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from the editor

JANA MARAIS

A few weeks ago, we got a query from a low-income earner, let's call him David, who realised towards the end of 2015 that he needed to start saving for retirement. He did what we are all constantly told is the right thing to do – he went to see a financial planner, who signed him up for a retirement annuity with a starting premium of R318 a month.

Fast-forward to April 2018, and David has buyer's regret. And with good reason – so far, he has paid nearly R9 000 in premiums, but his investment is worth R8 663. Fees took up R1 024.65 – an eye-watering 11.4% – and the "bonus" paid to David was R718.81.

The financial provider says the estimated annual cost will drop to 3.3% over the term of the annuity, and that David should remain invested to benefit from long-term real returns and the guarantee offered by the specific solution he is invested in. Given the penalties involved in cashing in the annuity before it reaches maturity, he doesn't seem to have much of an option anyway.

We could have an endless debate about whether these costs are fair to the client and the provider, whether David's financial planner picked the right product, and even whether investors should rather – as billionaire Warren Buffett so often advises – just ignore the flood of investment products and simply put their money into a cheap S&P 500 exchange-traded fund (ETF).

For me, David's example illustrates how difficult it is to understand the financial products we buy – even after seeing a financial planner and reading all the relevant documents. This holds true not only for investment products, but for everything from your bank account to your medical aid and insurance.

It's usually only when someone breaks into your house or you try and claim a GP visit from your medical aid that you realise the (often expensive) gap between the cover you thought you had, and the actual protection you enjoy.

It also demonstrates the frustration millions of South Africans have with accessing appropriate, simple-to-understand and affordable products to help them save and invest, as Lerato Mahlangu explains on page 21 of this quarter's issue of *Collective Insight*.

Providing financial services is not cheap, and financial service providers should be able to earn fair returns. Is it too much to ask, though, that they do it in a way we can all understand? ■

contents

By Johan Fourie

PROPERTY RIGHTS

Land: Learning from the Chinese

As South Africans debate expropriation, land ownership and redress, it is worth studying China's experience in the 1950s, when 550m peasants saw their land transferred to the state.

The complexity of the debate about land expropriation without compensation can ultimately be summarised into two questions: Should land be expropriated without compensation? And, if so, who should own the expropriated land?

Much media attention has focused on the first, with the focus often on how such a policy will scare off foreign investment. But it's the second, ultimately, that will determine the success of any attempt at redress and wealth creation.

> **Land is not the valuable commodity it was in the 19th and 20th centuries. As a way to empower people, land is probably the least useful asset nowadays.**

The two proponents of a policy of land expropriation without compensation in SA – the ANC and EFF – stand on very different sides regarding the answer to the second question: the ANC has made it clear that ownership should be in private hands, while the EFF has forcefully and repeatedly made the case that the state should be the custodian of all land. Its policy would see the state expropriate all private farm land and lease the land "equally" to the people of SA.

Dali Mpofu, national chairperson of the EFF and a respected advocate, has defended this stance by referring to China in a 2017 tweet: "Chinese land is owned [...] by the state and it has registered the highest consistent economic growth in the world!"

Mpofu's example is an interesting one, and worth exploring.

Indeed, Chinese economic growth over the past four decades has been a historically unprecedented 8% a year. But Mpofu would do well to note that this growth was not a consequence of agriculture.

Between 1990 and 2016, the share of agriculture in GDP has fallen dramatically from 26.5% to 8.5%. This was associated with massive urbanisation; in 2016, 57.4% of the total population lived in urban areas, a dramatic increase from 26% in 1990. Far fewer people now live off the land, and those that have moved to the (often new) cities, are remarkably better off.

This is because land is not the valuable commodity it was in the 19th and 20th centuries. As a way to empower people, land is probably the least useful asset nowadays, because it requires significant investment in physical and human capital to make it productive.

Even in the 20th century, agriculture could only thrive with significant state intervention in the form of marketing councils, favourable tariffs and other measures – measures that came at the cost of the South African consumer.

Dali Mpofu
National chairperson of the EFF and respected advocate

Gallo/Getty Images

In the 21st century economy, living off the land – without significant capital investment – will limit the ability of those that most need access to good education, health services and opportunities for social mobility that are found in cities.

Think of it this way: If I stole your Intel 286 computer in the 1990s, and returned it today, is that redress? Perhaps. Will it allow you to prosper today? Absolutely not.

This is even more true if the expropriated land is owned by the state. Returning to Mpofu's example of China: Between 1955 and 1957, 96% of China's 550m peasants were dispossessed of private property rights – the largest movement from private to communal property rights in history.

As Shuo Chen and Xiaohuan Lan show in a 2017 paper published in the *American Economic Journal: Applied Economics*, the results of this process was devastating for peasants, and the Chinese economy. The authors use data of 1 600 counties that launched the movement in different years, and find that in the year of the dispossession, the number of cattle declined by 12% to 15%. In total, almost 10m head of cattle were lost. Why? Because people started killing their own animals to keep the meat and hides once they realised that they'll lose the property rights to the use of those animals, and they didn't trust the state to safeguard what used to be theirs. This loss also affected grain output, which fell by 7%.

We know that Mao was not discouraged by this initial production shock. No, he doubled down. This initial process of land dispossession set the stage for the Great Leap Forward movement of 1958, which in turn led to the worst famine in human history that killed an estimated 30m people.

China's process of collectivisation should be the example that Mpofu and the EFF leadership study. If they want more evidence of how collectivisation collapses an economy, they need look no further than Tanzania's *ujamaa* and Operation Vijiji, a much understudied but enlightening experience.

Or ask our Zimbabwean neighbours about their land reform programme. As Tawanda Chingozha, a PhD student in the department of economics at Stellenbosch University, shows with sophisticated satellite imaging technology, Zimbabwe's land reform programme caused a significant reduction in the quantity and quality of crops harvested, and not only on formerly white commercial farms. The empirical evidence against state-owned land ownership is unequivocal.

Land is an emotive issue because the memories of dispossession, forced removals, and apartheid segregation remain vivid for many. Others are simply unhappy with the slow process of economic progress in the past decade, and see in land a source of safety and security.

But if land is expropriated and private property removed, the hope of economic progress will be nothing more than a mirage. We have smart people in South Africa. Surely we can find a way of redress that actually empowers people – and won't replicate our disastrous past policies that subjugated the poorest to a life of poverty on the periphery of progress? ■

editorial@finweek.co.za

Johan Fourie is associate professor in economics at Stellenbosch University.

in brief

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"Others, they are not even farmers. They don't even have a cat."

– **Doctor Radebe, a former DA councillor in Vrede,** comments in an interview with *The New York Times* on the hastily drawn-up list of intended beneficiaries of the controversial Vrede dairy project, from which 100 emerging farmers were supposed to benefit. The project saw state land leased to Gupta-linked Estina in 2013 under a free 99-year lease. The Gupta leaks revealed in 2017 how at least R30m paid to the Guptas, via the farm, was instead used to fund a lavish family wedding at Sun City in 2013, news24.com reported. The Hawks have since been investigating the case and some arrests have been made.

"ABSOLUTE NONSENSE AND COMPLETELY IRRATIONAL."

– That's how **advocate Paul Kennedy SC, on behalf of the DA,** described former Eskom CEO Brian Molefe's argument that he had asked to retire early as CEO, that Molefe had been under the impression he was allowed to do so, and that he was entitled to an early pension payout of R30m, timeslive.co.za reported. The North Gauteng High Court ruled in January that Molefe had resigned from the parastatal and should pay back about R11m of his pension settlement. On 17 April, the same court dismissed Molefe's application to appeal the January judgment with costs.

"THIS SHOULD NOT SURPRISE ANYONE: IF YOU MAKE MONEY, SARS WANTS A SLICE OF IT – IT ALWAYS DOES."

– Market commentator **Simon Brown** on the South African Revenue Service's (Sars') clarification on its stance to tax any profits made on cryptocurrencies. In a statement released at the beginning of April, Sars said: "Cryptocurrencies are neither official South African tender nor widely used and accepted in South Africa as a medium of payment or exchange. As such, cryptocurrencies are not regarded by Sars as a currency for income tax purposes or Capital Gains Tax. Instead, cryptocurrencies are regarded by Sars as assets of an intangible nature." (Also see page 14.)

THE GOOD

The IMF has revised SA's growth prospects, forecasting GDP growth of 1.5% in 2018 and 1.7% in 2019. This comes after it slashed its forecasts in January, forecasting less than 1% growth for both years, *Engineering News* reported. Now, however, the bank has said business confidence was improving following political changes, but warned that "structural bottlenecks" continue to weigh on growth. It said SA policymakers should reduce policy uncertainty, reduce barriers to entry in key sectors and improve the efficiency of government spending. The IMF said the proposed minimum wage could hurt job prospects and firms' competitiveness, but could also improve working conditions and reduce poverty.

THE BAD

Although the budget for basic education has risen in line with inflation between 2010 and 2017, spending per child has declined, said Stellenbosch University's Nic Spaull. This is because teacher pay hikes have been above inflation and enrolment numbers have spiked. He wrote in *Business Day* that the government spent R17 822 on average per child in 2010, R16 435 in 2017 and the projection for 2019 was R15 963 (all in 2017 rand). The result is larger classes, particularly in poor schools, where average class sizes have increased from 41 to 48 between 2011 and 2016.

THE UGLY

KPMG, which saw eight executives leave last year amid a scandal over the firm's audits of various Gupta accounts, is under fire again after the curator of VBS Mutual Bank withdrew the signed-off results for the bank's 2017 financial year. The bank was placed under curatorship in March, and the Reserve Bank has said that as much as R900m of deposits are unaccounted for. KPMG admitted that Sipho Malaba, who signed off on the account, did not disclose loans he had with VBS – and he and another partner resigned on April 13. The auditor-general also immediately terminated its auditing contract with KPMG.

DOUBLE TAKE BY RICO

CHINESE GROWTH SURPRISES

6.8%

China's economy grew 6.8% year-on-year in the first quarter, ahead of the government's target of 6.5%, as a rebound in private investment compensated for a declining trade surplus, ft.com reported. Growth was expected to be dampened this year by an emerging trade war with the US and efforts by Beijing to restrain debt and runaway property prices, but the latest quarterly data was only slightly below 2017's full-year growth figure of 6.9%, it said. China's economy is "hugely resilient and has huge flexibilities", Xu Zhihong, a spokesman for the National Bureau of Statistics, told ft.com, saying trade frictions with the US are not expected to affect the Chinese economy.

BLACK PANTHER SMASHES RECORD

R100m

Black Panther, an American superhero film based on the Marvel Comics character of the same name, has made history in South Africa after grossing R100m at the local box office, becoming the first film to achieve this record locally, EWN reported. The film, which also features legendary local actor John Kani and which was released in local cinemas in February, has grossed more than $1bn worldwide. The film, which is still showing in cinemas around the globe, is already one of the top 10 highest-grossing films of all time. The science-fiction film *Avatar*, released in 2009, remains the top earner, with nearly $2.8bn, according to Business Insider.

WIESE REPAYS CASH

€325m

Christo Wiese, former chairman of Steinhoff, told Bloomberg he had agreed to return €325m that was paid to him by Steinhoff last year as an upfront amount related to a planned merger between Shoprite and Steinhoff Africa Retail (Star). The deal fell through when accounting irregularities, which have since wiped 94% off Steinhoff's market value and led to the departure of former CEO Markus Jooste, came to light in December 2017. Wiese, the biggest shareholder in Steinhoff, has denied any knowledge of wrongdoing. Steinhoff has since said the €325m deal, which was paid in two tranches in October and November last year, did not follow the correct disclosure or governance procedures.

