August 2022

# Moonwalk Away

In financial services we focus on investment outcomes, on providing sound investment advice, explanations on what is driving investment markets, and how to deal with some of our less virtuous behavioural biases so that we can get out of our own way when it comes to decision making.

But what about talking about the times when we find ourselves stuck with a problem, where it seems that the only outcome is capital loss and a painful personal investment lesson likely to be consigned to history? Is it always the case that we should concede defeat, take our loss and move on? Quite often there is a back door, an unseen exit, where if we are awake to the issues at hand, we can take the gap and Moonwalk Away[1].

## Looking for Trouble

There are many ways to find trouble in investment markets. We come across these often in our work helping guide investors who come to us with problem investments. This is often a legacy investment holding or potentially something assumed outside of a controlled financial planning process. What causes these problems? In our experience, most issues are driven in some form by conflicts of interest (do you have an adviser, or a salesman?), fear of missing out and buying into investments after a strong rally (buy high), or a simple lack of good financial advice earlier in your investing journey.

By way of example, the cases below are all recent examples of challenging holdings where investors are faced with potential permanent capital loss:

- Domestic listed real estate has been a favoured asset class in South Africa, driven by strongly declining interest rates and inflation post their 2001 peak, as well as investor preference for ‘real assets’ over shares, where it can be a bit harder to grasp exactly what it is you own. But what the property market crash in 2017/2018, as well as the subsequent drawdown in the 2020 COVID crisis demonstrated, is that local listed property is a relatively undiversified investment, and the bricks and mortar nature of it doesn’t mean the rent always gets paid. The chart below shows how rental incomes, and resulting distribution growth, went backwards post the 2016 peak. By this time, many investors had built up sizeable exposure to listed real estate, and in some cases were using it as the sole provider of their income in retirement.


