

Monthly Newsletter – June 2017

Note from Theo and Warren: International trends favour emerging markets

It has been interesting to note the relatively high flows of money from international investors back into all emerging markets over the last 12 months. This is a reversal of a trend that started in 2012 where international investors sold out of emerging markets for a four-year period.

There are a range of factors accounting for this change and it is partly explained by the fact that the American stock exchange is starting to look expensive, while Europe and the UK are in a state of flux. In contrast, emerging markets are offering relatively good value.

As an example, the JSE is now trading at a Price/Earnings ratio of 14 compared to the US stock market at a Price/Earnings of 25. That means the JSE is nearly half the “price” of the US market. For international investors, this type of discrepancy will start to represent a buying opportunity when they need to find growth in their portfolios.

Similarly, international investors can also get an interest rate of 9% on SA government bonds while they only get 1% or 2% in their home markets. They also have concerns that they might lose money on the bonds offered by European and other developed markets so our bond market starts to represent an attractive alternative. This does not mean that our investment markets are going to shoot up in the next months but it does help to explain why our currency remains strong when our political situation is deteriorating.

These international tailwinds mean that any political resolution in South Africa could have a very positive impact on our markets while future turbulence might not be as financially damaging as one might expect.

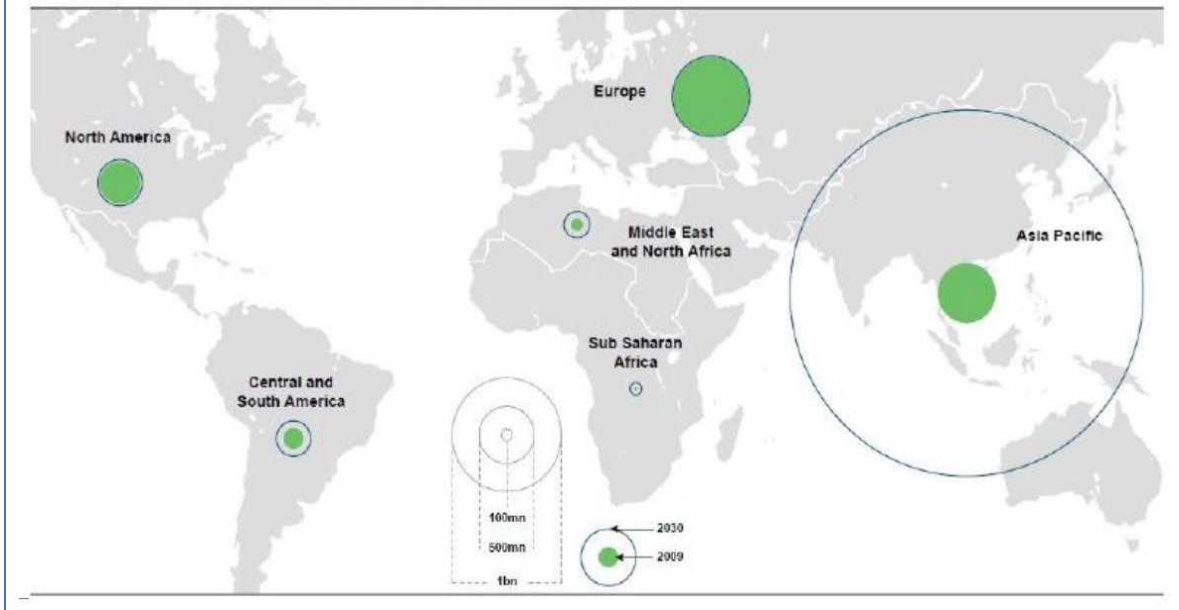
- Theo and Warren

Emerging markets and the long, long term

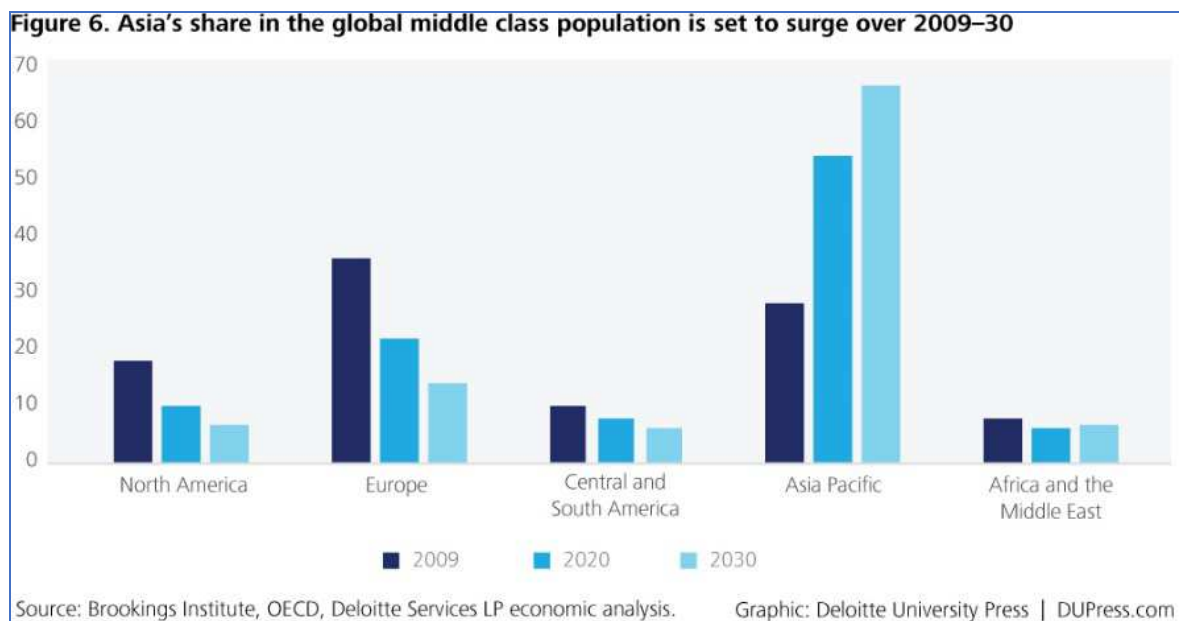
The free market has done more to lift the poor out of poverty than any other socio-political construct. Anybody seeking juicy investment returns would quite justly seek them where free markets are flourishing. (Surprise: it isn't the places that have most benefitted in the past, ie. the US and Europe). One of these more promising regions is Asia, and more specifically, ASEAN (the Association of Southeast Asian Nations).