NETFLIX SUBSCRIBER NUMBERS JUMP

125m

Digital entertainment group Netflix grew subscribers by 7.4m in the March quarter, ahead of market expectations of 5m, to reach a total of 125m members, ft.com reported. Revenues were up 40% to $3.7bn in the period, the fastest quarterly year-on-year increase it has posted since introducing its online streaming service, it said. Net income rose 63% to $290m. Netflix, whose business model is subscription-based rather than reliant on advertising, plans to spend $10bn over the next year on content and marketing, and $1.3bn on technology. It produces original content in 17 markets, and five of its 33 films released last year were nominated for Oscars.

By David McKay

BEE ruling a win for miners and investors

Analysts say a recent High Court decision should make it easier to invest capital in the sector and help reduce the substantial valuation gaps between South African mining firms and their international peers.

One of the companies to have benefited most from a recent High Court ruling on the principle of "once empowered, always empowered" is DRDGOLD, followed by Sibanye-Stillwater and, in the pure-play platinum sector, Impala Platinum (Implats).

According to a report by Nedbank Corporate and Investment Bank analysts Leon Esterhuizen and Arnold van Graan, DRDGOLD has current direct black economic empowerment (BEE) of 11% – although the bank hastens to add that its calculation is based on " 'readily direct shareholdings' as well as employee share ownership schemes".

Had the High Court decided that past empowerment deals were not relevant – which would have forced mining firms to continually top up black ownership to 26% (which is the stipulated transfer-of-equity target in terms of the Mining Charter, which DRDGOLD says it has achieved) – the dilution to DRDGOLD's shareholders would have been 16%.

Similarly, Sibanye-Stillwater's current identifiable BEE count is some 9%. Had the High Court supported the government's contention that mining firms had to top up their BEE shareholdings, even in the event of a black-owned partner selling its shares, the dilution to Sibanye-Stillwater would have been 13%. The same applies for Implats: 13% on a 9% direct holding.

Interpreting more than a decade of empowerment is a complicated matter, however. There are many types of transactions, some of which have failed, while other BEE partners have since sold their shares.

This is why, one suspects, the approach of mines minister Gwede Mantashe to the issue of accounting for BEE is to avoid a one-size-fits-all model. At a round-table session with the media at a platinum conference this month, he said his department would not appeal the High Court's April decision. His preference is to see BEE on a case-by-case basis, even if that meant testing the legality of individual mining company compliance in court.

In other words, Mantashe is picking up where former mines minister Ngoako Ramatlhodi left off. When, in 2014, the audit of 10 years of Mining Charter compliance was conducted, the department of mineral resources (DMR) and the Chamber of Mines disagreed on whether the 26% equity target set in the charter had been achieved. Ramatlhodi's view was that the matter should be taken out of the meeting room – where opinions and discretions abound – in favour of a legal ruling. Mantashe appears to have adopted a similar pragmatism.

The judgment "removes the shackles" on historically disadvantaged South Africans who are now able to "monetise their investments".

Even were the department to have appealed this decision, the prospects of success would have been doubtful, said Fasken partner Nic Roodt. "The DMR would have had to satisfy the Supreme Court of Appeal that its request had a reasonable chance of success." The High Court ruling was pretty emphatic, however, and a full bench of three judges had ruled in the matter, which reduced the likelihood of an appeal succeeding, he added.

It's also worth considering that while the April ruling is positive for mining companies, it's also positive for BEE resource-sector investors. In the view of Jonathan Veeran, a partner at Webber Wentzel, the judgment "removes the shackles" on historically disadvantaged South Africans who are now able to "monetise their investments".

But this is by no means the end of equity-based empowerment. Mining Charter negotiations – which Mantashe insists will be completed by the end of May – may see the equity portion target rise to 30%. And it's also worth remembering that if an asset is sold, the BEE partners can cash out, making it obligatory for the buyer to conduct a new BEE deal, either with the existing BEE ownership, or new ones.

But the message of the High Court ruling is that relations between the government and mining sector are now forward-looking, rather than focusing on the past.

Said Esterhuizen and Van Graan: "We believe this is a superb windfall for the SA mining industry – something that should go a long way to reducing the substantial valuation gaps to the international peer group and that should also make it easier to invest capital in our industry again." ■

editorial@finweek.co.za

Nic Roodt
Partner at Fasken

Jonathan Veeran
Partner at Webber Wentzel

Images: www.fasken.com www.linkedin.com/in/jonathan-veeran-27b07122/

market place

FUND IN FOCUS: DISCOVERY BALANCED FUND

By Niel Joubert

A diversified fund with a global perspective

The fund uses a stand-alone multi-asset strategy with prudential international exposure and aims to achieve high returns over the long term with moderate volatility.

FUND INFORMATION:

Benchmark:	Peer group average
Fund manager:	Chris Freund of Investec Asset Management
Fund classification:	South African – Multi Asset – High Equity
Total expense ratio:	1.92%
Fund size:	R22.8bn
Minimum lump sum / subsequent investment:	Minimum amounts subject to plans linked to fund.
Contact details:	0860 67 5777

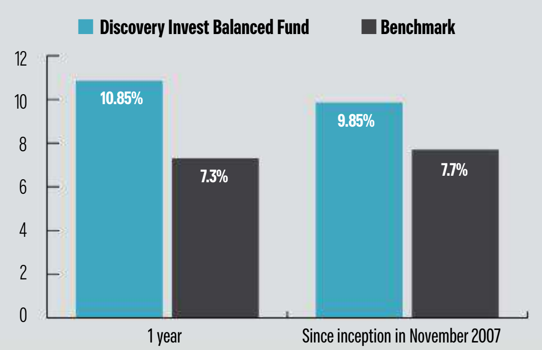
TOP 10 EQUITY HOLDINGS AS AT 28 FEBRUARY 2018:

1	Naspers*	4.3%
2	Anglo American	3.5%
3	Standard Bank	3.1%
4	FirstRand Bank	2.8%
5	Redefine Properties	2.3%
6	Sasol	2%
7	Richemont	2%
8	Aspen Pharmacare	1.6%
9	Old Mutual plc	1.6%
10	Mondi plc	1.5%
	TOTAL	**24.7%**

*finweek *is a publication of Media24, a subsidiary of Naspers.*

PERFORMANCE (ANNUALISED AFTER FEES)

As at 28 February 2018:



Fund manager insights:

The Discovery Balanced Fund invests in a blend of assets, such as equity, bonds, cash and property, allowing investors to take advantage of the benefits of diversification.

"We aim to keep the fund within a specified risk range, and at the same time maximise the potential for growth," says Chris Freund, Investec portfolio manager of the Discovery Balanced Fund. "We look for shares that are reasonably priced, with expectations of positive, sustainable earnings growth."

The share selection considers macroeconomic conditions and whether there will be broader acceptance of the investment opportunity from investors, he explains.

In terms of their investment philosophy, the core principles include delivering real returns over time, and investing in companies where expected future profits are being revised upwards, trading at reasonable valuations, Freund says. "A global perspective is critical in understanding the economic cycle that drives the asset allocation process for these funds."

Three factors dictate the investment criteria, he explains. "First, valuation: What price are we paying for the investment opportunity? Second, fundamentals: Are the earnings, income or economics improving? And then investor behaviour: Will capital follow our investment thesis?"

Discovery fund managers use the earnings revision investment style in their flagship range of balanced funds, Freund says. The fund manager chooses to invest in companies that are trading at reasonable valuations where expected future earnings are being revised upwards.

"Earnings revisions are a strong sentiment indicator. An improvement in the outlook for a company is typically reflected in the market's earnings expectations for the company being revised higher," he explains.

"The share prices of companies that are receiving positive earnings revisions typically outperform, whereas those companies where the outlook is deteriorating could see earnings estimates being revised lower by the market."

According to Freund they constantly monitor upcoming global events and the potential impact these events could have on markets. The difficulty is always that, most of the time, the outcomes to these events, especially political events, are binary and impossible to predict with certainty, he says.

"Around these events where the outcome is uncertain, we typically try to manage the fund's exposures to different macro variables to ensure that, even if we get a view wrong, we do not underperform by a significant amount," Freund states.

Why *finweek* would consider adding it:

The Discovery Balanced Fund has consistently outperformed its benchmark since inception. The fund has enjoyed top quartile performance over one-, three-, five- and 10-year periods to the end of February. ■

editorial@finweek.co.za

BOWLER METCALF

BUY SELL HOLD

By Simon Brown

Now could be a good time to get in

Bowler Metcalf was once one of the darlings of the SA Inc. investment pool on the JSE, but the past few years have been tough both for its core plastics business and its ill-fated venture into beverages via Softbev.

The company has finally exited Softbev, for which it expects to receive a minimum of R233m, adding to its existing cash pile of some R152m. This for a company with a market capitalisation of only around R840m, meaning some 45% is all cash and some may come to shareholders as a special dividend.

Its core business is manufacturing plastics and plastic mouldings for consumer products, with Johnson & Johnson, Distell and Woolworths as clients.

With a large pile of cash, and trading on a historic price-to-earnings ratio of around 8.4% and dividend yield of 4.5%, the stock is offering great value. Especially with improving local consumer sentiment and, hence, spending. One concern here is liquidity, so build a position carefully, otherwise even a small transaction could be seriously price-moving. ■

Last trade ideas

- BUY Anchor Group — *12 April issue*
- BUY Metrofile — *29 March issue*
- BUY Shoprite — *15 March issue*
- BUY Tax-free ETFs — *1 March issue*

MASSMART

BUY SELL HOLD

By Moxima Gama

www.massmart.co.za/media-centre

Expanding its African footprint

The market was impressed by Massmart's 2017 results, released in February. Strict cost control, significant growth in online sales and a strong performance by its operations outside South Africa boosted the share price. The rally ended Massmart's long-term bear trend, and the stock is now in medium-term bullish territory, looking to test prior highs.

Massmart, which owns brands including Makro, Game, DionWired, Jumbo and Builders Warehouse, said its stores in markets on the continent outside South Africa were very productive, with average sales per ex-SA store more than four times higher than that of its competitors, fin24 reported. The group, which operates more than 400 stores across 13 countries in sub-Saharan Africa, plans to open 20 new stores outside SA over the next three years, Reuters reported. New stores are due to open in Kenya, Ghana, Mozambique, Zambia and Swaziland, it said.

> The group, which operates more than **400** stores across 13 countries in sub-Saharan Africa, plans to open 20 new stores outside SA over the next three years.

Hopeful for a recovery in South Africa, Massmart is preparing for the consumer upturn. An improvement in consumer confidence should help boost sales of durable consumer goods, which have been under pressure due to the tough economic climate. It's also expecting an increase in price inflation in the next few months due to the one percentage point increase in VAT and some increase in food prices off a low base.

How to trade it:

Having breached the resistance trendline of its long-term bear trend and confirming a positive breakout above 15 560c/share (I had recommended a long above that level in my article in the 1 March issue), Massmart is currently trading in a flag. A move through 16 900c/share would end the correction, and the uptrend would resume towards 20 800c/share in the near to short term. This call would only be negated below 15 160c/share. ■

editorial@finweek.co.za

Last trade ideas

- BUY Woolworths — *12 April issue*
- BUY Exxaro Resources — *29 March issue*
- BUY Famous Brands — *15 March issue*
- HOLD Clicks Group — *1 March issue*

By Moxima Gama

CLICKS

On the last leg of its upward phase?

Despite the tough economy, Clicks has been on an aggressive expansion drive, recently opening its 500th pharmacy at Park Station in Johannesburg. In addition to its retail operations, it has also been successful at growing United Pharmaceutical Distributors, its pharmaceutical wholesale and distribution business. The company is hugely cash-generative and has always followed a policy of returning dividends to shareholders.

