THE PERFECT PORTFOLIO?

HYDE PARK: Many South Africans love physical property as an investment. Personally, this fixation has always fascinated me as I wonder if these property investors know what they are missing by ignoring the other major investment types available to them. For example, listed property companies that trade on the JSE have been fantastic investments over the last 10 years. People who bought these companies have earned 22% per year over the last 10 years and they earned this growth without having to deal with tenants or maintenance issues. This is only one of the alternative investments available to individuals who are willing to consider alternatives to residential property.

LONG TERM HISTORY IS A GOOD INDICATOR

The table below shows the long term returns of all the major investment asset classes available to South African investors. The returns over 10 years are most relevant as the 2 to 5 year information is too short to be helpful although it does make for interesting reading.

10 Year Return of Major SA Asset Classes

Code	Index	2 years	3 years	5 years	10 years
J203	All Share	10.5	17.3	8.1	15.2
J258	Resources	2.5	12.4	5.6	12.0
J580	Financials	11.9	17.0	4.0	14.0
J257	Industrials	17.9	22.0	12.4	18.9
J255	Property Unit Trusts	18.7	18.7	13.1	22.5
JAPI05	All Bond	11.8	7.4	8.6	10.8
GMC1	Cash	6.3	7.2	8.8	9.2
ECPI	Headline CPI (using last available figures)	4.8	5.2	6.9	5.9

Source: I-Net Bridge; Deutsche Bank calculations

It is clear from the 10 year history that listed property and shares (equities) are an ideal combination for long term capital growth. If you include bonds as a stable, inflation-beating asset, I believe you can create the ideal portfolio for any individual simply by using a stock broking account. If you are reasonably young and looking to grow your assets without an immediate requirement for income, you could combine an investment in shares with listed property. A good allocation would be 75% in shares and 25% in property.

If you are looking for a combination of capital growth and income, you could reduce your allocation to shares i.e.: 50% equities, 25% bonds and 25% in property. This combination should ensure that your capital grows more than the inflation rate whilst generating a good income. If you are not built to cope with the volatility of the stock market, you could reduce your investment in shares to 35% and increase your investment in bonds to 40% and property at 25%.

The costs of creating and maintaining any of these portfolios would be quite low (initial brokerage plus a monthly portfolio fee) especially compared to buying physical property assets. If you are considering buying residential property, you will be paying massive transaction costs and ongoing maintenance costs.

In addition, your risks in a listed property investment are significantly lower as your property portfolio consists of hundreds of offices, factories and shopping centres rather than a limited number of individual properties. You will never have to go to court to evict a non-paying tenant nor will you have to worry about inefficient municipalities etc. because your assets are managed by professional managers who get paid to do this stuff for you.

WHAT TO INVEST IN?

The easiest (and probably most cost effective) way of creating a diverisfied portfolio for yourself, would be to invest in Exchange Traded Funds (ETF's). ABSA offer two diversified ETF's (called MAPPS) that you can buy via your stock broking account that will give you the necessary equity and bond exposure. You can then add your property exposure via the Proptrax ETF's or you can buy individual property shares.

SOME COSTS ARE DECLINING

When ABSA launched the MAPPS ETF's, I was really excited about these investments until I found out how much ABSA were charging to manage them. I am very glad to see that they have recently reduced the costs of these investments substantially; so that they are now really attractive investments. Unfortunately, I feel that Proptrax are charging too much to manage their ETF's which makes it difficult for me to recommend these investments at this stage.

IS THE MARKET TOO EXPENSIVE & SHOULD YOU WAIT TO INVEST?

The JSE is on a charge at the moment and is breaching new highs on a regular basis and this is causing people to question whether the market is getting too expensive. This is one of the themes that financial journalists start repeating whenever the markets do well for an extended period of time. I agree that you need to be careful when investing your capital into this market however; your decision should always be made in context. The JSE index might be above 34,000 but the PE of the market (its real value) is near 13 which is well below its historic highs. I become very fearful when the JSE gets close to a PE of 19 but not at 13! Many fund managers are suggesting that foreign markets are trading at lower PE's than the JSE and therefore we should rather invest offshore. I think this misses the point that the JSE itself is not in expensive territory yet. If you are investing on a monthly basis, you have no cause for concern whilst lump sum investors should probably make their purchases over a number of months to reduce the impact of volatility on their investments. There is certainly no need to avoid the JSE in the hope that it will drop in the near future, the market could continue on its path for many months yet.