

## House News: Marriage Mania

Although there have been no unexpected changes within the 4 walls of our offices in the last quarter, we are all pleased to announce that Candice Read is no longer a “Read” as she married her knight in shining armour, Sven van Dongen, on 22 November 2014. We wish them both a life filled with happiness, love and all the good things marriage has to offer. As with any marriage or investment, there will be both good and bad times and we think now is a *good* time to remind our clients that it is all about giving your investments and yourself time. (This may be needed to ‘cool-off’ or to be used to do some retail “therapy”!)



## The markets in the last quarter:

After enjoying what was a relatively composed start to the year, markets were hit by severe turbulence in September and in what is very fondly known as ‘Rocktober’. In September and October, markets saw the biggest daily gain (+2.18%) as well as the largest daily loss (-2.16%) of the past six months! Volatility during this period returned to levels last seen in 2008 (during the financial crisis) as investors became wary of the economic and geopolitical developments around the world including the end of the quantitative easing programme in the US by the FED. This had a destabilising effect on emerging markets as large net capital outflows weakened emerging market currencies, brought along inflationary pressures and “rocked” the equity and bond markets.. While the ZAR continues to weaken (4.6% against the USD over the past 6 months), we witnessed a gain of 1.5% in the strengthening of the ZAR in a single day over the last quarter.



In an effort to contain inflationary pressures, curb capital outflows and protect currencies, central banks in several emerging markets have been raising interest rates. The SARB hiked the repo rate by 50 basis points to 5.5% on the 30<sup>th</sup> of January 2014. The repo rate was again increased by 25 basis points to 5.75% on 17 July 2014. Some analysts have predicted the repo rate will go up by 2%, by the end of 2015. Gill Marcus announced her resignation as the Governor of the Reserve Bank at the end of her term in November and the very well-regarded Lesetja Kganyago (previously the deputy governor of the SARB) is her replacement.

‘Rocktober’ also brought about another shocking surprise with the steep slide in oil prices with Brent dropping by 10% in October alone. This large change in the oil price has several implications for markets – most notably the disinflationary impact that will allow inflation to be better contained and also gives the SARB more room to remain patient in their rate normalisation cycle. This drop in oil prices will likely have a positive effect on the trade balance between imports and exports.

In November, Eskom announced that a silo in the Majuba power station in Mpumalanga had collapsed. The silo stored over 10 000 tons of coal which affected supply to all six units of the power station. Majuba supplied 3 600MW (approximately 10%) of the country’s electricity capacity and the silo collapse caused the loss of 1 800MW of this capacity! This has caused an unwelcome return to load-shedding, which continues to place Eskom in a very negative light, not only with locals but also with foreigners and rating agencies as well.



## Conclusion:

In a volatile and ever-changing environment such as this, it is easy to lose sight of taking the long-term view and to become too concerned about the current month or quarter, which allows fear and emotion to dictate your decisions. We encourage our clients to remain focused on the longer-term objectives of their investments. As in the Pied Piper tale, the economic market can also sometimes seduce us into following it into desolation. We become so caught up in the seduction, that we forget the reasons why we are invested in the first place. It is better to remain immune to the tunes the markets play for us and thereby resist following the herds. The herds are like the children of Hamelin that followed the Pied Piper and we are all aware of what happened to them...



We really do think that it is imperative for each of our clients to have an understanding of the path their investment is on (regarding both volatility and the goals of the investment) and to remain on this path without becoming distracted from the long-term goal. Investment markets will always revert to the norm so it is important that we give our investments time and if out of line with our long-term plan or strategy, to take the time to realign the portfolio. We are here to assist our clients' to keep their portfolios aligned with their objectives and their risk profiles.



As we all prepare for the festive season, please note that our offices will close on **Friday, 19 December 2014** and will reopen on **Monday, 5 January 2015**. We take this opportunity to wish all our clients and their nearest and dearest a very blessed and happy festive period. We look forward to working with you in 2015.

As always, please don't hesitate to contact us for assistance.

Kind regards

A handwritten signature in blue ink that reads 'Stacey'.

**Stacey Lancaster – end November 2014.**

## Finlaw Consulting