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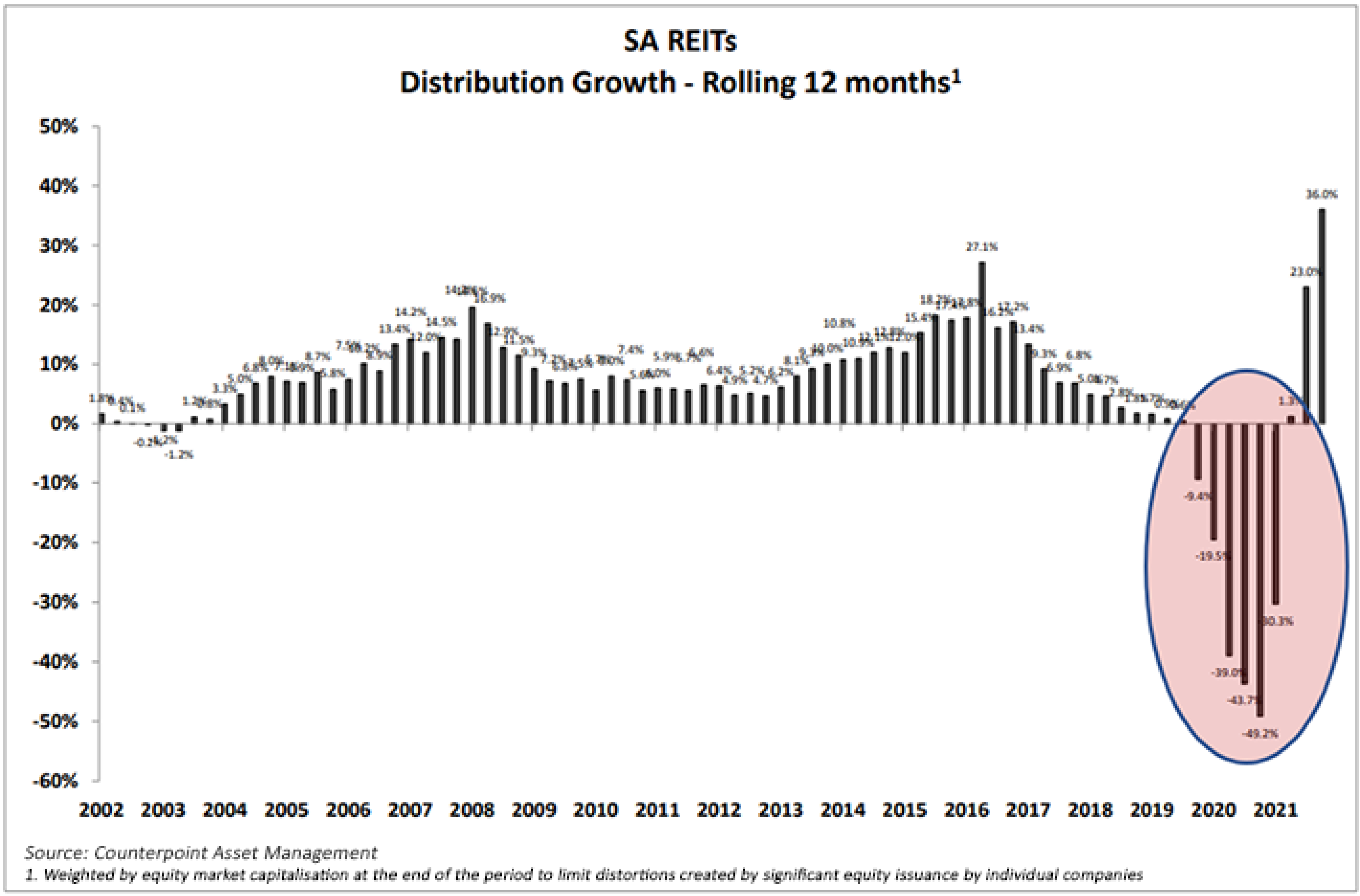
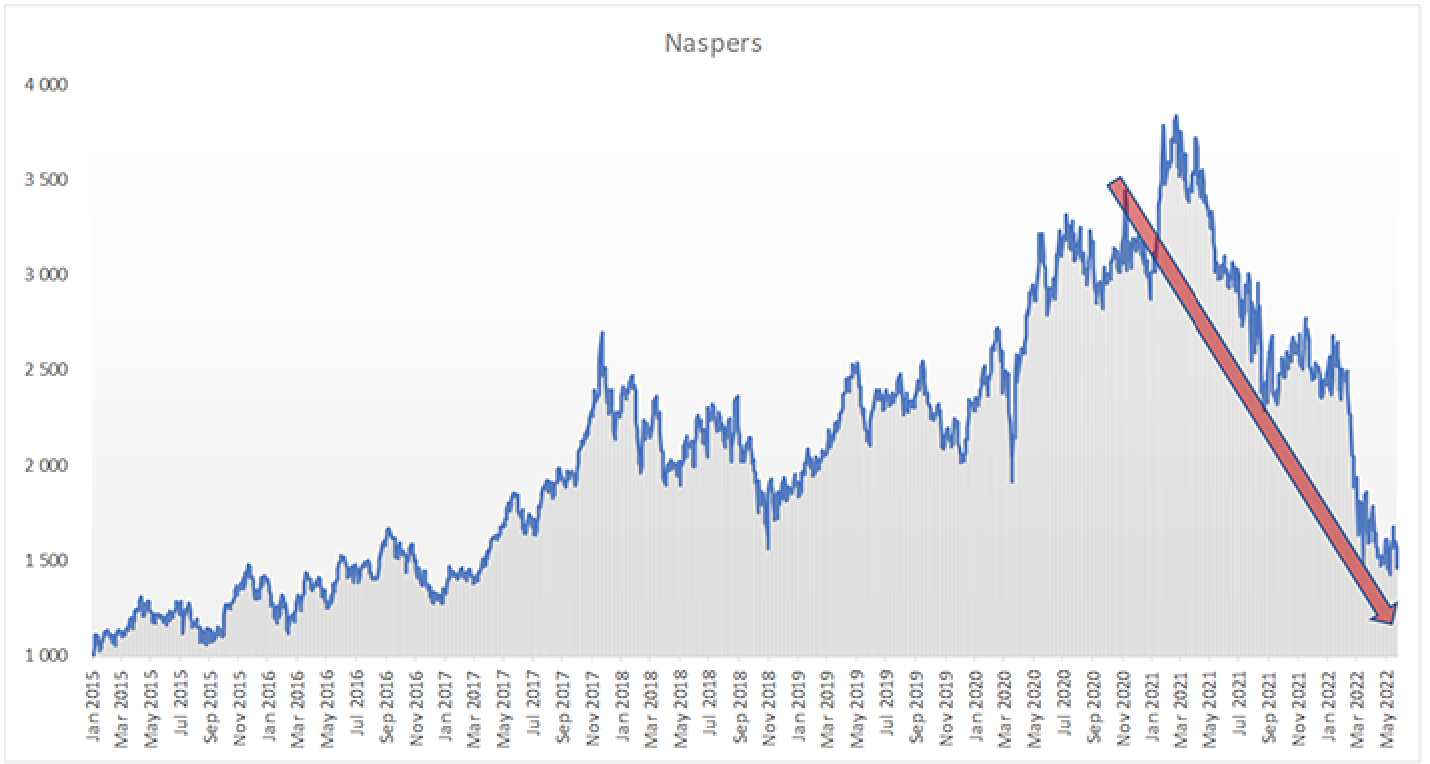



