

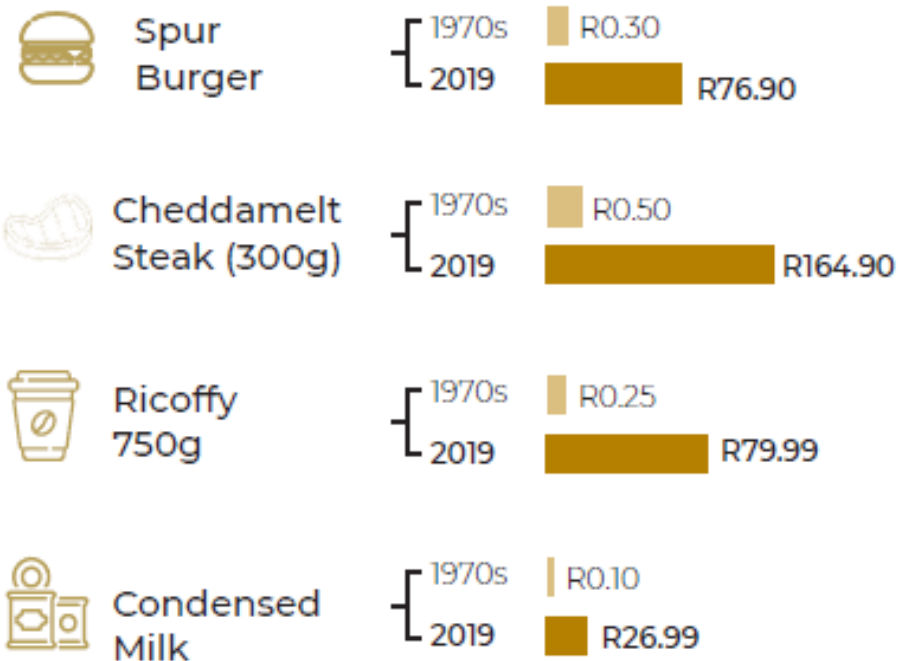
# Some investment truths

# Some investment truths

1. Inflation is the enemy
2. Diversification is crucial
3. Start saving early
4. Harness the power of compounding returns
5. Invest for the long term, the returns will come
6. Time in the market is your friend
7. Trying to time the market is a fool's game

# 1. Inflation is the enemy

## HOW MUCH HAVE PRICES GONE UP?

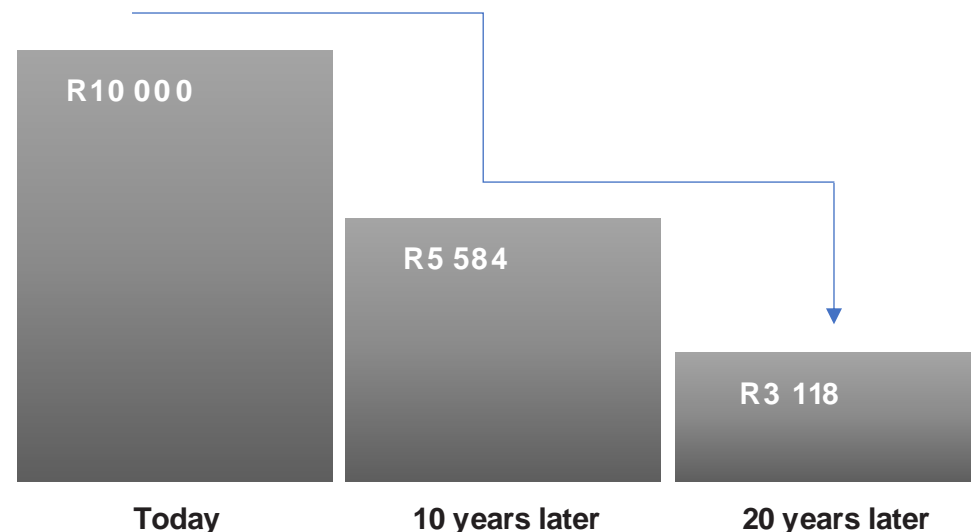


## DEFINITION:

*a general increase in prices and fall in the purchasing value of money*

## INFLATION ERODES SPENDING POWER

Take a look at what a 6% inflation rate effectively does to your money (the average historic inflation rate in SA)



## REALITY:

Many investors suffer from “inflation illusion”, they don’t notice how destructive inflation can be over time.

