INVESTMENT REPORT

FEBRUARY 2022 • ISSUE 446

BRENTHURST
THE HOME OF WEALTH

THE POWER
OF INDEPENDENT ADVICE

IN THIS ISSUE

"Invest in a range of styles, creating a strong and diversified portfolio.

Stick to your long-term plan and allocation, and if you do have cash on hand that you want to invest, this is a great time to take the leap. Be courageous."

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WHY NOW IS A GREAT TIME TO BE COURAGEOUS

IF YOU WAIT FOR ALL RISK TO DISSIPATE, YOU WILL NEVER INVEST.

By André Basson, Financial Advisor, Brenthurst Wealth Val de Vie

Investments, as with most things in life, reward those who take risks. And to take risks one needs to be brave. But the trick to being brave mostly requires staying brave in the face of uncertainty and looming danger. There are several dangers looming in the current environment, therefore, investors need to proceed with a proper plan.

At the onset one needs to consider what you can control and what you cannot control. It will be frustrating and damaging if you try to control something that you cannot. The only thing you can control is yourself, which includes your emotions and decisions. Once you have made peace with the fact that you cannot control markets or predict markets, investing becomes much less stressful and more profitable. Control the controllable, and don't let the rest cloud your judgement.

HERE IS A CANDID LIST OF THINGS YOU CANNOT CONTROL:

1. EXCHANGE RATE

The notorious rand/dollar rate is one of the most volatile exchange rates in the world (possibly second to Turkey), and whilst the very long-term trajectory does show a systematic depreciation of the rand, there is no guarantee how it will react in the short term. <u>Here is my reasoning:</u>

In normal circumstances, SA inflation should be around 4 to 6%, and US inflation around 2% (not currently the case). If these long-term rates persist one can rationally argue that the inflation differential of 2%+ will be a driving force for the deprecation of the rand. If not, SA will not be competitive for trade with international trading partners.

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But everything is not normal over the short term. If there is some political or environmental shock, the rand can depreciate. If there is a commodities boom and it causes SA exports to exceed imports, it drives rand strength. The list of events you cannot predict is long, therefore, my main motivation to invest offshore is my affinity to the asset (share) that I buy.

2. STOCK MARKETS

It is impossible to predict whether local or offshore shares will rise or fall in the short term. One gets a feeling of where the wind blows, but it is notoriously volatile in the short term and can change quickly. The reason for this is that some people invest with their emotions by making decisions based on fear (when markets fall) or greed (when markets rise). **In the long run, share prices will rise when companies make profits, but they will fall in the short run if people get scared (for related or unrelated reasons).**

3. GEOPOLITICAL AND GLOBAL EVENTS

Today there is a risk that Russia might invade Ukraine. But it might also turn out that they don't. North Korea is increasing their nuclear missile capacity; it might be that they bomb countries they don't like, or they might not. China and the US have not been best of friends since Donald Trump came into power; they might escalate this tension, or not. **My point is that if you wait for all risk to dissipate, you will never invest. The way to counter this is to invest in companies that are countercyclical – meaning they can make money even if there is risk on the horizon.** People will still put on make-up and use toothpaste every morning, they will still use software and the internet, and they will still buy goods online and basic needs for their households. **Don't invest your whole portfolio in risky stuff, include a selection of the 'steady eddy' companies in your portfolio which will provide a backbone.**

4. MACROECONOMICS AND INFLATION

I don't know if the US inflation will be sticky or not – well, I can read what most analysts say, but they also change their view when new numbers are published. **Inflation is a real risk and if the US does not get it under control, they will need to raise interest rates aggressively. This will be bad for growth stocks (most tech stocks) in the short term, whilst value stocks typically perform better in this environment. The solution is to invest in a variety of styles.**

1. **GROWTH STOCKS:**
   They are innovative and have secular trends, such as digitalisation that provides a long-term tailwind. I still want the likes of Amazon in my portfolio.

2. **VALUE STOCKS:**
   These have underperformed dramatically in the past 10 years, but do make more sense in the current environment. Include a portion to add diversification – these typically include mining and banking stocks, and others that hold a lot of physical assets (such as Berkshire).

3. **QUALITY STOCKS:**
   These include Microsoft, Nestlé and Estēe Lauder, to name a few. Great businesses with dependable cash flow and the ability to keep their profit margins high (even when inflation raises their input costs.) They also have healthy balance sheets with a low amount of debt, which is super important if interest rates (the cost of debt) increase.

MY STRATEGY AND ADVICE

1. **I select a portion of a portfolio in which I want to invest conservatively and pick a local income selection, which includes cash and bonds. These deliver a good yield of around 7-8%, and capital stability. The aim of these funds will be downside protection and liquidity to use within one to three years.**
2. **Then I allocate a percentage of my portfolio that I can afford to invest for the longer term, leaving it invested for five to seven plus years.**
3. **This gets divided between local and offshore stocks, with an overweight on the latter. There is a bigger opportunity set in offshore markets and provides stronger and more diversified companies. This said, there are excellent local fund managers that can outperform the JSE on a consistent basis, which work well in tandem with the offshore component. Your local vs offshore split will be determined by your specific needs and investment profile.**
4. **Invest in a range of styles, creating a strong and diversified portfolio.**
5. **Stick to your long-term plan and allocation – this was goal-based. If the goals don't change, don't change.**

MY CURRENT ADVICE

If you are already invested according to the correct objectives, stay invested. Offshore markets fell considerably in January. If you're already invested then I suggest that you stay invested, but do it with a diversified approach which you understand and which you are comfortable to leave untouched even when the volatility or market correction comes.

IF YOU DO HAVE CASH ON HAND WHICH YOU WANT TO INVEST, THIS IS A GREAT TIME TO TAKE THE LEAP. BE COURAGEOUS.

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BCom Hons; Advanced Postgraduate Diploma in Financial Planning (Cum Laude)

ANDRÉ joined Brenthurst Wealth in 2018 and is head of the Val de Vie Estate office. In 2020 he was awarded as one of SA's top three Relationship Managers in the SA's Intellidex Wealth Manager and Private Banks Awards.

André obtained his BCom degree from Stellenbosch University, finishing top of his financial planning class. His postgraduate studies include a BCom (Hons) degree and a Postgraduate Diploma in Financial Planning, also from Stellenbosch University. He obtained his Advanced Postgraduate Diploma in Financial Planning (Cum Laude) from the University of the Free State. He is a member of the Financial Planning Institute of SA and is fully qualified to give advice on all investment matters.

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