ASSET MANAGEMENT HouseView

This Month's Focus

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Nine Investment Resolution Tips For 2019

It is that time of the year again - monthly planners and 2019 diaries are being bought and new plans are being made. Time to add value to our life, get rid of bad habits and resolve to improve in all spheres of life. Yes, time to list those New Year resolutions and more importantly, commit to execute them!

More often than not, the list begins with healthy eating habits, waking up early and exercising, reading often, eating out less and other such resolutions to improve our overall health and lifestyle. Needless to say, our finances play an important part in contributing to a better lifestyle and a prosperous future. So, while we are at it, why not make some financial resolutions as well?

Here are some 2019 New Year resolutions which will aid in achieving your financial goals in the long run.

1. Set clear goals - Setting some well-defined and measurable goals for how you spend, save and invest your money can make a big difference. They will help guide your decision-making and priorities throughout the year and assist with staying on track. Vague goals usually fail and make it hard to know when they are actually achieved. Set concrete goals and break them down into smaller, more attainable benchmarks so you can regularly monitor your progress.

2. Make asset allocation a top priority - Research has shown how you invest your money between the different asset classes determines almost 90% of your investment returns. Successful investors spend more time analyzing which asset classes to invest in, and how much, than on which shares or bonds they should buy. A failure to diversify your investments is one of the main causes of underperforming portfolio returns. Spreading your investments across a range of asset classes is one of the best ways we know of to smooth your returns over time, to preserve your assets, and to generate a real return.

3. Diversify – You should diversify across asset classes (equities, bonds, cash, and property), geographies and not be only exposed to the Rand. Your specific mix should be tailored to where you are in your investing life-cycle and your individual risk profile.

Having all your assets in one basket – South Africa – is risky. What if things don't go well locally?

A well-diversified portfolio should also have room for offshore assets, ideally in the developed world, as South Africa is already an emerging market investment.

4. Don't react to short-term market ups and downs - We live in a 24/7 media cycle, so we're constantly bombarded with news about global economic and market developments. While it's good to be aware of what's happening in the world, it's important to put things in perspective and focus on your long-term goals, rather than panicking and reacting to every bit of bad news. Share markets do go up and down from day-to-day and economies go through cycles.

5. Have a risk management plan – as an investor you can't avoid risk, so it's worth spending some time to understand how it relates to your portfolio and goals. Losing money is one of the biggest risks over shorter periods, which is why shares are riskier in the short term. Over longer timeframes, inflation is the key risk. This is when your investments can't generate high enough returns to meet your longer-term goals. One of the most effective ways to manage risk is to diversify your portfolio across different asset classes and investments. The right mix will depend on your investment timeframe, risk profile and goals.

6. Rebalance your investments – Large movements in share markets can cause the asset allocation of your portfolio to shift away from your plan. You may need to buy or sell investments in specific asset classes to get things back on course. Successful investors regularly check their portfolio and rebalance if they have deviated from their set proportions.

7. Ensure your investments are correctly structured – Using the most appropriate product vehicle can make a big difference to your wealth. Holding assets in the wrong investment vehicle could, for example, result in a larger-than-necessary tax bill and make shifting assets more difficult. Your Warwick Wealth Specialist can help you decide the best vehicle for your needs.

8. Take the emotion out of it - This is more of a long-term goal, but when it comes to saving and investing, getting emotional is the number one detractor of good financial planning. Panic, fear, greed – these can make you abandon a solid, sensible plan in a flash. Overcoming this is very difficult. The first step is recognising that your emotions play a role in your investment decisions, and planning for that eventuality. You could, for example, make it a rule that you cannot make a major decision without talking to your Warwick Wealth Specialist first. You could force yourself to wait three hours before making a change to your financial plan, and spend that time reviewing your plan and analysing why you want to make the change. There are plenty of techniques you can use to reduce the impact that emotions have on your investment behaviour provided you take the time to prepare yourself.

9. Give Your Portfolio the Once Over - We recommend reviewing your portfolio with your Warwick Wealth Specialist every six months, or at the very least, once a year. The purpose of this portfolio review is to systematically troubleshoot problem spots and identify changes you may want to make as part of your overall investment strategy.

So, this time around, resolve to manage your investments better, using these New Year resolution tips. Correctly structured and correctly diversified investment portfolios will provide long-term capital growth and de-stress your life significantly. And, if you follow the above resolutions it should lead to a more prosperous and happy 2019.

International Market Overview

Global markets endured a torrid, volatile, November with continued expectations of a global trade deal being struck between the US and China. The markets recovered at the tail end of November, after losing 1.7% during the first three weeks, largely due to a sell-off in energy, technology, and retail shares.

United States of America

US Markets continued on the back foot for most of November, with rising interest rates, coupled to slower economic growth and continued concern about global trade wars. Yet the major US indices managed to eke out positive gains by month end, with the Dow closing the month stronger by 1.7%, the S&P 500 gaining 1.8%, and the Nasdaq composite, only 0.34%. The latter's performance was largely driven by concerns of a slowdown in iPhone sales, and weaker sentiment with respect to the rest of the FAANG shares.

