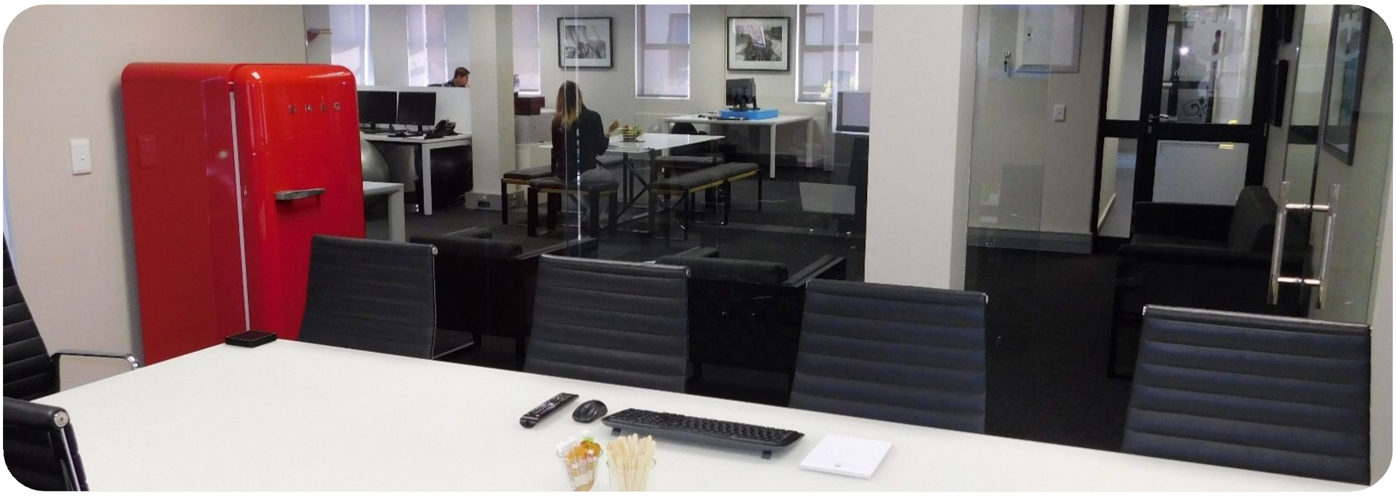


SecureWealth
Lead. Don't Follow.

Quarterly Commentary | April 2018

"As soon as you think you've got the key to the stock market, they change the lock." Joe Graville

A very difficult quarter for South African investors. There was literally no place to hide.

- The JSE All Share was off 5.34% and has now declined 8.63% from its highs on January 26 – and has posted a modest 5.23% per annum over the past three years – dividends included.
- Naspers, which makes up approximately 20% of our market, declined 13.30%. And is now down 26% from its highs in late January.
- The South African Listed Property Index, an income producing, defensive asset class popular with retirees lost 20.46%,
- The Allan Gray Global Optimal Fund of Funds – our largest holding dropped 3.66%.
- In this type of market, I would expect the Rand to weaken thus providing support for our positions, but the Rand actually strengthened 3.35% against the US Dollar.
- Steinhoff plunged a further 32% to new lows as fresh concerns about this beleaguered company surfaced.

Directors: Michael J. Carruthers | Maryka Smit - BCom Industrial Psychology
Tel: +27 (0) 21 852 2435 | Fax: +27 (0) 86 516 8629 | Email: info@securewealth.co.za
PO Box 4047, Somerset West, 7129, South Africa
Website: www.securewealth.co.za
SecureWealth (Pty) Ltd. is an authorised financial services provider – FSB.6148 - Registration Nr. 2001/022689/07

After a quiet 2017, volatility has returned with a vengeance. The US and global markets are having an overdue correction with FANG (Facebook, Amazon, Netflix and Google) stocks amongst the biggest losers. We have long reduced our exposure to shares in almost every portfolio (large and small). If one considers that historically, American shares have only ever been more expensive 8% of the time - it is no surprise to us that the American markets are leading global markets down.

The ongoing strength of the South African Rand is hurting our portfolios – and is the main reason why your portfolio is down. However, recent price action in the Rand and Emerging Market currencies leads us to believe that, after a 30% rally against the US Dollar since January 2016 – the Rand may be about to start weakening again, and if this is the case we can expect your portfolio to recover.

I have made many courtesy calls and I would like to thank every client for the empathetic reception my phone calls have received.

The South African Rand

When the Rand was R16.00 per USD, the “experts” were calling it to R18.00 – R22.00. Now that it has strengthened, many “experts” believe that the Rand is now on its way back to R8.00. That may well be the case – but it is certainly not our interpretation.

