ecsponent
invest with the times

ecsponews

Impact of oil price

The recent fall in the oil price has not only brought a huge relief for motorists. It will also have an enormously positive impact on our struggling economy.

The price of fuel is expected to decrease by another R1 in February. This means that the deficit will be smaller on the current account of the balance of payments, and, in turn, inflation will be kept within its target range.

The deflationary effects will fend off interest rate increases and help to keep the Rand stronger than before – despite the fact that electricity prices could rise at any point.

The reduced oil price has had a substantial impact on the world economy. Petroleum companies are reducing staff and ceasing major capital expenditure projects. Similarly, oil producers have stopped spending on US government bonds, equities and property - the OPEC petrodollars are drying up!

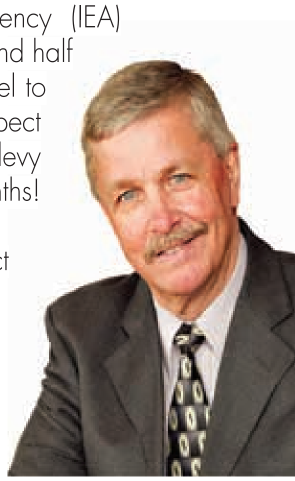
South Africa's own resource prices have also started to decline sharply and SASOL's share price has declined by almost 30% over the past three months. The prices of coal, iron ore and copper have also plummeted, and mines are reducing employees on a large scale.

Locally there have been requests for the fuel levy to be increased by R1 to help the upgrading of Eskom's electricity network. However, the price of fuel already includes taxes and rates of 47% and a further R1 increase – instead of an accepted 30c to 40c –would be excessive.

Moreover, the International Energy Agency (IEA) expects a rise in oil prices during the second half of the year from the current $49 per barrel to around $95 per barrel. We cannot expect that the government will reduce the fuel levy again if fuel prices start to rise in a few months!

Ecsponent's subsidiaries have no direct investments in resource stocks, which means we can expect the reduced cost of fuel to have a positive impact on the company in the long term.

Kind regards,
Anton



Dr. Anton Hay- Marketing Director

Small business is BIG BUSINESS!

Are smaller listed companies necessarily riskier than the companies in the Top 40 Index of the JSE?

There are people who are only prepared to invest in listed companies. Some of them will invest exclusively in the top 40 companies of the JSE or one of the four major life insurance companies.

The irony is that smaller companies on the JSE have shown better returns than large or medium companies during the past ten years. Is this not an indication that they offer you the best opportunity to grow your capital?

The JSE has its Top 40 Index and also the Mid Cap Index which include the next sixty largest companies of the JSE, based on their market capitalisation. The Small Cap Index comprises the rest of the companies which does not fall in the Top 40 or the Mid Cap Index.

During the last decade the return of the Top 40 index was 333% - almost half as much as the 606% for the Mid Cap Index, and 649% for the Small Cap Index. This means that the smaller listed companies outperformed the top 40 companies by 31% per year, or 2.6% per month over the last ten years!

To illustrate this further, Alpha Wealth did an exercise where they took only the top five performing stocks in each category of the Top 40, Mid Cap and Small Cap Indices and held them for a full ten years (see graph). This would have turned an original R100 000 investment in the Top 40 into a R2,5 million investment today (which is not bad), but would have turned the same sized initial investment in small caps into a whopping R7,7 million today (considerably better).

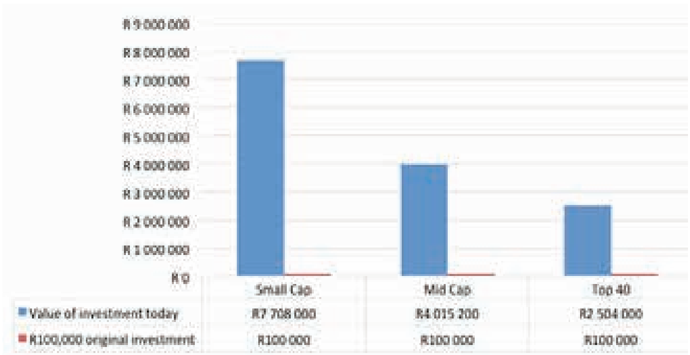
The market capitalisation (share price multiplied by the number of shares to determine the value of the company) of small cap companies is less than R2.5 billion.

Ecsponent Limited is a listed small cap company and its products are listed among the preference share section of the JSE. Investors often ask how Ecsponent manages to offer better rates and why the investors are not paying any cost on their investments.

The answer lies in the words of the business guru, Dr. Anton Rupert, founder of the Rembrandt Group. He warned 35 years ago against the "Big or Death" belief that only large companies can compete in times of uncertainty in the economic, political and social arenas.

His view - as reported in a publication from the University of Pretoria - was that large companies' efforts to diversify were often unsuccessful for four reasons: the scarcity of entrepreneurs in large enterprises, the lack of practical experience among participants, an excess of specialised knowledge that has to be brought in, and a formal style of management which causes organisational rigidity.

R100 000 invested into the top 5 shares in each index for 10 years



According to Dr. Rupert, the major benefit of smaller companies is their undisputed ability to create jobs. In a study by the Massachusetts Institute of Technology it was found that:

- more than 60% of all jobs in the United States are created by small businesses who have fewer than 20 employees;
- large enterprises (over 500 employees) create less than 15% of all new jobs; and
- most jobs are created by companies during the first four years – then the curve drops.

Dr. Rupert believed that the typical profile of a job-creating organisation is that it is usually small and independent. A second major advantage is flexibility, especially in the decision -making processes. Large companies often have many disadvantages similar to the civil service, in that communication channels are long, decision making is slow and there are too many channels of consultation.


Dr Anton Rupert

By contrast, a smaller company offers ample opportunities for innovation – like developing new products and services – which extends the competitive base of the economy.

The small business is the muscle strength of any economy. It is the product of the entrepreneur's initiative, his creative thinking, ambition and ultimate determination to ensure the success of the enterprise.

Small capitalisation companies are less liquid and get less attention from market analysts. This means that their activities are often unknown to the investing public.

There are attractive investment opportunities among small capitalisation companies for investors who are willing to do their homework. These companies offer proven business models, defensive balance sheets and are well positioned to take advantage of growth opportunities.

In a small capitalisation company a change in management, a great deal or a new business opportunity can have a dramatic impact on its shares - which is not applicable to larger companies.

Despite growing faster, small cap shares are also relatively cheaper investments than the highly traded and well-researched blue chip shares.

All successful companies started small. The key to the success of a small capital company lies in good management, and its ability to develop and build a wealth-creating company.

The long term prospects of Ecsponent are excellent. The subsidiaries of Ecsponent have increased from six to eighteen during the past financial year and, in line with the trends mentioned above, dozens of jobs have been created and the solvency and liquidity ratios are excellent.

The power of Ecsponent's underlying operations, its unique listed preference shares (which are strictly regulated) and its visionary management has put Ecsponent on the map in Southern Africa, a player to be reckoned with!

All content is for information purposes and should not be regarded as investment advice.