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Challenging Conventional Wisdom

NEWSLETTER

Monthly Newsletter – January 2013

A Message from Theo and Warren

The past year was another great one for investors in the South African stock market. The JSE All Share Index returned more than 26% for investors, while our preferred SWIX 40 index returned more than 27%. This makes 2012 one of the (very) good years on the Stock Exchange.

We were certainly surprised by this, as the year proved to be very difficult, especially considering the range of headwinds facing investors: Marikana, the European Debt Crisis, the USA Fiscal Cliff, Julius Malema, nationalisation, a lethargic South African economy and an economic slowdown in China. The performance of the JSE against this background reinforces our view that investors cannot rely on economic factors to drive the stock market in the short term.

It's interesting to note that the Industrial, Property and Financial sectors of the JSE were responsible for the stock market's great performance, returning more than 35% for the year. In contrast, the Resources index only generated 3% for the year. This is relevant because the Resources index includes some of South Africa's largest companies such as Anglo and BHP Billiton. This reinforces our view that portions of our market are expensive, but there are still pockets of great value in our Top 40 index.

The partial resolution of the American debt crisis (otherwise known as the Fiscal Cliff) was well received by investors around the world, and the JSE jumped more than 2% in the first day of the business year. We are concerned, however, that the politicians only managed to resolve half of their short-term debt problem. They managed to agree on how tax rates would be raised, but they didn't agree on how spending would be reduced. The deadline for this decision has been postponed for two months, which means investors will be facing another potential crisis that is sure to unsettle markets again.

The ANC National Convention provided more positive feedback for investors and proved to be more business-friendly than most of us anticipated. Nationalisation as a policy has (finally) been discarded in a clear sign to international investors that South Africa is open for business. In addition, the appointment of Cyril Ramaphosa as deputy president of the ANC can be viewed as another attempt by the ANC to court the investment community.

It remains to be seen how the ANC will deliver on its promises and whether it can strike a good balance between social development and business-friendly government policies. We believe that the ANC has realised (quite late in the game) that public debates on economic policies by fringe groupings within the party can be very destructive to investor confidence.

The complete whitewash of the more populist elements of the ANC at the convention was positive for investors. However, we remain concerned about our government's ability to deliver on its promises at municipal level.

-- Theo and Warren

A cuppa travel – India’s tea tourism

Looking for an interesting travel destination this year? If you like a good cup of tea and the thought of gracious living and echoes of bygone days, a visit to India’s tea-growing regions might be an option.

Tea tourism to north-east India is a growing trend as tea estates open their properties to visitors who are interested in both the product and the process. Most estates date back to the British Raj and are an ode to manicured lawns, chandeliers, elegant silverware, high-ceilinged bedrooms and four-poster beds.

Outside the gates of the manor-like estates, are rice fields, bamboo groves and neat village homes, as well as factories where the teas are processed after picking.

Smaller, private estates began welcoming guests in the 1990s as a marketing strategy to help pull them out of a worldwide tea glut, and they haven’t looked back; more and more estates are welcoming tourists from all over the globe.

Happier people earn more money

For most of us, earning more money tends to make us happier, but a new study suggests that the reverse might also be true.

Research out of the economics departments of University College London and the University of Warwick has shown that those who experience more positive daily emotions and feel more satisfied with their lives while growing up, earn more by age 29.

The study looked at more than 10 000 Americans, drawing from the National Longitudinal Study of Adolescent Health between 1994 and 2008. The original study asked students whether statements like “You enjoyed life,” had been true during the past week. Later, when students were older, they also answered the question “How satisfied are you with your life as a whole?”

Students who described themselves as happier at age 16 and 18 and felt more satisfied with their lives at age 22 earned more income at age 29. In fact, on a scale of one to five, a one-point increase in life satisfaction at age 22 translated into around US$2,000 more in later earnings.

Being really happy also helps – those reporting a “very happy” adolescence earned an income about 10% above the average. And being unhappy really hurts – those who experienced a “profoundly unhappy” adolescence made about 30% less than the average income, the researchers found.

“For policymakers, the existence of these mechanisms raises the possibility that a happier society may be one that intrinsically generates higher incomes for its citizens,” say the researchers. Here’s hoping our government takes note.

Beta-blockers might lower dementia risk

Medication usually prescribed to bring down high blood pressure – beta-blockers – might cut the risk of dementia according to a new trial that studied 774 men. High blood pressure is a known risk factor for dementia.

The study, which will be presented at the American Academy of Neurology’s annual meeting later this year, showed that men on beta-blockers were less likely to have brain changes suggestive of dementia. However, experts say it is too early to recommend beta-blockers for dementia, as the findings are preliminary and larger studies are required to confirm them.

Having high blood pressure may damage the small vessels that supply the brain with blood. Without the essential oxygen and nourishment the blood carries to the brain, cells can die. In fact, vascular dementia is the second most common cause of dementia after Alzheimer’s disease, and can occur if blood flow to the brain is reduced.

While a better understanding of the links between high blood pressure and dementia could be crucial for developing new treatments or approaches to prevention, much research in this area still needs to be done, in the hope that further studies might even help in the fight to prevent this debilitating condition.