## LESSON:

We need to look at long-term investment returns in “real” terms, stripping out the impact of inflation

“ Inflation is as violent as a mugger,  
as frightening as an armed robber and as deadly as a hit man. ”

Ronald Reagan



“ 1983  
PRICES ! ”

**WIMPY HAMBURGER PATTIES**  
are guaranteed 100% PURE BEEF with spices



1. **Wimpy Pure Beef Hamburger** R2,00  
with french fried chips



2. **Wimpy Kingsize Burger** R3,15  
with french fried chips



3. **Wimpy Cheeseburger** R2,30  
with french fried chips

8. **Wimpy Special Grill** R3,25  
Our pure beef Wimpy patty plus a Bender frankfurter and a fried egg served with hamburger dressing, grilled tomato and french fried chips.

9. **Wimpy Salad** (especially for slimmers) R2,90  
Two pure beef Wimpy patties served with a variety of fresh salads in season.

13. **Shanty Brunch** R2,90  
A portion of crumbed fish fillet served with french fried chips and garnish.

17. **Curry and Rice** R3,40  
(when available)  
Beef curry served with sambals and chutney.

4. **French Fried Chips** 75c

5. **Wimpy Cheese Eggburger** R2,55  
A Wimpy Hamburger with melted cheese, a fried egg, french fried chips, hamburger dressing and garnish.

6. **Wimpy Hawaiian Burger** R2,30  
A Wimpy Hamburger with a pineapple ring, french fried chips, hamburger dressing and garnish.

7. **Super Wimpy** R2,80  
A gigantic 110g beef Wimpy Hamburger patty served in a bun, french fried chips with hamburger dressing and garnish.

10. **Super Wimpy Grill** R3,50

**Shanty Salad** R2,90



16. **Steakburger** R3,00  
with french fried chips



12. **Bender Brunch** R2,75



18. **Farmhouse Breakfast** R2,70

Two eggs, crispy bacon, french fried chips and a slice of toast.

19. **Toasted Sandwiches** from 90c  
to order

11. **South Seas Grill** R3,30

2 pure beef Wimpy patties served with cheese, pineapple ring, french fried chips, hamburger dressing and garnish.

15. **Rump / Sirloin Steak** R5,50

200g of top grade juicy steak served with a fried egg, salad and french fried chips.



*Hey kids!*

Get in on the Wimpy Wiz Club and all the good things that go with it! FREE! HERE! NOW! Ask your Waiter for your entry form, and join today!

Have a nice day



# 2. Diversification is crucial

## DEFINITION:

*Diversification is merely a risk management strategy that mixes a wide variety of investments within an investor's portfolio.*

*The rationale behind this technique is that a portfolio constructed of different kinds of assets will, on average, yield higher long-term returns and lower the risk of any individual holding or security.*

## REALITY:

Investment performance in asset classes vary over time. Whilst equities may have been the best performing asset class since **1930**, cash was the best performer for **11** of those **90** years and listed property for **9** years.

## LESSON:

Diversification is the one free lunch in investments, use it. Do not put all your eggs in one asset class, one specific investment, one property, one geography, one investment style nor one management team.

PERCENTAGE OF TIME AS THE YEAR'S BEST PERFORMING LOCAL ASSET CLASS (1930 – 2019)

**47%** SA Equity

**18%** SA Gold\*

**13%** SA Bonds

**12%** SA Cash

**10%** SA Property\*\*

\* since 1967

\*\* since 1980



# LEHMAN BROTHERS



# The Smartie Box

Investment performance in asset classes vary over time.

