AN IDEAL INVESTMENT?

A stock broking account can be used to create a complete, diversified portfolio for any investor's requirements. In order to construct this portfolio, you need to know how asset classes perform so that you have the appropriate expectations when starting out.

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 are an ideal combination for long term capital growth. If you include bonds as a stable, inflation-beating asset, I believe you can create a 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 e.g.: 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 able 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 account fee) especially compared to buying physical property. If you are considering buying residential property, you will be paying massive transaction costs and on-going maintenance costs.

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.

The easiest (and probably most cost effective) way of creating a diversified portfolio for, would be to use 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.

IS THE MARKET TOO EXPENSIVE?

The JSE index might be ranging between 33,000 and 34,000 but the PE of the market (its real value) is near 13. This is well below its historic highs. I will be concerned when the JSE gets close to a PE of 19 but not at 13. If you are investing on a monthly basis, you have no cause for concern. Lump sum investors should probably make their purchases over a number of months to reduce the impact of volatility on their investments.

If you are careful with the construction of your portfolio and take the time to plan your investment strategy properly, your stock broking account could be a great way to create and manage your wealth over your lifetime.