galileocapital
Challenging Conventional Wisdom

NEWSLETTER

Monthly Newsletter – November 2017

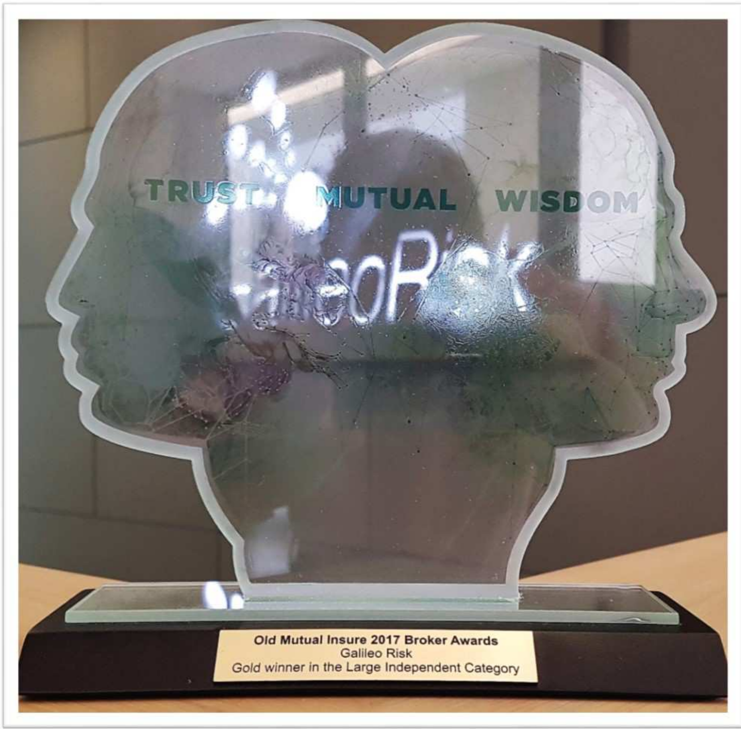
A Message from Theo and Warren:
GIGABA'S BUDGET WAS THE BEST HE COULD DO

For a Finance Minister who has minimal credibility with investors and ratings agencies, Malusi Gigaba delivered the only budget he could. We could see no obvious signs of Zumanomics at work (e.g. an increase in nuclear spending) and he was brutally honest about the state of the economy. Everyone would have liked to have seen concrete plans to sell shares in SAA or Eskom, but it was unlikely to happen with the December elective conference around the corner.

We anticipated that the political noise would increase in volume leading up to the conference, therefore we are not surprised by rumours of Cyril Ramaphosa being fired and/or charged, nor were we surprised by the Cabinet reshuffle. These are the last few days for President Jacob Zuma to roll the dice, and he is becoming increasingly brazen in his actions.

We expect more noise from the Zuma camp and caution that you should not pay too much attention to what is said in the next few weeks. As of 20 December, when the elective conference ends, Zuma's term as president of the ANC will come to an end. The winner of the elective conference will indicate to what extent Zuma's power has shrunk.

GALILEO RISK WINS INDUSTRY AWARD



Old Mutual Insure (formerly Mutual & Federal) awarded Galileo Risk the Gold award for the category Large

Independent Broker of the year for 2017. This is a remarkable achievement for the business, as it was ranked alongside South Africa's biggest insurance brokerages. This shows that the business has reached a competitive size, but more importantly, a level of excellence that makes us proud.

Well done to the Galileo Risk team for this achievement!

- Theo and Warren

IS ACTIVE vs. PASSIVE THE RIGHT DEBATE?

One of the benefits of having a global investment platform at our disposal is the stunning array of choices it offers. There are approximately 70 000 shares, 40 000 ETFs and 14 000 unit trusts listed on the primary offshore platform we use. Sure, quite a number are multiple listings across markets, but that's still a lot!

I'm in danger of ploughing over old turf for the umpteenth time, so I want to try and wrap it in a neat bundle. The past discussions I've seen in investment media mostly conclude that "passive = good and active = bad", but I don't think that's particularly useful.

