REICHTEC PRIVATE WEALTH

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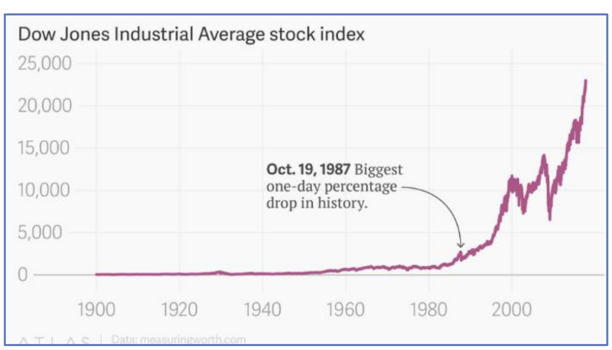
Black Monday

Today as I write this newsletter, it is exactly 30 years since the events in 1987 known as "Black Monday". On this day, the Stock Market in America (the Dow Jones Industrial Average) dropped 22,6% in one day – a record single-day loss.

There are several theories about what caused this crash including a slowdown in US growth, rising interest rates, falling oil prices and increased tensions between US and Iran, but all of this was exaggerated by recently developed computerized trading which triggered "selling" when prices dropped by a certain amount.

The odd thing about this crash however is that it didn't result in an economic recession – probably because leading up to this date the stock market had risen dramatically by about 40% in the preceding year so the market level after the "crash" was actually still higher than it had been a year earlier.

Even more telling though when looking at the long-term history of the market is that the dramatic crash in October 1997 is merely a tiny bump and a reminder not to get too worried by short-term events.



FANG Stocks

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FANG is an acronym for four of the largest technology stocks namely Facebook, Amazon, Netflix and Google (now actually known as Alphabet).

These companies have been largely responsible for most of the gains on the US stock market in particular over the past few years and have become some of the largest companies. Facebook alone is worth over $500 billion. By comparison the GDP (total value of all the goods and services produced) in South Africa is only approx. $300 billion.

What is truly surprising is the value of Facebook and Google in particular – I'm sure everyone uses their products but individual clients access these services for free.

A common feature is that the value of these businesses is linked to the "potential" future profits rather than the current profits they produce. This bears a remarkable similarity to the "bubble" which formed in the US market around Technology stocks in the early 2000's.

History will judge the success of these businesses over the long-term and in particular how they are able to convert their market dominance into sustained profitability.

Investment "Styles"

While the overall asset allocation in portfolios is the biggest factor which determines the level of risk (volatility) and ultimately long-term returns, it is also possible to reduce the overall risk by "blending" managers with different investment "styles".

This enhances the benefit of diversification but the key is understanding the actual investment philosophy of each fund manager in order to ensure that you are not simply duplicating the same style in a portfolio.

Broadly speaking there are 2 main "styles" which are prevalent – "Growth" and "Value" investing, although each fund manager will develop their own "theme" or proposition as to how they value and select the companies they invest in.

A "Growth" style tends to favor companies which are rapidly expanding their sales (such as technology companies). These companies tend to pay low dividends or even run at a loss as they spend a large amount of their revenue on activities such as research and development and advertising in order to grow. These companies often appear "expensive" because you are buying the expected (higher) future earnings.

A "Value" style tends to favor good companies with stable earnings/profits and often pay out a large percentage of their earnings in the form of dividends. At the far end of this spectrum is "Deep Value" investing – here the manager is looking for companies where there has been a lot of bad news or poor results but the manager foresees a turnaround in the fortunes of the company.

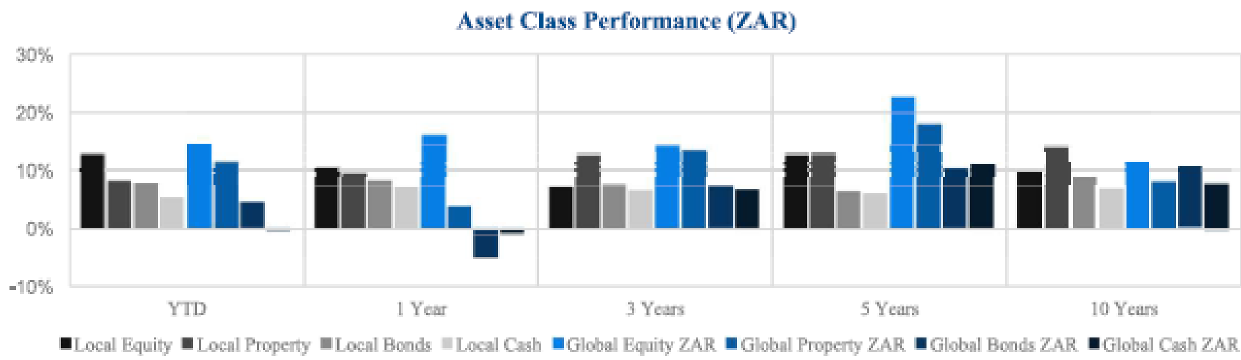
Each of these "styles" will probably perform differently at different stages of the market cycle – a "growth" style will tend to work better when there is a lot of optimism whereas a "value" style will tend to perform better overall when markets correct or fall.

