

Monthly Newsletter – December 2017

Festive season greetings!

This newsletter brings greetings from everyone at Galileo Capital. We hope you have a fantastic festive season and that 2018 proves to be a year of renewal for our country. Thank you for allowing us to be part of your financial journey.

A note from Theo and Warren

This has certainly been a very difficult year to be a South African. The political situation and consequent economic decline in the country is concerning.

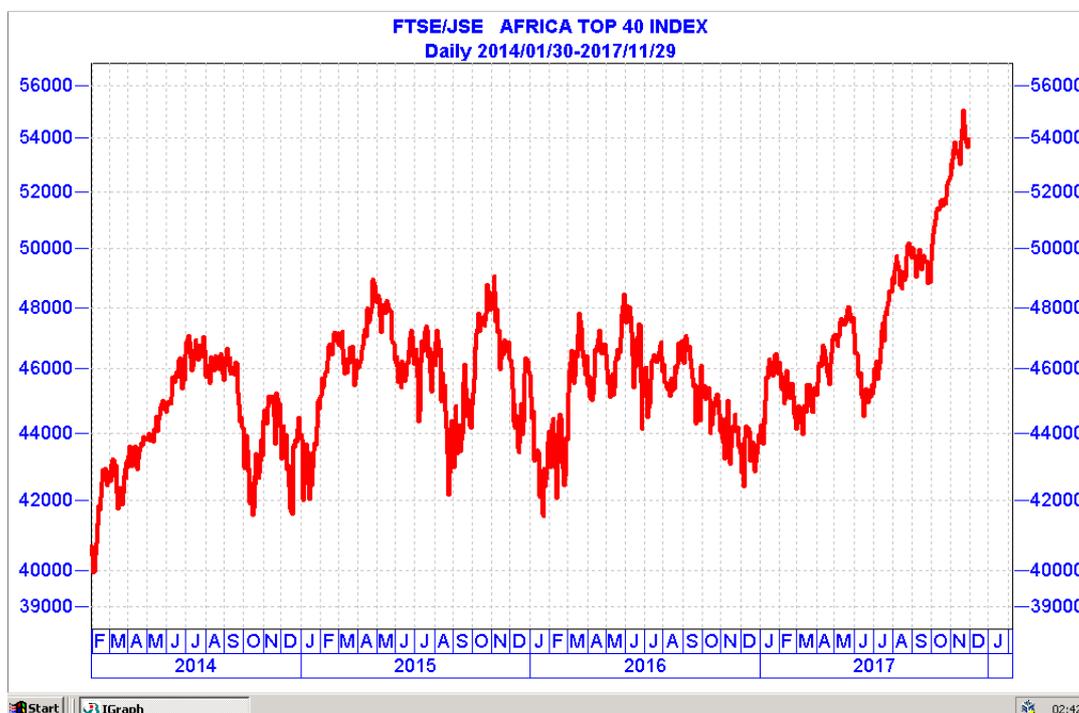
We feel that the ANC elective conference is yet another critical juncture for our country and will have an impact on the national election in 2019, which might prove to be one of the most important in our country's history. As we have mentioned in the past, no one has a firm grasp on what will happen in December and therefore we need to be careful of investing based on predictions, which are as certain as a coin toss.

The recovery of the SA stock market since July has been comforting for investors and the recent strength in the rand has been a positive surprise to all of us. Warwick's note below will expand on the performance of the stock market. We hope that Government will now take urgent action to implement the cost control that is so desperately needed, and that they start to implement growth-oriented economic policies.

