

Taking a step back from the craziness

The last 12 months have accelerated some global trends in a manner seldom experienced since maybe electricity came onto the scene. The price action of some assets that have been clear winners in the circumstances has produced breath-taking accelerations. Where does that leave the average investor without the time or the appetite to chase the ‘next big thing’?



**Robin
Gibson**

I have talked often in both articles and presentations of how human beings are hard-wired to compare in their decision-making process. If you do not believe me then follow this link to see how retailers specifically [use our comparison bias to make us spend on their products.](#)

At the moment we are seeing several global events that are causing our “comparison meters” to absolutely redline, especially as it relates to our investments. Consider the chart below of investment returns since 1 March 2020:

Against these well-publicized returns, anything of a more pedestrian nature appears disappointing and downright unacceptable! If we are honest, we all get that feeling like we are missing out and should be doing something. Often

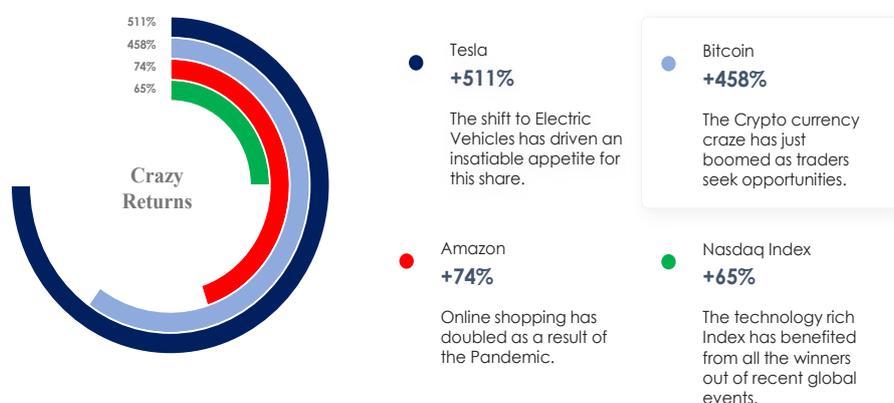
SPEED READ

- South African investors are punch-drunk with local news flow on poor governance. This in the face of stellar American investment returns. It is a good time to take a step back and do some sober assessment.
- The last decade has not been nearly as bad as one might suppose. Compounding dividends has still worked well and if we go back to the start of the new century an investor can certainly justify holding his JSE assets.
- Diversification is a critical investment tool but chasing yesterday’s winner is fraught with unnecessary danger. There is a greater chance of derailing your investment plan than there is of exceeding it.

INVESTMENT RETURNS

Left Behind in the Rush

Price Change since 1 March 2020



There have been some eye-watering returns over the past 20 years, especially if one considers that the bulk of these returns have come in the last few years.

at times like these one should step back and re-evaluate one goals. What is a good investment return? What should I realistically expect from my investments? How should I feel about what I do not have in my portfolio? What should I be doing?

Well, first things first – timing markets is extremely difficult. No one has achieved it with any degree of accuracy. Secondly, the whole point of investing is to grow your wealth relative to inflation. If inflation were irrelevant, we could safely compound cash and interest in a bank account (although bank interest seldom really grows your wealth against inflation). So, what is reasonable? Well, history suggests that no matter what market you consider, a return of published inflation plus 4 to 6% in equity markets is reasonable and achievable. We would expect less from listed property (around 2% better than inflation).

So how have we done? We all know that South Africa has been disappointing over the last 5 years. Growth investments have not exceeded inflation and in the face of exceptional returns from offshore investments, locals have missed out. However, what about the 5 years before that? The JSE rose by just over 3% per annum over the 5 years to 2020. Published inflation over the same period was 4.35% p.a. However, in the 5 years to the end of 2015, the JSE All Share Index rose by 9.2% p.a. Inflation over that period was 5.3% p.a. This is much closer to our benchmark, but possibly still a little disappointing. Bear in mind however that these calculations were done on the absolute change in the index level and exclude any effect of compounding dividends. If we include the compounding of dividends then the 5 years to 2020 yields a return of 6.2% p.a. (inflation plus 1.84%) and the 5 years to 2015 yields a compound return of 12.3% p.a. or inflation plus 6.95% p.a., outside our upper expected band!

