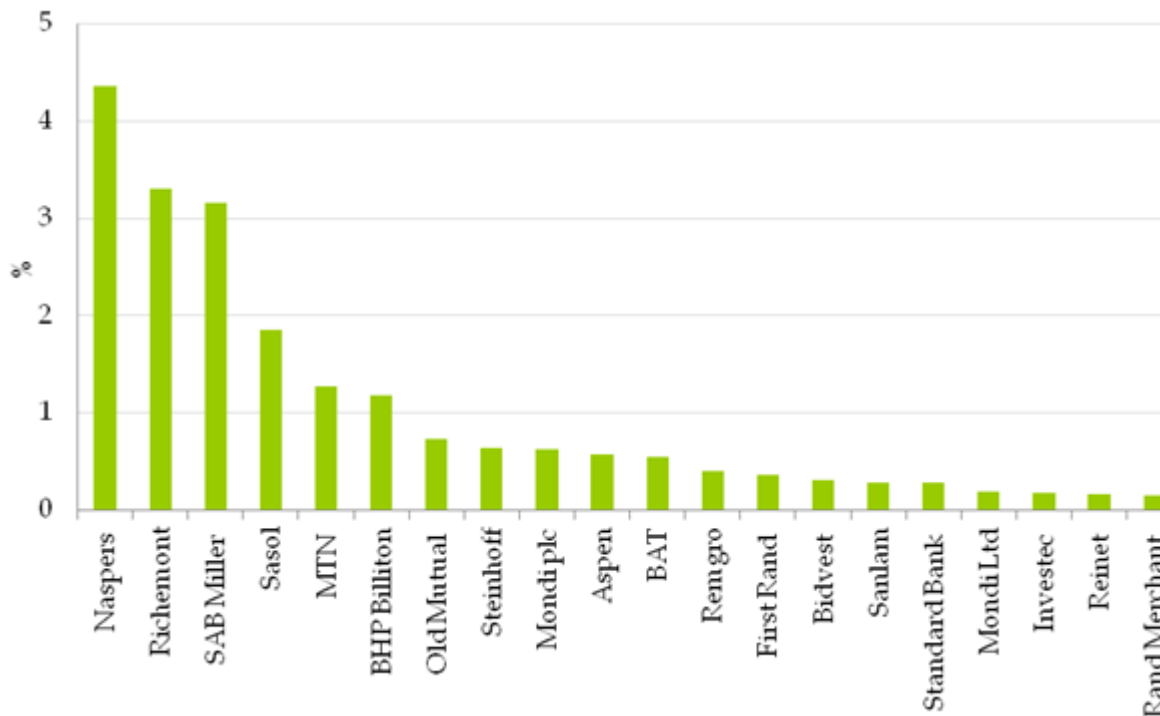
-- Theo and Warren

The JSE is still expensive on average

The chart below is an update on research that we have discussed before. It illustrates that 11% of last year's 18% stock market rise was from three companies only: Naspers, Richemont and SAB Miller. If you owned all other 157 companies that make up the index, your return was just 7% for the year!

This should provide some context to the discussion about the stock market and whether it is expensive or not. While the index level is still high, there are massive discrepancies in the actual value represented by the biggest shares in the index.

The 20 largest individual stock contributions to the JSE's return in 2013



Source: McGregorBFA, Cannon Asset Managers

What does this mean for you as an investor? We would not suggest that you sell all your South African shares or even stop buying into the market as there are still companies offering great value. However, we would suggest that you avoid buying large quantities of Naspers, Richemont and SAB Miller at this time.

If you are over-invested in shares as an asset class, now is a good time to review your asset allocation. If the stock market does drop during the year, it is important to remember that it falls faster than it rises and therefore you need to have the correct asset allocation now to temper any losses.

If you have been invested in actively managed funds that have underperformed the overall stock market over the last three years, it is likely that they have been avoiding the expensive shares and therefore are well positioned for the current conditions.

Science shows that positive encouragement works better than criticism

Positive and negative emotions are processed differently in our brains. Emotions like fear, anxiety, stress and anger narrow our focus, inhibit our concentration and decrease our cognitive abilities, while positive emotions can do the opposite.

When we're feeling upbeat and happy, we're more likely to have an inclusive focus than a self-centred outlook,

and to perform better on cognitively demanding tasks. So, the way leaders use positivity when communicating with employees can make a huge impact on their emotional well-being and their performance, it seems.

For example, in one experiment, the emotional tone of a leader delivering news to an employee made more impact than the news itself. When negative feedback was delivered with a warm tone, the employees usually rated the interaction positively. On the other hand, good news, such as achieving a goal, delivered with a negative tone, would leave employees feeling bad.

The emotional state of a leader can also rub off on employees even when they're not sharing feedback specifically. Just being more upbeat can improve the emotional state of your employees, as well as helping them to be more efficient and co-ordinate better.

Employees are also more likely to remember negative interactions than positive ones, and to spread the negativity among other employees.

Improving the positivity of your team can be as simple as making some important changes to your own leadership approaches:

1. **Listen and show empathy:** this helps employees to develop a stable base at work, so they feel comfortable exploring and taking risks, which results in more creativity and better problem-solving.
2. **A caring boss is more important than what you earn:** making your employees feel heard and understood can actually improve their physical health as well as their mental well-being. Workers who feel unfairly criticised, or whose boss will not listen to their problems, have a rate of coronary heart disease 30% higher than those who feel treated fairly.
3. **Make interpersonal chemistry a priority:** our sense of engagement and satisfaction at work results in large part from the hundreds of daily interactions we have while there, whether with a supervisor, colleagues, or customers. Especially in bigger teams, ensuring that there is positive chemistry among team members could make a big difference to your overall company culture. So, how do you balance modesty and courtesy, and respond in the most gracious way?

Sleep and productivity

By now most of us are familiar with the concept of 'larks' and 'owls' when it comes to describing our own sleep preferences. But what if you knew that several studies have found a correlation between waking up early and success?

People who rise earlier are more likely to:

1. Achieve better grades
2. Be more proactive
3. Anticipate problems with opportunity to minimise their negative impact
4. Be better planners
5. Have time to exercise
6. Spend more quality time with friends and family

Sounds good, right? But if you are a night owl, it's going to take some work to move your sleep cycle, so here's how you do it. To wake up earlier you need to go to bed earlier. Over the next few weeks bring your bedtime forward in 15-minute increments till you hit a time that sits well with you, where you're getting enough shut-eye.

But how much is enough? We all think we're supposed to get eight hours of sleep, but in fact, that number isn't set in stone, and hours per night are variable and depend on things like stress, sleep debt and health issues. A broad seven to nine hours is the norm, but many people need a lot less.

If you can do this, and shift your sleep cycle till you're getting up an hour earlier every morning, that will give you seven extra hours every week for all those things you keep saying you don't have time for. Also, if you can consistently get better sleep, the quality and efficiency of your work will improve, freeing up even more time.