galileocapital
Challenging Conventional Wisdom

NEWSLETTER

# Monthly Newsletter – January 2017

## A Note from Theo and Warren

### 2017 - LET'S HOPE IT'S BETTER THAN 2016!

After some reflection about 2016, we are able to tell you that it was our most challenging year since we started the business in 2005. Any reasonable forecast about big events like Brexit and the US election proved to be wrong. Similarly, it would have been unthinkable to predict that the ANC would lose three major metros in the municipal elections. We are sure that very few investors would have predicted all three outcomes correctly.

The ratings agencies and their potential downgrades loomed like a sword over the economy. In addition, we had the continuous debate around Zuma's presidency and policy uncertainty in SA that worsened an already unstable situation. Finally, we all struggled to find a way forward after Nene-gate.

This meant that our biggest call of the year was about overseas investments: when to do them and at what exchange rate. The continuous slide of the rand over a few years added weight to all the factors mentioned above. This meant that as a financial planning business, we had to work hard on maintaining a rational thought process about the rand.

We freely admit that this was no easy task, especially when many market commentators were forecasting the rand to continue its slide in perpetuity. We were certainly relieved when the rand started to strengthen and maintain our view that a rate of R13.50 to the US dollar is good trigger to send money overseas.

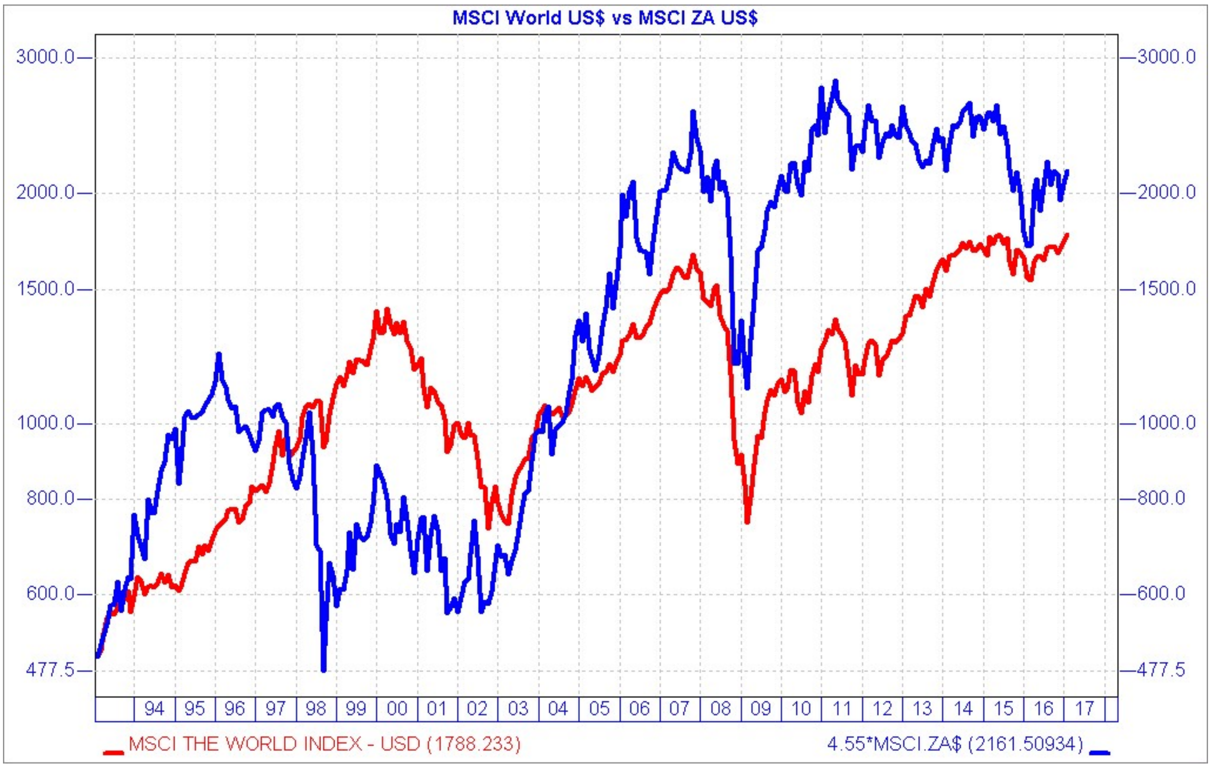
The local investment markets unsurprisingly had a difficult year:

