

Monthly Newsletter – December 2014

Festive greetings!

It's the end of another year – already. It feels like just yesterday we were wishing you a happy holidays at the end of 2013!

As always, everyone at Galileo Capital is enormously grateful for the contribution that our clients and associates have made to our business this year. We count it as a privilege that you choose us to be your financial planning partner.

Our wish for you this festive season is that you spend time with those you love, that you will travel safely if you will be away from home, and that you will return next year with renewed energy and purpose.

- The directors and staff of Galileo Capital

Note from Theo and Warren: SOUTH AFRICAN INVESTMENTS IN CONTEXT

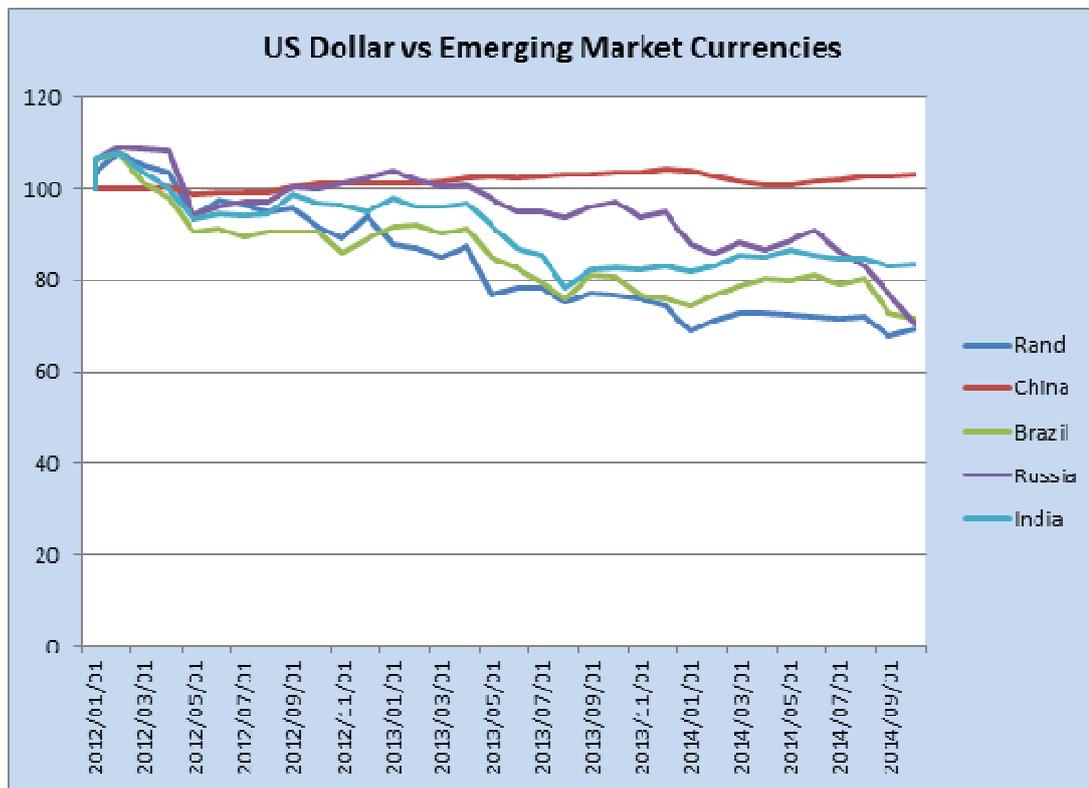
Many of our clients are understandably concerned about the political, economic and social problems that face our country. It is obvious to all of us that we have some real issues that need to be addressed with as much urgency as possible.

The fact that our problems are so obvious is a real source of frustration to many – us included. However, our problems need to be given a context, especially when hysterical commentators start predicting the end of South Africa, i.e. a failed state. We believe that the recent articles written by well-known commentators are irresponsible and are designed to create anxiety that these commentators hope will help to generate new business for themselves.

The rand

The graph below shows the performance of the rand relative to the US Dollar from January 2012 to date and compares it against other emerging market currencies, including China, India, Russia and Brazil. These are the other BRICS countries and we believe them to be the most comparable to our country.

As you can see, all of these currencies except for China have lost value against the US dollar (the US dollar is the base set at 100). The rand is not exceptional in this context – we are just another emerging market currency that is out of favour with investors. Commentators who predict that the rand will never recover should reconsider their views. When emerging markets regain favour with international investors, there is no reason to expect the rand to behave any differently to the other BRICS currencies.



