REICHTEC PRIVATE WEALTH

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Bitcoin

Over the past month I have had several queries relating to Bitcoin in particular and I must admit it is not something I had ever though much about.

Bitcoin was launched in 2009 and is essentially a "Private Digital Currency". Unlike other currencies it only "exists" digitally inside an interlinked computer network system and there is a cap on the total number of Bitcoins which can ever exist (21 million) and there are currently about 17 million in existence.

Like other currencies, Bitcoins have a value because they have a use – they can be exchanged for goods or services. This obviously requires that someone be willing to accept the currency as a medium of exchange (imagine trying to use Rands to pay for a cup of coffee in Japan).

My personal view is that Bitcoin is not an "Investment" but rather a "Speculation". Investments tend to be valued by the current and future income they produce. Bitcoin however is valued simply based on what someone else is willing to pay.

This is potentially a recipe for disaster (or a bubble – and bubbles tend to burst). It defies logic that wealth can in any way be created by owning something which does not actually generate income simply because at some point in the future someone will want to pay more to own a sequence of computer code.

Over time however currencies tend to appreciate/depreciate by some sort of inflation differential but 2017 alone the Bitcoin price has risen over 400% in US Dollars – this is not sustainable especially given the low inflation rates in the World at the moment.

Structured Products

This is a very wide topic and one which introduces a lot of complexity which goes totally against my core principles. The reality though is that these products do have a place for **some** clients.

Simply put, a structured product offers a return based on the future value of an asset but the returns are **not** a one-for-one correlation.

In a normal unit trust investment, the return is exactly equal to the future value of the underlying investment plus any income which has been paid out (you effectively own the underlying assets). A structured product on the other hand will have a "modified" return profile:

A conservative investor worried about a downturn could opt for a product which guarantees the future value will not be lower than the current value. The trade-off might be that the upside potential is capped.

One key factor with structured products though is that the investor does not actually own the underlying assets and the returns are backed by the issuer (typically a bank) - there is thus a risk that the bank may not be able to pay out when the time comes to redeem the product. This risk is obviously low when dealing with reputable institutions.

A final consideration is Liquidity – Structured products operate for a fixed time. There will be a window for purchase and the product will have a set maturity date with limited access until then.

Investment Platforms/ Products and Funds

There appears to be a lot of confusion between the following:

- Investment Platforms
- Product Wrappers
- Unit Trust Funds

An **Investment Platform** is nothing more than a "shopping center" where you can access different "Products" which are made up of different Unit Trust Funds (and possibly other investments such as share portfolios or ETF's).

The Investment Platform is simply responsible for the "administration" which includes the following:

- Receiving funds and then purchasing the Unit Trusts on behalf of the investor
- Executing all transactions
- Generating Tax Certificates
- Single point for client identification (FICA)

Each Platform will offer a range of products and also a range of different Unit Trust funds. Most platforms nowadays offer their own Unit Trust Funds as well as some funds managed by other Fund Managers, but the platform may in fact just provide the Admin services (not have their own funds).

The "**Product Wrappers**" (RA / Endowment / Preservation Funds etc) offered on the platform just will determine the following:

- Tax Implications
- Ability to withdraw Funds or make further contributions
- Treatment of investment in the event of death
- Restrictions on the underlying investments

The actual **Unit Trust Funds** are ultimately where your money is invested – this is what you "own" and determines the eventual risk and return.

The fund manager for each Unit Trust has a mandate as to which assets may be owned by the Unit Trust Fund. This mandate may be broad and allow the Unit Trust to invest in different asset types or may restrict the manager to investing in only one asset type.

Within each Product Wrapper then you will be invested in a portfolio of different unit trusts. These could be the same Unit Trust funds as in another product, but the product wrapper will determine how accessible the funds are and the tax implications.

The Platform provides the administration behind all of this which allows the investment into the range of different products made up of different Unit Trust funds.

