

# INVESTMENT REPORT



www.brenthurstwealth.co.za

August 2013 • ISSUE 222



## THE REAL TRUTH ABOUT THE SA ECONOMY

By Magnus Heystek—Investment Strategist

IN the late nineties I was friendly with a well-known economist from one of the large four banks in South Africa. He was highly respected, but was generally known to be critical of government's economic policies at the time, and he wasn't afraid to voice his opinion.

Over a cup of tea one day...ok, it was a beer...he admitted that he had been hauled onto the carpet about certain things he had said about the government's handling of the economy, and was asked to tone it down somewhat. His comments were obviously upsetting certain people and reading between the lines, it was clear that the bank's business was coming under threat as a result of its chief economist calling things as he saw them.

It wasn't long thereafter that he was nudged out of his position and quietly disappeared from the scene. I can only surmise that he either left the country or the industry as I haven't picked up his career anywhere else in SA.

It wasn't the last time that government and one of the big banks had a fall out about certain actions on the part of the banks. Who can forget the drama surrounding FNB's plans a couple of years ago to launch a nationwide campaign against the spiralling crime rate in this country, only to have it cancelled at the last minute, no doubt under pressure from government?

We now find ourselves in a position where most of the top economists in the country either work for one of the large banks, insurance companies or asset management houses, and all of them, almost without fail, seem to be extremely muted in their criticism of government's handling of the economy.

In fact, I battle to find any criticism of substance from any of the large financial institutions in this country. There seems to be this unwritten rule amongst economists and their employers to toe the party line.

Don't rock the boat. Government is a very big client and if we have to choose between you and lucrative government contracts, you will get the chop, seems to be the way this unwritten rule is formulated.

There are one or two outspoken economists who from time to time rattle the cages of those in power, particularly Mike Schussler, who runs his own economic research company and to a lesser extent feisty Kevin Lings from Stanlib Asset Management.

I attend more economic presentations than most people and I also get invited to a wide range economists, yet I cannot remember anyone in recent times severely criticising the government and its handling of the economy in public. In private it's a different story altogether.

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KIMBERLEY: 15 AUG 2013

JHB SEMINAR: 04 SEP 2013

PTA SEMINAR: 09 SEP 2013

CPT SEMINAR: 18 SEP 2013

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Global  
Markets  
AND SA ECONOMY

About a month ago finance minister Pravin Gordhan made a speech in parliament, which received very limited media coverage. Gordhan made fairly direct references to the fact that government revenues are under pressure saying “in respect of the revenue outlook in relation to the current economic growth that we are experiencing, we are today facing more difficulties than anticipated”.

To me he was preparing the country for higher taxes, perhaps sooner than we all expect and by much more than we can hope for, and week he announced a new commission to investigate SA’s tax structures, lead by the formidable judge Dennis Davis. To me it spells one thing: higher taxes.

Yet, as a party faithful, he could not avoid deflecting criticisms about the way the country’s finances have been run saying “...the ANC for the past 19 years has led this country extremely well in terms of fiscal management ...”

To which he added: “There is no piece of fact that anybody can produce anywhere in South Africa that can accuse the ANC of being profligate, of being irresponsible, of not responding timeously to events around us”.

Read that sentence again, gentle reader, and try and not choke on your gin-and-tonic or cup of green tea, whichever is your substance of choice to get you through the evening.

I know that Gordhan is a politician, first and foremost, but I am quite sure he was blushing when he spoke those words.

Not only is that sentence demonstrably false but it is also making out the well-informed South African citizen to be a fool.

Following his logic, therefore, there is no Arms Deal-scandal, no Nkandla, no Oilgate, none of our municipalities are in financial trouble, no province under administration and so forth.....

I waited with mounting anticipation for a couple of days to see if any of our top economists from any of the banks, asset management companies or other financial institutions would offer some kind of rebuke, even if very gentle and guarded, but no such luck.

So Gordhan knows he can utter these falsehoods about our economy—which eventually affects all of us in the pocket—without being pulled up about it.

Ordinary investors with perhaps a more limited knowledge of economic matters than the average Moneyweb reader relies on statements such as these to try and build themselves a little bit of middle-class wealth.

## ***MAYBE OUR ESTEEMED MINISTER NEEDS TO TAKE NOTICE OF THE FOLLOWING FACTS ABOUT THE SA ECONOMY, PROVIDED COURTESY OF THE ECONOMICS DIVISION OF STANLIB.***

- ⇒ The industrial base of the economy has been under pressure for many years. Consequently the services sector has out-performed and now represents around 70% of the economy.
- ⇒ Economic activity remains concentrated in Johannesburg, Cape Town and Durban. Together these three provinces represent almost 70% of the economy. The *platteland* is becoming a wasteland.
- ⇒ The SA economy is the largest it has ever been, in both nominal and real terms. Although GDP growth has recovered from the pre 2009-levels and is now slowing, employment remains below the pre-crisis level.
- ⇒ SA’s economic recovery has been consumption based rather than production based.
- ⇒ Gold output has been in structural decline for many years. SA is now the 6<sup>th</sup> largest producer of gold in the world.
- ⇒ Mining activity is essentially unchanged over the past 15 years, despite a boom in commodities all over the world.
- ⇒ Manufacturing has been in structural decline for the past 20 years.
- ⇒ Agricultural output has trended sideways for ten years, despite the need for more food production.
- ⇒ Consumer activity is slowly losing momentum after a good recovery in 2010 and 2011. The slowdown is driven by a fall-off in household income growth.

