

It has been another year of low returns and volatile markets. The JSE has delivered 6% over the past year, barely ahead of inflation. Bonds and cash were the best performing asset classes delivering 8.4% and 7.6% respectively. Listed property has been hit hard by the economic slowdown and delivered barely 2.4%.

The big news of the past quarter is the fact that the local economy entered into a recession. The recessionary conditions have been driven primarily by the lack of political leadership in the country at the moment. This in turn has resulted in business and consumer confidence plummeting. The worst part is that the rest of the global economy is growing, so we are missing an opportunity to participate and benefit from that. Job losses are mounting and companies are choosing to rather invest offshore or hold onto their cash.

It is becoming very difficult to be an investor in South Africa. Returns have been low for three consecutive years now. The JSE has delivered around 5% p.a. over that period which is lower than inflation over the same period. The JSE remains the main investment asset class for investors seeking long term capital growth. Many investors are becoming very uncomfortable at the extended period of low returns.

#### The discomfort of (investment) success

I have learnt numerous lessons over the past few years since Kagisho and I decided to start Gradidge - Mahura Investments. We were fortunate enough to have had good academic grounding as well as solid experience in our chosen sector. We were fairly confident of our ability to build and grow a new business in what was, and remains, a very competitive space. Nine years later we sometimes still look back and wonder what hit us.

While we have learnt many, varied lessons from starting and running a business, the one thing we agree on is the fact that the entire experience can be a very uncomfortable one. We have many successful business people as clients, and make a point of asking them to tell us their story. How did they find being an entrepreneur? Why did they go this route? How easy or difficult was it? The one recurring theme that runs through many of their experiences is the high level of discomfort associated with running your own business, particular in the early years.

That discomfort can take on various forms; a significant salary cut, a drop in lifestyle, sacrificing family and leisure time, giving up one's luxuries, doing menial work that is significantly below one's pay grade, and taking on more debt than one would ordinarily be comfortable with. In some extreme instances those discomfort levels entail losing one's home, or selling off assets just to survive.

#### Pushing through the discomfort

The video of Angela Lee Duckworth's presentation at TED Talks in April 2013 entitled *The Key to Success: Grit* was a global sensation with over 10 million views. It is certainly highly recommended viewing on the issue of success. Wikipedia describes grit as "Grit in psychology is a positive, non-cognitive trait based on an individual's passion for a particular long-term goal or endstate coupled with a powerful motivation to achieve their respective objective.

This perseverance of effort promotes the overcoming of obstacles or challenges that lie within a gritty individual's path to accomplishment and serves as a driving force in achievement realization..."

Grit is that thing that causes one to push through the elevated levels of discomfort, and ultimately towards success. But very often it is that discomfort that causes one to give up, or not to start in the first place.

#### The discomfort of investment success

As in business and in life, success in investing often entails high levels of discomfort. That discomfort takes the form of capital losses, relative underperformance or low returns. It means investing in a fund that everyone seems to be selling out of, it means diversifying into an asset class that is not exciting or has few prospects for short term outperformance.

The insurance industry understands that investors do not deal well with discomfort levels. They understand that money is a highly emotive issue and that investors are often not willing to leave their comfort zones when it comes to investing their money. This is the reason why many insurance based investment products continue to be so popular. They are all very good at removing the discomfort, and giving the investor the 'peace of mind' they often seek. But over time they deliver little real value to investors.

#### Developing investor grit

A reminder of Wikipedia's description of grit "Grit in psychology is a positive, non-cognitive trait based on an individual's passion for a particular long-term goal or endstate..." It seems that the old adage of taking a long term views persists as a key requirement for investment success. It was Harvard's Professor Banfield that found in the 1960's that the one reason some middle class American families achieved financial independence in their lifetimes was because they took a long time perspective when making decisions. But taking a long term view has long been the standard message from financial product providers. It seems that we need Duckworth's grit to accompany Banfield's long term view in order for investors to experience investment success on a sustainable basis.

#### Gradidge - Mahura Investments excels at the Financial Mail annual Private Banking and Wealth Management Survey.

We entered the survey for the second consecutive year. We managed to improve our overall ranking for the quality of our advice; ranking second overall. We were also the top ranked wealth manager for two of the five client archetypes that the survey tested (Professionals and Entrepreneurs). We are very proud of this achievement as professionals and entrepreneurs are a key client segment for us.

Unfortunately we were unable to replicate our success in terms of client feedback. Last year we ranked second overall, and did not feature in the top 5 this year. This is a major concern for us as we endeavour to maintain high service levels. The combination of high client growth and volatile markets has made for an incredibly busy time for the company. We are actively looking at how we improve service levels. We have appointed another person in the middle office, and we have restructured the team with a dedicated service manager promoted into the role. Reena Coenen was appointed to the role effective 01 July 2017.

We ask that you as clients of Gradidge - Mahura Investments voice any concerns that you may have about service levels so that we can address them. We are committed to improving client service levels.