- Naspers is a second example. When a share performs, as Naspers did, growing to 140 times its IPO listing price of R25 (from 1996 to 2021), it can be quite easy to get caught up in the moment and not take any profits or diversify what by now will be a material holding. But what to do when the Chinese government steps in, regulates away some of your profit margin, and then some of your Russian holdings inside Naspers are written down to zero due to the Putin invasion of Ukraine? At one point you were sitting with this investment value at just 40% of its recent highs. What to do?




Other examples include the trouble caused when "chasing the hype" and buying into an investment theme at its peak (Growth equity or emerging markets in early 2021). Or realizing after a decade of investing that you failed to take any assets offshore when the rand was still strong ("missed the boat").

Perhaps it's a sizeable part of your balance sheet tied up in a physical property – either residential or commercial, where demand dries up for whatever reason and the asset that you had banked for retirement suddenly becomes something of a problem.

Investment problems can also be more veiled. We often see problems in share portfolios – with taxable gains and a lack of transparency deterring any corrective action needed when identifying a 10- or 20- year return headache.

Realizing that after two decades in an old school life-company product, where you have seemingly made no gains over extended horizons (but surely paid the fees!) is unfortunately an all too familiar discovery.

### Looking for the escape routes

Time after time we come across these problems, with investors assessing the decision to cut their losses and move on. But quite often, there are ways to mitigate these prospective losses, and to reposition yourself for a more successful and consistent financial journey ahead.

The concept of 'selling low' is not one which resonates with many. To sell an asset below market price is surely not the path towards financial prosperity. But when faced with no choice, or potential greater losses, this may be your only alternative.

