

INVESTMENT REPORT



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"WHAT KIND OF A FUTURE LIES IN STORE FOR SOUTH AFRICA?"

Magnus Heystek - Investment Strategist

This was the theme of a series of countrywide lectures by world-renown futurist Clem Sunter held recently for clients of Brenthurst Wealth, all fully booked out.

Scenario planning and the creation and preservation of personal wealth, especially in the highly emotive South African context, are highly intertwined.

Sunter, a former top executive at Anglo American and author of many best-selling books including the current Foxes-trilogy, stressed that his talks were not about "forecasting the future", but about sketching various scenarios that could unfold in the future, raising "flags" about certain areas of concern.

These flags, he added, needs to be monitored and adjusted over time as either raised higher or lowered as they increase or reduce in probability.

WHAT ARE THE BIGGEST FLAGS (AREAS OF CONCERN), ACCORDING TO SUNTER?

Widespread nationalization, uncontrollable land grabs, a clumsy implementation of National Health Insurance and the proposed Media Tribunal, which could stifle media freedom in this country. These four flags, if they unfold in a certain negative way could be pointers to SA becoming a failed state.

When developing scenarios Sunter explained, he assigns probability percentages to each of them. These potential scenarios are then "flagged", which if raised, will indicate an increasing probability that they will unfold.

A worst-case scenario would unfold if all the flags are raised at the same time.

Fortunately, Sunter only assigns a 10% probability to the failed state scenario, giving South Africa a 60% chance of remaining in the "premier league" of countries and a 30% chance of being regulated to the second division, using an analogy that most sport-loving South Africans can understand.

As the 32nd largest economy in the world Sunter hopes that we would move up into the table of the top 20 economies over time, giving that the country was recently invited to join the informal grouping of economies known as the BRICS, standing for Brazil, Russia, India, China and now South Africa.

This elevated status and the fact that SA is considered the financial gateway to the rapidly growing continent of Africa is considered a major positive point for the country.

ONE RAISED FLAG that signal a rapid slide into the second division would be a lapse in inclusive leadership.

Fortunately, Sunter praised pres. Jacob Zuma as being an inclusive leader but warned that divisions within the cabinet and the tripartite alliance could undermine and ultimately shatter this inclusivity.



CLEM SUNTER

"WORLD FAMOUS SCENARIO PLANNER & FUTURIST"

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Global
Markets
AND SA ECONOMY

A SECOND FLAG is the "tall poppy" syndrome that exists in this country where pockets of excellence, such as private schooling and private medical care, are shut down instead of being celebrated and encouraged. Sunter questioned how these pockets of excellence can be used (by government and the private sector) rather than allowing them to be "dumbed down" to the lowest common denominator.

Three aspects of the outward economy that should be nurtured are resources, tourism and being the gateway to Africa.

Our inward focus should be the encouragement of small businesses and rewarding entrepreneurship. Instead of promising to create 5 million jobs in the next ten years, should government have promised to create 500 000 small companies as companies create jobs and not government or additional spending, Sunter added.

He also expressed concern at the small taxpaying base, estimated at 5 million taxpayers, funding an ever-increasing number of dependants living on state grants. This, he said, made South Africa one of the largest welfare states in the world.

Business people and investors need to be acutely sensitive to these flags and make the necessary adjustments as any one of these or all of them unfold. But, he warned, that in his experience, investors (and business people) are reluctant to make early adjustments as this is often seen as a risky move.

Investment success is often dependant on recognizing the "flags" in the investment and, more importantly, acting on this recognition.

BUSINESS AND THE FUTURE

With so many clients of Brenthurst Wealth either owning or running their own businesses was Sunter also requested to spend some time discussing the vexed question of how South African business owners can adapt and flourish in an uncertain and unpredictable future.

When developing scenarios for businesses, Sunter facilitates strategic conversation which he divides into two parts: the first six questions define the "game" while the last three get organizations playing the game.