Outlook: After testing a high at 19 435c/share on the charts, Clicks corrected by retracing to the support trendline of its steeper uptrend.

52-week range:	R126 - R195.64
Price/earnings ratio:	36.13
1-year total return:	55.19%
Market capitalisation:	R45.14bn
Earnings per share:	R5.36
Dividend yield:	1.66%
Average volume over 30 days:	959 145

SOURCE: IRESS

On the charts: Having breached the upper slope of its bear channel, Clicks could be set to test new highs, but only once its all-time high at 19 435c/share has been breached. The company's results for the six months to end February were expected on 19 April, after this issue of *finweek* went to print.

Go long: Clicks could retest its all-time high at 19 435c/share and pull back as the three-week relative strength index (RSI) is overbought. However, if support is retained at 17 520c/share, or above its support trendline, gains through 19 435c/share would be possible, triggering a buy signal. An even steeper uptrend to the 23 500c/share short-term target should then commence.

Go short: If Clicks encounters major resistance at 19 435c/share and trades through its support trendline, a negative breakout of the current uptrend would be confirmed below 16 500c/share and a double top – confirmed through 15 555c/share. The downside target of the bearish reversal pattern would be at 11 675c/share – considered as a correction within the primary bull trend. ■

CLICKS

SOURCE: Sharenet

PICK N PAY STORES

Volatile, but with a bullish bias

Pick n Pay Stores, one of SA's largest food, clothing and general merchandise retailers, has been trading in a volatile uptrend. After testing a high at 8 425c/share in August 2016, the share price corrected and has since been trying to regain those losses.

Headed by CEO Richard Brasher, Pick n Pay has introduced centralised distribution warehouses, and has cut costs and jobs in an attempt to improve the retailers' margins and market share.

Outlook: Though Pick n Pay is still underperforming its peers in profitability metrics, investors seem to have faith in Brasher, whose contract has been extended until 2021. Its 2018 results were expected on 19 April, after *finweek* went to print.

52-week range:	R54.60 - R76.44
Price/earnings ratio:	27.95
1-year total return:	9.93%
Market capitalisation:	R33.28bn
Earnings per share:	R2.44
Dividend yield:	2.64%
Average volume over 30 days:	1 003 788

SOURCE: IRESS

On the charts: Pick n Pay is consolidating in the form of an inverted head-and-shoulders pattern, with the final shoulder currently constructing between 6 150c/share and 7 610c/share.

Go long: With Pick n Pay constructing the final shoulder of its bullish reversal pattern, expect volatility between 7 610c/share and 6 150c/share until a breakout in either direction occurs. It's also teetering on a support trendline dated back to July 2013. Upside through 7 340c/share, including the three-week RSI escaping its short-term bear trend, would be bullish. The neckline would be breached above 7 690c/share or through 8 100c/share, triggering a good medium-term buying opportunity with the target situated at 10 250c/share.

Go short: Downside through 6 150c/share could see Pick n Pay retest support at 5 750c/share. The pattern would be negated below 5 460c/share – in this instance go short. Pick n Pay would end its long-term bull trend below that level and downside to 4 315c/share could ensue. ■

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PICK N PAY STORES

SOURCE: Sharenet

Moxima Gama has been rated as one of the top five technical analysts in South Africa. She has been a technical analyst for 10 years, working for BJM, Noah Financial Innovation and for Standard Bank as part of the research team in the Treasury division of CIB.

THE NUMBERS:

SEYCHELLES		EDEN ISLAND	
2	Ranking out of 54 African countries for Overall Governance	95%	Homes already sold
27	Average sea temperature (˚C)	0	Transfer duty, stamp duty or VAT on purchase of new homes
2	Number of Seychelles beaches in the World Top 10	44	Different nationalities of owners on Eden Island
0	Hurricanes or cyclones	25%	Owners who own more than one home on Eden Island
5	Number of direct weekly flights from Johannesburg	5%	Rental guarantee for 3 years on selected apartments
4,5	Hours flying time from ZA	5	Number of years of Seychelles residency included in the purchase price

T&C's apply

Homes priced from US$480 000

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Sandra Colas +248 252 7715
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By Simon Brown

Simon's stock tips

Founder and director of investment website JustOneLap.com, Simon Brown is *finweek*'s resident expert on the stock markets. In this column he provides insight into recent market developments.

CONSOL GLASS

Returning to the JSE

Consol Glass was delisted from the JSE in 2007 after a private equity buyout, but is now planning to return. The company has operations in South Africa, Nigeria and Kenya, distributing its products in 17 African countries. We have little financial information on pricing or how the listing will be conducted, so determining an investment case is not possible. But, typically, packaging is a good investment when GDP is growing, and glass more so in the upper end because it has perceived status. (Or maybe this is just marketing hype from glass manufacturers?) Interestingly, 30% of Consol is held by the Brait IV Fund, which is about 10% held by Brait. This fund also holds a significant stake in Primedia and the media company is also likely to list, unless a private buyer can be found.

CRYPTOCURRENCY

Sars on crypto earnings

The South African Revenue Service (Sars) has clarified its stance on cryptocurrencies and tax on profits. In short, it considers cryptocurrencies as "assets of an intangible nature" and hence subject to "normal income tax rules". In other words, any profits must be declared and tax paid. This should not surprise anyone: if you make money, Sars wants a slice of it – it always does.

ADVTECH

Expanding

ADvTECH* has announced that it is buying two education institutions in Kenya and Uganda, adding 4 100 students across nine schools. No price has been disclosed, suggesting it is a small deal, but it does increase the company's footprint in the rest of Africa as it looks to expand beyond South Africa. I like the idea of an African education company, although SA will remain the key focus with the majority of students and profits. Operations outside SA contribute 11% of revenue, with a target of growing this to 30% by 2020. I like that the expansion has been slow – no large deals that run the risk of going off the rails and costing shareholders, as we've seen with far too many local companies. I have a buy price on the share at 1 930c/share, so at current levels I am happy to add on the weakness we've been seeing.

Operations outside SA contribute **11%** of revenue, with a target of growing this to **30%** by 2020.

EOH

Unhappy shareholders

The EOH annual general meeting (AGM) appeared to have been a very testy affair, with a number of directors getting less than 70% of votes in favour of appointment, while the CEO received only 84.6% support. The non-binding remuneration vote got only 55.8% approval. On page 16, I write about AGMs and how shareholders need to be more active. This certainly happened at the EOH AGM. The company has had a troubled year and shareholders are voicing their disapproval in the best way they can, aside from simply selling. Now we need to see how the company responds.

TASTE HOLDINGS

Sean Riskowitz
CEO of Conduit Capital

Wait and see

Taste Holdings fell to a low of 45c per share on 6 April, half the price that the recent rights issue was set at and below its 2006 listing price. With Protea Asset Management and Conduit Capital (Sean Riskowitz is a managing member of the former and the CEO of the latter) holding 64.5% of the company and founder and CEO Carlo Gonzaga having quit, I expect an offer to be made to minorities sooner rather than later. At the current price this would cost around R140m without any premium. So maybe R160m to R180m with a premium? This is considerably less than the two Riskowitz companies have invested thus far. That said, with the price falling they may rather wait to see how low it'll go before making any offer, so I would not be using this as a reason for investing in Taste. I am rather just watching.

GROUP FIVE

Don't rush in

Group Five is the most recent construction firm to change focus (after Murray & Roberts), saying it will markedly downsize traditional construction. This was on the back of an increased loss per share of 773c from 302c the previous year. I have long been saying that construction is not an attractive industry for investing due to margin squeeze and loss-making projects, but I would also caution about rushing into Group Five just yet. The company is likely to do a rights issue to reduce debt levels and it still has projects that are losing it cash. On the flip side, it has some attractive assets such as the "European concession stakes, Bulgarian assets and Intertoll Europe operations and maintenance contracts" that Greenbay Properties offered to buy for R1.6bn back in October. Group Five rejected the proposal as undervaluing the assets, and with the current market capitalisation being below R500m, at some point a price rerating is possible. But patience is key, because the company needs to stem losses and get debt under control.

MURRAY & ROBERTS

Valuation game

Murray & Roberts has updated its rejection of the offer of 1 500c/share by Germany's ATM Holdings, saying that its independent advisers value the company at 2 000c to 2 200c/share. This is largely in line with top-end analysts' valuations that I've seen, but I've also seen 1 200c/share. The truth is that valuations are not reality, and shareholders appear to be selling at heavier volumes than usual. ATM has stated that it is not looking to delist the company, so 50% plus one share will likely satisfy, as it will give the German firm complete control. However, the 1 500c offer has netted it just below 40% of the shares and it remains to be seen if it will get the 50% plus one at that price. I had thought a higher offer was possible, but that's now tricky as ATM bought a significant chunk at the initial price.

VERIMARK

A speculative SA Inc. play

Verimark put out a strong trading update, with headline earnings per share (HEPS) expected to be 22.8% to 42.8% higher. This is a wide range, but this company, with its fluctuating earnings, could be in a sweet spot. A stronger rand is beneficial to Verimark, because it imports most goods, and improving consumer confidence should see increased sales. The share is trading up at around 100c, levels last seen five years ago, and on a forward price-to-earnings ratio (P/E) of around 3.5 times and dividend yield of over 10%. Both are crazy numbers that suggest the company is at risk of bankruptcy, instead of a period of improved earnings. Speculative, but if you're looking for some SA Inc. in your portfolio, this one is well worth considering.

Steinhoff sold 200m Steinhoff Africa Retail (Star) shares, raising some R3.75bn and leaving it with 71.01% of Star.

PEMBURY

Suspicious announcement

Like Choppies, Pembury is delaying its results because the company needs to interrogate "the accounting treatment" of one of the acquisitions it made during the year under review. The short statement terms it a "technical IFRS [International Financial Reporting Standards] matter", making it sound like a minor issue, but problems issuing results should always alarm investors.

STEINHOFF

Pepkor is a subsidiary of Steinhoff Africa Retail.

Trade it, don't invest in it

Steinhoff sold 200m Steinhoff Africa Retail (Star) shares, raising some R3.75bn and leaving it with 71.01% of Star. The money raised, along with sales of PSG and KAP, amounts to around R20bn and the group commented with the latest sale that it was to pay off local debt. But the share still trades at all-time lows of 205c. It remains a stock for trading, not investing, as we simply do not have any information with which to value the company.

BRIMSTONE

Will it snap up another asset?

Brimstone is buying back almost 5% of its issued shares from one of its subsidiaries, with the intention of cancelling them. With the transaction costing around R44m, and after some timely sales of Tiger Brands and Life Healthcare shares, the company has plenty of cash. With its shares trading around 25% below the company's stated intrinsic net asset value (INAV), it should benefit shareholders and, in time, the share price. I still wonder whether AVI's I&J may be of interest to Brimstone, because AVI has said it would be a seller if the price was right. I&J would also be a good fit for Sea Harvest, Brimstone's listed fishing asset. ■

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The writer owns shares in ADvTECH.

Gallo/Getty Images

By Simon Brown

INVESTMENT

Why you should become an active shareholder

Many investors feel attending annual general meetings and voting on issues like directors' remuneration is pointless, but Simon Brown maintains that this is an important part of being a responsible shareholder.

I have written before about annual general meetings (AGMs) being rather dull affairs that in some cases barely last as long as the complimentary cup of coffee (if any is provided).

There are virtually no questions from the floor and voting is mostly done by proxy (with the shareholders being absent but instructing the chairperson how to vote on their behalf). And practically all resolutions get carried by massive majorities.