To 'sell-low', and match this with an alternative 'buy-low' is usually the easiest exit to take when faced with a loss-making position. For instance, is it better to hold onto your house which is potentially valued at 30% below what it was five years ago, waiting for the market to recover, or is it better to make the sale, and then buy a portfolio of shares trading 30% below their market value? In the case of the former, you have a single illiquid investment and a very narrow market of buyers, with quite specific localized risks. In the case of the latter, you generally have wide diversification across regions and industries, as well as good liquidity and therefore many possible escape routes. Realizing a loss but then transferring it to an alternative is a capital preservation strategy which can also come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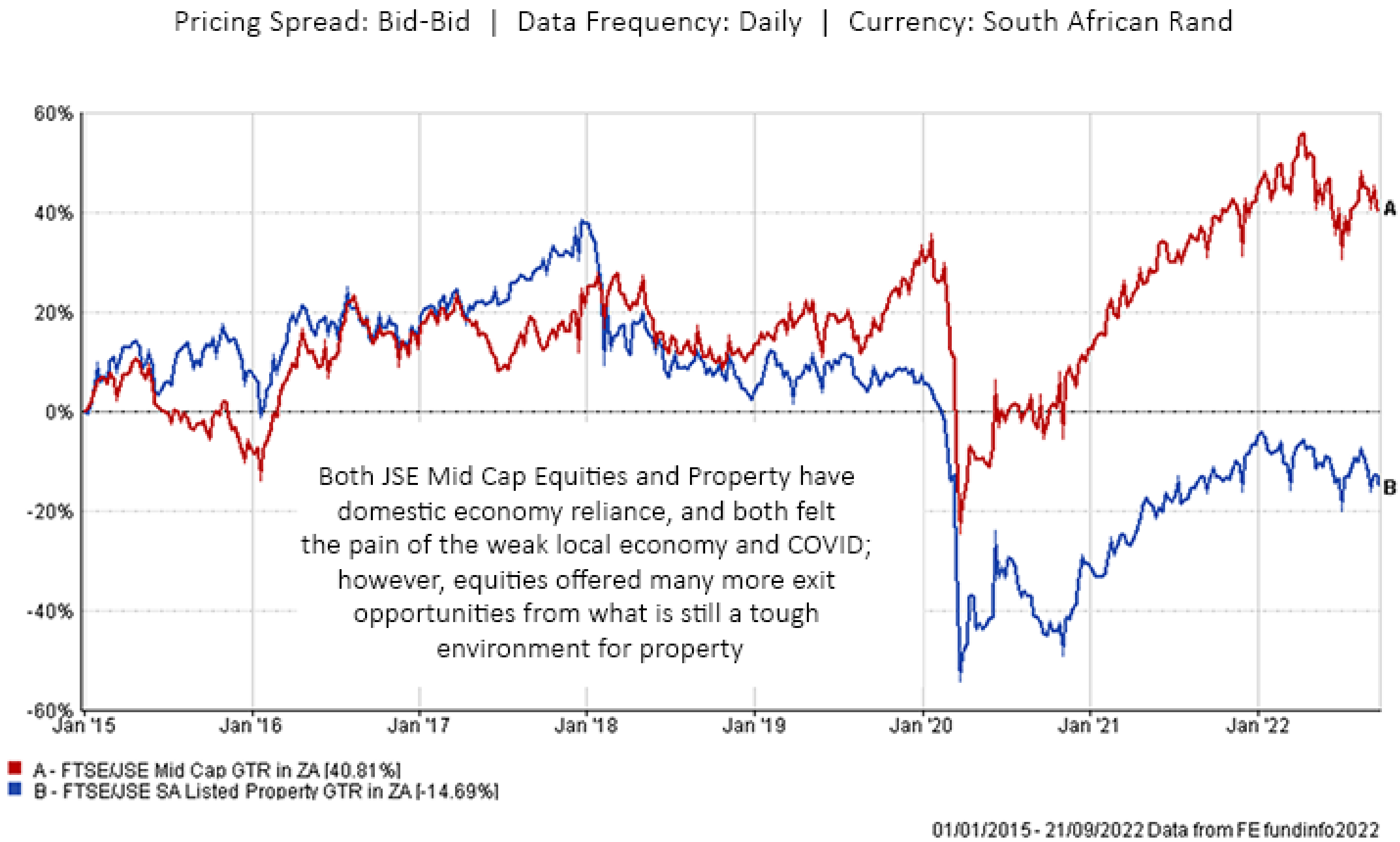
with the added benefit of lower taxable gains, or even the banking of a taxable loss.

The characteristics to look for when trying to identify the escape route is usually to look for other relatively distressed assets to buy in place of the one you are holding, but where the purchase materially improves your odds of capital recovery, and offers better liquidity and diversification.

In the listed property example above, investors who found themselves overexposed to listed property could have looked to local mid- and small-cap shares which were also trading at a deep discount post COVID. The commonalities were that both were impacted similarly by weak local economic activity, anti-SA sentiment for the preceding five or so years, and uncertainty due to the economic shutdown in 2020. However, domestic mid-cap equity consists of around 100 highly investable shares, across a wide array of industries, all trading daily on the JSE. Selling property low, to buy local mid-cap equity on a low valuation of 10x earnings at the time, was a relatively good exit plan which would have recovered, and then grown, capital values from the COVID lows.




