

Market crash or business as usual?

Investors will have to prepare themselves for a difficult new year but there is no indication of a market crash in 2019.

The general feeling is that the decade of cheap money is gradually coming to an end and investors need to adapt to new realities.

US President Donald Trump's honeymoon with the financial markets is also coming to an end and many economists are talking about a looming recession in 2020 in America.

JSE in bear territory

Last month, around 65% of JSE-listed equities reduced in value by more than 20%, leading to the bourse officially entering a bear market.

The All Share Index shed more than 15% in the year to end of November alone which is the worst five-year period for the JSE in fifty years. Even blue-chip shares, which had always preserved capital in the past, suffered heavy losses. This includes shares like Mediclinic, British American Tobacco,

Aspen and Tiger Brands, which fell by more than 40% in the year to end of November.

There is no market crash

A market will experience a decline of 10 to 15% every five years and a decline of more than 20% every five to 10 years. Really big crashes, like the 2008 crash when the markets dropped by 40% to 50%, are rare events with only two occurring in the last 100 years.

This latest bear market is also not driven by a crisis. Existing investors should not panic and rather see this as an opportunity, as a turnaround is evident. Crises are mostly driven by uncontrolled debt and while debt levels are higher than the levels the International Monetary Fund would have wanted to see, it can largely be ascribed to the world's attempt to recover from the financial crisis that pushed the global banking system to the brink and tipped the world economy into recession. Governments increased spending to boost growth, while central banks resorted to unconventional methods to ease financing conditions.

Market offers opportunity

Markets move in cycles and this market decline has created an opportunity for bargains because many stocks trade below their long-term valuations. Investors should, however, instead of trying to chase the markets, focus on diversifying their portfolios to preserve and build their wealth.

Foreign developments, rather than local factors, are largely responsible for the decline in the JSE. Equity prices often decline in higher interest rate environments. The rising interest rates, the increase in the long-term government bonds of the USA, as well as the trade war between the USA and China, have all led to lower share prices on the JSE.

New trends

Local investors can look to benefitting from two important trends in the following year, namely economic empowerment standards and the increasing influence of artificial intelligence on financial decisions.



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Signs of economic growth?

There seems to be a flicker of hope for South Africa's economic growth prospects in 2019. However, the election outcome will be a decisive factor influencing foreign investors who are considering pouring into the country.

Investors have taken a wait and see approach – to see what will be translated into policy and which policies will be delivered upon after the election.

The foreign investment community sees Pres. Cyril Ramaphosa as a pragmatic leader, acutely aware of the need to attract foreign investment and economic stimulus.

They are however concerned about the perceived policy stalemate and lack of progress from the government. This is likely to persist up to the election despite government's comprehensive investment incentives.

Policy clarity and its execution are key ingredients to improve business confidence. This includes policy relating

to corruption, crime and state-owned entities.

The risk for markets and the economy is that the ANC remains divided and does not make the required reforms. There is no room for further error or incompetence, especially with respect to Eskom.



New economic cycle

The post-election period could be characterised by bold structural economic reforms, signalling the beginning of a new and growing market cycle.

If this happens, pessimism of the past could very well make way for hope and optimism in 2019. The JSE could bottom-out and gradually recover in the new year as confidence is flowing back to the markets.



Downgrade can be avoided

There is a good chance that South Africa may avoid a downgrading by Moody's – the only agency which has an investment grade credit rating for South Africa – despite official forecasts regarding budget deficits and debt ratios.

Moody's could keep its stable sovereign rating for South Africa until the Budget presentation in February next year, when it would be clear if Treasury managed to reach its targets.

It is crucial for South Africa to avoid downgrading, which will be detrimental, as it will exclude our government bonds from the Citigroup World Securities Index. This will cause large scale outflow of foreign capital from local bonds and shares and put further pressure on the falling rand.



