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Challenging Conventional Wisdom

NEWSLETTER

Monthly Newsletter – November 2012

Note from Theo and Warren

This month's newsletter contains two articles about the prospects of our stock market and our country as a whole. We are living in "interesting times" and you would be forgiven for being unsettled by the tidal wave of bad news that is flooding us at the moment.

As always, our job at Galileo Capital is to sift the real information from the noise. Our primary responsibility is to maintain a level head and to provide objective views when others are likely to be hysterical.

In summary, there are areas of concern but we are not nearly as pessimistic as the majority of journalists tell us we should be. The recent, much debated article by the *Economist* made for depressing reading and while we felt that the article contained some good points, our country is not in dire straits. There are still many great investment opportunities and those who act rationally and with patience are likely to benefit greatly over the next few years.

We all need to realise that most developed countries are in a far worse state than ours. Their problems are very difficult to solve, while the solutions to our most immediate problems could be resolved by the end of the year.

With the American elections hitting full swing in November we thought you would enjoy reading about what it feels like to be the American President for a day. This is a link to a behind the scenes article from Vanity Fair magazine.

http://www.vanityfair.com/politics/2012/10/michael-lewis-profile-barack-obama

Investing: what's what on the stock market

As a rule, we don't place too much value on the research of asset managers and stock brokers. However, there are a few (very few) companies whose research is worth following. One of these is Cannon Asset Managers, which is trying to understand what is driving our market at the moment.

The following is our summary of an in-depth note that they published on 25 October. The bottom line is that the JSE is regularly breaching new highs despite the onslaught of bad news that indicates that the global and local economies are not in good shape.

Over the last year, the stock market has risen by an average of 2.1% per month. The market grew for nine months and was only down for three. In the nine positive months, it was driven by a few large South African companies that are internationally owned, like Naspers, SAB Miller, some retail companies and healthcare companies.

These are typically big companies that have a good story behind them and are great businesses, but their shares are expensive. The reason these companies are so popular with international investors is that they have limited investment opportunities with their capital and they have access to cheap money. When their interest rates are close to zero, the opportunity to buy emerging market companies that pay growing dividends is very compelling for international investors.

So, while our market is reaching new highs, the majority of the shares in the JSE are actually very cheap and are not being bought by investors at the moment. Examples of these companies include mining, construction and engineering businesses. The fact that only a few of our listed companies are driving the market upwards is a source of concern and comfort.

People buying individual shares can easily get severely burnt if they buy the expensive companies, while those who buy a broader range of South African companies are likely to be buying great businesses at low prices. In conclusion, this is a time to be cautious with your stock picks, but there is still great value to be had from our broader market.

Politics: If SA were a listed share, would it be time to sell?

Political analyst Nic Borain is a household name in the world of finance; he examines political and policy risks for financial markets in South and Southern Africa with a view to helping businesses and other organisations to make crucial investment and strategy decisions.

A recent article on his website caught our eye – Borain takes South Africa and looks at it as if it were a company, and then makes recommendations to its 'shareholders' accordingly.

"Company analysts make sell, hold or buy recommendations," writes Borain. "Obviously a buy means the analyst believes the shares are cheap – in some difficult to determine absolute terms, but more likely in relation to appropriate peer or category comparisons.

"If I was a company analyst, then what I might have been doing over the last while would have been writing a report changing my recommendation on South Africa from a hold to a sell."

It's a fascinating argument – you can read the rest of it here: http://nicborain.wordpress.com/2012/10/17/is-it-time-to-sell-south-africa/.

Travel: Best time to book your flight

A report out of the Huffington Post says that the best time to book your domestic flight, price-wise, is exactly 21 days prior to departure.

The information comes from Kayak.com, a US-based travel price comparison company. They surveyed more than a billion airfare searches and found that 21 days before departure was the booking 'sweet spot'. US customers who booked on that day paid the domestic average of US$342 a ticket versus the US$370 average paid for a ticket booked six months in advance.

For international trips, the prime booking window is 34 days prior to departure, and the research backed up what many frequent fliers know from experience – waiting till the last minute to book will always be the most expensive option.

Health: It's not necessarily Alzheimer's

Those worrying symptoms you're experience might not be Alzheimer's – medical experts say that more than 100 other conditions can mimic Alzheimer's disease, and many are easy to treat.

A recent report in the *Wall Street Journal* indicates that Alzheimer's symptoms such as confusion, memory loss and personality changes can be side effects from medication – including cholesterol-reducing statins – and in many cases, the cognitive symptoms vanish when medication is stopped.

Autopsy studies of nearly 1 000 dementia patients at 30 top centres in the US between 2005 and 2010 found that between 17% and 30% of those diagnosed with Alzheimer's disease had been misdiagnosed and had other conditions. Other causes of Alzheimer-like symptoms include exposure to high levels of iron, lead and copper, alcohol consumption for long periods, urinary tract infections, and over a hundred types of drugs. Depression is also a culprit.

There is also growing evidence that some cognitive problems might be caused by blockages in tiny blood vessels in the brain known as ‘silent emboli’. High blood pressure, high cholesterol and diabetes all raise the risk for such silent emboli, as do many common surgical procedures. The damage they cause can’t be reversed, but reducing risk factors may prevent further harm.