GRADIDGE MAHURA INVESTMENTS

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CLIENT NEWSLETTER **WINTER 2016**

Investing in a low return environment

South African and global markets have been in a low return environment for the past two years at least. The JSE has been in a sideways trend since September 2014, delivering a total return of 8.8% since then.

Globally we've seen more than 70% of government bonds trading on yields of below 1%. Since our last newsletter, German bonds have reduced further, and now are offering a return of minus 0.2% to investors over the next 10 years.

Investors are knowingly, and willingly, investing their money in a bond that will be delivering a negative return to them.

As with other periods of uncomfortable market conditions, it is often the behaviour of investors that has the biggest impact on portfolio returns over time. The findings of the annual Dalbar research project showed that US equity investors earned less than half the return offered by US equity markets over the past 30 years. During this time the market experienced a number of periods of volatility and low returns. The research found that investors often sold out their exposures at this stage, only to buy in after a subsequent market recovery. The few investors that simply held onto their investment benefitted the most.

As your adviser we would recommend that you do all or a combination of the following:

1. Review your tolerance for investment risk
2. Watch portfolio fees
3. Adjust your return expectations lower

Review your tolerance for portfolio risk

Flying remains one of the safest forms of travel, yet many thousands of people are afraid of flying.

They simply do not have the risk tolerance needed to board a plane and get to their destination much faster than any other existing form of travel. Some people have flown a number of times before they first experienced turbulence in any meaningful way, and then simply stopped flying after that. For many though, they have accepted turbulence as part of the deal when it comes to air travel. The same applies when it comes to investing in growth assets. Volatility (turbulence) is part of the deal, and seldom is it severe enough to lead to permanent loss.

Watch those fees

At Gradidge-Mahura Investments we spend a lot of time engaging with product providers and asset managers discussing ideas for reducing fees.

We have taken a number of steps to mitigate total portfolio fees for clients including; blending passive funds into portfolios, investing in funds without performance fees, and limiting exposure to funds with high cost structures or performance based fees. We also compare administration fees and chose the most cost competitive product provider.

Adjust your return expectations lower

This is probably the single most important thing that any investor can do in the current market environment.

What does it mean to lower one's return expectations?

It is simply accepting that returns will be lower for the foreseeable future until market conditions normalise. Practically it means that you will not be concerned when you see an investment statement with single digit returns for the past year to 18 months.

Investment legend Warren Buffett was asked what the secret to a happy marriage was. His response; "have low expectations of your spouse". If expectations are low you are unlikely to be disappointed. Those expectations can be revised higher when market conditions normalise. Until then lower expectations will help you the most when it comes to riding out current conditions.

As always, please do not hesitate to contact us if you wish to discuss your investment strategy in these volatile markets. Perhaps we may need to swop your plane ticket for a train ticket…

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