Rand could strengthen

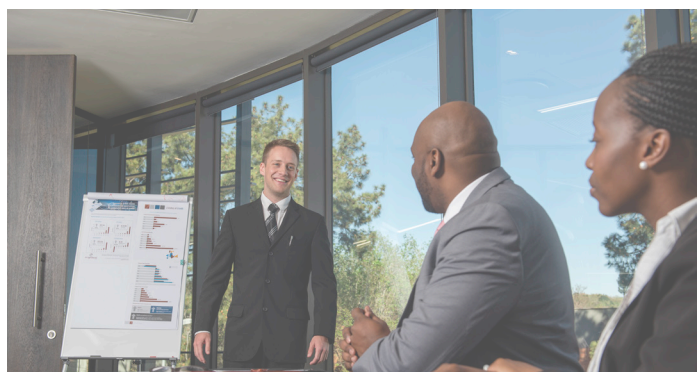
The Reserve Bank is expecting the rand to trade at around R13.40 against the dollar by the end of 2019. Next year's Budget, Moody's credit rating and the election will affect the rand. An improvement in South Africa's political environment could, however, cause the rand to strengthen significantly, especially if the dollar weakens as expected by the end of 2019.



Promises to invest

The investments which South Africa expects in the coming months, is also very encouraging for growth prospects, with \$20 billion promised at the last investment conference, and \$35 billion previously, including \$10 billion each from Saudi Arabia and the United Arab Emirates as well as a huge private sector investment from Mercedes-Benz.

Strong global growth and fiscal expansion in the US, China, Germany and elsewhere in Europe could also create a supportive environment for growth in South Africa, especially if the risk of a global trade war loses momentum.



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Empowering Africa

An economic turnaround is taking place in Africa, with entrepreneurship at the core of the continent's strategy to beat poverty and achieve shared prosperity.

This economic philosophy, better known as Africapitalism, is centred around the belief that the African private sector has the power to transform the continent through long-term investments, creating both economic prosperity and social wealth. Africapitalism is often linked to "inclusive capitalism", "impact investing", "conscious capitalism" and "philanthro-capitalism". However, the neo-capitalism philosophy most closely associated with Africapitalism is the theory of "creating shared value".

Creating shared value

This theory was introduced seven years ago by two Harvard professors, Michael Porter and Mark Kramer. They drew worldwide attention with their groundbreaking article, "Creating Shared Value: Redefining Capitalism and the Role of the Corporation in Society", published in Harvard Business Review in 2011. They argued that capitalism was under siege, as the public had lost confidence in big business. The public holds big business responsible for

introducing environmental and social ills while prospering at the expense of the broader community.

Shared value means aid must empower the recipients, rather than making them dependent. This is in contrast to the traditional approach in developing countries where donors and governments invest in basic health, education and access to food, with the hope that the beneficiaries will eventually become self-sufficient. After the Cold War, African countries were exploited for their natural resources where raw goods were exported as is, without having any value added. This resource-driven growth does not enhance job creation and will not break the cycle of poverty on the continent.

The central premise behind Africapitalism and creating shared value is that the competitiveness of a company and the health of the communities around it are mutually dependent. Adding local value to

products will ensure that Africa benefits from its own resources by developing them locally.

It is challenging for businesses to make decisions that will increase economic and social wealth and promote development in the communities and nations in which they operate.

Such decisions will ultimately help businesses become more profitable as the communities they serve become well-off consumers, healthy and better educated employees, and even entrepreneurs who go on to become suppliers and service providers.

Africans cannot leave the business of development up to their governments, donor countries and philanthropic organisations alone. The private sector in Africa must stand up, recognise and embrace their role in driving the economic growth and the social development of Africa, and they must act responsibly in tangible ways.

The principles of Africapitalism are:

- **Entrepreneurship.** Unlock the power of individuals to create and grow their business ideas into successful companies.
- **Long-term Investments.** Deploy long-term capital which creates greater and broader economic value as opposed to merely the extraction of resources.
- **Strategic Sectors.** Invest in sectors that deliver a financial return, as well as adding broader economic and social value, especially in areas like agriculture, power, health care and finance.
- **Development Dividend.** Conduct investments and business activity in a manner which deliver financial returns to shareholders as well as having economic and social benefits for stakeholders.
- **Value-Added Growth.** Leverage locally available human and financial capital, raw material and other inputs which create longer, more integrated supply chains of higher value.
- **Regional Connectivity.** Facilitate intra-regional commerce and trade through the development of national and cross-border physical infrastructure, and having uniform policies and practices in place.
- **Multi-Generational Development.** Focus on investments and economic growth strategies that can create value for future generations
- **Shared Purpose.** Foster collaboration between businesses, investors, governments, academia, civil society, philanthropists and development institutions to create conditions which will empower the private sector in Africa to thrive.