As shareholders, this is partly our fault because private investors tend to not even bother voting. This is because private investors often take the view that their votes are too small to count. This is true, but just because our view doesn't win doesn't mean we shouldn't vote. This is a very important part of being an investor.

Fortunately for me, last year my online broker enabled online proxy voting for shares I own. So, I can log in and submit my votes and they will be forwarded to the AGM to be counted. As a result, I have voted at every AGM since then and I have hence also created a voting process for myself. For example, if a company does not have a policy of auditor rotation, I will always vote against the auditors.

I also check meeting attendance records for directors and if they're attending less than 75% of board meetings, I vote against them. For the most part, the issue of remuneration is more complex as the vote is non-binding. But I do read the report of the remuneration committee and take into account bonuses relative to past profit growth.

The shocker is that often when the results of the AGM are released via Sens it is patently obvious that only a few small shareholders voted against any of the resolutions.

Last year Woolworths* had a resolution, "Reimbursement by the Company to the Non-Executive Directors of the value-added tax on fees paid or payable from 1 June to 31 December 2017". In other words, the directors had to pay tax and Woolies wanted to pay it for them. Only 1.11% of shareholders voted against the resolution. Put the other way around, did 98.9% really think it was a grand idea to pay the non-execs' tax bill? I wish I worked for that company so it could pay my taxes too.

The problem, in part, is that active managers seldom want to rock the boat and they rather just exit the share if they're unhappy. That's totally within their rights but at the end of the day somebody owns the shares and mostly they're voting as a herd with management.

Passive managers take it a step further and don't even vote their shares at all. Many suggest that this is part of the problem with the passive industry (although this really is the pot calling the kettle black). But I think there is a real opportunity for the passive managers.

Passive managers do not decide what shares to buy, they simply buy the index. Active managers on the other hand can buy the supposedly better shares. But take it a step further – passive managers are perhaps the only true long-term holders (as long as the stock stays within the index being tracked) whereas active managers by the very nature of their mandate are constantly entering and exiting shares, typically in a shorter time frame.

Passive managers should therefore get in on the AGM voting. They could appoint independent advisers to inform them how to vote at the AGM and passive could start to become a real force for good governance.

Currently passive holds a very small percentage of votes at any AGM, but that will grow over time and passive managers can become an important driver for the long-term good of a company. ■

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*The writer owns shares in Woolworths.

The problem, in part, is that active managers seldom want to rock the boat and they rather just exit the share if they're unhappy.

Gallo Getty Images

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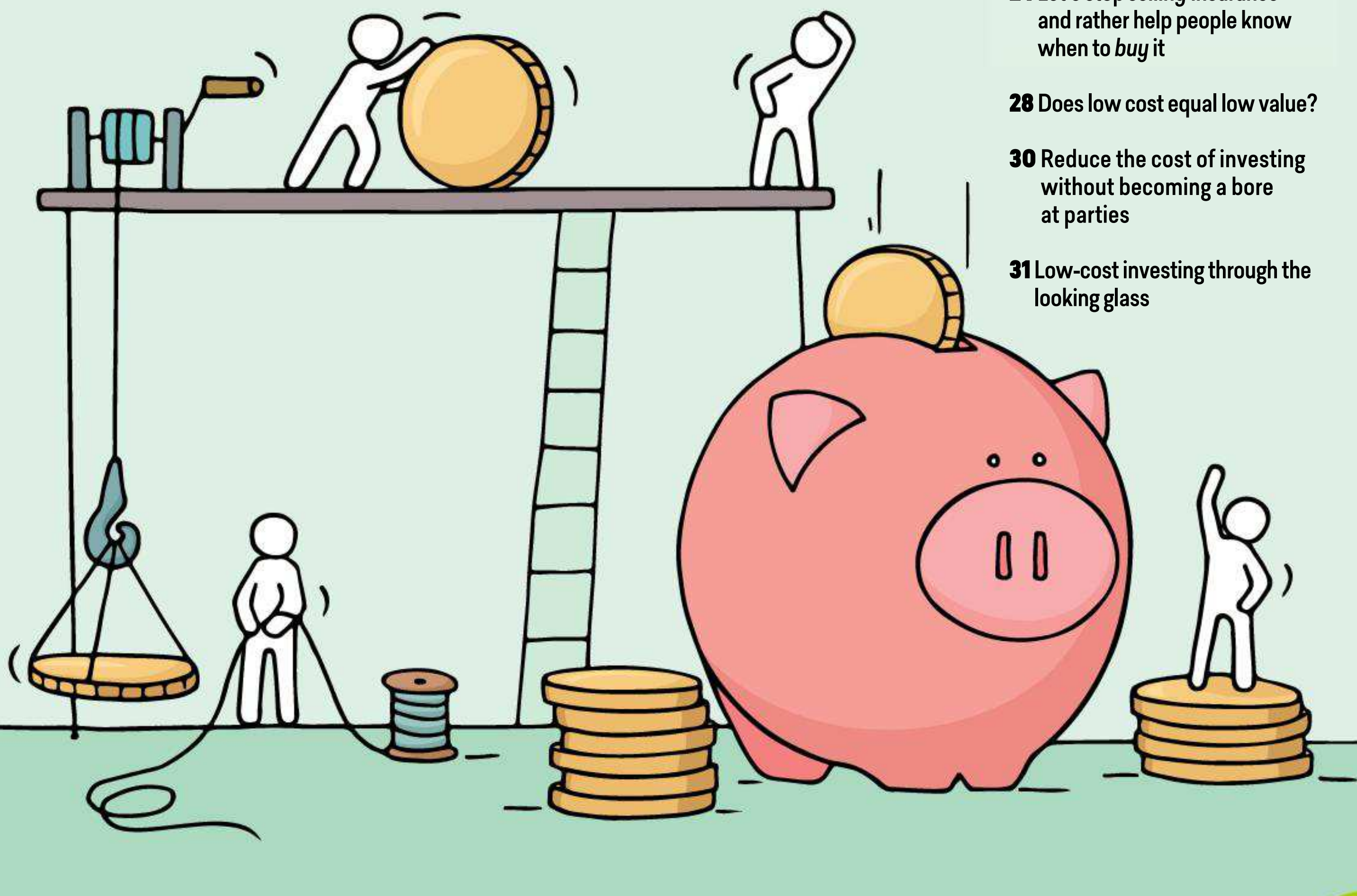
COLLECTIVE INSIGHT

INSIGHT INTO SA INVESTING FROM LEADING PROFESSIONALS

APRIL 2018

THE COST OF YOUR FINANCIAL DECISIONS

Inside



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By Di Turpin

INTRODUCTION

Picking apart the many-sided matter of costs

In this edition we introduce some very different conversations about the issue of costs. It's time to start dealing with matters where the industry simply hasn't been applying itself enough.

We know costs matter. They fundamentally affect clients' choices in financial products, their indebtedness, their overall preparedness for retirement and, of course, their ability to generate better returns on their investments.

Yet submissions for this quarter's edition of *Collective Insight* on costs were low in number, not particularly varied in subject matter and rather muted in content. And there were many who thought that the topic actually meant "let's knock active investing"! So why has the industry, with the exception of a few brave individuals, not risen to the challenge of analysing and interpreting the cost debate on behalf of investors?

Some will say that the focus *has* been on costs in recent years and there is nothing new to add. But, apart from the ultra-low-cost fundiSA savings product offered by three unit trust companies about 10 years ago, very little has been initiated by industry.

Indeed, most of the measures have been introduced or ushered through by government and the regulator. (Think of the tax-free savings products with their low fee structures that have been introduced, and the focus on disclosure of fees and costs through the proposed retail distribution review.) This has resulted in the investment industry mostly removing the rebate system on funds and moving to clean class funds instead, in anticipation of the greater disclosure and therefore more questions and understanding from investors.

Understanding costs

The cost issue is, however, much broader than just investment costs. Most South Africans rely on debt to get through the month. How many know the true cost of their loans? And among the more well off, how many are keeping investments and policies going at the same time, when perhaps they would be better off paying off their debt first?

Worse still is the fact that the industry sometimes *appears* to offer guidance around cost comparisons – online sites being a good case in point – but often these sites end up being hosted by the same parent company and one is not really getting a holistic view of the comparative products on offer – only those within the house range.

Bottom line: if consumers are confused or distrustful around the issue of costs and value for money, they have every reason to be.

Behaviour economists tell us that when faced with confusion about choice and complex pricing models (this is particularly true of insurance products), consumers will invariably pick those products that trumpet the lowest premium costs, with little thought as to whether there is actually value for money in the decision. The crux of the problem is the fact that the industry has done little to help individuals navigate their way through "the system", as it were. When wallet size is limited, how does one determine the best value for money? How does one manage the trade-offs that are the natural by-product of having limited resources to address the myriad of complex financial decisions that individuals face throughout their lives?

What follows are a few brave attempts to initiate discussion. You may be pleasantly surprised to see that we have attempted to address topics in ways that break from the traditional financial services industry narrative.

Lerato Mahlangu sets the scene for us with her description of the various types of South African investors, and the likely ways that they will choose to invest. All South Africans require cost-effective financial solutions – not just those with money.

From there we move on to Shivesh Maharaj's thoughtful piece on banking, and what it actually costs to "bank" a customer. Too often the narrative around charges ignores the reality that providing these services does involve costs. He explains why banks should charge the consumer for their services, highlighting the complexities and intricacies involved behind your ability to use your credit card while on

PLEASE SEND ANY FEEDBACK AND SUGGESTIONS TO CABOTA@AFORBES.CO.ZA.

In the next issue

Our next issue of *Collective Insight* will look at why the business culture of financial service providers matters, and will appear in *finweek*'s issue of 19 July.

If you want to submit an article, contact the Advisory Committee Convenor, Anne Cabot-Alletzhauser, with your ideas so that we can minimise topic overlap. Articles (approximately 800 words, plus illustrations) need to be submitted to cabota@aforbes.co.za by 15 June 2018. Please remember that this is a research publication and therefore market commentary or marketing materials will not be published.

holiday in Mozambique. But he also points out that banks thrive on the inactive or uneducated consumer. He offers some useful tips for taking back control of your banking costs, while still using the bank technology to seamlessly participate in the economy.

Our next insightful and practical article, by Anne Cabot-Alletzhauser, asks the question as to why we should assume that insurance is always sold, not bought. Insurance *does* play a role in creating financial security but, as she points out, it is hard enough for an individual to make a decision about what type of insurance is necessary or not, without also having to navigate the complex decision-making process required to determine where to make trade-offs *between* the different types of coverage. And of course the complexities of the charging structures.

Charting a decision-making path in regard to what we do and do not need is important if we are to ensure that when we purchase insurance coverage, it is on our terms as the consumer, and not just because of a good marketing ploy.

The cost of advice

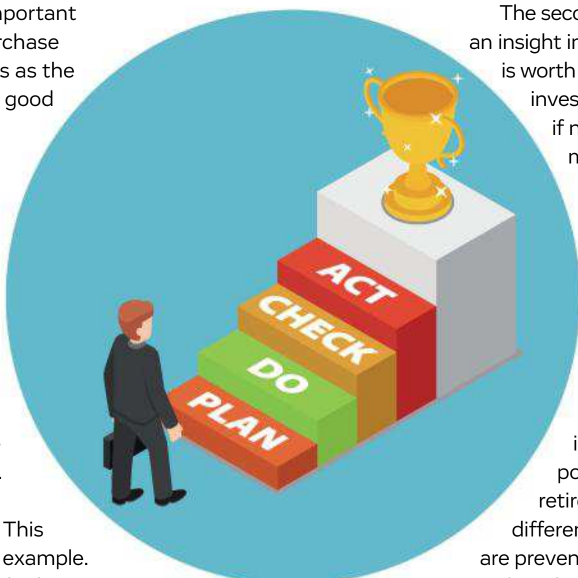
What about the cost of paying for advice? Advisers perform a most necessary service, because many investors find financial matters confusing and scary. But as with all things, a balance is required. Investors need to take some responsibility and make sure they know enough to ask their advisers the right questions, as Kevin Yeh explains.

