

2015 was a tough year for investors. It was characterised by increased volatility, and low returns for investors. There was also the surprise firing of the finance minister (FM) in December which threw local markets into turmoil, despite the quick reversal of that decision. In the end, market returns were poor all round, as shown in the graph below.



The volatility is evident with shares falling 13% from its highest point to the lowest, but still managing to deliver a positive 5.13% return for the year. The biggest disappointment of the year was the bond market which delivered a negative return, primarily as a result of the firing of the FM.

Bonds fell by over 10% on the news that the minister had been fired, and never recovered, even after the decision was reversed. The reason for this is that the market is pricing in the possibility of a downgrade of South Africa, which is bad news for bonds in particular.

Listed property was the best performing asset class yet again, despite being the worst affected by the firing of the FM. The sector fell 14% in the two days after the FM was fired, but managed to stage a recovery post the appointment of Pravin Gordhan. A greater portion of listed property assets are offshore these days, which was helped by the weakening currency. A feature of the markets in 2015 has to be the sharp weakening of the Rand versus the US\$.

The local currency lost more than 35% of its value over the year, exacerbated by the firing of the FM.

One of the key outcomes of the market performance of 2015 is that low risk investors were affected a lot more than higher risk, growth oriented investors, particularly investors drawing income from their portfolios. Income portfolios tend to have a higher weighting to bonds and cash than to property, equity and offshore assets. Bonds tend to deliver higher income than cash over time, which often results in income investors having a higher exposure to bonds. The negative return from bonds and the lower weighting to equity, property, and offshore meant that income investors were more heavily impacted by the firing of the FM in particular, and the market performance of 2015. Growth oriented investors would have benefited from the higher exposure to offshore and lower exposure to bonds in their portfolios.

New investors that came to the market between March and October 2015 were also hit quite hard as they invested at or near the top of the market. This timing risk is almost impossible to manage, and it increases the risk of short termism on the part of investors. Short termism is when long term investors allow short term market movements to cloud their judgement, and often results in a full disinvestment, or a more cautious approach to investing than is warranted.

The Financial Services Sector

A key feature of 2015 was the introduction of Tax Free Savings Accounts (TFSA) in the South African market. These products offer investors the opportunity to create a pool of tax free money over time.

The product has a contribution restriction of R30,000 per annum, and R500,000 per lifetime. This means that investors will take over 16 years to get to the lifetime limit. The contribution limits reduce the attractiveness of the product to older investors, particularly those over the age of 60. We continue to agitate with the authorities for an accelerated contribution to be introduced for people over the age of 55.

TFSAs are useful for younger investors wanting to build wealth over the long term, and for older investors wanting to augment retirement savings with a tax efficient option. Another development was the finalisation of the Tax Laws Amendment Bill (TLAB) which was signed into law by the president early January 2016.

The signing of the TLAB gave effect to a large portion of the retirement reforms that Treasury had been driving over the past three years. This will see the harmonisation of the various retirement products (RAS, pension funds and provident funds).

It will also see an increase in the deduction that tax payers will receive for contributions to retirement savings. This is a positive development for investors despite the ongoing protestation from unions.

GM Investments

2015 was our seventh year of trading, and proved to be a watershed year on a number of fronts. We started the year with around R360m assets, and ended the year with more than R700m under management.

We grew retail assets to just over R500m, and secured some good institutional investments in the year. This shows that the business is on a sound footing and is positioned for further growth.

The additional growth brings additional workload and responsibilities. To this end we increased the staff count by three, including a paraplanner, an operations manager and an additional administrator. All the growth on the staff side was in support staff, and not sales staff. This is because we recognise that we need to maintain and improve service levels if we are to succeed in keeping our existing clients, while growing and bringing in new clients.

It is with a great amount of sadness that we wish Melane Green farewell. Melane has worked at GM Investments for 4 years as a senior administrator, and finally as head of the servicing team. She accepted a great offer from Ashburton Investments, and will join them in February. The search for her replacement has already begun. We wish Melane well in her new role.

A key client servicing and reporting development at GM Investments in 2015 was the implementation of the Seed Analytics reporting system. We invested a significant amount of time and money into this system to help us improve reporting and servicing to our clients. The attached report shows a consolidated picture of your financial portfolios across different product providers. The consolidated report gives you a high level view of your total portfolio, and will monitor performance on an ongoing basis going forward. If you wish to receive this report electronically on a quarterly, bi-annual or annual basis, please chat to your adviser so we can set up the system accordingly. We continue to investigate new technology to integrate into the business to improve the service offering, and bring about a high quality outcome from a more standardised and repeatable process.

Looking forward to 2016

We expect 2016 to be a tough year economically as the effects of a weaker Rand, higher interest rates and a severe drought start to come through.

Food inflation is expected spike this year, while economic growth is likely to be barely positive, with the prospect of a recession still a possibility. This will make for higher levels of discomfort for investors. On the international front, economic growth prospects for 2016 look quite muted. The US stock market has had its worst start to a year since they have started keeping records. This could see the Fed responding by either halting interest rate hikes, or by introducing another round of quantitative easing in order to support markets.

The most important thing is that investors do not panic, and make long term decisions based on what is happening at the moment. It is human nature to take the current market conditions and extrapolate them long into the future.

The result is that they often miss the opportunities that market conditions like these throw out from time to time. Our plea to clients is that you contact us for a discussion around any concerns you may have, even if your review is still a few months away. Please feel free to contact us at any time if you feel you need to discuss anything related to your investments. The words of Jesse Livermore ring true at the moment when he said "The big money is not in the buying and the selling, but in the sitting"

From a business perspective we are looking to continue the search for tools and systems to assist in improving client servicing and reporting. We also want to do a client survey to get your feedback and input on your experience with GMI thus far, and your expectations going forward.

The team at Gradidge-Mahura Investments would like to wish you and all you hold dear a blessed 2016 filled with Joy, Peace, Happiness and Love.