It's important to create a portfolio with exposure to various investments that will smooth out your return profile and improve your risk adjusted returns over time (see the MacroSolutions Balanced Index here)

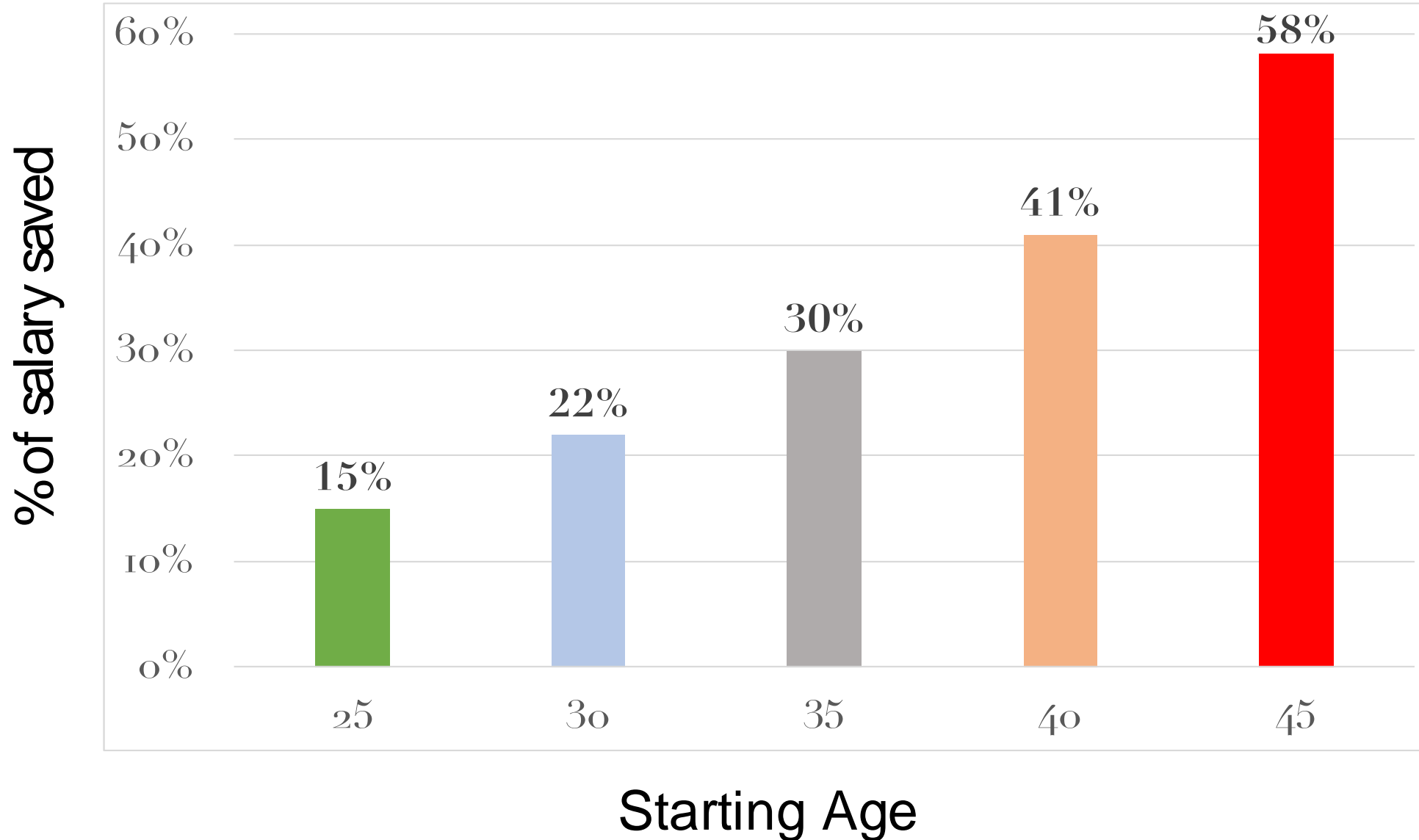
2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
SA Property 29.6%	Gold 32.9%	SA Property 35.9%	Global Equity 57.2%	SA Property 26.6%	Global Equity 33.5%	SA Bonds 15.4%	SA Equity 21.0%	Global Bonds 15.4%	Global Equity 24.8%
SA Equity 19.0%	Global Bonds 30.8%	SA Equity 26.7%	Macro- Solutions Balanced Index 23.3%	Global Equity 16.5%	Global Bonds 30.4%	SA Property 10.2%	SA Property 17.2%	Gold 15.1%	Gold 15.1%
Gold 16.1%	Global Equity 15.9%	Global Equity 22.5%	SA Equity 21.4%	Macro- Solutions Balanced Index 11.5%	Gold 17.7%	SA Cash 7.4%	Macro- Solutions Balanced Index 14.7%	SA Bonds 7.7%	Macro- Solutions Balanced Index 11.3%