Graph Showing the ZAR/EUR Exchange Rate from 2000 to 2018

(Courtesy of Infront)

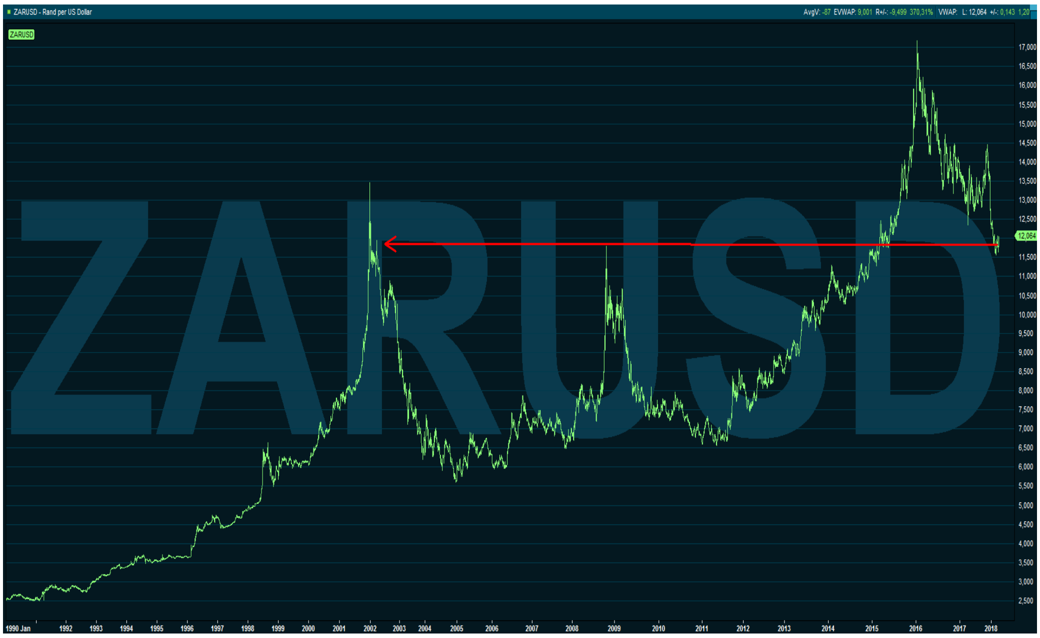
Directors: Michael J. Carruthers | Maryka Smit - BCom Industrial Psychology
Tel: +27 (0) 21 852 2435 | Fax: +27 (0) 86 516 8629 | Email: info@securewealth.co.za
PO Box 4047, Somerset West, 7129, South Africa
Website: www.securewealth.co.za
SecureWealth (Pty) Ltd. is an authorised financial services provider – FSB.6148 - Registration Nr. 2001/022689/07

Above is a chart of the ZAR/Euro. It is quite clear from the chart that the Rand is weakening against the euro over the longer term. Study what has happened with every other rally in the Rand over the past decade – depicted by the red circles in the past. The Rand has always weakened against the Euro after a significant rally. I suspect that this latest rally will be no different.

The same logic applies to the US Dollar and Sterling – this will benefit your portfolio.

The Rand has enjoyed an explosive rally quite evident in the ZAR/USD graph below. I have drawn a red arrow stretching from the value of the Rand today back to the value of the Rand in 2002. You can take R1 today and buy US Dollar at the same price 16 years ago. We think the US Dollar is cheap – and good things eventually happen to cheap assets.

Graph Showing the ZAR/USD Exchange Rate from 1991 to 2018



(Courtesy of Infront)

