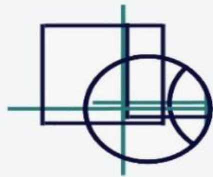


REICHTEC PRIVATE WEALTH

Newsletter – April 2019 4/26/2019

F.I.R.E.

I recently came across this acronym (FIRE) which should really be the ultimate goal for any investor.

Unfortunately for many it may be too late to achieve but hopefully you can pass this on to your children or grandchildren.

F.I.R.E. stands for Financially Independent, Retire Early and really represents a way of thinking about investments which really resonates with me. The focus moves from simply saving what you think you can afford and becomes the goal of achieving "financial independence" as soon as possible.

What is "Financial Independence"? In this context it is reaching a point where your investments alone generate enough income to meet your monthly expenses sustainably (this must be an income that can increase at least as fast as inflation). At this point you will be in a position where you are no longer dependent on a monthly salary and would be able to "retire early" if you so desire.

The ability to retire early does not mean you will stop working, but it certainly can relieve a lot of stress knowing that you are no longer dependent on the monthly salary.

What I really like about this is approach is that you begin to think about your investments in terms of the current and future income they produce rather than just simply about the capital value.

Elections – 8 May

South Africa heads to the polls on 8 May, and just as with every election you will hear stories that "these are the most important elections ever"…

Just as will all previous elections since 1994 however it is fairly clear that the ANC will still be the majority party, but it will be more interesting to see what happens in local politics after the actual election.

It is the implications of the elections which are a lot more difficult to predict and these could have a much greater impact on sentiment in the short-term and then ultimately the on the economy which will affect long-term prospects.

As always, my advice is not to worry too much about the factors you can't control, but rather focus on what you can control:

- Avoid impulsive decisions
- Maintain a diversified portfolio
- Keep control of your spending

As indicated last month, I will be out of SA on 8 May (the trip was planned before the election date was announced). I do hope for a positive outcome (and mainly that the election is peaceful, free and fair) – but hope is not an investment strategy whereas maintaining a diversified portfolio and avoiding one-way bets is.

the elections on 8 May – the first time since 1994.

When you are investing in equity, what you are "buying" is the current income in the form of dividends, but also the future dividends which are expected to grow faster than inflation. When you invest in property you are similarly buying the current and future rental income (which once again is expected to grow over time).

Artwork, fine wine and Bitcoins may increase in value over time (or not), but they do not pay any current or future income so I would exclude these from any FIRE plans….

Many proponents will talk about the "rule of 300" which 1s a rough guideline as to how much you will need to have invested to be in a position to retire early (irrespective of how young you are). This simply states that if you take your current monthly expenses and multiply this by 300 you will get an idea of how much you would need to have invested in a well-diversified portfolio (many different sources of income) in order to be able to retire.

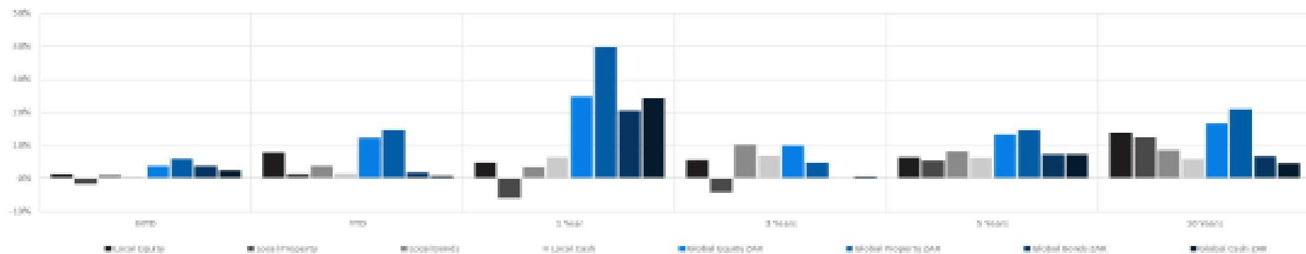
It can be a bit more complex than this especially as this ignores the tax implications of "how" the income is earned, but what I do like is that it shows just how much your expense "needs" contribute to your capital needs. Reducing your current expense needs will also affect both sides of the equation – you will reduce the amount of capital required and also increase the amount you can save to ensure you achieve the required level of capital sooner.

An expression which has stuck with me is that "your expenses will always expand to fill your income" – if you have money left over at the end of the month you will find something to spend it on. A much better approach is to put together a budget and work out how much you can save and then set up a debit order to ensure you save this amount. (Note – your contributions towards investments do not count as part of your FIRE expenses).

