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### Beware of the storm!!

Last Friday morning I saw numerous warnings about a storm that was going to hit Gauteng in the afternoon. There were warnings of hail, strong wind and heavy rains. According to most of the warnings the storm was likely to hit at around 14H00 and last until 02H00 on Saturday morning. At around 13H00 I received an alert from my insurer saying that the storm was expected and that I should ensure that my car is parked under cover. I looked out the window saw quite a bit of cloud around, and took a decision to send our staff home early. If there was a huge storm coming it would be great if they could be at home before the traffic became a nightmare, and before the hail, winds and rain came.

By 20H00 hardly a drop of rain had fallen, and while it was a little cold, the much feared storm had not materialised. Despite all the signs and all the warnings, there was no storm. It just never materialised. Investment markets can sometimes be like that.

South African investors are preparing for a proverbial storm at the moment. The dark clouds of a credit downgrade, deteriorating politics, weak currencies and poor economic growth are gathering. Investors are retreating to the safety of cash, and the perceived safety of offshore investments, and bonds and equities are being sold. New investments have largely dried up, and clients are choosing to settle debt rather than chance their arm at the equity or property investment table.

However, despite all of this, the JSE is currently in record territory. The All Share Index has risen over 20% since the start of the year! Many investors who have been expecting the hail and strong winds in our markets have missed out on some spectacular returns by not being or staying invested. We are not suggesting that there are no tough times ahead for South Africa. There almost certainly is.

### The biggest threat to your investment strategy: human behaviour

Human behaviour has evolved over centuries, and some human behaviours that impact on investment strategy can be traced back to man's early days. In order to survive back then, when life expectancy was not much more than 20 years, man needed to be extra careful. The risks were meaningful and more often than not, fatal. Survival instincts which developed and evolved over the years, can be seen playing out in modern day investor behaviours. People assign more weight to current events, especially negative events. This phenomenon is known as hyperbolic discounting. As a group we, naturally, tend to focus and give meaning and credence to negative issues and events that are happening around us. We then take decisions to mitigate the perceived risks associated with these events.

This is the reason that exceptional money managers are rare. As a group fund managers are generally highly intelligent, technically and mathematically gifted. However, they too are human, and therefore susceptible to the same behaviours (hyperbolic discounting) as the rest of us.

Compounding this issue is the fact that money related issues are themselves highly emotive. One does not need to look far for examples of otherwise rational people going off the proverbial rails following a financial windfall. The significant majority of lottery winners are broke within three years of hitting the jackpot. The same emotion can be observed in people that have saved up significant balances and do not want to see their capital destroyed by current events.

### The role of the financial adviser in tough times

As your adviser we share the same concerns as you, our clients. Our role initially is to help our clients define their financial objectives and put together a plan to achieve those objectives. We need to have the technical capability to structure robust portfolios that can withstand various market conditions. We need to understand the impact of tax and cost on the portfolio, and take meaningful steps to mitigate those effects. We need to continuously monitor the economy, markets, legislation, and product developments on an ongoing basis.

However, our real value lies in being able to navigate our clients through tough times, like those we are experiencing at the moment. Here our role is not to forecast what will happen, and the possible effects of that. We do not know what will happen. Unlike our learned counterparts at the weather services, our role is to guide clients through what is happening, not to forecast what may happen. We need to help clients recognise that tough times are not as big a threat to their portfolios as their own behaviours.

Markets have delivered over 20% return in 2017. This despite the fact that:

- Our international debt was downgraded to junk,
- a respected and honourable Finance Minister was fired,
- the economy entered and came out of a recession,
- the currency weakened 11% between September and October,
- challenges within the ruling party,
- public finances have deteriorated, and
- our local debt is 'certainly' going to be downgraded to junk

We are proud that the portfolios that we have put together for clients have weathered the storm quite well over the past three years. Our biggest challenge now is helping you, our clients, make good decisions as we enter the eye of the storm. The storm that may or may not happen.