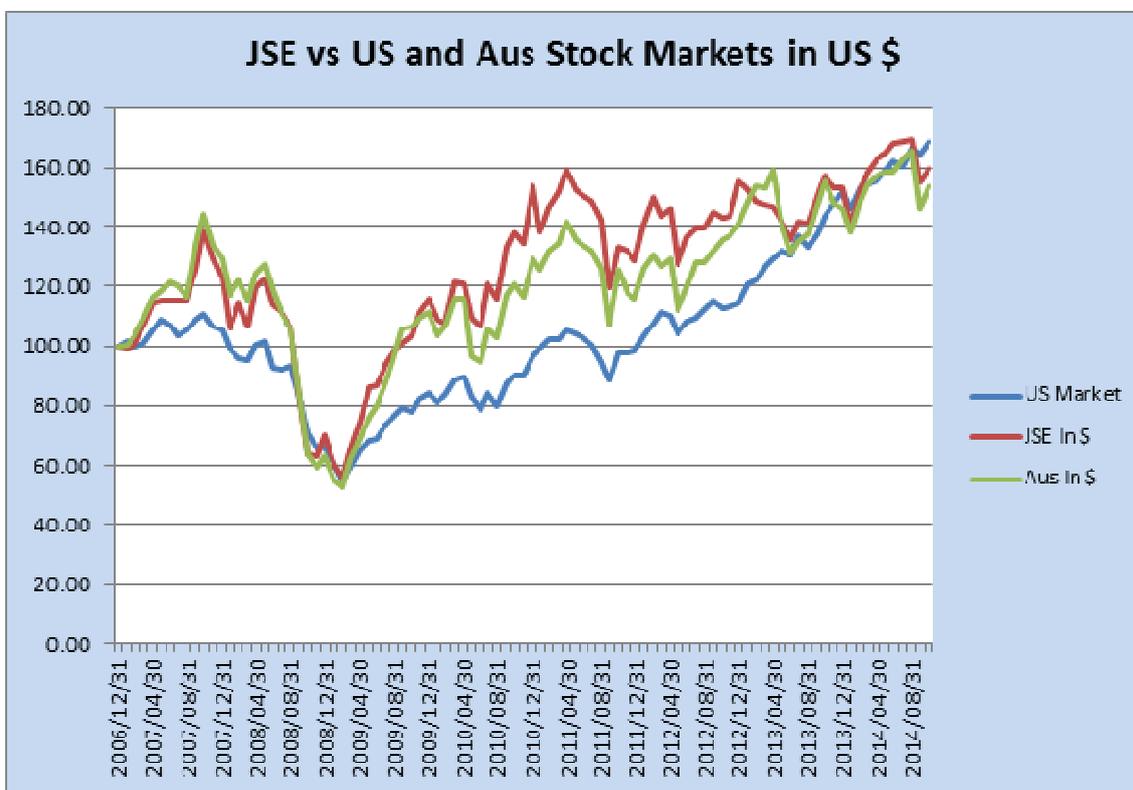
Our stock market

Many investors are really worried about the local economy and what impact this might have on how their investments perform on the stock exchange (JSE).

Most of you will know that we view the JSE as an international market that's not heavily dependent on the performance of the South African economy. We believe the JSE is very similar to the Hong Kong stock market, which is seen as an entry into China and Asia; similarly, the JSE is an entry into Africa and other emerging markets.

The graph below shows how the JSE has performed since the start of 2007 (before the big crash) until now. Most importantly, the performance is measured in US dollars: in other words, it is the growth that an offshore investor would have received in the last eight years. We compared the JSE to the Australian stock exchange because many South Africans view this as a viable alternative to South Africa and because it is also an economy that is dependent on mining.

You will note the startling similarities. The US stock market has not done much better than the JSE over the last eight years even though the S&P 500 has broken new records in recent months.



We are certainly not oblivious to South Africa's problems (we are also worried about Eskom, corruption and our politicians) but we believe that many other markets are beset by their own problems. As rational investors, we cannot see merit in selling all local investments and buying foreign currencies at any price. Sensible diversification is a good principle that should be implemented across all your investments, but maintaining a significant exposure to the JSE is also a sensible decision.

- Theo and Warren

Memorising poetry and music for better business

One of the ways you can exercise your brain and keep it active and fit, is to memorise poetry and music. Creativity is increasingly one of the skills businesses demand from their employees, but there's good evidence to suggest that brute memorisation may be useful too.

Creativity has its uses, especially if one is inventing new products, for example. But exercising your memory gives your brain discipline and focus, and gives you the ability to will your mind to do certain things at a certain time.

More concretely, if you can remember precise, crucial figures pertaining to your business, then those facts are at hand, and ready to be rolled out where appropriate during creative strategy meetings, for example.

So there's something to be said for setting yourself some memory tasks: it adds to your ability to think creatively and helps you to retain facts for immediate efficient use. And you might just learn some music or poetry in the meantime...

Festive season security

The holidays should be a happy time, but unfortunately criminals don't go away when we do. In South Africa we're fairly security conscious, but it pays to run through some security tips to ensure you don't get home to a home that's been emptied out.

Burglars look for occupancy cues like outdoor lights burning 24 hours a day, piled up newspapers, or advertising flyers hanging on the door knob. Housesitters are the best way to ensure that the house looks occupied, and they should be instructed to empty mail boxes, take out the bins, etc.

If you're flying to your holiday destination, don't put your physical address on your luggage labels – it's a sure sign that your house will be unoccupied.

After Christmas day, don't pile up empty gift boxes from your new computer, DVD player, or HD TV on the pavement for the garbage collection. It sends an immediate message that there are lots of lovely goodies to steal inside. And be aware that if you are burgled, you're at a higher risk of being burgled again, because criminals give you time to replace all of your stuff and then steal it again.

Last, but not least, ensure your burglar alarm is working and linked to armed response, and ensure your housesitter knows that it must always be set when the house is unoccupied.