It is interesting to note that it is often cheaper to invest via a platform than it is to invest directly with a Unit Trust company. The actual Fund Managers are no longer responsible for sending statements and tax certificates etc. Previously they paid a rebate to the platforms to offset the admin fee but recently there has been a move to "clean priced" funds. These are "cheaper" funds which are only available on the Platforms to account for the fact that the Platform performs all the Admin related functions.

Market Flash

31 July 2017

Asset Class Performance (ZAR)

Asset Class	Index	YTD	1 Year	3 Years	5 Years	10 Years
Local Equity	FTSE/JSE All Share	10.6%	7.6%	5.5%	13.1%	10.0%
Local Property	FTSE/JSE SA Listed Property	6.1%	3.3%	13.8%	12.7%	14.6%
Local Bonds	Beassa ALBI	5.6%	7.2%	7.3%	6.1%	8.5%
Local Cash	STeFI Call Deposit	4.0%	7.0%	6.3%	5.8%	6.7%
Global Equity	MSCI All Country World	9.3%	10.5%	14.3%	22.7%	11.1%
Global Property	MSCI ACWI/Real Estate	8.2%	-3.0%	12.4%	17.7%	8.4%
Global Bonds	JPM GBI Global Traded	2.1%	-8.0%	7.6%	10.0%	10.3%
Global Cash	ICE LIBOR 1 Month	-3.0%	-4.1%	7.6%	10.3%	7.2%

SA Economic Review

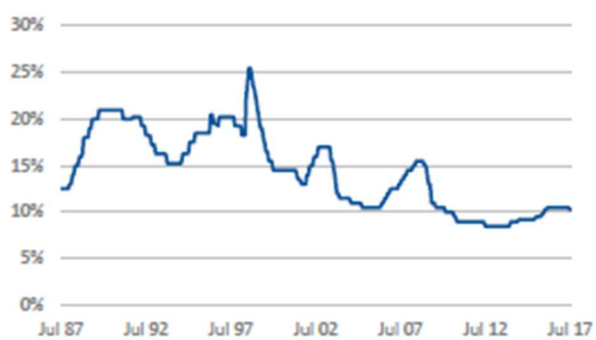
The SA economy expanded by only 0.3% last year, the lowest rate seen since 2009.

During July, the Monetary Policy Committee (MPC) reduced its forecast for growth this year to 0.5% from 1% and trimmed the outlook for 2018 to 1.2%.

With the country currently going through its 2nd recession in almost a decade and inflation easing to a 19-month low, SA's central bank reduced the benchmark repurchase rate by 25 basis points, to 6.75%, during the month. This was contrary to most economists' forecast and was also the first cut in 5 years.

The SA Prime Overdraft rate has therefore reduced to 10.25% - refer to **Chart 1** (right).

Chart 1 : SA Prime Overdraft Rate



SA Market Review

July was one of the strongest months the SA equity market has seen for some time. The FTSE JSE All Share Index gained more than 7%, driven mostly by the resource and mining sectors.

Resources, (up by 13.3%) bounced sharply after a recovery in precious metal prices. The mining sector reacted positively to the announcement that the proposed, Revised Mining Charter, would probably not be implemented.

The 25-basis point cut in the repurchase rate, assisted financial stocks, reversing some of the previous month's losses, whilst SA listed properties gained 3.7% during the month, mainly supported by resilient foreign buyers.

Global Market Review

- Global equity markets advanced in July
- Despite ongoing political uncertainty in the US, the S&P 500 rose by 2.1% during July amid supportive macroeconomic data and further weakness in the dollar
- Eurozone (up 0.34%) and UK (up 0.62%) equities made narrow gains during the month. Economic data remained positive
- Emerging markets recorded robust returns, with dollar weakness a tailwind and continued improvements in the outlook for global growth
- In the bond markets, the late-June selloff initially continued in July but came to a halt as expectations of a more hawkish shift among central banks were reined in