This includes understanding how much they are paying for the service. This is perhaps best illustrated with a real example. Retired investors in a living annuity, who have chosen to draw 4% of their capital each year to live on, will lose a further, say, 0.5% to their adviser for the regular advice they give on the portfolio, meaning that they are in fact drawing down 4.5% of their capital each year. The adviser who tells their client that it doesn't matter whether they are paying 0.5% or 1% for advice should be questioned.

Likewise, too often investors suffer from the cost of over-diversification, as their advisers instruct them to invest in a wide range of funds, which often either invest in the same underlying shares, or quite frankly are so widely and thinly spread that it is very difficult to generate real returns.

What about investment guarantees? How many investors know that they pay for the privilege of the guarantee? Downside protection and peace of mind are important. That is a cost that some investors are only too

All South Africans require cost-effective financial solutions – not just those with money.



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Retired investors in a living annuity, who have chosen to draw

4%

of their capital each year to live on, could lose a further 0.5% to their adviser for the regular advice they give on the portfolio.

happy to pay, proving that the cheapest option is not always the solution for all.

Investment costs

Then we turn to those inevitable discussions around investing. What discussion of costs doesn't eventually take us there? Here we have allowed three articles into the debate. The first, by Mxolisi Siwundla, introduces us to John Bogle's Cost Matters Hypothesis. The basic idea here is that, whether investment markets are efficient or not (which is usually the debate that the active versus passive investment manager debate gets stuck on), costs still make a difference. This discussion needs to be understood by all investors. All things considered though, when it comes to retirement savings, as he wisely says, the greatest cost will be from not saving for retirement at all.

The second article, by Grant Locke, provides an insight into the whole robo-advice dynamic. It is worth remembering, for example, that DIY investing can cost the investor as much, if not more, than a traditionally actively managed investment, if small trades are done, and frequently. Robo-advice uses algorithms, usually based on rules-based strategies, to assist investors in constructing their portfolios. Therein lies the magic for cost reduction.

Costs come in other forms too. As supportive as Regulation 28 is designed to be, protecting investors from themselves and their potential irrationality when saving for retirement, it can also come at a cost of a different kind. Young investors, for instance, are prevented from investing fully in the stock market, thereby suffering the cost of lower exposure to stocks and portfolios which are likely to outperform in the long term. And time is one thing that they do have on their side!

We end with Dr Michael Streatfield, an unapologetic active investor, who points out that highly concentrated indices can force low-cost investors into unintended outsize stock bets. He believes that the bear market will truly divide active and passive investors. As always, investment decisions have to be a balance between risk and return.

Hopefully this quarter's *Collective Insight* will make you stop and think about the overall cost impact of your choices in life, in a wider context than the costs of one or two of the financial products you are invested in. Enjoy. ■

Di Turpin is an independent director and retirement fund trustee. She sits on the boards of the Financial Services Board, Nedgroup Collective Investments and the Shine Literacy Trust. She is chair of Old Mutual Wealth and Fairbairn Capital Retirement Funds and a trustee on Nedgroup Investments Retirement Funds.

By Lerato Mahlangu

FROM STOKVELS TO SHARE PORTFOLIOS

Navigating the investment landscape as a beginner

As options abound, the investment world can be a confusing place for beginner investors. That is one of the reasons why many South Africans choose instead to save using stokvels.

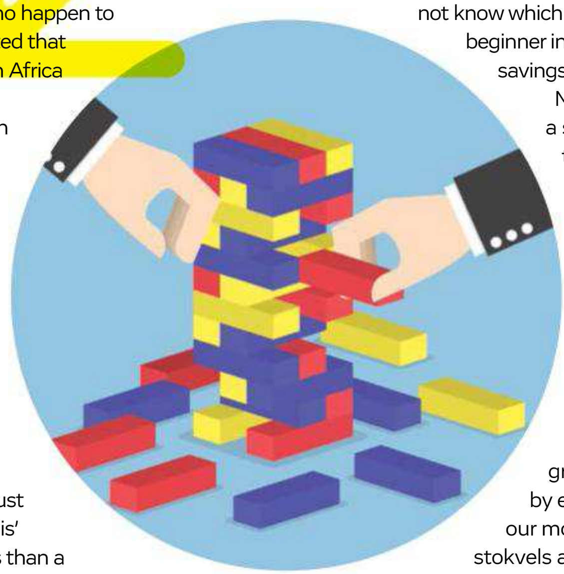
There are three types of investors: the uninformed, the beginner and the sophisticated. Examples are my grandmother, myself and my employer respectively.

Uninformed investors do not know the difference between saving and investing. As a result, they think they are investing – putting away money with the intention of growing their wealth in the longer term – when they are actually saving, or putting away money with the intention of spending it in the short or medium term.

In the South African landscape, the majority of the population consists of low-income earners who happen to be uninformed investors, or savers. It is reported that there are currently 820 000 stokvels in South Africa with a combined membership of 11.2m. This segment of the population is comfortable with saving money through a stokvel, not because they are oblivious to savings or investment products, but because they are comfortable with pooling money in a stokvel.

There are currently 820 000 stokvels in South Africa with a combined membership of

11.2m.



My 77-year-old grandmother, Lucky, has been part of stokvels for over 35 years. She is a member of three stokvels that serve different purposes – groceries (used to go shopping in December), burial (to use when there is a death in the family), and chicken braai pack (used to buy chicken pieces for a family funeral, which are often attended by a large number of people who must be fed). My grandmother also borrows from Sis' Joyce's stokvel, even if it charges higher rates than a bank loan, as the money is readily available. All she has to do is call Sis' Joyce and her money is sent to her within a day.

I am a beginner investor. Unlike my grandmother, I know the power of compound interest, hence I have a savings account that I don't withdraw from every December. I understand risk diversification, hence I invest in a balanced-fund unit trust. Unlike my grandmother, I have only one funeral policy. Although I do not know how the total expense ratio (TER) is calculated or how to pick the best-performing equity fund, I certainly know the importance of having a financial planner to help me.

I also know the importance of starting to save as early as possible. I prefer low-cost investments over high-cost offerings. If I cannot explain it to my grandmother, then I do not invest in it. As a result, I still have not invested in bitcoin even after attending countless seminars on the cryptocurrency. My investment decisions are based on common sense – not on the interest Sis' Joyce from my granny's stokvel gets from the latest Ponzi scheme.

The fact that the market is inundated with investment products makes it tricky for beginner investors to pick investment products.

The fact that the market is inundated with investment options makes it tricky for beginner investors to make a selection. There are currently more than 70 exchange-traded funds (ETFs) listed on the JSE, for example. Although the choice for investors has widened, the downside is that beginners may shy away from investing in these products as they do not know which one to pick. It is for this very reason that beginner investors would rather save their money in savings accounts.

My boss, an executive, is what I would call a sophisticated investor. He doesn't belong to a stokvel, but owns a portfolio of shares in every asset class you can think of. Unlike the beginner investor, he is not a big fan of passive investment products like ETFs that track an index. His investment decisions are influenced by who is in control of his money, more than anything else. It is for this reason that he has an online trading account that he actively uses to trade.

For laypeople like me and my grandmother, investment choice is driven by ease of access and word of mouth. We put our money into short-term savings accounts, stokvels and that Top40 ETF that everyone talks about. While my grandmother is probably more likely than I to fall for a Ponzi scheme, I have to admit that the bitcoin bug almost bit me.

The fact is that we are desperately trying to get to the "sophisticated investor" stage. Tax-free savings accounts, which were introducted in 2015, have proven to be very popular, with more than 461 000 accounts opened to date, nearly half as savings accounts at banks.

This is certainly a step in the right direction, but in a country like South Africa, we need many more investment products that are tailored for low-income earners. How about an ETF that is linked to shisa nyamas? ■

Lerato Mahlangu is the founder of Powermani, which focuses on financial education.

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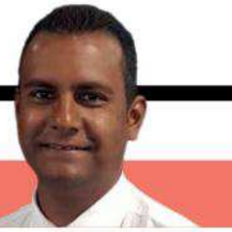
By Shivesh Maharaj



BANKING FEES

Banks are indispensable, but beware the charges

Widely seen as a grudge purchase, it is nearly impossible to imagine a world without the convenience and security offered by modern-day banks.

As a young boy living in Durban, I vividly remember my Mom and I waking up extra early on a special Saturday morning, catching the inner-circle bus, dressed in our best, to visit a local bank branch, the closest of which was about 15km from home. I also recall watching her use an ATM for the first time – I was amazed at how far technology had progressed, and wondered: "What next?"

Those feelings that banking created in me stand in stark contrast to the thoughts that we as consumers have when we think banking today. Being close to the transactional finance world, this discrepancy has always amazed me.

I recently saw a reflection of my young self and the sense of awe I held in my young son, who for the first time used a point of sales (POS) terminal to pay for a video game he had saved up for, and the answer to this discrepancy seemed so obvious… the feelings that money gives us as kids are driven by the potential value created in our lives with the "stuff" money can buy, but as adults these feelings are overcome by the perceived rigmarole, effort and cost that managing one's money brings, and most of these feeling are attached to banks as the middle man between us and our money.

When you explore these negative connotations and their origins, almost always the first answer you get is: "I pay too much." The idea of paying someone to manage your money almost seems absurd when you realise that you almost never get to enjoy your full take-home salary due to bank charges and fees.

Grudge purchase

Banking is commonly known as a grudge purchase, and most of us can relate to the first time we were asked to open an "adult" bank account, when we first started working. Someone insisted on a current or cheque account, and the youth account many of us used until then just did not make the cut. This introduced us to the real world of banking, where money management and budgeting actually cost something.

I was livid when I had to pay almost R80 out of my first pay cheque for my bank account, and they did not even ask, they just charged me. Over the years I have been "upgraded" as my salary grew, and the consultant always gave me some arbitrary reason such as, "You don't qualify for the

6 ways to spend less on banking fees

HERE ARE A FEW TIPS THAT I HAVE GATHERED OVER THE YEARS:

1. Ensure that you are on the correct account type – you shouldn't just be using a specific account because you earn a certain amount, it should suit you as an individual. A very relevant example is that all high earners are usually given "bundles" that cost in the region of R500 a month, giving access to a variety of benefits such as airport lounge access and extended travel insurance, while in fact very few customers actually use this feature on a basis that warrants the fee. Rather choose a cheaper account (usually gold at around R100 incorporates all required features), and contribute the savings toward your travel budget where you could rather pay for the additional services and have lots left over. This could amount to annual savings of almost R4 800.

2. Always watch for "hidden" costs that you could manage. A very real example is the home insurance cover that you have signed for when taking out your bond. Make sure that the values that are included in the policy are accurate and valid, and shop around. You are bound to get it cheaper elsewhere if you look hard enough.

3. Consolidating debt into a single account/product saves you paying numerous monthly service charges. These usually cost R57 a month. Consolidate your debt under your cheapest product, e.g. your overdraft, and work on a plan to reduce the exposure. The savings from the higher interest and service charges can take years off the repayment period.

4. Shop around. All too often I have heard the argument, "My bank knows me, I did not go anywhere else when looking for my home loan." In this day of centralised credit decisioning, tenure means very little. Most of the information used to determine your interest rate is contained in the likes of credit bureaus, blue/green/red account, you have to get a gold card now…", and this always came with higher fees, which they said had to pay for the better "value" you receive.