South African Income Tax

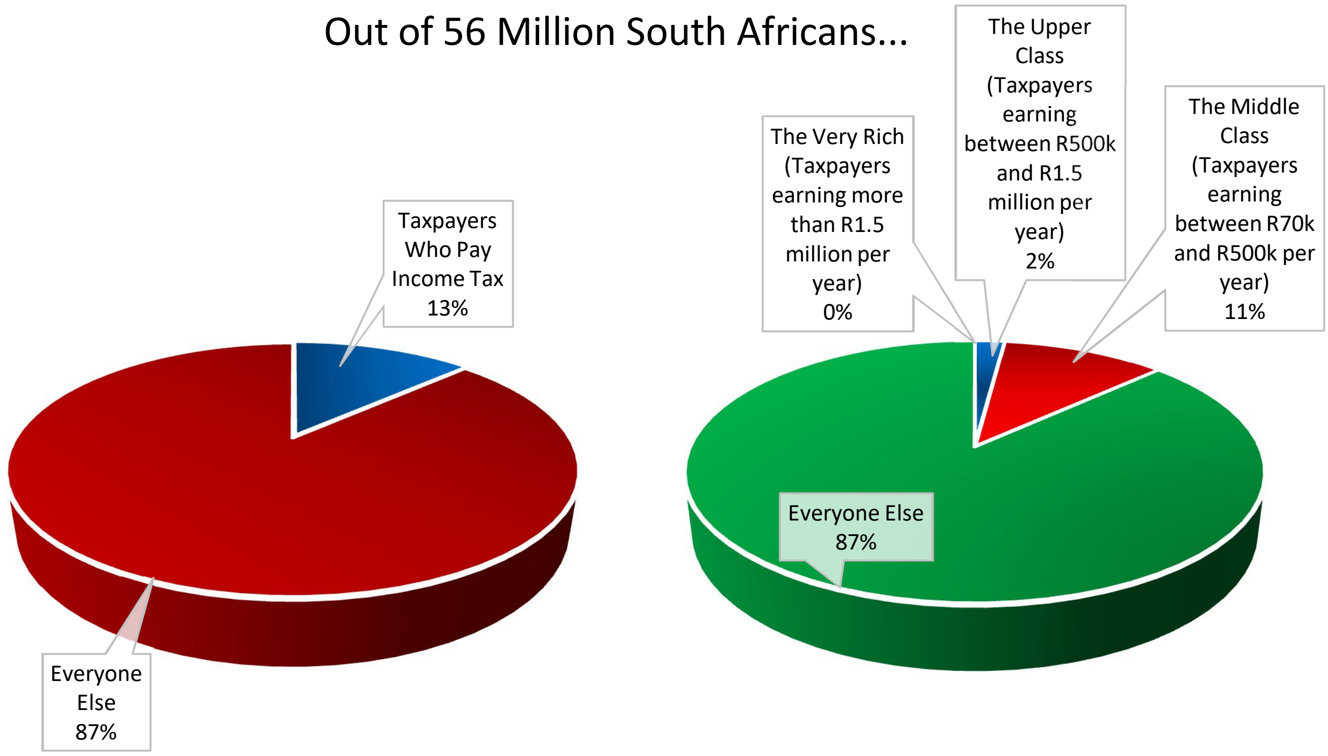
My primary concern about South Africa which is eventually going to adversely affect the country and its currency – is the incredible burden being placed on an increasingly desperate income tax base.

In the recent budget speech, taxes in some form or the other were increased yet again and that is now 24 years in a row since the ANC came into power that our taxes have risen, if my research serves me correctly. After the performance of the ANC and Jacob Zuma the past 10 years – it is a bitter pill to swallow.

Finance expert Jayson Coomer, recently updated his annual breakdown of South Africa's tax trends. According to Coomer's data, currently a paltry 13% of the South African population of 56 million people are the ones paying income taxes – with the other 87% not contributing anything (though still obviously contributing to VAT for purchases of non-zero-rated items). It is a massive crisis that so few citizens pay income tax – but also spare a thought for those who want to work and are not in a position to.

On the basis of personal income tax, the top 1% or so of taxpayers (the 480,000-people earning more than R750,000 per year) pay 61% of the total income tax bill.

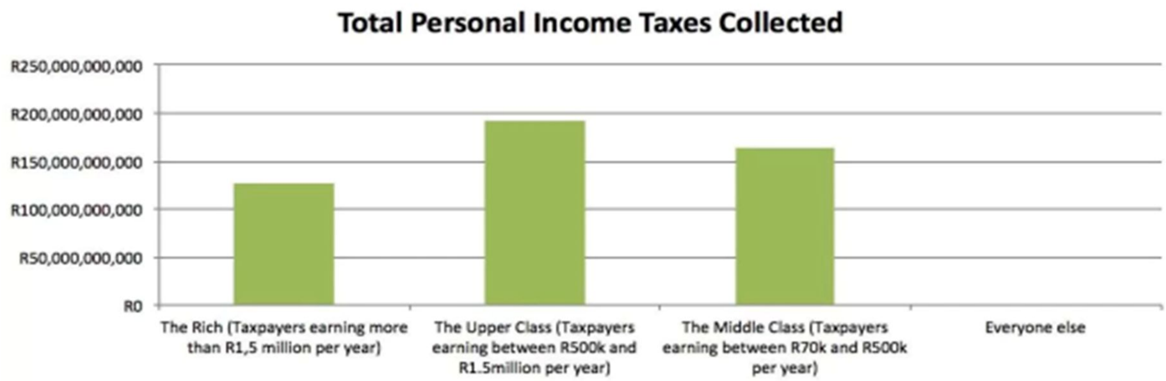
And he points out, "that by almost any standard, this is an extraordinary burden to lay on such a small portion of the population of any country."



(Courtesy of Jayson Coomer, 2017, Business Tech)

In terms of revenue sources in South Africa, personal income tax accounts for 38% of revenue, with value-added tax making up 25%. Companies tax accounts for 18%, followed by the fuel levy (6%), customs (4%), other sources (4%), excise duties (3%) and dividend withholding tax (2%). The biggest portion of the budget goes to the public wage bill (36%) and social grants (17%).