- ⇒ Although SA is a member of the G20 and BRICS the economy represents less than 1% of the world economy. This percentage has not changed significantly in the past 30 years.
- ⇒ After growing rapidly in the 1950's and the 1960's, the SA growth rate stalled in the late 1970's and most of the 1980's, hurt by escalating political turmoil. The growth rate picked up in the 2000's, but has lacked momentum in recent years.
- ⇒ SA is considered a low growth economy by emerging market standards and even though GDP per capita has grown in real terms, the unemployment rate has risen to record levels. China still leads the pack followed by some of the African countries such as Ghana and Nigeria.
- ⇒ That, in a nutshell, is the true state of the SA economy and it is against that background that you need to make your investment decisions. Good luck.

## UPCOMING SEMINARS: CREATING GLOBAL WEALTH

WE ARE VERY PROUD TO ANNOUNCE OUR VERY FIRST INVESTMENT SEMINAR FOR CLIENTS IN KIMBERLEY. THE SEMINAR TAKES PLACE ON THE 15TH AUG AT 16H00, 2013 AT THE VERY HISTORIC KIMBERLEY CLUB.



**KIMBERLEY** BOOK NOW TO SECURE YOUR SEATING!

Date: 15 AUGUST 2013

Time: 16h00 to 17h45

Venue: Kimberley Club, 1882 Du Toitspan Rd, Kimberley

RSVP: JHB +27 11 799-8100 [reception@brenthurstwealth.co.za](mailto:reception@brenthurstwealth.co.za)

Presenters: Dr. Pestana COUNTERPOINT ASSET MANAGEMENT | Magnus Heystek BRENTHURST

### ALEX PESTANA: COUNTERPOINT ASSET MANAGEMENT

**B.Sc (Hons), Ph.D. B.Soc Sci. M.Phil**

Alex has been an investment professional for over seventeen years. His first career was in the sciences, in which he completed his Ph.D. at the University of Cape Town in 1985 before going on to post-doctoral studies with Nobel-Prize winner Sir Derek Barton at the CNRS in Paris.

His investment career started in 1995 with Capital Alliance where he worked as a quantitative analyst and economist. He joined Fleming Martin in 1997 as head of fixed interest, a position he held until he joined Sanlam Investment Management in 1999. There he held positions in the fixed interest team before joining the strategy team in 2003.

He worked as an investment strategist and then chief strategist from 2003 to 2006, after which he joined the absolute return team at SIM. From 2010 to 2011 Alex investigated investment opportunities throughout Africa, especially in the fixed income space.

Alex has varied investment interests and has spoken at many conferences on topics ranging from investment strategy, behavioural finance and real return investing.

In 2012 he left SIM to join a start-up boutique investment firm Counterpoint Asset Management, where he is responsible for fixed interest and jointly responsible for investment strategy and asset allocation.

### MAGNUS HEYSTEK: BRENTHURST WEALTH MANAGEMENT

Magnus obtained a BA (Hons) degree from RAU and started his career as an investment journalist with Beeld in 1976, becoming the Business and Investment Editor of The Star in 1986.

During his career as an investment journalist, he attended countless international investment conferences across the world, including meetings of the International Monetary Fund and World Bank. He was founder of The Star Investors Club, which he ran for ten years until 1998 when he sold his investment business to Citadel.

Magnus wrote the popular column Money Matters in The Star and other newspapers across the country for more than 14 yrs and initiated the first phone-in programme on personal finance on Radio 702, which he ran for 11 years.

Magnus has frequently appeared on local television including the 52-part series, 'The World of Money', which was based on the book with the same title. He is the author of several books on investments and retirement planning including 'Making Money Made Simple' (co-authored with Noel Whittaker), 'The World of Money', 'Don't Say You Haven't Been Warned', 'Retirement: The Amazing and Scary Truth' (co-authored with Bruce Cameron) & numerous other books. Magnus is a regular participant on "Geldsake met Moneyweb" RSG as well as daily investment programs on Radio Pretoria.

# UPCOMING SEMINARS: CREATING GLOBAL WEALTH

**BRENTHURST WEALTH & FRANKLIN TEMPLETON INVITE YOU TO OUR UPCOMING SEMINARS:**

## JOHANNESBURG:

Date: **04 SEPTEMBER 2013**

Time: 16h00 to 17h45

Venue: Bryanston Country Club, 63 Bryanston Drive, Bryanston, JHB, Gauteng

RSVP: JHB +27 11 799 8100 [reception@brenthurstwealth.co.za](mailto:reception@brenthurstwealth.co.za)

Presenters: Evan McCulloch (Biotech PM) | Nic Steyn | Magnus Heystek

## PRETORIA:

Date: **09 SEPTEMBER 2013**

Time: 16h00 to 17h45

Venue: Waterkloof Golf Club, Johann Rissik Drive, Waterkloof, PTA

RSVP: PTA +27 12 347-8240 [yolandi@brenthurstwealth.co.za](mailto:yolandi@brenthurstwealth.co.za)

Presenters: Evan McCulloch (Biotech PM) | Nic Steyn | Magnus Heystek

## CAPE TOWN:

Date: **18 SEPTEMBER 2013**

Time: 16h00 to 17h45

Venue: 15 on Orange Hotel, cnr Grey's Pass & Orange Street, CPT

RSVP: CPT +27 21 914 9646 [ronelle@brenthurstwealth.co.za](mailto:ronelle@brenthurstwealth.co.za)

Presenters: Evan McCulloch (Biotech PM) | Nic Steyn | Magnus Heystek

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