When I started working at a bank, in the transactional space, this stayed with me. I was convinced that this was wrong and that I needed to do something to fix it – and then it hit me. Wading through the intricate processes, interbank agreements, card production schedules and cash handling costs, I realised that there is a lot that goes on under the proverbial tip of this iceberg.

A world without banks

I slowly realised that the negativity surrounding banks is somewhat unfounded. Imagine for a moment that banks and financial institutions did not exist, and that all financial transactions had to be conducted personally – how would your world look?

On payday, your manager walks past your desk with an envelope and drops it on your table. You would immediately have to open and count the contents for accuracy, and match this to your payslip to ensure that no mistakes were made. You would then first pay your taxes and then spend the next few days standing in a number of queues paying your bills. First clothing stores, then your vehicle and home (hope that's one line), then move to your insurance company and telecoms providers (all three of them). Don't forget your security company, and the money you send to your parents, as well as your car tracker and pay-TV account. Retirement annuity contributions come next, followed by the body corporate levy. We would then lastly have to pay school fees and hope that all these organisations have the correct change!

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Imagine for a moment that banks and financial institutions did not exist – how would your world look?

Where would I then keep the excess cash, or who would lend me some if I needed it? How would I manage my security? And what happens if I needed more cash than I have on me in person in an emergency? Remember, no banks mean no ATMs or branches. I am sure that you all would agree that money management would take on a totally different meaning – and what about all those paper cuts from handling those notes!

You're probably shaking your head and wondering what this crazy person is on about, as that's quite a far-fetched thought seeing where we are at the moment, but I hope that you now have a bit of an appreciation for the service that is banking. The many systems that connect the local store and the garage that provides your petrol, to your personal bank balance, and connects the different banks so you can use another bank's POS terminal or ATM if you cannot find one of your bank's devices, the ability to swipe your card in Mozambique or Mauritius and have the currency convert real-time to buy an ice cream on the beach, all of which we hardly think about as these service are just expected to be there.

Several million transactions flow through a well-established payments system in South Africa on a daily basis. It is one of the most advanced in the world, even than that of the US, where chip cards are still relatively unheard of. These advances keep our assets safe and allow us to participate in the economy seamlessly.

This, however, is not a reason to roll over and just accept all bank charges that are thrown at us. We need to be constantly vigilant, to ensure that we are paying as little as possible and maximising value for the fees we do pay. ■

Shivesh Maharaj is head of product and business development at Alexander Forbes.

so shop around for the best rate and play banks off against one another. They all want your business.

5. Use free credit to your advantage. Most banks have 55 days credit free on their credit card. Pay off the card fully before the cycle ends. Know your credit cycle and make the most of it.

6. Shop around for savings rates. Many banks have specials that run for various periods, depending on their capital needs. Take advantage of higher rates when offered. Keep an ear to the ground, bookmark web pages of the various banks that contain these rates and visit them at least once a month to ensure that you are getting the best rate. If you are not, approach your bank to change your rate, which they would most probably do, or move your money.

Take your power back and actively manage your finances. Seemingly small changes in the short term, when compounded, can result in massive returns in the longer term. Banks thrive on the inactive consumer; do not be one. ■

By Anne Cabot-Alletzhauser

INSURANCE

Let's stop *selling* insurance and rather help people know when to *buy* it

Life, health, car, home, phone: What should you insure and when?

I drive an 11-year-old Toyota Yaris. It looks as though someone rolled it down the hill – sideways. There are dents and unsightly scratches pretty much everywhere. I pay for full comprehensive insurance, but am reluctant to make claims on the cosmetic stuff for fear of what that might do to my premiums.

I'm also in a bit of a financial pickle because I know full well that I haven't remotely saved up enough money to survive the lean years when frail-care costs could wipe me out in the blink of an eye.

Finally, at the ripe old age of (no, I'm not going to put that in print), I'm in a quandary about what I should be doing about my health coverage. On the one hand, there are simply a lot more things going wrong with my body than have gone wrong before. But it's also getting harder to know what's likely to start going amiss next.

Making trade-offs

These three sets of financial concerns leave me in a position of vulnerability that I estimate many South Africans are in too: when money is tight, what insurance coverage can I afford to let go of, in terms of coverage and costs? What should I consider as non-negotiable in terms of too much risk exposure? And, finally, if I have to make trade-off decisions, where am I likely to get the biggest bang for buck given my limited wallet size?

The problem is, it's hard enough for an individual to make a decision about what is and isn't a necessary expenditure for one form of insurance, much less navigate the complex decision-making process required to determine where to make trade-offs *between* the different types of coverage.

The industry tends to just complicate matters even further every time it adds new bells and whistles to the package.

Insurance products, in general, are tough to wrap your head around. In most cases you get nothing out unless the worst happens. If insurance was viewed like an investment, policyholders would rationally feel like this was one investment with little prospect of a great return.

The result is that people often see insurance as a grudge purchase. Why should anyone buy an insurance product that costs a fortune, and provides only the promise of a benefit on the off-chance that the insured event happens at some point in the future?

That said, there is something hugely important in terms of managing financial stress in knowing that should an unfortunate event ever unfold, you are protected from financial loss – at least to some extent. And therein lies the problem. Most purchasers of insurance products have only a vague sense of how expensive those protections are.

Bottom line: consumers tend to do a lousy job of really thinking through their options in a rational, effective manner. And that often ends up with people paying far too much for something they don't really need – or, conversely, paying too little for something that could have been a lifesaver.

Simplifying decision-making

The behavioural economist George Loewenstein and his colleagues uncovered an important insight about how we humans typically respond when faced with complex questions around insurance. Instead of being able to rationally weigh up deliberations around cost, need, and risk, the bulk of decision-making focuses on one parameter: which option *appears* to require the lowest premium contribution. And not: "Where can I get the best value for what my family needs?" Clearly, we need a better way to help consumers navigate their way through the maze.

A decision-making framework that would allow us to determine what we really need, how much we need, and what our options could be, would be really helpful to identify the lowest cost solution that still provides us with the requisite protection.

This framework asks two questions: "What is the probability of that event happening?" and: "Should the event occur, would my family be able to cope with the financial/emotional/inconvenience impact?"

The probability insight is unquestionably the hardest to get right, because individuals

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do not have sufficient information to assess it accurately. People also tend to be very poor at quantifying the financial impact of an event. As a result, they may underestimate how much money they may need to absorb losses. People in general have an optimistic bias, i.e. bad things only happen to other people, or, if and when it happens, it will not be as severe.

The more manageable discussion is the one around whether you and your family could effectively cope, should the event occur. The good news here is that we can construct a particularly useful decision tree to help us navigate the different options at our disposal.

At the start, let's accept that individuals and their families have four different options at their disposal for mitigating risks in their lives:

- They can look to government to provide them with protections. (No retirement savings? Don't worry, if you pass the means test, government will provide you with R1 650 a month to live on. Will that do it for you?)
- They can self-insure. (This just means that you have enough savings to cover the loss yourself.)
- They can use informal support systems for risk mitigation. (These include burial societies for funerals, stokvels for emergency savings to cover the cost of an accident, theft, or death – with the hope that these investments will be secure.)

■ They can buy formal insurance products. (Paying a premium to an insurance company in return for a protection from a predefined event that can cause a financial loss.)

The critical questions

Now let's look at our decision tree and work our way through four fundamental questions that can guide my decision-making with each of these areas of risk in my life.

1. Is the liability associated with the insured event limited?

If my 11-year-old, paid-off Yaris gets into another scrape, how important would it really be for me to make sure that I could get every little ding out of my car? Obviously this is not a high priority in my life. As such, one clear-cut area for saving is not to purchase comprehensive insurance on my car. I could redeploy those savings to address some other risk concern.

But... should the car roll down the hill and smash into a Ferrari with a baby strapped in the back seat, I could become liable for millions of rand in compensation, which could instantly wipe me out. In this instance, the non-negotiable would be that I need third-party insurance. The upper limit of this type of liability is not known and you can therefore never know with certainty whether you have enough savings at your disposal.

Here is another consideration: what if I still owe money to the bank for the car? If I crash the car, I'll still owe that money and I won't have a car. So if that's something I can't manage, I should insure.

2. Do you have enough emergency funds to absorb the loss associated with the insured event?

Here, we're talking about self-insurance. Given that I owe nothing on my car or personal effects, I will be opting to "self-insure" any damages to my car or belongings. I simply haven't got enough emotionally invested here to make this purchase make economic sense for me. But could I possibly "self-insure" myself against potential third-party damages or frail-care costs? Not with the amount of savings I have.

Let's apply the same line of thinking to something like life cover. Here we're able to determine how much you need to leave behind so that your family members can cover their daily living costs. You should include expenses like the outstanding bond on the house so that your family has somewhere to live, the cost of education, estimated medical costs, and the cost of food, to name a few. Know these amounts and then look at your existing asset holdings to see if you have enough to act as a substitute for insurance. Here you might count the value of your retirement fund savings, emergency savings, existing cover from your employer, and so on. The decision as to the appropriate amount of life insurance to buy depends on the assets that will be available to family members to use upon your death.

Note, however, that it isn't always easy to assess all the costs that you could face if you experienced the loss event. When it comes to disability insurance, for example, there are many costs you may have to pay for, like physiotherapy, that you don't think of when assessing whether you have enough money to offset the risk.

Or, what if I have a critical illness or a disability where the condition is permanent and affects one's ability to generate income? These types of events may demand a rethink if I don't have enough available funds to support me over the time.

Kevin Yeh
Private wealth manager at
Daberistic Financial Services

> The probability insight is unquestionably the hardest to get right, as individuals do not have sufficient information to assess it accurately.

3. Do you have social structures to support you should you incur the loss?

My daughter is a doctor. She already knows that if I get into trouble in old age, whether I need frail care or a place to live, she will be my default option. It's not ideal, but I'll be looking to her for the support I need here simply because no economic miracle in the investment markets is going to make up for the power of compounding that I've missed out on with my retirement savings.

By Kevin Yeh

Ask now, buy later

A financial product can be a bank account, credit card, home loan, vehicle finance, life insurance policy, medical aid membership, car and household insurance, retirement annuity, retirement fund or investment product. Most of the financial products are by their very nature complex, having a long list of benefits, terms and conditions. Ask the provider or your financial adviser the following questions about a financial product, to understand it and decide whether to buy it:

1. What are the **benefits?** The benefits can be about the safekeeping of your money, the convenience of not having to carry cash, the ability to buy an asset of substantial value, growing your money, covering expenses or paying out a lump sum when certain events occur. Are the benefits tangible or unattainable?

2. What are *all* the **costs**, and how do costs change over time? Is the cost once-off, or, as in the case of most financial products, monthly or annual? Will the costs increase with inflation, change with the interest rate, remain the same, or decrease over time? Are there hidden costs? Ask for the costs in percentage terms, as well as in rand. Are the benefits I will receive from the product worth the cost?

3. What is the **term** (duration)? Is it month-to-month, one-year, five-year, 20-year, or for life? Can you afford the cost in later years?

4. Is it **simple** to understand? There are a lot of details you need to understand about a financial product, but is it simple to understand, or is it quite complicated, with many moving parts?

5. Is it **flexible?** When can you upgrade or downgrade? Can you make changes to the product? Can you cancel the product at any time? Are there penalties for early cancellation? What is the notice period for cancellation?