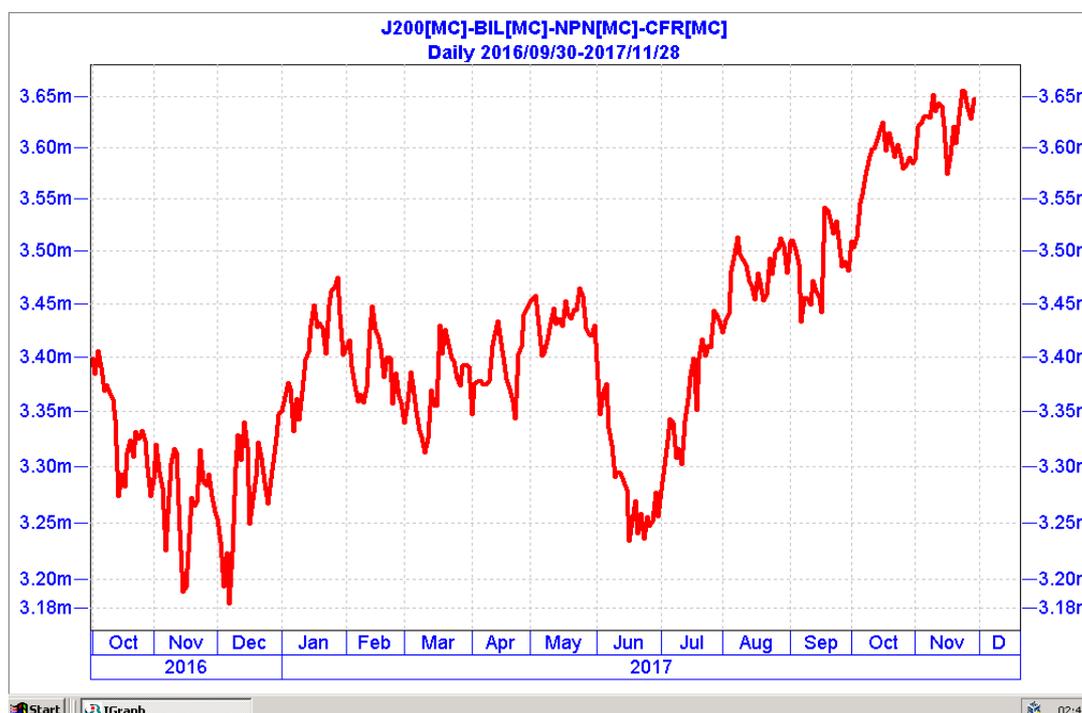
- Theo and Warren

The South African market over the past four years

A simplistic look at the South African All Share Index (ALSI) over the last few years would suggest that South African assets have had a moderate but positive outcome (all of it in the last six months).



But if we take out the effect of three international shares: Naspers, Richemont and Billiton (collectively 38% of the index) the residual – which is a closer reflection of South Africa (Pty) Ltd – shows a different picture. The 22% gain in the ALSI from 30 September 2016 to now, compares to a more modest 7% gain if the above-mentioned shares are excluded, i.e. in South Africa (Pty) Ltd:

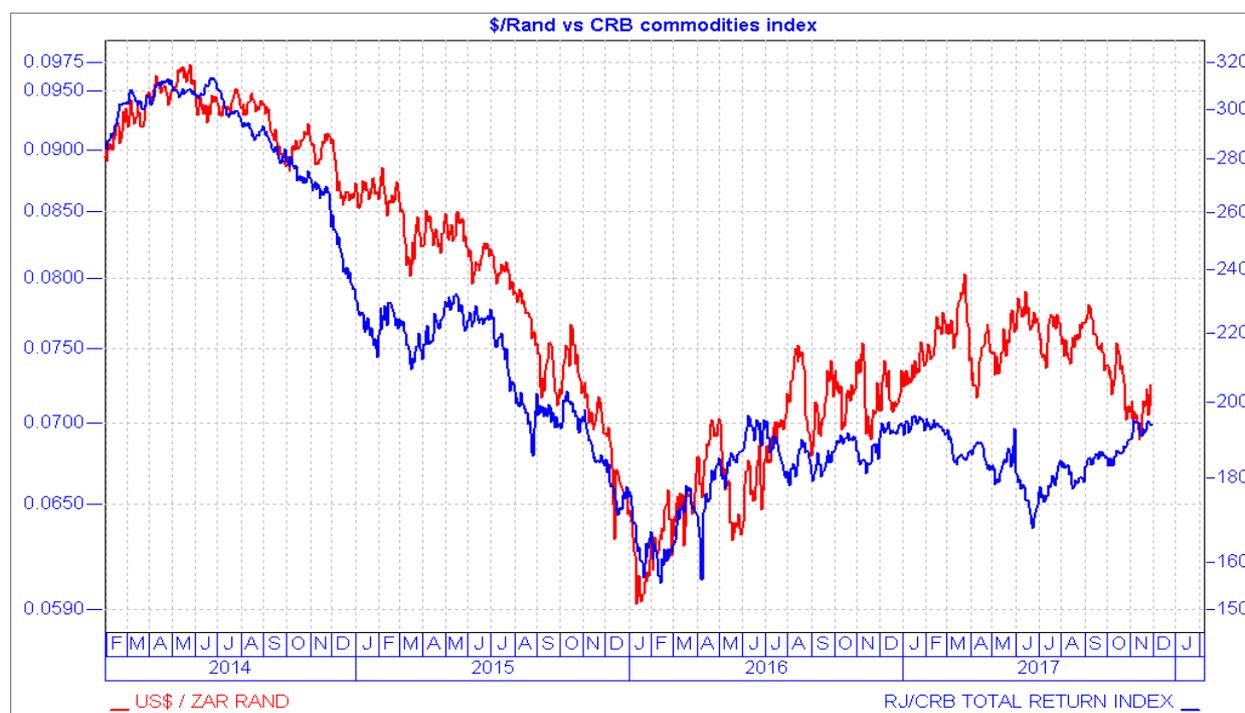


The primary returns on the JSE came from a Chinese internet stock (effectively) on a PE of 150x, a luxury goods share (with weak profits) on PE of 30x and a global miner (enjoying a very recent recovery in profits) on PE of 18x. None of these are shares you'd see in a Warren Buffett portfolio. So it has been a difficult time to be a value investor in South Africa!

We know that dreadful political leadership has driven South Africa's woes. Now we come to the December ANC elective conference, which is in many ways a T-junction in the country's socio-economic

life. Although Cyril Ramaphosa, the more economically friendly candidate, is leading, it's not over until the results are announced. Living in South Africa can make for emotional analysis that makes us hyper-sensitive to events, and colours our judgement. It is encouraging for us to note therefore, as value investors, that South Africa (Pty) Ltd is still on reasonable valuations.

In the short term, with the December conference and sovereign downgrade risk in the wings, the rand is also at a T-junction. The performance of commodity markets is also immensely important to the rand over the long term as the graph below indicates. There is a close correlation between the value of the rand (red line) and the international commodities total return index (blue line).



So where to now?

As we've noted – December is a T-junction moment. If Ramaphosa wins, we would expect some recovery in South African assets and the rand, with the caveat that it'll take some hard work to recover our credit rating. If Nkosazana Dlamini-Zuma wins, then local markets will be looking to commodities to do some heavy lifting. Unfortunately for her, regardless of her merits, she is tainted by the incumbent's missteps.

It's been said that South Africa advances politically by disaster, and economically by windfall (US based Prof de Kieviet). Recent history shows no change to this theory.

- Warwick Lucas, Chief Investment Officer, Galileo Asset Managers

How to relieve workplace holiday stress

The holidays are a wonderful time of year on the one hand, but they can also be a source of extreme stress. Here are some ways to make it through this very busy time intact:

1. Make time for exercise – it produces endorphins and you literally sweat out the stress hormones. Even if it's just a half-hour walk every day, you'll feel the difference.
2. Watch out for unprocessed foods – choose the vegetable crudités at the endless round of cocktail parties, and focus on fresh fruit and vegetables at home too. These are far more energising than too many fried foods, or pastry, and they're better for our waistline too.
3. Drink lots of water – dehydration contributes to feelings of fatigue, and caffeine is a diuretic, so switch those lattes for ice-cold water with a squeeze of lemon.
4. Prioritise – some stuff really can wait until January.
5. Be mindful of deadlines – if you're the one setting them, keep the holidays in mind, and give your employees space to spend time with their families.
6. Be generous – with your attitude towards others. Cut them some slack.
7. Don't take things too personally – remember that everyone is more stressed at this time of year.
8. Get enough sleep – this is the best thing you can do for yourself all year round, but especially now.

Top air travel tips

You're heading off somewhere wonderful on holiday – here are some packing tips for your flight:

1. Stick to a carry-on bag if you can. If you're headed for the beach, this should be easy. It'll save time at the airport, and let's be honest – you never wear half of what you pack.
2. Take an extra, soft, empty bag. This is for any gifts and/or souvenirs on the return journey.
3. Wear your heavier clothing. If you're packing an overcoat or heavy jersey for your trip, try to wear them to save space in your suitcase.
4. Pack a snack. Long queues at airport restaurants and shops means you could be waiting a long time to grab some food. Take your own – it'll save money too.
5. Invest in hand sanitiser. This is the best way to prevent picking up any lurking lurgies from your travel companions.
6. Take non-electronic entertainment for possible delays at the airport. A book, a deck of cards or a few Sudoku puzzles will keep you entertained in case

everything runs flat.

7. Keep all the essentials with you. Anything you need to be accessible (such as medication) should be in your carry-on in case of delays and/or luggage loss.
8. Pack headphones or earplugs. There's a good chance you'll want to drown out the noise that comes with the holiday travel season.
9. Pack a travel pillow. This will come in handy on the flight, or in the event of any delays.