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IN THIS ISSUE

The pandemic has proved that volatility and uncertainty deliver excellent opportunities in markets.

Fear sells; therefore, news headlines will always contain fearful messages. Do not let this influence your decision-making.

Expect market volatility and rather use it to your advantage.

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WAR & YOUR WEALTH - HOW SHOULD YOUR PORTFOLIO BE STRUCTURED?

By Ruan Breed, Financial Advisor at Brenthurst Wealth Stellenbosch

Good day to everyone, except Vladimir Putin.

It is now more than a week since the Russian army has engaged in a, so to say, full-scale war with Ukraine. And much to Russian president Vladimir Putin's disbelief – the dogs are not only barking back at him, but they are also biting!

Since the commencement of Russia's invasion of Ukraine several days ago, financial markets pulled back on a global scale in search of safety. Talk about being on the wrong side of a round of Russian Roulette – the biggest loser globally was the Moscow Exchange, diminishing by about 17% in value since the invasion of Ukraine started.

Furthermore, there is ruin in the Russian ruble. The ruble lost almost 30% of its value relative to the USD. This comes after sanctions were imposed on Russia by various international institutions, companies and governments. Irrespective of who you support, you will most certainly have one common denominator when it comes to your investing peers: you would prefer to be invested in a portfolio that can stomach the dreadful international news headlines whilst also cashing in on opportunities that emerge along the way. Amid the chaos, opportunities arise.

WHAT HAPPENS TO MARKETS DURING PERIODS OF GEO-POLITICAL TENSIONS?

Markets are not big fans of uncertainty, especially after a two-year pandemic that is still disrupting certain regions. You can certainly be forgiven if you thought the dark Covid clouds were lifting, only to be replaced by new dark clouds caused by the army of the Communist Russian leader.

THE IMPACT OF GEOPOLITICAL TENSIONS ON GLOBAL FINANCIAL MARKETS WAS SWIFT AND WIDESPREAD

Shortly after news headlines confirmed that Russian troops were already performing 'special military operations', basically starting a war, the Nasdaq gave back almost 3.5% of its returns in a single trading day. But on the same trading day, the Nasdaq recovered by about 5.9%. Now, even though this might be an extremely short timeline to use as a reference, it clearly indicates how markets sometimes overreact to news headlines and fear.

On February 24, at -14.6% and 55 days into 2022, this was the largest drawdown for the S&P 500 since February/March 2020 and the longest since 2018.

But the declines on the 24th did not last, as the S&P 500 rose 4.2% from its low to finish the day in positive territory. This was one of the strongest intra-day rallies in history for the S&P 500, and it occurred exactly one month after a similar rally (+4.4% on January 24).

It seems as if markets are already relatively comfortable with the headlines streaming out of Ukraine, as some of the largest stock exchanges in the US are rather flat after their V-shaped recovery since the sharp drop on February 24.

According to Anchor Capital, only about 4% of the negative returns of the S&P 500 have any correlation with the political conflict in Eastern Europe. The biggest factor suppressing the market performance remains inflationary pressures in the US, and how the Fed will react to this. Even though the cat has been thrown amongst the pigeons with the war in Ukraine, the Fed is still set up for a series of rate hikes during the year, and this factor is largely responsible for the flatter trend in the global and US markets.

Russia and Ukraine's economies represent approximately 2% of the global economy, thus their economic activity is not too material in the greater scheme of things. Only once other regions of Europe, and possibly America and China, get involved in Putin's circus, may we see a knock-on effect on other economies and financial markets.

The war in Ukraine is already largely priced into markets, but Putin's next move will be the deciding factor. Only if he decides to invade one of the NATO member countries, will volatility pick up in the short term.

HISTORICALLY, GEOPOLITICAL EVENTS HAVE BEEN SHORT-LIVED

Large-scale geopolitical events, such as the one we are currently faced with, generally do not last extremely long. Putin has expected that he will be able to quickly get to the centre of the Ukrainian population and government and overthrow them within a matter of days. To say that he miscalculated the situation, is an understatement.

There is a strong indication of a Russian Army fighting under the instruction of their communist leader, who seemingly only planned for everything going according to plan, instead of also planning for that which might go wrong. Logistics regarding food, ammunition and backup are not all up to par. Their opponents, however, are fighting for their country, with their backs against the wall, and they are not willing to let Putin have his way.

On average, it has taken markets three weeks to bottom out since the start of a war and a further three weeks to recover the initial losses. Markets are not driven by geopolitical events, but by the economic landscape.