Economic data coming out of the US showed that, although investor confidence had slipped marginally in November - with the print coming in at 135.7 as opposed to the 137.9 printed in October - it continues to remain robust. Inflation has been kept in check as the leading inflation measure used by the Federal Reserve, personal consumption expenditure (PSCE), came in at 1,8%, which was below the 1.9% increase expected for October. Indeed, the U.S. economy continues to appear to be in good health as consumer spending surged in October by 0.6%.

On the economic front, even though consumer confidence remains strong, the equity market ignored a strong growth print, which showed the economy was growing at 3.5% in annualised terms for the third quarter of 2018. Consumer spending remained robust as it grew by 4% for the third quarter 2018, the strongest it has been since the fourth quarter 2014 and continues

to account for two thirds of the US economic activity. A further indication that inflation
is being kept in check was derived from the fact that personal consumption expenditure (PCE) grew by 1.6% for the third quarter, less than the anticipated 2.2% increase.

Of continued concern to world markets is the possible escalation of the trade war between the US and China. The US could levy an increase of 25% on all Chinese goods imported into the US, with China, in retaliation, imposing a 100% tariff of US goods into China. Analyst expectations are that this course of action could possibly lead to global GDP being cut by 0.4%, whilst growth in the US and China could potentially be weaker by 0.4% and 0.7% respectively. Concerns eased temporarily with a reported agreement between President Trump and President Xi Jinping brokered at the recent G20 Summit in Argentina.

Europe

For the second month in a row, European markets were negative during November as global trade uncertainty continues to weigh. This was mitigated, to a degree, by suggestions that a proposal by the Italian government to reduce its 2019 deficit was in the works and could ease any stand-off between that country and the EU. Economic data in the EU continues to show a contraction, with growth slowing to its lowest level in almost four years. GDP only advanced 0.3% in the third quarter of 2018, as opposed to a print of 0.4% for the second quarter. Consumer confidence also reflected the slowdown, as it fell to a 20-month low in November as households appear to feel less optimistic about economic conditions in the next year. This while higher inflation continues to erode real wage gains for consumers as a tighter labour market points to slower employment gains.

UK markets tclosed the month of November lower by 2.1%, as mining stocks pulled lower on the slowdown in the Chinese economy and continued concerns that Brexit deal brokered by Prime Minister Theresa May will not receive the parliamentary approval, thus throwing a spanner in the works before the proposed European Council meeting scheduled for the 13th and 14th December. Notwithstanding the Brexit pall hanging over the market, manufacturing for November recovered from a 27-month low, with domestic new orders picking up as firms built up stocks as protection against Brexit risks. The November PMI rose to 53.1, versus 51.1 for October and beating the consensus estimates for a reading of 51.7.

The DAX 30 ended the month lower by 1.7% as economic data from Germany pointed to a slowdown in inflation, posing a challenge to the European Central Bank (ECB) view that euro-area price growth remains robust despite economic headwinds. Consumer prices rose by an annual 2.2%, down from October is 2.4%, and below the 2.3% consensus estimates. The resilience of the economy has shone through as unemployment fell to a record low despite weaker business sentiment. The jobless rate fell to 5% in November from 5.1%, as the number of people out of work reduced by 16 000.

On France, the CAC 40 also closed the month lower by 1.8%, as lower consumer confidence raised uncertainty on the economic outlook. Consumer confidence fell below its long-term average, reaching its lowest level in three years, as the monthly reading dropped from 95 to 92. The situation is further exacerbated by the continuing protests against President Macron's proposed petrol taxes.

Asia

Markets in Asia also had a mixed month. The Chinese markets recorded a firmer close, with the Hang Seng up 6.1%, and the Shanghai Composite Index ending lower by 0.6%. The recently released purchasing managers index (PMI) data, continues to point to a slowing economy as it missed expectations, with manufacturing growth coming in at a weaker than expected 50.0, exactly on the cusp of what separates expansion from contraction.

The Nikkei ended the month in the black, closing 2.0%, even as Japan's factory output had expanded at its fastest rate in more than three-and-a-half-years in October, providing further credence to a rebound in the economy. This was offset by consumer prices in October rising by 1%, in line with consensus and below the 2% target stated by the Bank of Japan.

Local Market Overview

Local Equities

The JSE All Share Index (ALSI) fell for the third consecutive month in November, continuing what has been a dismal year for the local stock market. The double-digit decline experienced in the resource sector helped drag the ALSI lower for the month. Industrials and listed property had another weak month, while financials bucked the trend and ended in the green. As we head into the final month of 2018, the ALSI is now 12.3% lower for the year.

In domestic economic indicators, South African retail sales came in softer than expected, rising 0.7% year-on-year, lower than consensus expectations of 1.9%. Consumer inflation increased 5.1% from 4.9% in the previous month, but was below forecasts of 5.2%. Wary of upside risks to inflation, the South African Reserve Bank (SARB) made the decision to raise interest rates by 25bps, increasing the repo rate to 6.75%.