Market Flash

31 March 2019

Asset Class Performance (ZAR)



Asset Class	Index	MTD	YTD	1 Year	3 Years	5 Years	10 Years
Local Equity	FTSE/JSE All Share TR ZAR	1.6%	8.0%	5.0%	5.7%	6.5%	14.0%
Local Property	FTSE/JSE SA Listed Property TR ZAR	-1.5%	1.5%	-5.7%	-3.8%	5.6%	12.4%
Local Bonds	Beassa ALBI TR ZAR	1.3%	3.8%	3.5%	10.1%	8.3%	8.7%
Local Cash	STeFI Call Deposit ZAR	0.6%	1.6%	6.6%	6.8%	6.4%	6.0%
Global Equity ZAR	MSCI ACWI NR USD	3.9%	12.5%	24.9%	10.0%	13.4%	16.7%
Global Property ZAR	MSCI ACWI/Real Estate NR USD	6.0%	14.8%	39.9%	5.1%	14.9%	21.1%
Global Bonds ZAR	JPM GBI Global Traded TR USD	4.0%	2.1%	20.5%	0.3%	7.5%	6.8%
Global Cash ZAR	ICE LIBOR 1 Month USD	2.8%	0.9%	24.4%	0.7%	7.5%	4.8%

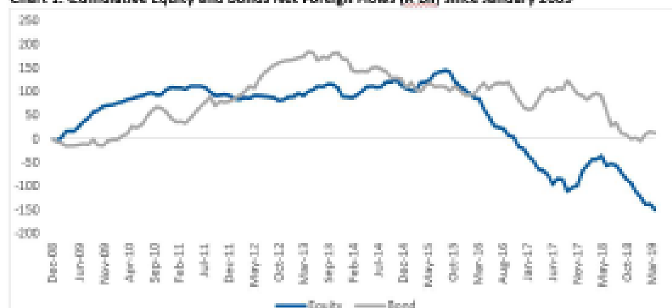
SA Market Overview

South Africa received another lifeline from Moody's as the credit ratings agency kept the sovereign credit rating at investment grade. The statement issued stated that while the local economy faces numerous problems, it still falls in line with other sovereigns that are rated Baa3. Eskom and other state-owned enterprises pose significant risks but the country has proven to be resilient with strong core institutions and a solid financial sector.

The FTSE/JSE All Share Index rallied for a fourth consecutive month ending 1.6% in the green. The local equity market returned 8.0% during the quarter and 12.6% post the last recorded negative month. Key contributors included Naspers and AB InBev up 9.4% and 10.6% respectively in March and 19.5% and 26.7% over the quarter. The FTSE/JSE SA Listed Property Index although down for a second consecutive month ended the quarter 1.5% up. The All Bond Index gained 1.3% during the month and 3.8% over the quarter.

Data from the Institute of International Finance (IIF) showed that South Africa had a good start to the year, accounting for 52% of the $32bn net capital flows to emerging markets in January. Sentiment towards emerging markets swung positively with the more dovish sounding Fed, easing trade tension and less uneasiness over global growth. However, local equities continued to experience net outflows from foreign investors during the quarter while bonds recorded net inflows. Chart 1 below illustrates the foreign net flows into South African bonds and equities. Total net flows peaked in 2013 and have declined since then. Foreign net flows in equity in particular have declined sharply.

Chart 1: Cumulative Equity and Bonds Net Foreign Flows (R'Bil) since January 2009



Source: Iress (3 April 2019)

Global Market Overview

Global Markets rebounded during the first quarter of 2019 after a difficult end to last year. The MSCI All Country World Index gained 1.3% in March and 12.2% over the quarter. Developed markets outperformed emerging market counterparts. The MSCI World Index (developed markets) gained 12.5% during the quarter while the MSCI Emerging Market Index gained 9.9% with China a major contributor. Risk assets benefitted from the Fed's reversal in monetary policy stance and optimism on the success of the US/China trade talks.

The last decade has seen the rise of family offices in the investment fraternity. A family office is a private wealth management firm for ultra-high-net-worth investors offering solutions which include budgeting, insurance, charitable giving, family-owned businesses, wealth transfer and tax services. These can be single family or multi-family offices and are traditionally used by families' with fortunes worth over $100million. With assets of up to $4trillion, more than hedge funds and approximately 6% of the value the global stock markets, family offices have become a force in investing. Of the 311 family offices surveyed by UBS, most family office headquarters are located in Europe and North America.

In an era of populism and as family offices grow larger, they are likely to face uncomfortable questions about how they concentrate power and feed inequality. An article in The Economist highlighted some risks that could threaten global markets. Some of these risks are as follows:

1. Endangering the stability of the financial system through a combination of ultra-rich people and an opaque system. However, with data indicating lower debt on average and with funds deployed over long periods, family offices seem unlikely to be the next disaster
2. Magnifying the power of the wealthy over the economy as they can own huge chunks within specific economies. However, the aim usually is to diversify risk rather than concentrate power. Habits including longer-term horizons and an appetite for start-ups are positive for the market
3. Privileged access to information, deals and tax schemes. Tycoons are generally well connected and with banks and brokers rolling out the red carpet and pitching deals to unlisted firms not available ordinary investors, the extent of inequality could be far worse if compounded over decades.

Therefore, regulators, treasuries and tax authorities need to be vigilant in dealing with family offices.