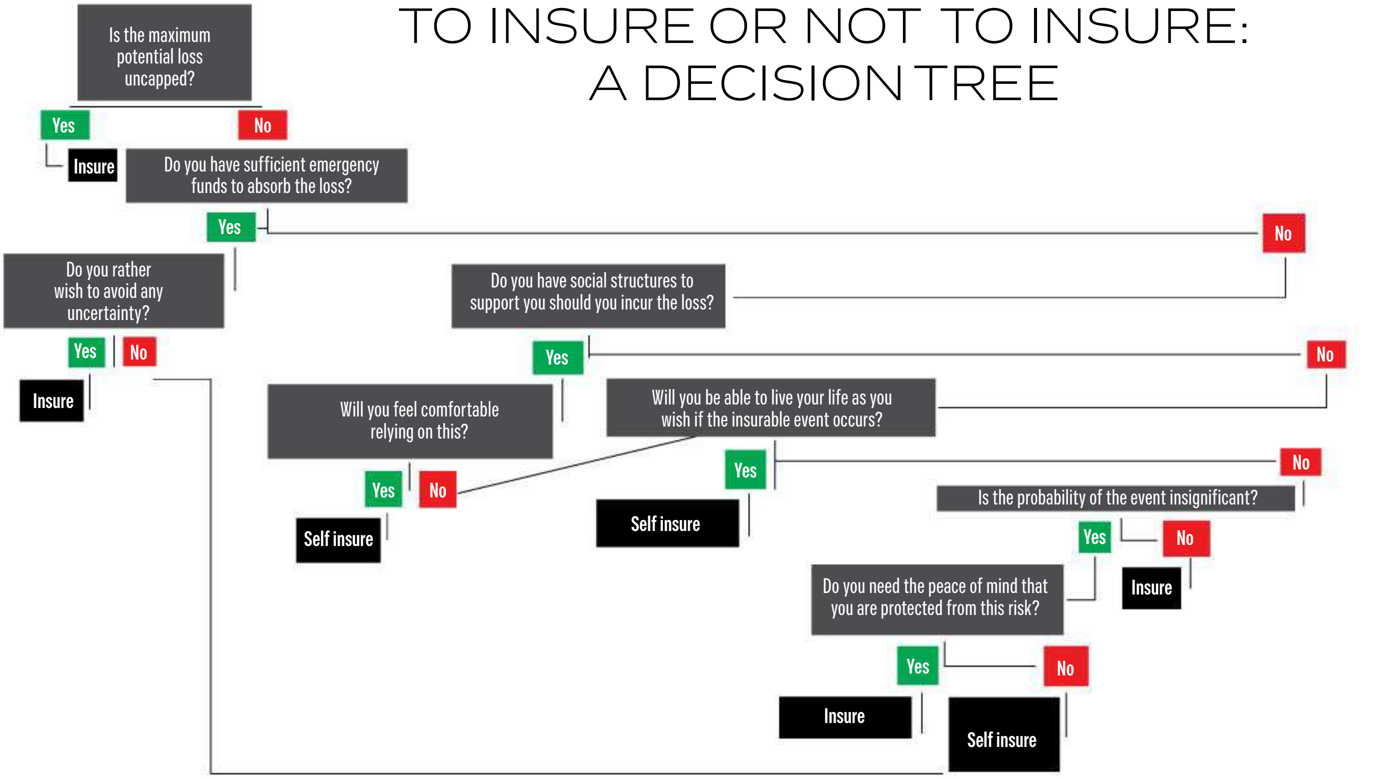
6. Is it doing **social good?** More and more people are asking this question. It's not just about personal benefit, but whether a certain product also has a social or community benefit.

7. Your **service level:** What is your turnaround time on a query, a complaint, a claim? One day, three days, a week or a month? Do you have an online portal I can log in to? Do you have an app that allows me to interact with you and my financial product? Do you have a call centre? Will I have a dedicated consultant?

8. Tell me the **bad stuff:** Such as what's not covered, what's not paid, exclusions, do I lose everything if I miss a payment? What if I can't keep up with the payments due to changes in my circumstances? What if the stock market goes down 30%? ■

Kevin Yeh is a certified financial planner and private wealth manager at Daberistic Financial Services.

TO INSURE OR NOT TO INSURE: A DECISION TREE



Elsewhere throughout South Africa, communities have strong social ties and the sharing of medical costs and income support are common. If you're comfortable relying on this support system to protect your family when you're gone, you may be less inclined to buy large amounts of life insurance. However, two factors are making this option more problematic.

■ Urban migration in search of employment is making it increasingly difficult for families to stay together and support one another.

■ The costs you may incur are difficult to estimate with accuracy and can sometimes be unlimited.

While social support may help, this option may have unintended ramifications. Those providing the social support may find that their own financial position may become compromised and vulnerable to adverse events. Maybe the question should be: "Do you feel comfortable around this *and* can the social structure withstand the impact of the losses that will be transferred to them?"

4. Will you be able to live your life as you wish if the insurable event occurs, or could you adapt your lifestyle?

Humans are much more adaptable to losses than we think we are. If your cellphone is stolen, you could probably adapt and buy a cheaper one if your finances did not allow for replacing it with like for like. However, if you don't insure your car and it is stolen, would you be able to adapt to taking the bus?

Another way of looking at this could be to say, to what extent would your life be affected if the event occurs and no cover is in place? If an uninsured cellphone gets stolen, it may be a big blow for someone who does business on their telephone.

Other questions to ask when you are considering whether to insure a possession: Would its loss...

■ affect my ability to generate income?

■ affect my normal day-to-day functioning?

■ have an impact on my dependants' well-being?

■ affect my ability to retire?

These are not just questions about the financial consequences, they also relate to questions of convenience. If I had to queue at a state hospital to get care for a family member who had become disabled, would this impact my ability to keep my job? Bottom line: you have to think about whether you could adjust your lifestyle without compromising you or your family's well-being.

Decision tree

Note the diagrammatic representation of the decision tree above, and try the exercise for yourself the next time you ask yourself a question about insurance coverage need. It's a great way to keep yourself from simply succumbing to fear (or marketing spin) when considering whether you need a specific form of insurance coverage.

One thing that's clear from the above analysis is that a more deliberative approach is needed when making an insurance decision. While in our everyday lives we have grown accustomed to making automatic decisions based on our subjective assessment of probabilities, insurance decisions are far more complex and consumers need assistance to help them make these decisions so that they can follow the right principles to ensure that they make measured, deliberative decisions.

But what the decision tree *doesn't* solve is how to navigate the complexity of pricing models (think especially health insurance here).

We also don't have a sense of what we should prioritise if we had only one or two insurance options that we could afford. Here we categorically need to appeal to the industry and ask insurers to apply their minds to both of these questions if we are going to move beyond simply selling people insurance to helping them buy it where it is most needed. ■

Anne Cabot-Alletzhauser heads up the Alexander Forbes Research Institute.

By Mxolisi Siwundla

RETIREMENT SAVINGS

Does low cost equal low value?

Some investors might fear that their investment products will not perform well if the costs are on the cheaper side. But it is wise to consider the impact of high total expense ratios on your retirement capital.

Only 6% of South Africans retire comfortably. The other 94% generally depend on some form of societal or familial welfare. Why is this the case and what can retirement savers do to ensure that they fall on the right side of this statistic?

Most companies across the world have shifted from traditional defined benefit (DB) pension schemes to defined contribution (DC) schemes. In the former, the employer calculates a defined pension benefit that the employee will receive upon retirement (the criteria used to determine the actual benefit includes years of service, pension contributions, final salary, etc.). In the latter case, the pension benefit that the employee receives at retirement is predominantly defined by the contributions the employee makes during their years of service. The most important distinction between the traditional DB scheme and the modern DC approaches to pension schemes is that in the traditional case, the investment shortfall is covered by the employer while in the modern case, the employee covers their own investment shortfall.

As someone saving for retirement, you are more likely to be saving within a DC scheme (unless you work for the South African government, in which case you are most likely still in a DB scheme). This places a greater emphasis on the choices you make to ensure that you secure a comfortable retirement.

In this regard, there are broadly four important decision areas that you must be aware of:

1. The choice to start saving toward retirement.
2. The decision to remain invested (instead of withdrawing) when changing jobs.
3. The types of assets your retirement savings will be allocated toward.
4. The fees charged by your default (or individually selected) investment manager.

While all the above are crucial, the focus of this article will be on point number four.

In the default regulations for retirement funds published by National Treasury in August 2017, the high cost of access within the retirement ecosystem was cited as one of the largest contributors to South Africans retiring with inadequate retirement benefits. This cost conversation matters more than most people care to realise.

Anyone who has taken a financial economics or investment management course would have heard of the Efficient Market Hypothesis (EMH). Developed in the 1960s by Nobel Laureate Eugene Fama, it makes the assumption that it is "impossible to beat the market", as financial markets are perfectly efficient and any inefficiencies are eliminated as soon as they arise to ensure that no arbitrage opportunities can persist.

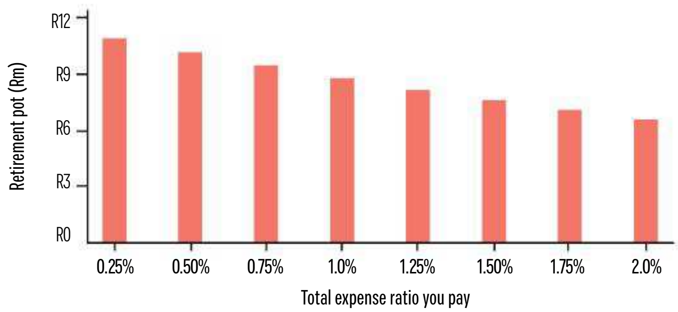
In 2003, the Vanguard Group developed what it called the Cost Matters Hypothesis. Its basic thesis is that whether the Efficient Market Hypothesis is valid or not – whether markets are efficient or not – the costs that you pay in gaining access to the market will always matter. A 2% fee charged on your savings will always reduce in

HOW TOTAL EXPENSE RATIOS INFLUENCE RETURNS

Quartile	Average	Average return (annualised)			
	TER	10 years	7 years	5 years	3 years
Most expensive	2.44%	7.6%	8.6%	7.6%	3.3%
Least expensive	0.47%	9.6%	9.9%	9.4%	6.1%
Total	**1.49%**	**8.5%**	**9.6%**	**8.5%**	**4.5%**

SOURCE: Morningstar (as at 28 February 2018)

A LOWER FEE PAID FOR RETIREMENT SAVINGS RESULTS IN LONG-TERM BENEFITS



(Assumes retirement at age 65, with savings starting at age 25)

your savings by 2%, regardless of the market environment. So strong is the logical and mathematical grounding of this idea that perhaps a more accurate name for it would be "Cost Matters Fact".

In most industries, people are familiar with the phrase, "You get what you pay for." In the investment management industry, Vanguard founder John Bogle is famous for saying: "You get what you don't pay for." He meant that, as a retirement saver, what you pay your investment manager goes to your investment manager. What you don't pay your manager goes to you.

A simple table illustrates this point. We took the universe of unit trust funds in South Africa's largest and most popular multi-asset category (Association for Savings and Investment South Africa [Asisa] MA High-equity category) and ranked them by the total expense ratios (TER) that they each charge. What is clear from the table is that the more expensive funds tend to have lower net returns compared to the less expensive funds.

According to research from Morningstar, which the firm has also replicated for the SA market, costs are the most important determinant of the success of a fund. This makes the point that the more expensive a fund or retirement solution tends to be, the more the manager gets to keep. And what the manager keeps, the client does not.

Another observation from Morningstar data is that, as a group, investment managers tend to underperform the market (the latest S&P indices versus active (SPIVA) report also provides good evidence of this). This calls for another look at the Cost Matters Hypothesis. Given that there are costs involved in investing in the market (these include analysts to research shares, brokerage costs, regulatory fees and statutory exchange charges), investment managers as a group will generally underperform the market in any given year. This reality has led to the rise of index funds. These are commonly referred to as passive funds because they invest in shares according to a set of rules, thus eliminating the need for analysts and portfolio managers who make judgments and predictions about the future potential of a share.