RESOURCES

Resources had a poor month in November, free falling 11.88%. Commodity prices, as per the Bloomberg Commodity Index, fell by 0.76%, while the United States dollar remained largely unchanged against most major global currencies. The South African rand's strength added to the turmoil, ending the month at ZAR13.87 per USD. One of the hardest hit counters in the sector was Sasol, sliding 16.06% over the month. This was in part due to the international price of crude oil, which bottomed out at USD59.04 per barrel and ending the month at USD59.46 per barrel. The closing price in October was USD75.06 per barrel, a loss of 20.78% for the month. The price of iron ore was another big mover for the month, losing 18.26% in ZAR terms, causing Kumba Iron Ore to backslide by 14.34%. The gold price was up marginally, adding 0.47%, while platinum shaved 4.64% off its price per Troy ounce.

INDUSTRIALS

There was a mixed performance from the underlying constituents within the INDI25 index, with some of the large rand hedge shares having the final say. British American Tobacco (-24.78%) was the worst performer for the month, as the share price fell sharply on the news that the US Food and Drug Administration (FDA) was proposing a ban on menthol cigarettes. We believe the probability of this happening in the short-term is low, and even if it were to happen, we believe the market has overreacted, and have thus used this as an opportunity to accumulate more shares at lower prices. Richemont and Mediclinic both released results during the month, and both disappointed the market, resulting in their share prices declining 17.43% and 11.24%, respectively. We again used this as an opportunity to accumulate more shares of what we consider above average quality companies at more attractive prices. Companies exposed to the local economy enjoyed a solid month, with the likes of Spar (+11.34%), Woolworths (+9.95%), and Shoprite (+9.35%) outperforming their peers. Bidvest was the top performing share, gaining 11.72%. The INDI25 ended the month lower, declining 0.97% and has fallen 20.1% for the year-to-date.

FINANCIALS

After falling for three consecutive months, the FINI15 bounced back to end the month of November up 2.6%. As with the retail sector, the local banks enjoyed a strong month of gains. Capitec was the top performer, gaining 11.04%, followed by Standard Bank, Nedbank and FirstRand. Sanlam was the best performing life insurer, finishing 3.46% in the green. Towards the end of the month, however, Viceroy released a report on Nepi Rockcastle, which sent the share price tumbling. The commercial property investor and developer ended the month 13.65% lower. Reinet was the worst performer for the month, dropping 18.21% on the back of the decline of its biggest investment, British American Tobacco. The FINI15 has fallen 5.3% for the year.

LISTED PROPERTY

The local listed property sector continued its decline during the month of November, losing 1.29% over the period. Nepi Rocastle was particularly hard hit at month end on the back of the Viceroy report. Counters with an offshore bias also struggled to deliver as global risk factors, such as trade tensions, depressed their returns for the month.

Property fundamentals remain weak in a low-growth environment, with very few signs of recovery in the retail sector. The office sector remains a laggard as oversupply increases. The near-term outlook is still volatile, but distribution yields continue to show some signs of stability.

We maintain a diversified mix of property counters in our portfolios. The investment strategy remains focussed in shares that fall within defined quality and liquidity parameters.

LOCAL CURRENCY

The South African rand had a good showing over the month, ending the period at ZAR13.87, appreciating by 6.50% against the United States dollar. In November, the Monetary Policy Committee of the South African Reserve Bank raised the repo rate from 6.50% to 6.75%, the first time since 2016, helping nudge the rand in the right direction. The Governor of the South African Reserve Bank, Lesetja Kganyago, noted that the Reserve Bank was in favour of raising rates to curb longer-term inflation expectations, preferring to be proactive as opposed to reactive.

The rand also did well against other major currencies, gaining 6.52% against the European euro, 7.21% against the Japanese yen and 6.60% against the British pound.

Notably, however, most emerging market currencies rallied during November, as per the MSCI Emerging Markets Currency Index, which grew by 1.46% over the period.

Local Fixed Income

Market Review

November market movements were fuelled by a risk-on rally as the United States Federal Reserve (US Fed) indicated that it might pause on rate hikes in 2019. Locally, however, the South African Reserve Bank (SARB) started its rate-hiking cycle with a 25 basis point (bp) increase in anticipation of mounting second round inflationary pressure.

The less hawkish stance taken by the US Fed translated into a 16bp drop in the 10-year US treasury yield. The German 10-year generic yield was down 7bp, ending the month at 0.31%, and the French 10-year yield was also down by 7bp, to close the month at 0.65%.

Foreigners were marginal net buyers of our local bond market to the tune of R2.6bn which is in contrast with the R9bn sold last month.

Mixed activity in the inflation-linked market saw this asset class lose some ground as overall demand declined.

The risk of a ratings downgrade has dissipated somewhat, but the risk of further increases in interest rates remain a threat.

Our fixed income outlook for the coming month is detailed as follows:

- Economic growth remains low with little signs of substantive recovery.
- Currency volatility will continue to be fueled by political and international factors.
- Inflationary pressures remain, but lower fuel prices have contained, in small measure, the threats posed to the economy.
- Liquidity is strong with institutional cash portfolio holdings at high levels.
- Short-term technical trends have swung positive, with long-term trends remaining in neutral territory.
- Local sentiment remains cautious.

We continue to seek value along the yield curve with careful duration risk positioning of our portfolios.