

Monthly Newsletter – July 2017

Note from Theo and Warren

Doom and gloom abounds: are there investment bargains on the JSE?

Over the last six weeks we've been meeting with fund managers and investment strategists as part of our regular investment research. This is Warren's 20th year of participating in these types of discussions and the current feedback contrasts greatly with the general mood of the country.

We've seen this contrast before – most recently in 2008 and 2012. In late 2008, the media were full of doom and gloom, while some investors were extremely positive about the prospects for strong market returns after the crash. Similarly, in 2012, many were quite complacent about stock market returns at a time when certain investment strategists were warning that returns could be limited for a few years.

Current conditions are causing understandable gloom in the country. However, a few shrewd investors have quietly been buying South African investments over the last few months.

Foreign fund managers have bought R20-billion worth of South African bonds since the start of 2017. They're doing this because they can obtain an interest rate of nearly 9% per year from South African bonds where they can only obtain 1% or 2% in their home markets. Similarly, the current dividend paid by ABSA (Barclays Africa) is nearly 7%, this level of dividend from ABSA (or its predecessor) has not been seen since PW Botha was in power. When compared to inflation, the JSE has delivered a negative return of 2% since May 2014. In periods when the JSE has done this before, the average growth above inflation has been 6.8% per year for three years after these negative returns.

Does this mean that we are predicting a sudden jump upwards in the JSE? Truthfully, no, but we do know that investors always look for excellent value when placing their capital, and rational investors have an ability to look through the gloom and determine the best place for it.

The periods of poor returns from the JSE are the times when foundations are built for solid growth in the future. We think that now is one of those times.

- Theo and Warren

Offshore ETFs that challenge conventional wisdom

We like companies that buy back their own shares in the market. A buyback occurs when the issuing company pays shareholders the market value per share and re-absorbs that portion of its ownership that was previously distributed among public and private investors. Since companies raise equity capital through the sale of common and preferred shares, it may seem counter-intuitive that a business might choose to give that money back.

However, they usually do so when they have surplus capital, and when the share price offers good value. This means that there is both a discipline in assessing the merits of the buyback, and presence of the company in the market which tends to provide stability to the share price. Management teams at companies that commit to share buyback programmes typically are more disciplined than others due to the need to preserve cash to fund the repurchases. Buybacks are to drive up stock prices by making shares worth more once there are fewer of them.

Buybacks tend to happen in shares that fall into the “value” style camp – companies that have share prices with low prices relative to their underlying asset bases, good cash generation, good dividend yields and attractive earnings yields.

How wonderful then that there is an ETF focused on companies that buy back their own shares! That fund is PowerShares International BuyBack Achievers Portfolio (which trades on exchanges in both the US and Europe). It invests in international companies that have cut their number of outstanding shares in the past year through the use of buybacks. It is the smaller cousin of PowerShares’ very successful US buybacks fund, so we see this being well supported in future – which means declining TERs (look-through costs).

The fund’s holdings are most concentrated in developed markets, including Japan, Canada, the UK, Germany and the Netherlands. This fund’s top 10 holdings make up 49% of its portfolio – more concentrated than most ETFs, but in the context of a diversified ETF portfolio, quite fine.

Clients of Galileo Asset Managers can access this fund through their SwissQuote platform accounts.

- Warwick Lucas, chief investment officer, Galileo Asset Managers

Avoiding the mid-afternoon slump

We all know that feeling when it’s 3pm or so, and all we want to do is nap. Here are some strategies to help you be productive and feel energetic, regardless of the time of day:

- **Tailor your tasks to your energy** – do your most creative and focused work when you’re feeling wide awake and alert, and keep low-grade jobs like cleaning out your inbox, filling out expense reports and returning phone calls when you’re feeling less energetic.
- **Get up and move** – any kind of physical movement will temporarily boost your alertness and energy levels. Take a brisk walk around the block, walk up and down the stairs, or even just stretch. It gets oxygen flowing and helps to fight fatigue.

- **Meditate at your desk** – if it was good enough for Steve Jobs, it’s good enough for you.
- **Avoid relying on caffeine** – caffeine doesn’t actually energise you; it just blocks a chemical that tells your body you’re tired. Use it less often, and you’ll benefit more from its effects when you do use it.
- **Listen to music** – it can either rev you up or calm you down, so choose your playlist accordingly.
- **Put down your device** – working on your computer or phone late at night messes with your melatonin levels and circadian rhythms. Putting your screens away an hour or two before bed will give you much better sleep.
- **Get more sleep** – your mother was right, and you really do need seven to eight hours of sleep a night. Stop wearing your lack of sleep as a badge of honour.