With the Naspers example, if you were worried about overexposure to a single counter which had fallen 60% from its highs, you would have looked east to the Chinese equity market, where a variety of equities would have replaced your Naspers holding with several listed assets such as Netease or JD.com. Looking wider, you could have simply switched your Naspers for an emerging market equity fund, given the nature of Naspers' holdings (generally emerging market-based assets).

This approach serves to preserve the investment positioning you had prior to the material price weakness (i.e emerging market equity and Chinese technology) with a similar alternative, but with materially less single stock risk. Significantly more opportunities to escape the problem!

For decisions as a result of FOMO, where you have had the unfortunate experience of buying into the latest hot theme and then realized some level of buyer’s remorse soon thereafter when the price falls, there are potential exit options here too. Your default is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to look for an investment solution which carries similar exposure, but where you can have a high degree of confidence in the future prospects where you may not have had this with your initial purchase. An example would have been buying into a ‘hot’ stock such as Coinbase – listed in 2021 at 100 times current earnings, near the height of the Bitcoin frenzy as a trading platform for bitcoin and other crypto assets. Coinbase has subsequently fallen 80% since listing, but all is not lost if you were to switch your remaining investment to a high growth-oriented fund which has good fundamental research to support a diverse setoff underlying investment, and is more likely to deliver in future albeit over a relatively extended time horizon.

### Looking for solutions

When attempting to extricate yourself from a losing position, there are four key steps to consider:

1. Survey the damage: how did it come about, what is lost, what may be lost, how much can I still lose? If I am not sure, ask for input from someone with no conflicted interests.
2. What type of exposure do I have, and does the recovery plan preclude this asset class, or should it be the natural replacement?
3. Setup and agree to a plan centered around sensible extraction. This may require a phase out approach to mitigate the timing risk often prevalent in highly volatile assets or markets.
4. Once you have course-corrected, how does this investment fit within your broader financial plan?

When you are faced with an expensive investment problem such as those listed above, it is worth your while to stop and consider what options you may have to course correct, and hopefully, you have the chance to Moonwalk Away.

[1] With apologies to the good people at GoldFish, this is also a reference to “an attempt to move on from a past relationship which miserably fails” – the Urban Dictionary