SA Bonds 15.0%	SA Property 8.9%	Macro- Solutions Balanced Index 21.3%	Global Bonds 17.9%	Global Bonds 11.2%	Macro- Solutions Balanced Index 11.1%	SA CPI 6.7%	Global Equity 11.4%	SA Cash 7.3%	SA Bonds 10.3%
Macro- Solutions Balanced Index 13.3%	SA Bonds 8.8%	SA Bonds 16.0%	SA Property 8.4%	SA Equity 10.9%	SA Property 8.0%	Macro- Solutions Balanced Index 2.6%	SA Bonds 10.2%	Global Equity 6.7%	SA Cash 7.3%
SA Cash 6.9%	Macro- Solutions Balanced Index 8.6%	Gold 13.8%	SA CPI 5.4%	Gold 10.6%	SA Cash 6.5%	SA Equity 2.6%	SA Cash 7.5%	SA CPI 4.5%	SA Equity 6.8%
SA CPI 3.5%	SA CPI 6.2%	Global Bonds 6.5%	SA Cash 5.2%	SA Bonds 10.1%	SA CPI 5.3%	Global Equity -4.6%	SA CPI 4.7%	Macro- Solutions Balanced Index -0.1%	SA CPI 4.0%
Global Equity 0.9%	SA Cash 5.7%	SA CPI 5.7%	SA Bonds 0.6%	SA Cash 5.9%	SA Equity 5.1%	Gold -4.6%	Gold 2.0%	SA Equity -8.5%	Global Bonds 3.1%
Global Bonds -4.4%	SA Equity 2.6%	SA Cash 5.6%	Gold -10.3%	SA CPI 5.3%	SA Bonds -3.9%	Global Bonds -10.4%	Global Bonds -3.3%	SA Property -25.3%	SA Property 1.9%