While passive has shown its mettle, there are simple strategy tweaks that enhance passive returns, such as using equal weighting indices vs. market cap indices. Similarly, the existence of outperformance from Smart Beta also demonstrates that pure passive isn't an incontestably superior result.

In the number of studies I've surveyed on active vs indices, both in local and foreign markets, the outperformance of passive did not come from superior investment strategy. Rather, it came from costs. In other words, the correct debate is not between active and passive, but about high cost vs. low cost.

Even though Warren Buffett is a stated convert to passive, his own Berkshire Hathaway share has recently continued to outperform the S&P 500 Index (with re-invested dividends). And though Buffett is a skilled investor, he is also a very low cost investor – this USD460-billion giant has a staff of 25. While we are discussing passive investors succeeding at active, we could mention Vanguard's US Opportunities Fund, which has delivered 5% per annum over S&P500 since inception. (Health warning: it is a higher risk fund; moreover the minimum of USD100 000 a pop makes for some gate-keeping).

That Vanguard tends to close performing active funds at a certain point (usually size) is a relevant heads-up. Nevertheless, the fact that USD1-trillion out of the USD4-trillion in funds that Vanguard (the pioneer of passive investing) manages should tell you that they do not dismiss the relevance of active investment.

As with Smart Beta and tweaking, active management has a role to play. The key determinant is that one needs to be getting something different – a closet index at a high cost is not a helpful outcome at all. In looking for active management that works, you have to look for managers who are doing something different from the market.

This kind of fund typically (but not always) contributes "tracking error" (or active risk vs. an index) which can pull portfolios in different ways. This tracking error – which provides diversity - also means that the fund is, by design, not going to track exactly in line with market indices. And it will outperform or underperform the overall market at different stages.

A possible outcome if the world swings so far to passive that active is utterly excluded, will conversely mean that active has a far bigger “value” opportunity, as happened with the “Nifty Fifty” in the 1970s. So actively managed funds will diversify you away from the index risk of pure passive.

Bottom line: there will always be a role for actively managed funds, primarily as long as they are cost-effective. Intelligently blending them with passive funds positively improves risk/return trade-off.

International markets provide a wide range of choice in the themes discussed above. Clients of Galileo Asset Managers can access these funds through their SwissQuote platform accounts.

- Warwick Lucas, Chief Investment Officer, Galileo Asset Managers

BEATING NOVEMBERITIS

It’s that time of year – the pressure is on as the holidays approach, everyone’s tired after a brutal year, and most days it’s difficult to summon the necessary motivation to get through our ever-increasing list of tasks.

There are three common reasons this happens – understanding what’s at the root of your lack of motivation may help you to overcome it.

1. **You’re worshipping at the altar of busyness**
   Being busy is something of a status symbol, a badge of honour. But being perpetually in work mode, and being available around the clock can lead to burnout.

   Solutions:
   - Ruthlessly prioritise and eliminate non-urgent tasks.
   - Unhook yourself from responsibilities that are actually someone else’s work.
   - Practise saying “no” more often.
   - Try saying, “I choose to” rather than “I have to.” This subtle verbal shift invokes autonomy and personal choice, which increases motivation.

2. **You think your willpower will save you**
   The bad news is, that willpower isn’t as powerful as we think it is. It’s a better idea to create habits that will make your success inevitable.

   Solutions:
   - Just start. Often getting started on a big goal or complicated project is the hardest part.
   - Develop a warm-up routine: brew your coffee, check your mail, meditate – just pick one activity that you do every day to kick-start your work.

3. **You're feeling emotionally disconnected**

Feeling accepted and useful at work is essential to sustaining motivation. A workplace characterised by interpersonal trust and mutual respect has been shown not only to be happier, but also more productive. You may just be emotionally exhausted.

Solutions:

- Begin deliberately structuring social opportunities into your workflow: show up five minutes early to meetings and indulge in some informal chitchat. This builds relationships.
- If you're a manager, keep your team motivated by being empathetic to their needs, and reminding them of the big picture goals.
- Focus on lifting up others in the workplace.

No one can be motivated and productive 100% of the time, but if it's becoming a habit – as it so often is in November – these little tips should help you to climb out of the slump.