



Classic FM Business with John Fraser, 27/11/2008

## “Credit Crunch Strategy,”

with Mike Estment, CEO Director NFB Financial Services Group

**JOHN FRASER:** There may be a bit too much doom and gloom around. We’ve seen that retailers didn’t have the brilliant Christmas that they would have wanted after a fairly gloomy few months. Obviously tensions in the Middle East could start putting petrol prices up again in South Africa if things get much worse. Now might not be such a bad time for those people who have got a bit of spare cash, who are potential investors, who have got a bit of wealth that they want to grow. To discuss that we welcome CEO of NFB Financial Services, Mike Estment.

Just looking at the position of somebody who would come to you with bundles of cash, presumably now could be a better time than for a long while to put that cash to work.

**MIKE ESTMENT:** Yes, that’s right. I don’t by any stretch of the imagination think that the world is out of difficulty, but certainly there have been assets of great quality, with great management, great cash flow, great market shares in the sectors, that have been oversold, and if one just looks at the bounce back in the JSE in recent weeks, whilst the market has been quite thin, that reflects to me people looking for bargains and value and it’s not just the man in the street, it’s institutional buying as well.

**JOHN FRASER:** Last year the JSE did pretty horribly, but we weren’t alone, were we?

**MIKE ESTMENT:** I drew some numbers, one of my partners did, and it's quite extraordinary to see that Moscow was down 70%, Dubai (that incredible place with incredible capitalism, incredible property market and development) was down 72%, Dublin was down 66%, the Greek index was down 65%, Vienna 61%, and so on. So certainly South Africa, while certainly not being unscathed, got away reasonably lightly compared to the others.

**JOHN FRASER:** I suppose one of the problems is that this is a time of uncertainty and the experts have very diverse views on what's going to happen in 2009?

**MIKE ESTMENT:** Some of the research that NFB gets comes from a very reputable and wide range of managers. One of the particular bits of interesting reading that I just picked up recently is from Glacier, a division of Sanlam, where they deal with seven or eight of the key managers in the country, and if one looks at their views on oil, on gold, on which sector of the markets to be in and which asset class to be backing, there's a wide range of thought there and certainly if you're bold and if you have deep pockets and a long time horizon, now is a good time to be sniffing around markets.

**JOHN FRASER:** One has to bear in mind that you don't just invest if you're trying to build wealth over a six or 12 month period. You're looking over a period of years, aren't you, and your horizon has to be a little more expansive than somebody who's just looking at what's going to happen in the next few months?

**MIKE ESTMENT:** Yes, in the last number of years the old analogy of just throwing a dart at the board and it would come right, probably held across market sectors, across different stocks within sectors. Those days are now gone and we're in a period where clever investing is going to be rewarded. Not only is it difficult to get leverage from the banks, but leverage is an extremely dangerous word - you can and will, and people have recently come short. The memory unfortunately is short lived, so within the next five, six, seven years, with an interest rate cycle that's going to be trending strongly downward in our opinion, you're going to have people going out there and going out on a limb, and if you're not professional and if you're not really in touch, stay far away. Use your own money, minimise and diminish and zero debt. The old stories, and I think the world's probably going back into a cycle of reason, into a more sanguine place where people are doing things for the right reasons, advice has been particularly broad-based and most people have got it right. That's going to change and people who really understand their own particular needs and deal with advisors and professionals who really understand their needs are going to do well in the next decade.

**JOHN FRASER:** And I suppose one of the messages which we have discussed time after time is diversity. Don't put all your eggs in one basket. Don't put everything into the stock exchange or everything into property or keep everything in the bank. You've got to have a structured portfolio and you've got to keep an eye on it as well haven't you?

**MIKE ESTMENT:** I think that the diversification thing is a theme that has resonated around professional markets for the last number of decades. It is also true though that we are animals of habit and we also, like most animals, tend to be vulnerable to herding and by herding I mean that we all follow the trend and that can be extremely harmful because people tend to be late adopters. They follow the professional investors and they adopt the trend once it is very advanced and well established and that's at a time when the professionals are probably starting to take profits and lighten up.

When the market dips down, people run for cover and all hang can break loose. That's the first thing. The other thing on diversification is understand your income requirements. If you get those sorted you don't have to panic about income being provided for - you can then take the balance of your assets and get a little more sassy with those - take international views on those but they have to be of a long duration. Take growth and even aggressive growth views with the balance of cash beyond that which provides you with income and you can actually, as long as you have the ability to wait, these markets will reward you.