Graphics courtesy of Old Mutual MacroSolutions  
Data as at 31 December 2019



# 3. Start saving early

When should I start saving for retirement? How much of my salary do I need to save?



Assumptions:

- sustainable income of 75% of your last salary
- 4% drawdown rate
- Investment return: CPI+5%
- Retirement age: 65
- Salary increases with inflation

Allan Gray Research



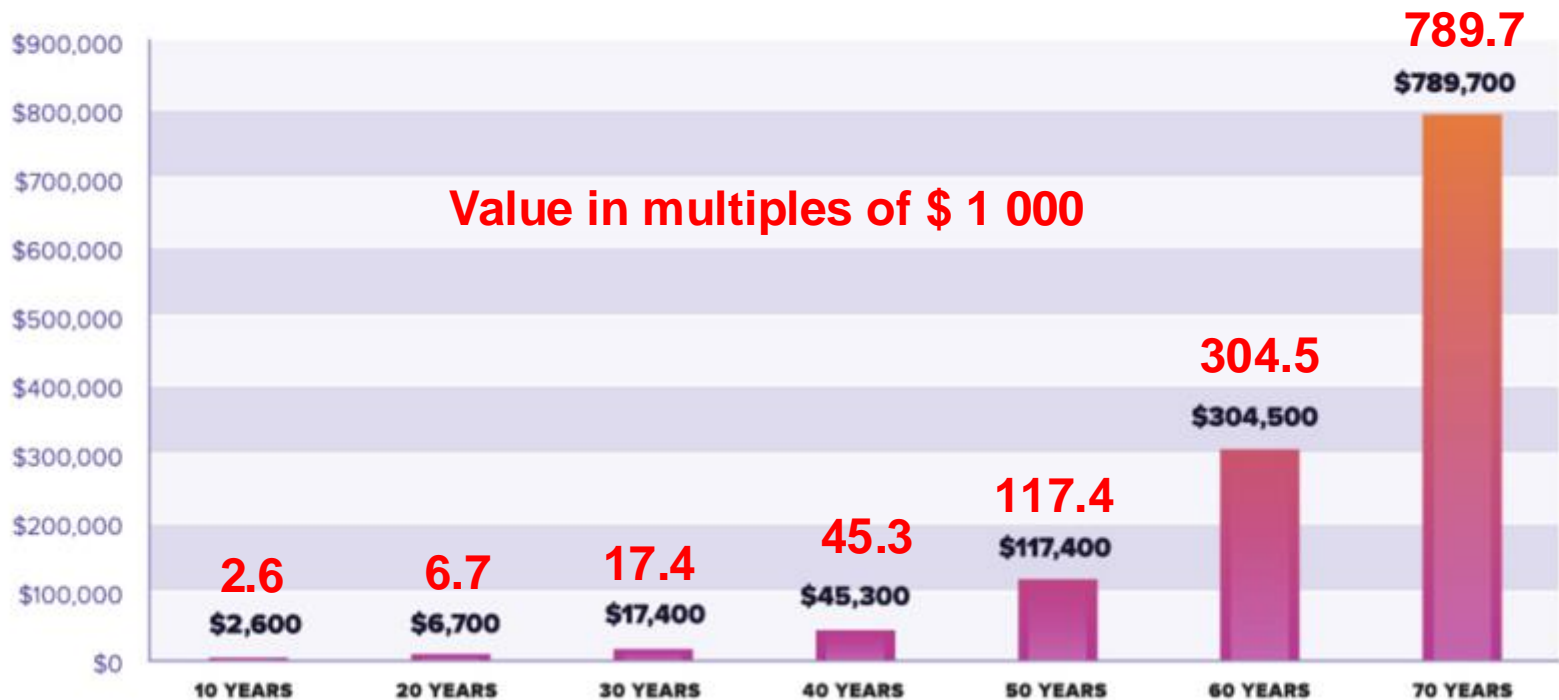
# 4. The Power of Compounding

## 1 THE DIFFERENCE A DECADE MAKES

The following chart shows \$1,000 compounding at 10%.



Notice the difference that just 10 years can make on such an investment:





# The power of compounding (debit order investing)

# What do long term returns look like?

*What is a R 1000 lumpsum invested today worth over different time periods, assuming it achieves a 15% per annum return?*

<b>Time period</b>	<b>Investment value</b>	<b>Multiples</b>
5 years	2 011	2,0
10 years	4 046	4,0
15 years	8 137	8,1
20 years	16 367	16,4
25 years	32 919	32,9
30 years	66 212	66,2
35 years	133 176	133,2
40 years	267 864	267,9

# Compounding is a powerful wealth generator

Using the long-term nominal average return of 13.7% a year, look at what happens when a lump sum is invested in SA equities over time.



## REALITY:

Money needs time to benefit from the full potential of compounding growth.

## LESSON:

Start saving as soon as you can, leave it for as long as you can, and let compounding do the work. And tick the dividend reinvest box on your investment application form to maximise your growth.

# 5. Invest for the long term, the returns will come (5 years +)

	NOMINAL RETURNS IN RAN DS	LONG-TERM RETURNS (P.A.)				
		Last 5 years	Last 10 years	Last 20 years	Last 50 years	Last 90 years
growt h income	<b>SA Equity</b>	5.0%	10.2%	13.0%	16.3%	13.7%
growt h income	<b>SA Property</b>	1.2%	10.8%	16.8%	-	-
income	<b>SA Bonds</b>	7.7%	8.9%	10.5%	11.1%	7.8%
income	<b>SA Cash</b>	7.2%	6.5%	8.1%	11.1%	6.9%
growt h income	<b>Global Equity</b>	13.6%	17.4%	9.4%	16.4%	13.7%
income	<b>Global Bonds</b>	6.1%	8.9%	8.8%	13.7%	9.6%
alternate	<b>Gold</b>	8.7%	10.2%	13.2%	14.4%	9.9%

