

Quarterly Commentary

December 2018

“Successful long-term investing is not about avoiding these uncomfortable times, but rather about having the courage to embrace the rewards they can offer”

Allan Gray, 2019

Compliments of the season, and...



2018 was a brutal year in global financial markets. We had been expecting a major sell off for some time – but the difficulty in 2018, was there was absolutely no place to hide.

The JSE All Share including dividends sank -8.53% for the calendar year and over 5 years has now realised a 5.77% per annum return. I recently recall reading an article, that this 5-year stretch was the weakest for the JSE All Share in 50 years. Allan Gray, and their offshore arm Orbis, also had a poor year, exacerbating the situation. And global emerging markets have not yielded a return in USD terms for over a decade.

Whereas most investors now see doom and gloom, we see **OPPORTUNITY**. The only yardstick you have when investing is the price you are prepared to pay. You do exactly the same when purchasing shares in a private business, a house, a motor car or any asset for that matter. The rules do not change when it comes to putting your money to work in publicly listed instruments, irrespective of whether a market is moving up or down.

I find it fascinating, listening to clients and friends, who will boast of the discount they received when spending their own money, but balk at the idea of buying into the stock market when it's dirt-cheap. Emerging markets, including South Africa, are the cheapest they have been in a decade.

There is no better example than British American Tobacco, the largest tobacco company in the world. A rand hedge that generates its income from all over the world. The share is down 55% from its recent highs, and now pays an annual dividend of just under 8%. That is a much better after-tax return than cash, and when the share price recovers, you will realise an excellent return. And all the while still earning a healthy annual dividend. British American Tobacco is now one of our largest holdings – with Allan Gray, Orbis, Coronation, and Investec in our private share portfolios.

We are not deterred by the slump in the markets. On the contrary we are actually excited. To our credit we have been cautious for years, but we would not be earning our stripes if we did not take advantage of the fantastic value on offer right now. We have gradually, but also aggressively, increased exposure to global share markets for the past 3 months for almost every client and will continue to do so for the next two or three months.

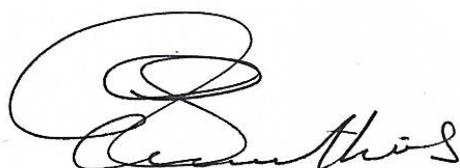
Furthermore, we track Allan Gray's and Orbis' performance every day in USD terms, and we are pleased to report that their portfolios are recovering week by week.

If you couple the equity exposure we have added over the past couple of months to a market recovery from these lows – we expect your portfolio's to do very well over the next few years.

Thank you for your support – but most importantly, thank you for your patience.

We wish each and every one of you, everything you wish yourselves for 2019.

Kind Regards

A handwritten signature in black ink, appearing to read "Mike Carruthers". The signature is fluid and cursive, with a large initial "M" and "C".

Mike Carruthers