

Gains and losses in 2010 – what an investor needs to take into 2011

By Grant Magid, NFB Investments

South Africa and the rest of the world have indeed seen the good, the bad and the ugly in 2010.

THE GOOD

Emerging Markets! South Africa again proved itself as one of the leading developing markets in the modern day economic environments. From staging one of the most successful FIFA World Cups in history, we proved that as a host country we can stand proud and tall. Our new Gautrain link from OR Tambo International to the new economic hub in Sandton is finished and in my opinion world-class.

THE BAD

Nationwide strikes brought most of our public sectors to a grinding halt and some of the hardest hit were our young learners, some of whom were not able to finish their curricula because their teachers were striking and not doing what they were supposed to. Crime is still

very much part of South African life and way of life.

THE UGLY

Global Developed Markets. How the mighty have fallen!

WHAT MADE A GOOD OR BAD INVESTOR IN 2010

A good investor is one who has the ability to manage their own expectations, realise that while the global market rallied in 2009, we are still living in an economic environment which is extremely fragile. Asset allocation in 2010 was most important with cash type investments giving historically low returns, investors were forced to buy expensive equities and property was back among the favourites. This has caused listed property to lead the way with almost 20% return this year and equities have rallied and returned 9.75% with the gold price increasing 22.01%. Consistently reducing interest rates have helped bonds return 15.91%. Local investors have again done very well in challenging times.

Devastating losses have again come from developed

markets which include the European Union and America. The Euro zone which includes the likes of Portugal, Italy, Ireland, Greece and Spain has come under tremendous pressure with financial markets questioning their ability to repay loans when called on. This has led to Sovereign debt taking up the spot light. The euro has depreciated -3,56% against the greenback in 2010. This weakness has pushed the euro back to the 2005 conversion rates against the dollar and almost 8% against a firming rand!

America has gone through the second round of quantitative easing by introducing USD600 million into their fragile market and the after effect was as we expected, disappointing. The US market is in desperate need of liquidity which the Federal Reserve is hoping will revive the US consumer. To date the additional liquidity has only helped the US dollar to devalue against other trading partners, which includes South Africa.

Because of the uncertainty surrounding developed

markets and the need for a return there has been a significant move to emerging markets hence the strengthening of the South Africa rand against most of its trading partners.

WHAT TO LOOK OUT FOR IN 2011 AND WHAT DID WE LEARN FROM 2010

The acts of 2010 could very well influence 2011. With developed markets flooding capital markets and printing money the most likely factor to be influenced will be inflation. Inflation could put pressure on Central Banks to increase interest rates to ensure a repeat of 2008 does not occur.

On the other hand, South Africa is begging for a further interest rate cut and 50 basis points was the announcement from the November MPC meeting because of lower than expected inflation figures over the last 3 months. This could lead to equity markets running even further at the start of 2011. This all ensures 2011 will be as fascinating but hopefully less volatile than 2010.



Grant Magid: Fragile economic environment

Private client investing – one size does not fit all

It goes without saying that all investors want to be assured of only the best service and knowledge when it comes to the decision of whom to trust for financial advice and investment assistance. So how does one choose between using a multi-disciplinary service organisation – a 'one-stop shop' – such as an investment bank, versus the services offered by a specialist investment management business?

Private client wealth management is complex and according to Darron West of Foord Asset Management, it is this complexity associated with wealth that is part of the pretext for private client wealth management.

In some quarters, the solution to managing this

complexity has manifest in a proliferation of "one-stop" multi-disciplinary service organizations that offer all manner of products and services.

"There is little doubt that such an offering is convenient, however, it might be neither optimal, nor effective, nor particularly empowering for the client," warns West, who advises that personal portfolio clients would be far better serviced by a specialist asset management company.

"Tailor-made portfolio management is a highly specialized vocation; it is a synthesis of an appreciation for and the skill to manage the particular risks and complexities faced by high net worth investors. A focus on asset management also



Darron West:

means that there are no competing incentives to cross sell services such as a brokerage where the focus is not on generating the best risk adjusted returns."

The extent and magnitude of risks confronting per-

sonal clients are considerable, indeed, some are even unique, and all of these risks require specialist attention to be managed optimally. Often, these clients are able to articulate their requirements very specifically and credible tailor-made investment management necessarily involves the ability to translate those requirements and their attendant risks into a suitable customized portfolio which suits the client's needs.

According to West, a customized investment portfolio for a high net worth client must take account of factors including income requirements and spending patterns, longevity, risk tolerance, taxation, ease of realization (liquidity), legal formalities and structures,

geographic diversification and time horizons.

"Most personal portfolio clients tend to appreciate the benefits of having a long investment horizon. Consequently, such clients also understand the merits of owning a portfolio that comprises only the best, most appropriate investment ideas. Also, since no one achieved wealth by being penny wise and pound foolish, personal portfolio clients should insist that managers are not paid to regress to some mean return or implement industry average portfolios. Rather, managers should be paid to generate their returns with conviction. Hence, whilst there is obvious merit in using diversification as often (but not as much) as possible, the

best performing portfolios tend to be those with a small selection of high conviction holdings."

"Personal portfolios are often free of regulatory and other constraints that dictate the extent of investment in asset classes not ordinarily available to collective investment schemes," says West. "A tailor-made investment mandate may permit a particular investment activity that, when practiced by a proficient manager, may lead to greater returns being earned with lower overall risk."

"Private portfolio clients looking to achieve the best possible returns on their investments would be well advised to choose a specialist firm where they are also assured of no conflicts of interest, personal attention, a focus on detail and the reward of results through specialist knowledge and insight," concludes West.

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