*Old Mutual MacroSolutions  
Returns in ZAR as at 31 December 2019*



# A 50 Year View of the Price Performance of the JSE All Share Index (ALSI)

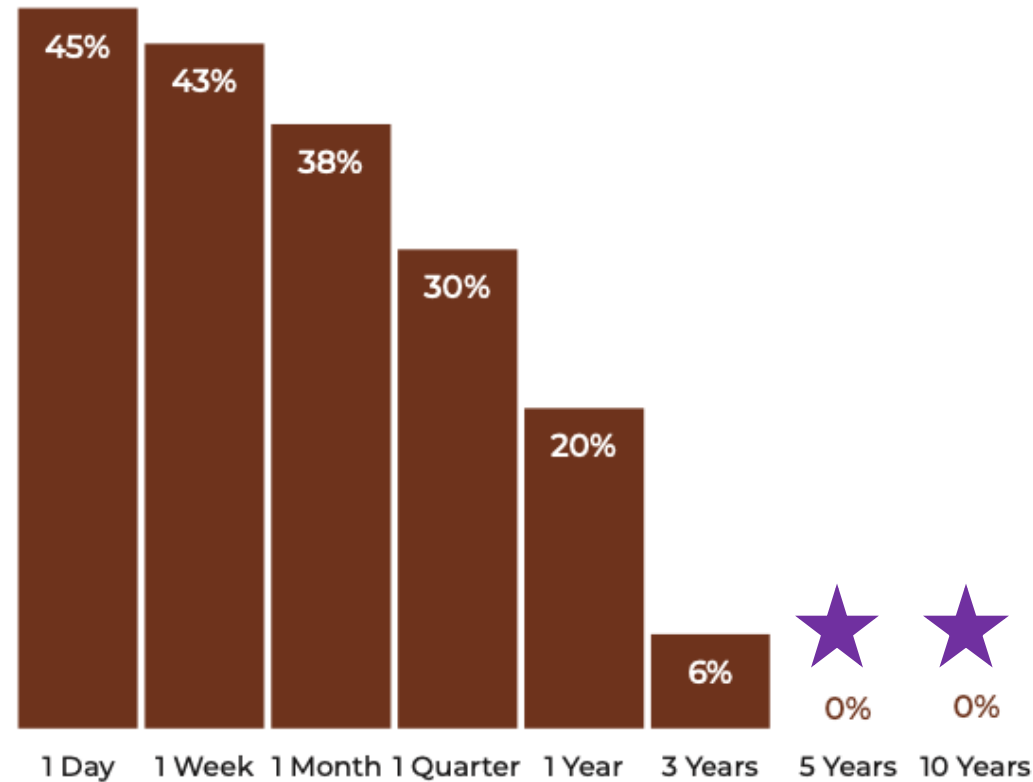
*It relentlessly climbed walls of worry & “survived” 7 bear markets (drops of 20% or more), yet still delivered outstanding returns of over 15% per annum to investors*



# 6. Time in the market is your friend

Over the past 50 years, investors never lost capital if they kept invested for more than 5 years

FREQUENCY OF NEGATIVE EQUITY RETURNS  
OVER DIFFERENT TIME PERIODS



The old adage holds true: “Time in the market, not timing the market.”

# 7. Timing equity markets is a bad idea

## REALITY:

Short-term volatility can often lead to investors selling their investments at the worst time, as almost all of the **10** best days on the JSE occurred after bad news or during uncertain times.

## LESSON:

Sitting on the sidelines and missing those good days can be detrimental to your savings. The only thing you can control is to have a well-considered plan and to stick to that plan.

## THE HIGH PRICE OF MISSING OUT

The performance of **R100** invested in the FTSE/JSE All Share Index (Data from January **1999** to December **2019**)