Comparing South Africa to the United States, Coomer found that both countries pay taxes that equal about 25% of their annual GDP – however, in the USA 47% of people don't pay taxes, compared to the 87% in South Africa.



Coomer goes onto say that "economic growth would help broaden that tax base, but the current anaemic environment in South Africa means there is a growing reliance on those 480,000 people, which is extremely concerning."

The research conducted by Coomer begs the question: **How is 13% of the population going to sustain the other 87% indefinitely?** And to make matters worse it is obviously in the ANCs best interests to look after that 87%, because they make up the bulk of their voter base.

The above raises the spectre of the Laffer Curve – a study by Arthur Laffer, a popular and very reputable Economist who in 1974 proved that increasing taxes beyond a certain point is counter-productive for raising further tax revenue. On the contrary – Laffer argued that cutting taxes would spur enough economic growth to generate new tax revenue.

At the risk of sounding unpatriotic – until someone can convince me with facts and not promises, I cannot believe a divided ANC, led even by Cyril Ramaphosa, can overcome this major challenge with the haste that the country deserves. The ANC (including Ramaphosa) wasted a decade blindly supporting a corrupt leadership - and we and many South Africans who are unable to find work due to not fault of their own – are still going to pay for it for many years to come.

Franklin Templeton

FRANKLIN TEMPLETON INVESTMENTS

Our USD Franklin Templeton portfolios have softened in line with Global markets. We did reduce risk on these portfolios, but we did not eliminate risk. I mentioned earlier that there is no place to hide in these markets.

Below is a chart of the Franklin Templeton Gold and Precious Metals Fund which houses 10% of your assets. Fortunately, we bought in at approximately 10% from the current price. In light of the volatility in global markets this first quarter, one would expect Gold and Precious Metals shares to shine – but they too, are flirting with multi-year lows. It is very frustrating!

I can only assume that if the sell off, specifically in the US, morphs into something more sinister – at some stage we can expect a violent rally like the one that started in 2016.

Graph Showing Franklin Templeton Gold and Precious Metals Fund from 2013 to 2018

(Courtesy of Infront)

We significantly increased exposure to a Global Currency Fund managed by Dr Michael Hasenstab. A strategy that would benefit from a rising US Dollar, in particular, against the Euro.

The US Dollar is trading at multi year lows against a range of currencies – and in line with our deep value approach we are quite happy to own it.

Investec Private Share Portfolios

Investec

On the JSE we sold out of Standard Bank trading at all-time highs for our clients – and bought into British American Tobacco which had fallen 25% and offered excellent value in our opinion.

We also reduced exposure to Property stocks (Growthpoint and Octodec) trading close to all-time highs which were not affected by the carnage in that sector.

Overseas we bought into Glaxo Smith Kline, British American Tobacco and British Petroleum on the London Stock Exchange for certain clients. All of them outstanding businesses trading at a significant discount and paying excellent

Directors: Michael J. Carruthers | Maryka Smit - BCom Industrial Psychology
Tel: +27 (0) 21 852 2435 | Fax: +27 (0) 86 516 8629 | Email: info@securewealth.co.za
PO Box 4047, Somerset West, 7129, South Africa
Website: www.securewealth.co.za
SecureWealth (Pty) Ltd. is an authorised financial services provider – FSB.6148 - Registration Nr. 2001/022689/07

annual dividends in GBP Sterling. This is consistent with our strategy to compliment our overweight positions in Emerging Market Technology growth companies – with stable companies paying annual dividends in hard currency who enjoy a global footprint.

Our Investec portfolios are overweight shares and predominantly offshore – and the weak equity markets and strong Rand has obviously had a negative effect on all our portfolios.

We believe that this is temporary and ask our Investec clients for patience. If markets continue to sell off or enter crisis mode we will take the opportunity to buy quality companies at beaten down prices.

危机

Wéijī

Above is the Chinese word for "crisis". It is actually two words, the first being **crisis** – but the second word means **opportunity.**

The Chinese thus believe that every crisis presents an opportunity. We do too and if we are fortunate enough that these volatile markets present us with a decent crisis – we have plenty of cash on the side-lines to turn that into a wonderful opportunity on your behalf.

Again, we would like to thank all our clients for their patience and continued loyalty.

Sincere Regards,

Mike Carruthers

Directors: Michael J. Carruthers | Maryka Smit - BCom Industrial Psychology
Tel: +27 (0) 21 852 2435 | Fax: +27 (0) 86 516 8629 | Email: info@securewealth.co.za
PO Box 4047, Somerset West, 7129, South Africa
Website: www.securewealth.co.za
SecureWealth (Pty) Ltd. is an authorised financial services provider – FSB.6148 - Registration Nr. 2001/022689/07