| Asset type | Return for 2016 | Return per year for 3 years |
|---|---|---|
| All Share Index | 2.6% | 6% p.a. |
| All Bond Index | 15.5% | 7% p.a. |
| Listed Property | 10.2% | 15% p.a. |
| Cash | 7.4% | 6.5% p.a. |

Over a three-year period, the stock market has grown by 6% per year, barely keeping pace with inflation over the same time. When the stock market performs so poorly, it makes it very difficult for our investment portfolios to achieve material growth above inflation as the stock market is one of the primary engines for real growth.

It is worth noting that our preferred portfolios did achieve decent growth over the last three years which is testament to the benefits of diversification. The graph below shows the growth of the JSE in US$ (blue line) compared to the World Index in US$ (red line) since 1993.

It is interesting to note that despite all our domestic issues, the JSE has still outperformed in dollars. For those of us who were feeling distinctly poorer after Nene-gate, it is some relief to know that our shares have started recovering well when measured in dollars.




## WHAT DOES 2017 HOLD?

Any prediction made with confidence about the year ahead is probably worthless. We have elections in Europe, Trump takes power and the ANC has an elective conference at year-end. No one knows how these events will unfold.

We do know that the resources cycle has turned which is massively positive for our economy. It is also worth noting that the mining houses have won significant court battles against frivolous and possibly malicious mine closures by officials of the Department of Mineral Resources. This should ensure greater productivity from the sector at a time when demand is increasing.

The drought has ended in most parts of the country (except the Western Cape) which means there will be less upward pressure on food prices. There also seems to be more consensus between labour and business about how strikes and work stoppages should be handled. It is interesting to note the improved oversight of parastatals by Parliament: we hope it continues.

We are not in the business of predicting stock market returns but we do know that every month that the stock market drifts brings us closer to a change in the cycle. Many of the headwinds facing our country have dissipated; if some confidence in our economy is restored, we could see a better year for investors.

*- Theo and Warren*

## Redesigning your work life

Even if you aren't the sort to make resolutions, a new year does feel like an opportunity to start with a blank page, to reassess where you are in all aspects of life, and decide where you want to go. Here are some ideas for a bit of a work/career tune-up:

1. **Give yourself a career check-up:** Take yourself out to lunch or coffee, and write down how you're feeling about your work life. Try a bullet journal or mind map to ensure you capture everything. What's working; what's not? Are you reaching your goals? What improvements could you make in terms of working smarter instead of harder? Give it all a bit of thought.

2. **Update your CV:** Even if you're a business owner, it pays to keep your CV up to date – top dogs in every industry have to send out CVs and bios when they have speaking engagements for example – an updated one is a good thing to keep hanging around. And if you're an employee, and a recruiter calls, you don't want to be caught napping. Besides, it's easier to keep updating your accomplishments as they happen, while they're fresh in your memory. And while you're about it, go through the rest of your documents too – update your portfolio if applicable, as well as your LinkedIn bio.

3. **Resolve to learn a new skill:** The world makes rapid progress and you need to stay abreast of developments. Think about a way to add to your skills and then take whatever steps you need to take to make it happen.

4. **Look for ways to be more productive:** Everyone has areas where they aren't productive – do some searching on line for different methods, and think about where your blind spots are. We can all do with some extra time-saving hints, streamlining of our work flow, or better inbox management. Think about what your time sinks are, and come up with creative ways to improve your time management and productivity.