Below is an excellent indication of the short-term opportunities arising in volatile geopolitical events. The dip is normally extremely short-lived, and investors who can allocate capital during these times are maximising opportunities over the long term.



Most of us have not lived through a true war in the past, and we still need to see whether this invasion will turn into a full-scale war. It surely is the biggest challenge faced by Europe since World War 2.

There are, however, several previous occasions from which the valuable lessons learnt can be applied to the current situation.

‘Buy when there is blood in the streets.’ Literally and figuratively spoken. It is a proven fact that previous geopolitical occurrences have created extremely great buying opportunities for investors. As mentioned, these periods do not often last very long, and you might miss the boat if you are sitting on the side (in cash). Morgan Housel wrote in his book: “All past declines look like an opportunity; all future declines look like a risk.” Do not fall victim to this.

It is important to focus on building well-diversified portfolios on a global scale. People will remain consumers of the products and services that companies produce, even when times are tough. This consumption is the revenue driver of the underlying companies, which will lead to profit generation.

In testing times, it is best to invest in companies with extremely strong balance sheets, healthy cash flows and revenue streams from all across the globe.

There are many funds from which to select, for instance, the Brenthurst Global Balanced Fund, exclusively available to Brenthurst Wealth clients, which provides a strong defence against current market conditions. Not only do these funds deliver capital protection in market volatility, but they are also mandated to make the most of opportunities that arise in times like these.

Commodity funds and commodities are also old-time favourites in times of market uncertainties. In times of market disruption, PGMs, especially gold, have previously been successfully used as a hedge against market volatility. It is important to build in the correct allocation to this asset class, based on calculated risks and probabilities. It is not advisable to throw the kitchen sink at these assets, but rather to use it as a hedge to safeguard a portion of your assets. This while the balance of your capital remains invested in the correct assets to cash in on rising opportunities.

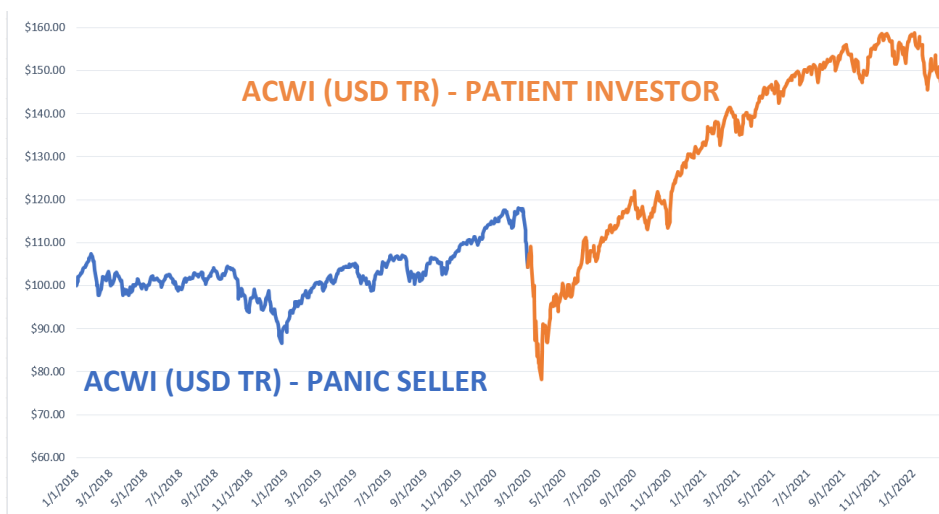
BUY OR HOLD?

One can go back exactly two years, if you would like, to find a reason to not panic-sell in uncertain times and why uncertain times in markets create buying opportunities. Investors who sold out of fear when the Covid-19 pandemic struck in March 2020, are still trying to catch up to investors who not only left their capital in the markets, but also increased their market exposure by additional investing.

Below is a graph of the returns of a hypothetical investment portfolio. **The blue trendline is Investor A who 'panic-sold' his investment portfolio because the world was supposedly ending.**

Investor B, the orange trendline, sat on his hands and remained invested even though "the world ended". Both Investor A and B invested \$100 000 in January 2018. Investor A sold his investment in February 2020 for roughly \$107 000. Thereafter, Investor A sat on the sidelines because of uncertainty in markets and waited for things to calm down.

Investor B stuck to his long-term investment strategy and remained invested through "the end of the world" He was rewarded for the risk he took, and his portfolio grew to around \$150 000.



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DO NOT LET THIS INFLUENCE
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Expect market volatility and rather use it to your advantage. If you decide to wait for market clarity and for the dust to settle, you will most likely wait until the end of the world.

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