

Monthly Newsletter – November 2014

Note from Theo and Warren: SURPRISE – THE MARKET DROPPED!

In our January 2014 newsletter, and in a few subsequent issues, we warned that the market was becoming increasingly overvalued. We cautioned that the trend could not continue indefinitely and investors should expect volatility and possibly subdued growth for a while.

Recent market events have, therefore, been somewhat expected, although we claim no prizes as we could never predict when, what and by how much the market could move.

From the stock market's peak in July this year, there has been a drop of 6% to date. While it is never nice to lose money in a market fall, we confess to being mightily relieved that the fall has finally happened. These types of falls are actually healthy as they release pressure from a market system that could otherwise burst like a balloon.

It might be surprising to know that the market normally has one significant drop per year. According to research from Robert Cowan Investments (Pty) Ltd, the market has fallen by more than 10% on 11 occasions in the last 10 years. This is considered normal and often healthy for the long-term prospects of the market.

An abnormal fall is when the market drops by more than 20% and that usually requires an external push ie. a major stock market drop in the international markets that causes our market to fall in concert. It is always tempting to view our internal (political) problems as the cause for our currency and stock market moves, but the really large falls are nearly always caused by external events.

It is our view that the stock market is still overvalued but only by 10% to 14%, which is much healthier than the 25% overvaluation that we saw in July this year. We are not in the predicting business, so we are not clear on the future direction of our market, but we would not be surprised if the market remained very volatile in the next few months.

In summary, don't worry about these market moves: they are normal for this stage of the market cycle.

- Theo and Warren

The world is your oyster

South Africans are now truly competitors in the global market: this is clear if you take a look at the JSE and where all the blue chip companies are invested. More than 50% of the JSE market cap is exposed to foreign currency.

The natural flow will be for individual investors to follow suit. And since Galileo Advisory Services started offering tax advice and compliance to our clients we have been kept busy, mostly with overseas investment questions.

The good news is that investing and moving your funds overseas has become easier with the relaxation of exchange control. You will need to be a South African, and older than 18 to invest abroad.

These are the basics:

- A single discretionary allowance of R1-million per calendar year. You are allowed to use this allowance mainly to fund your overseas travels or to make capital investments.
- Foreign investment allowance of R4-million per calendar year. For this allowance you will need to obtain a tax clearance certificate from SARS.
- Once your funds are invested in foreign markets or bank accounts the funds are allowed to stay in the foreign currency outside South Africa.
- As South African taxpayers we are taxed on our worldwide income, which means that the income earned on these foreign investments will be taxed in South Africa.

If you need help applying for a tax clearance certificate or to complete your tax return with your foreign income please let us know at tax@galileocapital.co.za or via your financial planner.

Work-from-home employees: boost their productivity

There are many reasons employees might have to work from home from time to time, and it might make you a little nervous. But don't assume their productivity will fall through the floor: research has found that, when executed correctly, working from home can actually boost an employee's productivity.

There are a few ways you can get the most out of employees who work from somewhere other than your offices:

1. Set clear expectations. We all have a slightly different definition of what it means to work from home, so it's vital everyone understands what your expectations are. You don't want people seeing 'home days' with 'catch up on my personal admin time'. State upfront what you expect from employees when they aren't in the office, what they should accomplish, and how you will reach them if you need to touch base.
2. Focus on project completion, not "logged-in" time. In other words, allow people to be grown-ups and work on their own terms. When given a bit more autonomy, people tend to be more productive – and happier – at work. Pay attention to their completed assignments and the quality of work you receive. In some cases, the work will get done faster, leaving more time for side projects or more creative, strategic work.

3. Offer some offline hours. Encourage your team to go offline or to fill in their calendars with some 'plugged-in time' during their out-of-office days. One of the biggest benefits of working at home is being able to free yourself from the typical office distractions – loud conversations in the passage, impromptu meetings in your office, water cooler gossip... But your work-from-home team will find it equally distracting to be at home if they are continually pinged by emails, chat messages, or phone calls. Recognise that not every task is an emergency and let the true priorities rise to the top of their to-do lists.
4. Make sure everyone is equally accessible. Just as you need to be in touch with your work-from-home employees, they should have the same access to other team members and to you. It's helpful to identify a core tool (or set of tools) that's accessible to everyone on your team, whether it's a daily video check-in, a persistent chat system, or some other project management system.

Not everyone does their best work at home. And some things do need to be hashed out face to face. But given the enabling influence of technology, working from home has become easier and easier, and it might work well for some members of your team.