

Client Newsletter: January 2021

It is perhaps lazy or boring to describe 2020 as a year for the history books. We will likely speak of 2020 (or 2020 – 202x) in future in the same way that we've spoken about the 1918 Spanish flu. However, we will likely also have to remember to mention Donald Trump, Black Lives Matter, Brexit, low interest rates, US elections, and several other talking points. 2020 has indeed been a lot. We would like to pause at this point and offer our sincere condolences to those of you who have lost loved ones over the past year. May their dear souls Rest in Peace.

I think it was John F Kennedy who said that the word crisis when written in Chinese is composed of two characters 危機 - one that represents danger and the other represents opportunity. The COVID-19 crisis of 2020 showed this to be true, although the nature of the crisis was such that many focused more on the dangers than the opportunities. This is expected as COVID-19 presented a clear and present danger to our mortality. You first need to be alive in order to take advantage of the opportunities presented by the crisis. Our client newsletter in April 2020 "Opportunities amid a crisis" attempted to remind you of the opportunities that were presenting themselves at the time, many of those subsequently paid off handsomely for those with the mental fortitude to invest during market chaos.

The best analogy we could come up with to describe markets in 2020 was that of a biker doing donuts on an over-powered bike. Picture the scene: you have a group of bikers outside a pub having a few drinks. Invariably one of them gets onto their bike, starts revving the engine while holding onto the brakes. The back wheel starts spinning and creates a lot of smoke, and soon he is laying some rubber on the road. If he can, he'll spin the bike around and make donuts on the road. The rounder the donut, the more respect the biker gets from his peers. What happens in this situation is that there is a lot of excitement, and even some entertainment. The engine of the bike is hot, it has burnt some fuel and rubber, but in reality it has gone nowhere. It is still pretty much in the same place it was before. A cursory glance at market and other economic indicators show this to be the case in 2020.

Market Performance for 2020

	2020 Performance
SA Equity	7.0%
SA Cash	5.5%
SA Bonds	8.7%
SA Property	-34.5%
Rand:US\$	-5%
Gold	24.6%
Global Equity (\$ return)	16.5%

One does not get the sense from the table above that 2020 was in fact tumultuous and highly volatile. The JSE experienced its largest one day drop on 16 March 2020, falling by 12% on the day. The Dow Jones Industrial index fell 12.9% on the same day, it's second biggest daily fall after Black Monday in October 1987. It lost 22% of its value on Black Monday. The currency watchers would have seen the Rand plunge to R19.04/US\$1 and then strengthen back to R14.70/US\$1 by the end of the year – a mere 5% off the level that it started at. These subsequent moves back to pre-crisis levels were a lot faster than most expected, especially as the virus is still with us and is in fact worse than what it was back in March 2020 in terms of infection rates and loss of life. This was the thrust of our first newsletter to clients in the middle of the chaos, entitled "Gradidge-Mahura Investments response to COVID-19 Pandemic" which included a paragraph on why doing nothing is an option in a market crisis.

The toughest part of the returns of 2020 is that they came after three years of poor returns. So many investors were already frustrated about portfolio returns over the medium term, so this made 2020 all the more difficult. In the end 2020 delivered a positive, inflation beating return, but the majority of the return came in November and December of 2020. This is a reminder of the fact that returns tend to be lumpy, therefore for an investor to enjoy market returns they need to remain invested.

There is little doubt that South Africa finds itself in a dire economic situation with unemployment at an all-time high, and activity at a multi decade low. There are many forecasts around predicting a collapse of the economy. It is at this point that it is worthwhile to pause and consider the findings of the young Canadian psychologist Philip Tetlock. Frustrated at the obvious inability of "leading experts" to forecast outcomes, and the disparity in forecasts, Tetlock conducted a painstaking and brilliant research project. He began to collect the forecasts of almost 300 experts, eventually accumulating over 27,500 predictions. Then he waited for 18 years while the results rolled in. He then published his findings in a book Expert Political Judgement in 2005. He noted just how often so-called experts misremembered their own forecasts, with the most famous experts making less accurate forecasts than those outside of the media spotlight. The world is simply too complex for anyone to successfully forecast with any degree of certainty.

However, Tetlock did find that there existed several 'super forecasters' who somehow managed to provide useful forecasts. What Tetlock found was that for these super forecasters "beliefs were hypotheses to be tested, not treasures to be guarded" – they essentially refined their forecasts every time fresh and relevant information became available. Many so called experts making forecasts about South Africa have conveniently ignored fresh developments around the change in government and the fight against corruption in particular. Significant progress was made in 2020 with several high-profile arrests, and recoveries of looted funds. There is new fiscal (government spending) discipline, and strong leadership in key economic agencies.

What is clear is that COVID-19 remains a clear and present danger to everyone. While it remains a threat, the potential for market and economic turmoil remains. Our messaging to our clients will continue to focus on both the threats and opportunities that will present themselves throughout. We will also not be making any forecasts about what lies ahead of us in 2021 and beyond. Our focus will remain on putting together robust, personalised financial plans that serves the specific needs of clients. Our long-term focus and ongoing review processes will ultimately add the right value to clients and protect their wealth and financial well-being through all market conditions.

Business Update

Several clients responded to our client survey last year. We would like to extend our gratitude to those of you who took the time to give us feedback. We have taken that feedback seriously and are in the process of instituting changes in the business to address important issues raised. Our aim will be to conduct a client survey every two to three years in order to assess the client experience and address any recurring issues that may arise. Ours is a complex business in that we are dealing with many moving parts and differing needs and expectations. It is important to us that our clients get the service that they expect.

We are pleased to welcome Yashailen (Yash) Moodley back to GMI. Yash joined us in 2018 as a senior financial adviser. In 2019 he landed an attractive opportunity at Allan Gray and went to work there for 16 months. Yash has a passion for financial planning and advice, an issue he researched in his MBA at Wits Business School. Yash also holds the Post Graduate Diploma in Financial Planning, in addition to a Bachelor of Commerce from Wits University. We are delighted to have him back.

Gradidge-Mahura Asset Protection (GMAP), our short-term insurance business, continues to grow from strength to strength. Under the leadership of Mehmood Sader, GMAP managed to navigate clients through lockdown, especially those clients impacted by the economic fallout. The team was bolstered by the addition of Maqeto Moremi to the service team, and Lungelo Mnokwe to the advice team. We continue to receive compliments for the great work they have been doing in the past year, particularly their efficiency and hands on involvement in the claims process.

Finally, we would like to take this time to remember our beloved Aus Anna Mpholleng. Anna joined GMI in 2013 and was the rock on which the service team was built over the years. Anna lived by the motto of work hard and play hard. Since our communication to clients and service providers about Anna's passing, we have been inundated with messages of support, with many expressing their shock and deep sense of loss. May her dear soul Rest in Eternal Peace.

We wish you and all those that you love a safe and prosperous 2021.