



Classic FM Business with John Fraser, 27/07/2009

“Strategic investing,”

with Mike Estment, CEO Director NFB Financial Services Group

JOHN FRASER: Well these are difficult, turbulent, interesting, sometimes scary times and I have to say I occasionally get emails from listeners who ask me for investment advice and if anyone had seen my share portfolio and my bank balance that is the last thing they would have thought to do, but one man who does spend a lot of time giving advice to investors is our next guest. He is the CEO of NFB Financial Services, Mike Estment.

Presumably you get the odd call from very worried people in these very difficult times?

MIKE ESTMENT: Yes indeed we do and I think probably the most logical thing to do is to tell people to take it easy, think about the terms of the decision that they are making and act prudently and accordingly. So if they are wondering just when to get in, they should do so over a period of time - if they are wondering when to get out it is never a good time to get out. If you are in for the long haul - stay there and if you look at the last five or so months of the market, you have seen a decline early in the year followed by a fairly significant rally and if people had capitulated in that sort of end of the first quarter it has not been a good decision for them.

JOHN FRASER: What do you make of all these reports of our own home grown Ponzi scheme, this Tannenbaum individual who appears to have taken a lot of money on very inflated promises, found himself incapable of delivering, now based in Australia has associates in the legal profession here. It is all a bit messy but maybe one of the most scary things is one of the victims are people who should have known better who should have realised that if something sounds too good to be true it probably is.

MIKE ESTMENT: John I think that some of those names as you have mentioned are the ones that have been made public through the media - are household names. Some of them are personally known to me and it makes the answering the question that much more tricky, but the truth of it is that

I think that herding is a term that we use in the behavioural finance and that is that you will find people follow one another and particularly if the fellow leading you to the waterhole and there is a lion in disguise right there, if that person has lived and has got a lot of grey hair and is taken seriously, there is a great risk that you might just follow blindly and not see the danger that might otherwise seem quite obvious. This is a theme that we have followed through in our business and I think all serious advisory businesses are warning people that they have got to be very careful about the risks of big promises without the sovereignty or the guarantee reasonably or absolutely being met. Big rates of return typically would imply a greater level of risk and risk is not something that everyone's appetite can deal with and if the risk follows beyond just market risk into risk of capital then the results can be absolutely disastrous. I am afraid that there are lots more of those Ponzi type things out there, whether local or not I am not sure but there is another big one that has just hit the media in the UK where millions of pounds are in jeopardy.

JOHN FRASER: Mike one obviously has to be cautious, one obviously has to take good advice, one obviously has to go to professionals who will tell you what the risks are and help you structure the right portfolio for your requirements and your fears but I was at a quite interesting presentation by Old Mutual last week when they did their quarterly presentation and one thing that they did say quite clearly is if you are sitting cash that too is not necessarily the wisest strategy - over time equities do outperform. Presumably you would share that?

MIKE ESTMENT: It is a very fascinating question and the time that you get involved - if you said to anybody eighteen months ago - you should be in cash - they would most probably tell you that you really don't understand and this time it is going to be different and there are all sorts of reasons. The coming of China and India was going to follow suit - was going to sustain this incredible run in our instance, a market characterised by a significant exposure to resources which were profiting out of the global economic rush, however you could have earned 12% or 13% before tax on cash and anyone that had done that as opposed to staying in the markets, particularly also because earnings were compromised and companies started withholding dividends, it would have been a very smart call to earn 7%, 8% or 9% after tax on cash.

The long term story does hold true and that is that a good quality equity should pay a dividend if that dividend yield in South Africa - the average is 3% - you only have to get another 2%, 3% or 4% capital growth per annum to beat the medium term return on cash and therefore if it is a quality company and it has got incremental earnings which are inflation hedged, it's a good story but balance is probably the key issue now - is people just remaining balanced in their thought process and balanced in their allocation of monies to different asset classes. It is definitely cheaper now and obviously cheaper now than it was two years ago to get into the market but I would do so in bits and pieces rather than an all or nothing. I wouldn't bet the farm right now because I think there are still a lot of companies in

distress, a lot of banks having difficulty lending against the criteria they used to apply. I don't think those criteria are going to apply for the next decade, if ever and the rules are changing.