The map below, produced in 2009 by the OECD, showed forecasts of middle-class populations throughout the world by 2030. The solid green circle represented the size of the 2009 middle class, and the outer circle indicated the size of middle class by 2030. Just take a look at Asia!

Growth of the Asian 'middle class' dominates the next 20 years: 500million to 3billion



Deloitte produced a similar graphic in 2016....



To quote fund manager James Hay, “ASEAN’s consumer story has decades to run – this is a region home to 670 million people, all of whom want a house, two cars and high cholesterol just like the rest of us.”

ASEAN’s stock markets have lower valuations than the developed world, higher growth prospects, and markedly lower levels of debt. Their people are hungry in the best sense of the word – they are willing and able to work (and work hard) to better themselves and their families. While an ageing, introspective and increasingly irrelevant West debates fussily about how to divide up and consume the pie, fast-emerging Asia is working on how to grow the pie instead.

This is why we like overweight’s in emerging markets (particularly Asia) in those client accounts with GAM & SwissQuote with an appropriate mandate.

- Warwick Lucas, chief investment officer, Galileo Asset Managers

The myth of the eight-hour workday

While you're busy bragging about your 16-hour days, there's more and more evidence to suggest this is not the most productive way to work. And it's certainly not doing your health any good.

The most productive countries in the world do not work eight hours per day. In fact, they have the shortest workdays, with people in countries like Luxembourg working approximately 30 hours per week (approximately six hours per day, five days per week) and making more money on average than people working longer working weeks.

Most people's work days are a blend of low-velocity work mixed with continual distraction (eg. social media and email). In addition, most of their working time is not done at peak performance levels. When most people are working, they do so in a relaxed fashion.

However, when you are results-oriented, rather than "being busy", you're 100% on when you're working and 100% off when you're not. Why do anything halfway? If you're going to work, you're going to work.

To get the best results in your fitness, research has found that shorter but more intensive exercise is more effective than longer drawn-out exercise. The same applies for work: intensive activity followed by high quality rest and recovery is the way to go. And you'll find your best work happens when you're resting, not when you're working.

In one study, only 16% of respondents reported getting creative insight while at work. Ideas generally came while the person was at home, in transportation, or during recreational activity. The reason for this is simple. When you're working directly on a task, your mind is tightly focused on the problem at hand. Conversely, when you're not working, your mind wanders and can make the connections it needs to make to solve your problems.

So when you're at work, be at work. And when you're not, stop working. If you can take your mind off work and recover properly, you'll have more creative breakthroughs and you can work smart instead of hard.

A mid-year assessment for you

It's the middle of the year, and a great time to review the goals you'd set in January. Here are some questions to ask yourself:

1. What are all the great things that I got done over the past six months?
2. What goals did I achieve?
3. What things am I most proud of accomplishing?
4. Which of my goals did I really miss the mark on?
5. What new relationships did I develop?
6. Which of my existing relationships did significantly strengthen?
7. Which relationships may I have overlooked or not given enough attention to?
8. What opportunities to learn new things did I take advantage of?
9. What were the things I learned most about myself?
10. What mistakes did I make?
11. What mistakes could I have avoided?

12. What mistakes provided me with the most significant development and learning opportunities?
13. How well did I manage my time?
14. Have I been focusing my time on the most important things in my life?
15. Are there any significant “time wasters” that I need to reduce or eliminate from my life?
16. When am I most productive?
17. When am I least productive?
18. What are my top three work-related goals for the remainder of the year?
19. Why are those goals important to me?
20. What habits and processes do I need to adopt to support those goals?
21. What are my top three personal goals for the remainder of the year?
22. Why are those goals important to me?
23. Who can I share those goals with to help hold me accountable to achieving them?
24. Which relationships will I focus on strengthening and developing during the second half of the year?
25. Who do I want to meet and get to know?
26. Who can most help me achieve my work-related and personal goals?
27. What areas of learning do I most need to focus on?
28. What new skills do I need to develop?
29. What skills do I need to strengthen?
30. What things do I need to “keep current” on?
31. What one skill, if mastered, would have the greatest impact on the achievement of my goals?
32. What time management habits do I need to develop and strengthen?
33. What three habits, if developed and sustained, would have the greatest positive impact on my work life and personal life?
34. What habits do I know I need to drop or replace?