

Unintended Consequences

I recently prepared an address for a different audience. As part of that address, I referenced the 1844 medical practitioner Ignaz Semmelweis, a Hungarian who tried to introduce the idea that washing hands could save lives. He was scorned and derided and died of septicemia in a lunatic asylum. Twelve years later, Louis Pasteur published a paper on Germ Theory and the concept of microbe transmission became mainline medical knowledge. Interestingly though, where Ignaz had control, he demonstrated that his methodologies had a significant impact and reduced deaths significantly. Sometimes the human condition makes us miss the obvious until much later. Investing can often be similar. The prevailing line of thinking can turn out to be quite different from what may be initially thought or believed.



**Robin
Gibson**

Between the Zuma years, Covid 19, Global warming, Brexit, and Loadshedding (to name just a few), you could be forgiven for thinking the world is against you, or at least your investing aspirations! However, what is different today is not the level of news flow, but rather the conduit to accessing it - Twitter, Facebook, Spotify, or the internet. Global events are happening all the time and they are having widespread ramifications.

The outcomes have not always been as expected as sometimes economic realities trump theoretical hypotheses:

1. The township conundrum

In the years leading up to the Covid 19 pandemic, every investor would have preferred his money to be invested outside of South Africa. The property sector turned itself inside out to do just this and performed balance sheet gymnastics to establish holdings in both Eastern and Western European brick and mortar. It made perfect sense. Germany is an economic powerhouse and Eastern European economies were growing their GDP at double-digit rates. What was not to like?

Not many investors would have considered a property company like Fairvest - a company with almost exclusively (at the time) township retail shopping centres as a desirable or even better investment. However, when Covid hit, the lockdowns bit and fancy balance sheets nearly crumbled as European retail trade dried up due to efficient lockdowns. In contrast, lockdowns across South African townships were far from efficient and the township shopping centres traded through. The result was a far better performance from a company such as Fairvest than peers such as Vukile,

SPEED READ

- The global economy has become seriously intertwined over the years after World War 2. One event in the East can have serious ramifications in the West, and not always in the way you might think.
- Covid 19 had massive consequences for everyone and as normality returns it is hard to know what might roll back and what may stay forever. What is certain is that the events of the last 3 years will shape future generations' attitudes and actions.
- Unusual counter-intuitive events happened across various industries, and it is sometimes interesting to see just what transpired and why in investing, thinking differently may just prove to be the difference.
- This article takes a tiptoe through a few anecdotal instances where the outcome may have been a surprise to many.

NEPI Rockcastle, or even Growthpoint. Who would have thought? Yet this is an important lesson. As they say, the devil is in the detail. The Fairvest business model was well researched, well run, and had a simple understandable, and conservative balance sheet. These are all metrics that make for a solid business when tough times come. That was the real difference.

2. ESG, bah humbug!

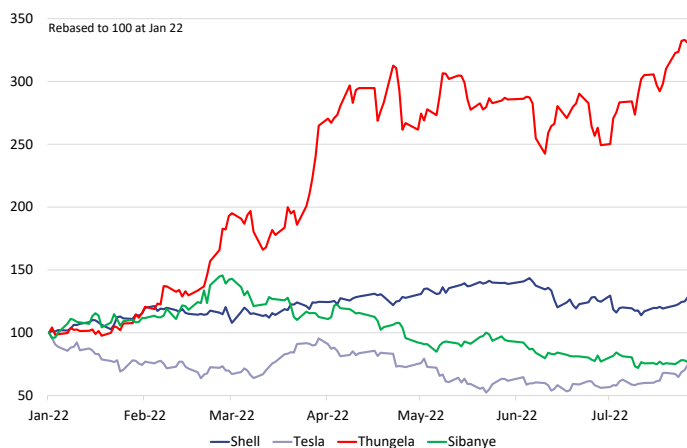
I am sure you have heard the term ESG. It stands for Environmental, Social, and Governance and is really about a company's impact on the environment and society at

large. The poster child for this movement is undoubtedly Greta Thunberg with her iconic speech demanding “How dare you!” ESG goes far further than just carbon credits though. It is also about employment diversity, equal pay, and the broader social compact of society and business. However, all these things come at a price.

The best example is one for which we are all paying right now. Over the last number of years traditional carbon culprits in the form of coal and oil were shunned in the media. Investors have been rushing to cash in on electric vehicles and green energy solutions, often paying ridiculous multiples for businesses with a lot still to prove. In the background, banks and finance houses have shunned support for exploration to bring new coal and oil production on stream. This has resulted in the perfect storm for prices. With the disruption in supply from the Russia - Ukraine war, the market has tightened and there is no new supply coming onstream. Economics 101 will teach you that in such an environment, prices can go only one way.

The outcome is that dirty carbons have performed best with coal and oil companies printing record profits. This is largely because elementary research will confirm to you that we are not moving away from coal or oil anytime soon. As good as ESG may be for the planet, we are not yet ready for a big bang approach and the transition is likely to cause more pain before it gets better. For now, investors in Royal Dutch Shell and Thungela are enjoying a much better 2022 than Tesla or Sibanye.

NEW TECH VS OLD TECH



Tesla and Sibanye Stillwater – proxies for new technology companies in the race to green energy – have underperformed their “old-world” peers (Shell and Thungela) as prices for coal and oil have soared.

3. Red or Black

Sometimes you might think you could have more fun at the local casino’s roulette table than investing in financial markets. At least you can enjoy a glass of wine while you watch the croupier drag your money away. South Africa has

suffered some dreadful events over the past five years. We have had a President recalled, we have been downgraded by the rating agencies, we’ve had a Presidential Commission uncovering mismanagement and exploitation of the highest order, we have had rioting and looting and now petrol is at an all-time high of R26.09 per litre (coastal price, correct at the time of writing). Can you believe that petrol was “just” R15.62 per litre in March 2021? Yet despite all this, the Rand-US \$ exchange rate is stronger now than the level it reached when Zuma fired our Finance Minister Nhlanhla Nene and appointed Des Van Rooyen (now known as the “Weekend Special”) in his place.

RAND / DOLLAR EXCHANGE RATE



Despite some volatility, the Rand is trading at the same level against the US Dollar as it did when Nene was fired almost seven years ago.

One could easily argue that was a low point in South Africa and we have come a long way since that dark weekend. However, the counterargument is that much of what happens daily on the ground - such as municipalities - are not any better today, but worse. Employment is worse, service delivery is worse, load shedding is worse. What is better are commodity prices and that is the real rub when it comes to the Rand.

This doesn’t imply that we can do whatever we want. By no means. But what it does mean is that better times are not just in our control. There is no doubt that the Zuma era deeply hurt us, but at the same time, global economics added to the woes. Hopefully, better times are ahead. These are just three of many examples. Things do not just happen exactly as we expect. They invariably take a much more scenic route with severe anomalies along the way. This is what makes investing in companies challenging and why the team at Harvard House continually studies to try and understand both economic events and company fundamentals. We cannot foresee everything, nor can any investment professional, but understanding the risks make investors better placed to weather most storms.



Topic: **Topic to be confirmed**

Natal Midlands

Date:	15th September 2022
Venue:	Oasis Conference Centre, 72 Main Road, Howick
Morning Time:	10am for 10.30am
Evening Time:	5.30pm for 6pm

Johannesburg

Date:	20 September 2022
Venue:	Rosebank Union Church, Cnr William Nichol and St Andrews Road, Hurlingham
Time:	7am for 7.30am

The next topic for our Insight seminars will be announced in due course.



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