In the South African context there is actually quite a bit of "overlap" of styles and very few fund managers would actually describe themselves as "growth" oriented but will still include shares such as NASPERS in their holdings despite the fact that this is clearly a "growth" oriented company (the value is largely based on the value of a holding in a Chinese Internet company – TENCENT).

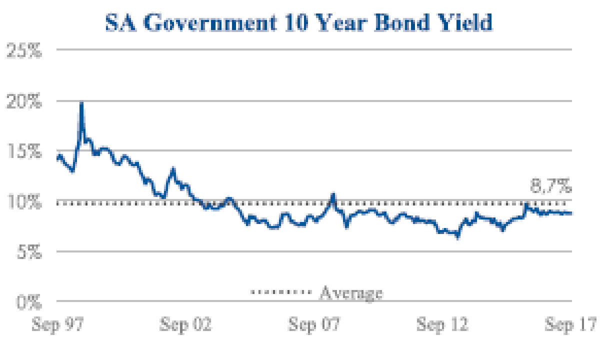
The more "extreme" the style, the greater the volatility but the greater the potential for long term returns. A very volatile portfolio is definitely not suitable where you are drawing a regular income such as a Living Annuity, but may be suitable to a young person who is making regular contributions to the investment.

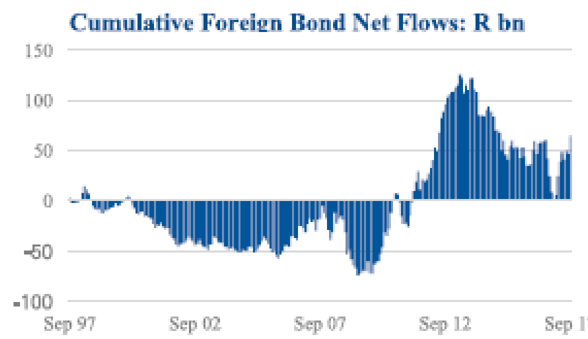
Market Flash

30 September 2017



Asset Class	Index	YTD	1 Year	3 Years	5 Years	10 Years
Local Equity	FTSE/JSE All Share	12.6	10.2	7.2	12.5	9.5
Local Property	FTSE/JSE SA Listed Property	8.2	9.5	12.7	12.7	13.9
Local Bonds	Beassa ALBI	7.8	8.2	7.6	6.3	8.4
Local Cash	STeFI Call Deposit	5.2	6.9	6.4	5.8	6.7
Global Equity	MSCI All Country World	14.5	16.0	14.3	22.5	11.5
Global Property	MSCI ACWI/Real Estate	11.4	3.7	13.4	17.7	8.1
Global Bonds	JPM GBI Global Traded	4.4	-4.8	7.4	10.1	10.4
Global Cash	ICE LIBOR 1 Month	-0.5	-0.9	6.6	10.8	7.7





SA Market Overview

Political turmoil, the risk of a widening budget deficit, a weakening currency and the prospect of a possible credit downgrade to junk status would usually be a deterrence to foreign investors wanting to invest in a country's bonds. Not so for SA! Foreign investors continued to find SA bond yields irresistible and during September, bought a net, R18bn of SA bonds. The All Bond Index (ALBI) gained 1.11% during the month as the long end of the curve was well supported. The SA Government 10 year bond is currently trading slightly below its long-term average. Refer to the graphs above.

SA managed to emerge from a technical recession, after 2017Q2 growth rebounded to 2.5%. A marked improvement was realized in agriculture and in the mining sector and the South African Reserve Bank (SARB) accordingly revised its 2017 growth forecast to 0.6% from 0.5%.

The SA equity market, however, retreated during the month with the All Share Index giving back 0.87%. The FINI15 was the worst performing major tradable index, shedding 2.38% followed by the RESI20 retreating by almost 1% during the month.

The much-anticipated listing of Steinhoff Africa Retail (STAR) took place during the month and gained 6.93% during the month.

Global Market Overview

- US equity markets continued to trade stronger during the month, reaching new record highs. The Dow Jones rallied by 2.08%, while the S&P 500 gained 1.93%. Bitcoin lost 12% during the month, as China banned all initial coin offerings and bitcoin exchanges. The NASDAQ returned 1.05%. Of interest on the NASDAQ was Apple's decline of 6.24% during the month as the release of a new line of iPhones failed to impress investors.
- ***Point of interest***: The main difference between the Dow Jones Industrial Average (DJIA) and Standard & Poor's 500 (S&P 500), is that the DJIA is a price-weighted average of 30 stocks whereas the S&P 500 is a market value-weighted index of 500 stocks. The NASDAQ is an index that is heavily weighted towards information technology companies.
- European markets like Germany and France experienced strong performances during the month. The French market (CAC40), jumped by 4.8% during the month, as the French government announced a €57bn economic growth investment fund.
- The MSCI World Index outperformed the MSCI EM Index as the former gained 2.08%, while the latter shed 0.55% in dollar terms.

Data illustrations compiled by Seed Investment Consultants (Pty) Ltd, an Authorised Financial Services Provider (2346). Click here to view disclaimer.

Sources : Data has been sourced from Morningstar, and reflects market data as at 30 September 2017.