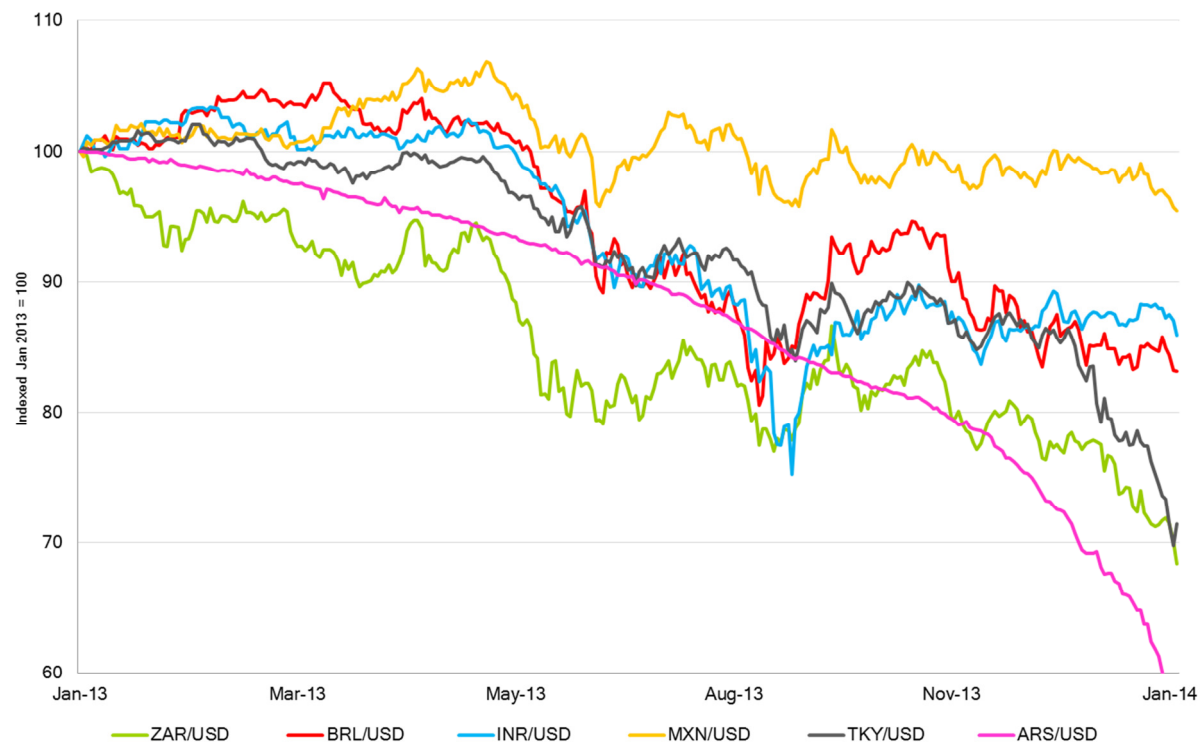


## THE RAND IS NOT THE ONLY FALLING STONE

South Africans, especially those who travel and import goods for a living, are watching the fall of the rand with absolute dismay. There is a natural tendency to assume that this trend will continue in one direction forever. In addition, one can be forgiven for believing that this is a South African phenomenon caused by our interesting political situation and labour issues. This type of thinking can often create its own momentum and become a self-fulfilling prophecy which is dangerous to your investment decision-making. The last time the rand went on this kind of slide, many investors panicked and sold their rands at R12 or R13 to the US\$. With the benefit of hindsight, this turned out to be a catastrophic decision as the rand recovered to R5.50 to the US\$. Before making any decisions about sending additional funds overseas, take the time to understand the context of the current slide of the rand, you could save yourself a lot of money.

### THIS IS AN EMERGING MARKET PROBLEM

The rand's fall is part of a broader emerging market decline and is certainly not unique to South Africa. Investors in the developed world are currently selling a large proportion of all their emerging market investments including government bonds. The decision is driven at a very high level where they are taking the decision to avoid riskier assets. For them, emerging markets are considered to be very risky and therefore they simply sell their assets and repatriate their funds to their own markets. This has the effect of dramatically reducing the value of our currency along with most other emerging markets.



Source: McgregorBFA, Cannon Asset Managers

The chart above shows the how the currencies of South Africa, Brazil, India, Mexico, Turkey, and Argentina have fallen against the US Dollar over the last year. It is clear that South Africa (green line and 2<sup>nd</sup> biggest loser) is having a rough time but so are a range of other countries. You might argue that our domestic issues contribute to us being near the bottom of this group but even if we had no

issues at all, our currency would still be falling because we are an emerging market with a tradable currency.

#### **WHAT SHOULD YOU DO NOW?**

We should be careful of assuming that the rand will continue on this slide forever. The rand has already fallen too far, it is now considered cheap relative to the US\$ and other developed market currencies. It certainly can fall further but it is rational to assume that the rand will eventually recover again. It would be a mistake for investors to aggressively send large amounts of money overseas now. We should learn the lesson from the early 2000's when the rand recovered dramatically from an even bigger decline than we have experienced so far. Rather be patient with your decision to invest offshore, most likely you will be able to buy a lot more US Dollars with your rands in the future.