InvestSense

August 2022

data provided by Refinitiv

# MARKET REPORT

31/08/2022

| | | 3m | YTD | 1yr | 3yr pa | 5yr pa | 10yr pa | 5yr Vol1 | 10yr Vol1 |
|---|---|---|---|---|---|---|---|---|---|
| **LOCAL MARKET INDICES** | | | | | | | | | |
| FTSE/JSE All Share Index (ALSI) | ZAR | -5.9% | -6.2% | 4.6% | 10.8% | 7.2% | 10.1% | 15.7% | 13.5% |
| FTSE/JSE SA Listed Property | ZAR | -7.7% | -10.1% | -3.4% | -6.7% | -7.6% | 1.6% | 27.1% | 21.5% |
| SA All Bond Index (ALBI) | ZAR | -0.4% | 0.8% | 1.5% | 4.4% | 6.4% | 6.4% | 8.2% | 7.9% |
| SA Cash Index (SteFI) | ZAR | 1.3% | 3.1% | 4.4% | 4.9% | 5.9% | 6.1% | 0.4% | 0.4% |
| Balanced Benchmark | ZAR | -2.8% | -5.7% | 2.7% | 8.4% | 7.3% | 9.9% | 10.8% | 9.0% |
| SA Inflation (1 month lag) | ZAR | 3.3% | 6.4% | 7.8% | 5.3% | 4.9% | 5.3% | 1.4% | 1.4% |
| **GLOBAL MARKET INDICES BASED TO USD** | | | | | | | | | |
| Global Equity (Datastream World) | USD | -5.4% | -17.5% | -14.7% | 9.3% | 8.4% | 10.1% | 16.9% | 13.8% |
| Emerging Markets Equity (Datastream EM) | USD | -6.3% | -17.2% | -21.5% | 3.1% | 1.0% | 3.3% | 16.9% | 15.7% |
| Global Property | USD | -6.1% | -18.2% | -14.3% | 1.4% | 4.2% | 6.3% | 16.6% | 14.4% |
| Global Bonds (Barclays Global Bond Index) | USD | -6.4% | -19.1% | -21.6% | -5.5% | -1.9% | -0.4% | 6.9% | 6.4% |
| Global Cash | USD | 0.6% | 1.0% | 1.0% | 0.8% | 1.4% | 0.9% | 0.3% | 0.3% |
| **MAJOR INDICES BASED TO RANDS** | | | | | | | | | |
| FTSE/JSE All Share Index (ALSI) | ZAR | -5.9% | -6.2% | 4.6% | 10.8% | 7.2% | 10.1% | 15.7% | 13.5% |
| Global Equity (Datastream World) | ZAR | 3.4% | -11.9% | 0.5% | 13.6% | 14.4% | 18.1% | 16.8% | 15.2% |
| Emerging Markets Equity (Datastream EM) | ZAR | 2.5% | -11.6% | -7.5% | 7.2% | 6.6% | 10.8% | 14.0% | 13.1% |
| Global Property | ZAR | 2.7% | -12.7% | 1.0% | 5.4% | 10.0% | 14.1% | 17.9% | 15.3% |
| SA All Bond Index (ALBI) | ZAR | -0.4% | 0.8% | 1.5% | 4.4% | 6.4% | 6.4% | 8.2% | 7.9% |
| Global Bonds (Barclays Global Bond Index) | ZAR | 2.4% | -13.7% | -7.6% | -1.8% | 3.6% | 6.9% | 15.7% | 13.7% |
| **COMMODITIES** | | | | | | | | | |
| Gold (US Dollars) | USD | -6.8% | -5.6% | -4.8% | 4.0% | 5.5% | 0.3% | 12.8% | 14.5% |
| Gold (Rands) | ZAR | 1.9% | 0.8% | 12.2% | 8.1% | 11.4% | 7.6% | | |
| **CURRENCIES** | | | | | | | | | |
| Rand / Dollar | ZAR | -9.4% | -6.8% | -17.8% | -3.9% | -5.6% | -7.3% | 16.1% | 14.8% |
| Rand / GBP Pound | ZAR | -1.0% | 8.3% | 0.4% | -2.4% | -3.4% | -4.0% | 14.7% | 14.5% |
| Rand / Euro | ZAR | -2.7% | 5.6% | -0.4% | -0.8% | -2.1% | -4.9% | 14.2% | 13.6% |

| Spot Rates | | 31-Aug-22 | Latest Quarter | 1 Year Ago | 5 Years Ago | 10 Years Ago | 20 Years Ago |
|---|---|---|---|---|---|---|---|
| **CURRENCIES** | | | | | | | |
| Rand/US$ | Rand | 17.04 | 16.38 | 14.47 | 13.00 | 8.43 | 10.51 |
| Rand/GBP | Rand | 19.84 | 19.90 | 19.92 | 16.75 | 13.39 | 16.26 |
| Rand/EUR | Rand | 17.14 | 17.13 | 17.08 | 15.45 | 10.62 | 10.31 |
| **RATES** | | | | | | | |
| Libor 6m $ | US$ | 3.66 | 2.94 | 0.15 | 1.45 | 0.71 | 1.80 |
| Repo Rate | Rand | 5.50 | 4.75 | 3.50 | 6.75 | 5.00 | 12.50 |
| Prime | Rand | 9.00 | 8.25 | 7.00 | 10.25 | 9.00 | 15.00 |
| All Bond Index Yield | Rand | 10.92 | 11.05 | 11.64 | 9.36 | 7.15 | 9.74 |
| **COMMODITIES** | | | | | | | |
| Gold ($/oz) | US$ | 1 719.56 | 1 806.87 | 1 806.30 | 1 316.02 | 1 674.40 | 313.20 |
| Platinum | US$ | 845.00 | 907.00 | 1 001.00 | 986.00 | 1 517.00 | 564.00 |
| Oil (Brent Crude) $ | US$ | 96.55 | 114.93 | 73.02 | 52.31 | 116.30 | 27.65 |
| **INFLATION** | | | | | | | |
| SA Inflation | % | 7.8 | 7.4 | 4.9 | 4.8 | 5.0 | 9.4 |




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