By Craig Gradidge

REVIEW

Evaluating a portfolio's performance over three years

In January 2014, Gradidge-Mahura Investments predicted lower market returns, advising *finweek* readers to take a more cautious approach and mitigate costs where possible. How does their proposed portfolio measure up?

The world looked a bit different in January 2014. At the time, interest rates had been moving sideways for over a year, with the likelihood of increases on the horizon. The rand was trading at between R10 and R11 against the dollar; oil prices were trading well above $100/barrel, and the FTSE/JSE All Share Index was trading at a price-to-earnings ratio (P/E) of around 18. (This compares with the market's current P/E ratio of 19.9, and the long-term average P/E of around 14.)

What did you say?

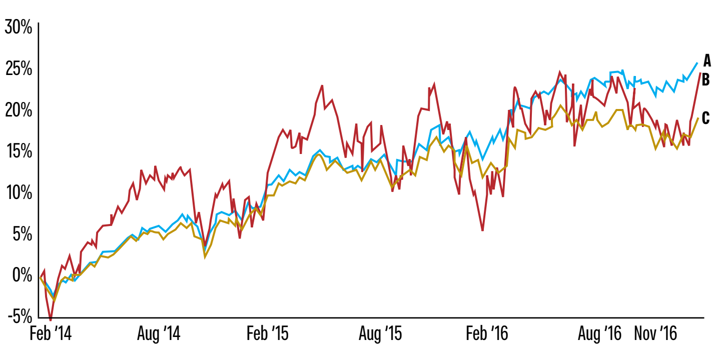
The crux of our message in January 2014 was that the market was looking expensive, and risk levels were rising, so new investors were likely to be better off taking less portfolio risk. South Africa was heading into national elections, and had been identified as a fragile economy based on its current account and budget deficits along with four other emerging market countries: Turkey, India, Indonesia and Brazil.

We made two recommendations to readers: reduce portfolio risk, and hand over asset allocation decisions to suitably skilled fund managers with diverse philosophies and approaches.

We listed seven funds that we thought readers should consider (Allan Gray Balanced, Allan Gray Stable, Coronation Capital Plus, Coronation Strategic Income, Nedgroup Stable, Satrix Balanced Index, and Grindrod Stable – now Bridge Stable). The choice of funds was based on the managers' asset allocation track record, costs and the expected correlations between the funds.

Our call was spot-on as investors have outperformed the market and the sector at much lower levels of volatility.

HOW DOES OUR PORTFOLIO MEASURE UP?



finweek portfolio 2014: Total return in ZAR (25.89%)
FTSE/JSE All Share Index: Total Return in ZAR (24.29%)
South African Multi Asset Medium Equity: Total Return in ZAR (19.29%)

SOURCE: Data from FE 2017

How did it work out?

In the graph you can see the performance of a portfolio with equal weighting to the recommended funds, over the three years since the article was published. It has been benchmarked to the market and to the relevant unit trust category.

How does our portfolio measure up?

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It has been an eventful three years since the article was published, with the ANC losing ground in national and local elections, the debacle following finance minister Nhlanhla Nene's firing in December 2015, Brexit, the election of Donald Trump as US president, lower commodity prices, currency weakness and low economic growth as well as poor investor and business confidence. This has resulted in highly volatile equity markets as investors tried to make sense of everything.

While one can argue that a 1.5% outperformance over three years is not much to get excited about, the importance of the lower volatility should not be overlooked. There were numerous periods where the market fell in excess of 10% to 15%. It is at these times that investor behaviours are triggered, leading to investors making decisions that ultimately result in them experiencing losses or not meeting their investment objectives.

Advice for the current environment

Our approach to structuring portfolios has not changed materially. There are still significant risks around with local politics dominating investors' minds at the moment. The green shoots that government and business spoke of last year have not emerged to any significant degree. Business and consumer confidence remains low, with companies opting to invest outside of South Africa or increase their cash holdings.

We continue to advise clients to adopt a more cautious approach for now and will stick with the funds that we chose back in January 2014. We still believe that it is appropriate to hand over asset allocation decisions to suitably qualified and experienced asset managers at this stage. ■

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Craig Gradidge is a co-founder of Gradidge-Mahura Investments. The original article is available on our website at http://bit.ly/2mQebl1.