ECONOMIC NEWSLETTER

analytics

A FESTIVE REBOUND TO END 2023 & THE ART OF LONG-TERM INVESTMENT SUCCESS

After a challenging and volatile year, markets have offered investors some reprieve heading into the December Festive Season, aggressively rebounding and posting positive numbers across the board.

With August, September, and October delivering negative returns and driving our local equity market down over -10.0% over the three-month period, November provided some much-needed relief to investors. Global and local equity markets rebounded strongly, returning 10.6% and 8.6% respectively, both in ZAR. Year-to-date, global markets (measured by the MSCI World Index) are now up a whopping 32.0% in ZAR, as at the end of November.

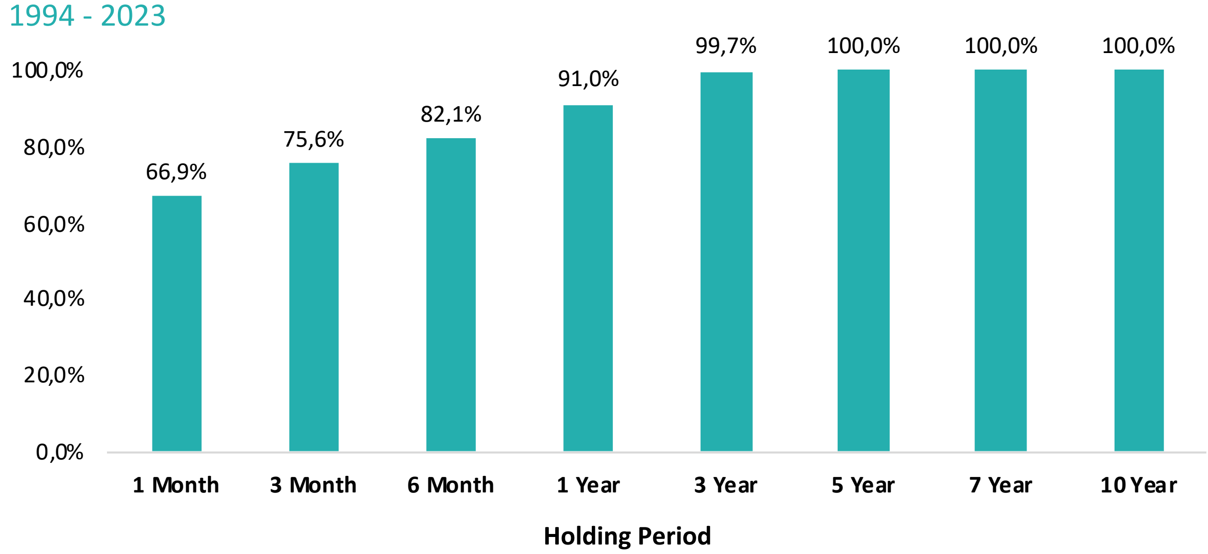
THE LONGER YOUR HOLDING PERIOD, THE HIGHER YOUR ODDS OF SUCCESS

A key tenet to realising one's investment goal is to stick to a sound investment process and, for the most part, avoid touching your portfolio in the interim. To see how this principle plays out in practice, consider the returns generated by the average South African High-Equity Fund over the last few decades.

On any given month, your odds of earning a positive return in the average South African Multi-Asset High-Equity Fund (the most commonly-used vehicle for retirement portfolios in South Africa) are a little over two-thirds (give any roulette player these odds and they'd cash in their life savings and head straight to the casino). Slightly increase the holding period of your High-Equity Fund investment to 3 months, and your probability of earning a positive return jumps to over 75%. After holding your investment for 1 year, you would have generated a positive return nine times out of ten. For a 5-year holding period, there has never been a negative return for the average High-Equity Fund in South Africa, since the peergroup data was first captured in 1994.

SA MA HIGH EQUITY PEERGROUP: % OF POSITIVE RETURNS

1994 - 2023



Source: Morningstar

THE LONGER YOUR HOLDING PERIOD, THE HIGHER YOUR ODDS OF SUCCESS CONTINUED

Importantly, the results derived from the graph above have absolutely nothing to do with trading and trying to time the optimal entry/exit point into the market. Had investors invested precisely before the 2008 global financial crisis, or before the Covid-19 crash of 2020, their returns would have been positive within a 3-year time horizon, provided they had avoided selling into cash and had remained invested.

Edwin Lefevre, author of arguably one of the most celebrated trading books of all time (Reminiscences of a Stock Operator) famously wrote "It never was my thinking that made the big money for me. It always was my sitting."

The key to reaping the benefits of earning a positive investment return lies in remaining invested and avoiding the urge to move across into cash during bouts of market volatility. The last four months to end November of 2023 serve as a timely reminder of the dangers of selling out of the market at the moment of peak pessimism. Investors who had watched the local market drop by -10.4% from August to October could be forgiven for wanting to cut their losses and move across into the safety offered by cash investments. However, had they done so, they would have completely missed the November rebound, and would instead have locked in the negative market return.

BENEFITS OF DIVERSIFICATION

The Nobel Prize laureate, economist Harry Markowitz, famously said, "Diversification is the only free lunch" in investing. A pragmatic approach to portfolio diversification is one of the cornerstones of prudent investing. By spreading investments across various asset classes and geographies, as well as sectors and themes, investors can reduce the risk associated with broad market movements. Just about every South African Balanced Fund available in the market has exposure to both local and global markets, as well as exposure to different underlying asset classes (a combination of equities, cash, bonds, and property, with the potential for some alternatives).

Again, 2023 has provided investors with good examples of the benefits of diversification in practice. While our local equity market was down -10.4% from August to October, the average Multi-Asset High-Equity Fund was down only -4.8%; less than half the capital loss experienced by the broader market.

Diversified portfolios tend to exhibit a smoother performance trajectory over time, as gains in certain assets can offset losses in others, while providing risk protection. This risk-mitigating effect becomes especially valuable during economic downturns, when specific sectors or asset classes may underperform.

As investors look forward to taking some much-needed time off in December, we would like to thank our clients for their continued support. This year provides no better proof that those who stay the course and remain invested will be rewarded for their efforts. As Robert G. Allen, financial author and investment advisor once quoted, "How many millionaires do you know who have become wealthy by investing in savings accounts? I rest my case."