Entrepreneurship is seen as a cornerstone of Africapitalism

Promoting entrepreneurship should be one of the primary roles of African governments to create the right environment for a new crop of entrepreneurs to emerge.

The Tony Elumelu Foundation in Nigeria set an example by launching an entrepreneurship program which will devote \$100 million over 10 years to identify and help grow 10 000 African startups and young businesses. In Nigeria alone, 95% of startups fail in the first year, often owing to reasons which could have been resolved with the right support infrastructure and policy environment. These entrepreneurs are the people who can fuel our future, but who often lack the capital, training or support to grow their small businesses to the next level.

There are huge challenges, but also opportunities. For example, one in five people on the continent do not have a bank account and hence not having access to credit, insurance and other financial services, remain a major obstacle to SME expansion.

Africapitalism is a viable solution and will help to create friendly, small and medium enterprise policies and ensure that Africa's next generation of entrepreneurs have the platform they need to turn their dreams into sustainable businesses. This will most certainly lead to economic growth and job creation across Africa.



The new year has dawned and it is once again time to set new goals and make plans to achieve them. What are your financial goals this year and do you have solid resolutions with a strategy to achieve them?

Did you make resolutions last year? And did you manage to stick to them? According to a report from the University of Scranton's "Journal of Clinical Psychology", 45% of people make New Year's resolutions, but only 8% of us actually achieve them.

Do not be discouraged by this. Resolutions, like goals, are best when they are specific. When you see a resolution, or goal, think of it as a

firm decision to do (or not to do) something.

Studies by Fidelity (8th Annual Resolutions Study) show that those who make resolutions are ten times more likely to accomplish their goals than those who don't. People who make resolutions, also tend to be more optimistic, debt free and financially secure.

The good news about New Year's resolutions is that you get a new opportunity to achieve them each year.

Taking control of your finances and setting definite goals can make 2019 your best year yet, yielding results for years to come.

Here are some financial resolutions which should be top of your list for 2019:



1. Budget – a goal without a plan is just a wish

Kick off the new year by identifying SMART (specific, measurable, realistic and time bound) goals. Then create a simple budget with a written list of expenses and incomes which can be expanded later if needed. Take a good view and determine what your priorities are. Commit yourself to observing, modifying and adhering to your budget over the course of the year.



2. Save – then invest to reach your goals

Increasing your monthly savings, should be top of your list. The easiest way to achieve this, is to pay yourself first. Have a debit order, paying a portion of your salary directly into your savings account and then invest. The earlier you start, the bigger the returns.



3. Become debt-free – plug those spending leaks

Free yourself from debt and learn to live on less than you earn. Don't let debt overwhelm and paralyse you. Whether this goal is realistic and attainable, depends on your own debt and financial situation. Begin by resolving smaller debts so that you gain confidence as you cross them off your debt list.



4. Spend smartly – pay off your bond more quickly

The decision to make an extra payment towards your bond can be a great way to start the new year. This will not only reduce the time of relieving your bond, but also the outstanding amount and interest charged.



5. Create multiple income streams

Generating an extra income can be a wonderful financial resolution and is a form of income protection. Always look for opportunities to increase your income. In a poor economy, the peace of mind and supplemental income which comes with a second job or side business, can save you a lot of stress.



6. Start a rainy-day fund – protect your dreams

Starting an emergency fund -- if you don't have one already -- can be a very good New Year's resolution. You never know what tomorrow may hold when it comes to finances. With an emergency fund you can face the unknown with more confidence.



7. Invest in your retirement

It is never too early or too late to start planning for retirement. Putting money aside for the future, whether it is for a retirement annuity or a lump sum, can put you on the path to a financially secure retirement.



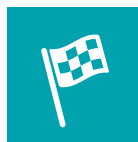
8. Understand your investments

Make time to manage and understand your money and make financial planning part of your normal routine. Dedicate time each week to thinking, talking and learning about money management and remember to organise your financial documents.



9. Get rid of "baggage" and your attachment to it

This is a capital trap, because it freezes your money and provides no financial benefit. An addiction or attachment to stuff can be like a financial parasite. Stuff needs to be stored and you will need more space to store it. Removing yourself from the desire to own more, creates an opportunity for growth.



10. Stick to your financial resolutions!

Finally, keeping and improving your financial resolutions will provide you with independence. This will afford you the ability to do what and when you want and prevent money from taking control over your life.