What if we analyzed the full ten-year period, often considered to be one of the worst on record with the full brunt of the Zuma legacy being felt? How does that weigh up relative to inflation? Excluding dividends, the JSE delivered an annualized return of 6.1%. This rises to 9.2% p.a when dividends are included. Inflation over the same period was 4.9% p.a. Therefore, if you consumed your dividends, your return exceeded inflation by only 1.2% p.a. However, if you compounded those dividends, your return exceeded inflation by 4.3% p.a. Right on expectation.

What are the takeaways from this exercise?

- Much as we would like returns to be linear (even returns relative to inflation) they never are. We have highlighted before that an investor who has been in the market for the last 20 years has only witnessed 9 years of exceptional returns (2004-2008 and 2012-2015). Yet over that period, the investor has experienced a compound annual

return of 13.0% (dividends reinvested) versus published inflation of 5.23% p.a. – 7.77% better! (Furthermore, this period includes September 11, the Global Financial Crisis, the Covid-19 Meltdown, and all of South Africa's woes).

- To illustrate what this means in numerical terms, an investor who invested R250,000 as a lump sum at the beginning of 2001 would have R3.3 million today. But it would be equivalent to R1 million back then or 4 times the buying power. If they had chosen to invest R250 per month (rather than a lump sum) it would be worth R285,985 today - for a total investment of just R60,000.
- Compounding income is critical to long-term investment success. It is why we talk so much about the danger of higher costs. Higher costs imply that you must time your entry into, and exit from, an investment more accurately, as you are relying on the higher price change to provide more of the return. The risk of getting it wrong just once is enormous.
- Every year will bring outperformers offering juicy returns, in contrast to what your returns have been. The overwhelming temptation is to liquidate your current investments and transfer your funds there. Sometimes this can even happen for several consecutive years. Chasing yesterday's winners is a poor investment strategy in a long-term portfolio. You will undoubtedly win on some occasions (and heaven forbid that it happens the first time you try it, as that will create a dangerous deception of your investment skills), but again, it only has to devastate you once to leave you cynical and jaded towards growth investments and risk.
- We are hugely in favour of investing funds offshore. However, we highly discourage this based on historic returns rather than as an intentional diversification strategy. The last 10 years would suggest that South Africa, and consequently investing locally, is a spent force. There are certainly enough journalists repeating that narrative. What is interesting however is what the statistics tell us over 20 years. Had an American investor invested \$1,000 in both the S&P 500 Index and JSE All Share Index in January 2001, the value of each (the SA investment converted to USD at the prevailing currency exchange) on the 31st December 2020 would have been \$3,756 and \$3,760 respectively. I would bet you wouldn't have expected that

What this tells us is that we should watch world affairs and exceptional markets and investments with interest. By all means take a small stake on the big performer, some bitcoin or other cryptocurrency. Remember, however, that a diversified portfolio has been the recommended approach for umpteen decades, not because it makes an asset manager's life easier, but rather because over the long term it works. Patience is necessary for investment success. It is not an optional extra.



Given the uncertainty over a second wave of Covid, we cannot predict with any certainty when we will be allowed to resume our seminars. Until we have clarity, we will continue with our online videos and presentations. Please ensure that you subscribe to our Facebook page and YouTube channel to be kept up to date.

Please RSVP to Clare Mitchell on 033 3302164 or clarem@hhgroup.co.za.