1. **CONTEXT:**
How has the game in your field or industry changed? Where it is heading?
2. **SCOPE:**
What is the current playing field of your organization? Where is there scope to extend the field into new, profitable ventures?
3. **PLAYERS:**
Who are the players that can significantly change the outcome of the game that you've chosen? This includes competitors, suppliers, customers, employees, trade unions, government, shareholders and the media.

Rules of the game: What are the rules of the game? The world is constantly changing which mean that the rules change as well, legislation, the environment, corporate social responsibility and relationships.
4. **KEY UNCERTAINTIES:**
What are the uncertainties that can have a major impact on your business and affect the outcome? These could be economic, political, social, technological and legal and revolve around your market or competitor's strategies. They can be national, international.
5. **SCENARIOS:**
What are the two principal variables affecting you from which you can construct a 2x2 matrix or scenario game board, giving you best-case/worst-case scenario as well as two intermediate scenarios. Which scenario are you in at the moment, where have you come from and where do you want to be in the future? What is the current position of your competitors on the game board and where do you expect they will be in the future?
6. **SWOT:**
What are your internal strength and weaknesses and the external opportunities and threats in playing the game? How do you measure up to the game?
7. **OPTIONS:**
What are your strategic and tactical options to take the negative scenarios as far as possible out of the game and thrive in the good ones?
8. **DECISIONS:**
What are the preferred options that, right now, are a "go" and can be turned into decisions and actions? What options do you want to defer, either because they are lower priority or they will only be triggered by other scenarios coming into play? Which options are too risky or unethical and should be rejected?
9. **THE MEANING OF WINNING:**
What is your personal criterion by which you will judge whether the company has won or lost the game in five years' time?

BY EMBARKING ON A STRATEGIC CONVERSATION FOLLOWING THESE GUIDELINES EVERY BUSINESS, BIG OR SMALL, WILL BE ABLE TO FORMULATE STRATEGIES THAT WILL GUIDE THEIR ORGANIZATION INTO THE FUTURE.

UK HEDGE FUND PREDICTS SA WILL "BLOW UP"

While Sunter only gives a 10% probability of SA becoming a failed state there are other, more outspoken critics of the current route SA has taken.

On the other extreme we find the comments from Savvas Savouri, chief economist of high-profile hedge fund Toscafund. "South Africa is seriously flawed and is set to "blow up" within the next 15 years with more serious consequences than Libya and Tunisia," he was reported to have said after visiting the country earlier this year.

The main beneficiaries would be other resource rich countries such as Australia and Russia. Savouri cites emigration of professional workers and what he says is a "lack of centralised leadership" when it comes of dealing with major social and economic issues, such as unemployment, poverty and Aids.

"It is socially, politically and demographically flawed. It will malfunction in 15 years. It will go the way of the middle east and north Africa but the blow-up will be more serious," he told Reuters in a wide-ranging interview at the end of March 2011.

"Professional whites and blacks are leaving in hordes—the human capital is decaying," he said. Savouri's comments came in the same week as the Libyan ruler struggled to contain a month-long uprising in the world's 12th largest oil producer, which helped push oil prices to record levels.

Savouri said a "malfunction" in South Africa, which is the world's largest producer of platinum and a major producer of palladium alongside Russia, would push commodity prices higher, benefitting rival commodity-rich countries.

"Clearly Russia and Australia will win out. The expected surge in commodity prices will benefit them," he added.

Savouri, who is known for being outspoken in his predictions, said in January this year that the world's financial services industry, which caused the Great Recession, was practically "lawless".

*At Brenthurst Wealth we do not ascribe to Savouri's extreme views but we do have certain concerns about current trends in South Africa. Other, well-respected research bodies such as the Fraser Institute of Canada also last month warned that SA could miss the next commodity boom due to serious international concerns about SA's mining rights, amongst other issues. In our next edition we discuss the issue of offshore investing for local investors.

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