[Harvard House is on Facebook](#)



[Harvard House is on YouTube](#)

Topic: N/A

Natal Midlands

Date: N/A

Venue: Fernhill Hotel
Midmar / Tweedie Road
(almost opposite entrance to Midmar)

Morning Time: 10am for 10.30am

Evening Time: 5.30pm for 6pm

Johannesburg

Date: N/A

Venue: Rosebank Union Church, Cnr
William Nichol and St Andrews
Road, Hurlingham

Time: 7am for 7.30am

CONTACT DETAILS:

For more information on the range of products and services offered by Harvard House Investment Management and its associated companies (including Harvard House, Chartered Accountants), or for any financial advice, please contact the Company at:

HARVARD HOUSE GROUP



3 Harvard Street, Howick, 3290, South Africa



P.O. Box 235, Howick, 3290, South Africa



+27 (0) 33 330 2164



+27 (0) 33 330 2617



admin@hhgroup.co.za



www.hhgroup.co.za

The information contained in this newsletter comes from sources believed to be reliable, but Harvard House Investment Management (Pty) Ltd, Harvard House Financial Services Trust, Harvard House Insurance Brokers and Harvard House, Chartered Accountants (collectively known as the Harvard House Group), do not warrant its completeness or accuracy. Opinions, estimates and assumptions constitute our judgment as of the date hereof and are subject to change without notice. Past performance is not indicative of future results. This material is not intended as an offer or solicitation for the purchase or sale of any financial instrument. Any investor who wishes to invest with the Company should seek additional advice from an authorized representative of the firm. The Company accepts no liability whatsoever for any loss or damages whatsoever and howsoever incurred, or suffered, resulting, or arising, from the use of this newsletter. The contents of this newsletter does not constitute advice as contemplated in the Financial Advisory and Intermediary Services Act (FAIS) of 2002.

The Harvard House unit trusts are registered under the Boutique Collective Investments. Custodian: Standard Executors & Trustees: Tel (021) 007-1500. Collective Investments are generally medium to long term investments. The value of participating interests may go down as well as up and past performance is not necessarily a guide to the future. Collective Investments are traded at ruling prices and can engage in script lending. Forward pricing is used. Commission and incentives may be paid and if so, are included in the overall cost. This fund may be closed to new investors. Collective Investment prices are calculated on a Net Asset Value basis and auditor's fees, bank charges, trustee and RSC levies are levied against the portfolio. The portfolio manager may borrow up to 10% of portfolio NAV to bridge insufficient liquidity. Boutique Collective Investments (RF) Pty Ltd ("BCI") retains full legal responsibility for the third party named portfolio. Boutique Collective Investments is a member of ASISA and is an authorised Financial Services Provider. Should you have any further queries or complaints regarding the suite of units trusts offered by The Harvard House Group please contact: Boutique Collective Investments Call Centre, Tel: (021) 007-1500, Email: clientservices@bcis.co.za. For your information, the FAIS ombudsman provides an independent and objective advisory service. Should you not be satisfied with the outcome of a complaint handled by Boutique Collective Investments, please write to, The Ombudsman, PO Box 74571, Lynnwoodridge, 0040. Telephone (012) 470 9080/99. Fax (012) 348 3447. Email: info@faisombud.co.za

Performance figures quoted for the portfolio is from Morningstar, as at the date of this document for a lump sum investment, using NAV-NAV with income reinvested and do not take any upfront manager's charge into account. Income distributions are declared on the ex-dividend date. Actual investment performance will differ based on the initial fees charge applicable, the actual investment date, the date of reinvestment and dividend withholding tax. Performance fees do not apply to any funds managed by Harvard House. The manager does not provide any guarantee either with respect to the capital or return of the portfolio. A schedule of fees, charges, and maximum commissions are available on request from the manager.

Harvard House Investment Management (Pty) Ltd*, Licence no: 675 Harvard House Insurance Brokers*, License no. 44138
Harvard House Financial Services Trust*, Licence no: 7758 * Authorised financial service providers in terms of FAIS (2002)
Lynnwoodridge, 0040. Telephone (012) 470 9080/99. Fax (012) 348 3447. Email: info@faisombud.co.za

Harvard House Investment Management (Pty) Ltd*, Licence no: 675
Harvard House Financial Services Trust*, Licence no: 7758

Harvard House Insurance Brokers*, License no. 44138
* Authorised financial service providers in terms of FAIS (2002)