Index funds can be combined with traditional active funds to create what is called a core-satellite portfolio. This combines the benefits of both traditional/active and index/passive investing. The benefits of the former include the potential to outperform the market and protect against negative movements in market prices. The latter provide you with market returns at low cost and are typically more diversified and transparent. If your investment manager in your retirement fund charged you the typical fee of 1.49% and you equally blended this with an index fund that charged a TER of 0.4%, your investment management charges could come down from the original 1.49% to 0.95%.

With a vehicle that has lower costs, you would undoubtedly be in a better position to meet your goal of a comfortable retirement. The graph illustrates this point. All else equal, the less you pay in fees, the higher the probability of achieving being your retirement goals. (This is not to say some managers don't offer the requisite value that their costs promise.)

The most prevalent cost comes from not saving for retirement at all!

As shown in the table, paying lower fees does not mean that one gets lower value for money, particularly if this lower fee is achieved by making an allocation to index/passive funds. In fact, the difference in your retirement savings by the age of 65 when you pay 0.4% versus 1.49% in fees is an additional R2.8m (37% more value).

An important point is that the greatest cost in the retirement discussion is not the explicit investment costs mentioned above. Although these can become so exorbitant that they detract from the investor's future welfare, the most prevalent cost comes from not saving for retirement at all!

We encourage investors to take more deliberate steps to inform themselves about their state of retirement condition. They should also ask for full disclosure of all the costs that they are paying. Speak to your workplace benefits consultant or your financial adviser for comprehensive guidance on matters relating to how you can get the best value for your retirement savings. ■

Mxolisi Siwundla is investor relations and product analyst at CoreShares Asset Management.

By Grant Locke

ROBO-ADVISERS

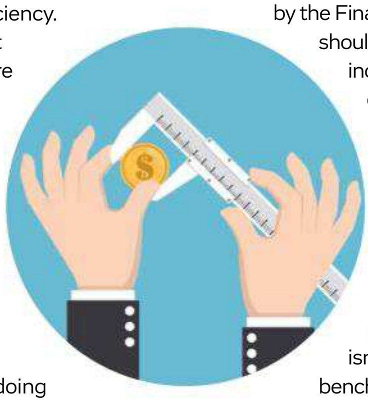
Reduce the cost of investing without becoming a bore at parties

If do-it-yourself investing is too daunting for you, but you also don't want to give up control of your portfolio to an adviser, there is a third option that is gaining in popularity.

So you are already ahead of most of the population when it comes to your finances. First, you realise that to invest is the only reliable way of being financially secure (seriously). Second, you know that reducing the cost of investing is a big part of getting your investment strategy right.

So you decide to become a DIY investor and spend evenings and weekends watching the markets, learning portfolio construction techniques and becoming an expert in stock and asset class valuation, and finding the cheapest instruments to execute your strategies. At parties you cannot wait for the conversation to turn to money so you can show everyone how big your portfolio is. And then you stop being invited to parties altogether.

It's good to have control of your investments, but it takes lots of time and effort to create investment solutions that find the right balance between return, diversification and cost efficiency. Even DIY investing can cost you as much as – if not more than – a traditional actively managed unit trust if you trade shares in small amounts and trade a lot, or if you cannot access institutional share classes for collective investment schemes.



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However, a third way is emerging – it might offer a better alternative between doing it yourself or handing your entire investment over to a financial adviser.

As is the case with most other industries, technology is also changing the way we do things. New investment businesses that are building systems which support investment decision-making are being launched. The result is the ability to build and control a professional-grade investment plan without having to know everything about investment.

This new blend between investment and technology is known as a robo-adviser. It's worth mentioning in this article, and I say this with unfortunate personal experience, that those building robo-advisers are almost never invited to parties. They are even worse than DIY investors because they tend to talk in statistics and mention the word "algorithm" a lot.

These new robo-advisers embed the investment knowledge contained in the head of your typical investment professional into an online algorithm (or system) in such a way that anyone can use it.

Good robo-advisers typically blend efficient, low-cost passive investment strategies and high-quality digital advice algorithms to deliver a balanced risk and return profile from the capital markets (the share and debt markets) to help consumers achieve their investment goals. These algorithms are incredibly difficult to build well. They require actuarial, investment and financial planning skills. In addition, the maintenance of these algorithms is regulated by the Financial Services Board. This should help ensure that, as this industry emerges, only good quality robo-advisers are available to everyone.

The best digital advice algorithms are designed to work exclusively with pre-selected investment strategies, but the investment fund is only part of the solution. This isn't about outperforming benchmarks, or returns relative to a benchmark; it is about creating suitable outcomes for consumers using the most efficient and cost-effective investment exposures in the market, which at this stage are typically rules-based strategies. It is an evidence-based approach to investment that uses statistics as well as investment and financial planning knowledge to create investment solutions at extremely low cost.

Creating a tailored investment plan during sign-up is only part of the solution. The vast majority of advice and decision support is needed once a person has an investment and this is where great robo-advisers use qualified, neutral human advisers who are not paid on a commission basis to deliver objective advice.

Robo-advisers should be much cheaper than the traditional face-to-face engagement with a financial adviser. The costs however do vary, and I have seen costs from around 0.7% to 1.5% all in (this should include the cost of the investment product, plus the cost of ongoing advice and administration). Robo-advisers typically do not charge upfront advice fees and with good robo-advisers, the fees you pay should reduce the more you invest with them.

If you compare this to a typical engagement with a financial adviser, which is around 2.5% all in, then you could save from between 40% to 80% of the fees you would be paying with a traditional adviser.

But before you decide to put all your money into a robo-adviser, make sure it actually gives advice – both upfront and ongoing – and that this service is included in the costs. Also, you must see all of the costs upfront – and your outcomes should be shown net of all fees. Otherwise it is just a pretty website. ■

Grant Locke, a certified financial analyst, is head of OUTvest.

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Bizank
www.bizank.co.za/
Absa Virtual Investor
www.absa.co.za/personal/save-invest/products/virtual-investor/

By Michael Streatfield

ACTIVE VS PASSIVE

Low-cost investing through the looking glass

Investors are rushing to buy low-cost investment products like exchange-traded funds, but they must be cautious in their search for ever lower costs.

"And can you do Addition?" the White Queen asked. "What's one and one and one and one and one and one and one and one and one and one?"
"I don't know," said Alice. "I lost count."

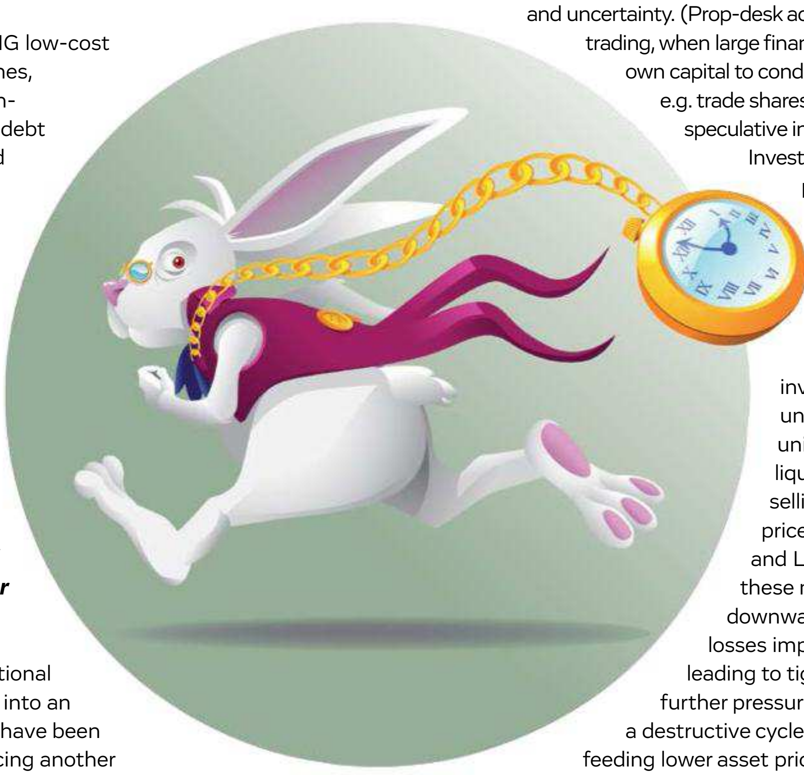
Investors are being lured down the rabbit hole of lower costs. Replacing managers in portfolios by low-cost exchange-traded funds (ETFs) one and one and one…

Lowering costs at first glance seems a no-brainer. Less drag on returns must surely be commendable. But in this article, I urge you to go through the looking glass, and question what are you ADDING to your portfolio when you do that? Successful investors look deeper at second- and third-order effects. How will buying overcrowded and expensive assets work out for you five to 10 years from now?

How will buying overcrowded and expensive assets work out for you five to 10 years from now?

Does the maths of DIVIDING low-cost investors from active approaches, corralling them into a valuation-insensitive herd, when margin debt is at unprecedented highs, and asset-liquidity risk and index concentration is increasing, make sense?

Investors are responding to financial repression by trying to lower costs in a low-interest environment. But in this Wonderland of wishful thinking, now is the time for caution.



"She can't do Subtraction," said the White Queen. "Can you do Division? Divide a loaf by a knife – what's the answer to that?"

We have witnessed an international stampede of capital into ETFs into an overheated market. The flows have been relentless with global ETFs slicing another $633bn in 2017 from actively managed assets, up 67% from the year before.

But has it been the right time to buy? US market valuations are very stretched irrespectively of the metric you choose. For example, the S&P 500 price-to-sales ratio at the end of February 2018 was 2.2, close to highs last seen in the dot-com 2000s.

Market commentators, like GMO and Hussman, caution prospective returns for general equity from these heady levels could be negative over the next decade. Yet Blackrock's ETF study shows a $196bn flood of flows into US ETFs in 2017. I urge investors to resist the siren calls of cost, and ask "when" and not just "what" to buy. Buying high and selling low is not a recipe for investment success.

The market now has a greater proportion of investing money lying with uninformed investors. Many of these passive funds have no discretion to build cash buffers. Every net redemption is a sale. Every sale ignores price. Post-2008, there is significantly less prop-desk activity and appetite to provide shock-absorbing liquidity in times of crisis and uncertainty. (Prop-desk activity refers to proprietary trading, when large financial institutions use its own capital to conduct financial transactions, e.g. trade shares. These trades are often speculative in nature, according to Investopedia.) Adding to this precariousness, investors are highly leveraged with margin debt at never before seen highs.

The massive shift to price-insensitive investing means more investor portfolios are unwittingly exposed to the unintended risks of an asset liquidity spiral, where forced selling drives down asset prices. Markus Brunnermeier and Lars Pedersen outline these mechanics where a downward spiralling pattern of losses impacts trading capital, leading to tighter risk management – further pressurising asset sales, creating a destructive cycle of drying up of liquidity feeding lower asset prices. However, low-cost managers are valuation agnostic and have no asset management discretion to protect investment values in a crisis. Bear markets will truly divide active and passive investors, and the lure of initial cost savings versus actual returns will cut like a knife.

When the dust settles at the end of the next bear market, the unintended consequences of this headlong rush into low-cost (price-insensitive, valuation-unaware) investing will be revealed.

"...but the Red Queen answered for her. "Bread-and-butter, of course."

The bread and butter of low-cost investing are broad market indices, which are generally market-capitalisation weighted. In times of market exuberance, excessive price momentum (as witnessed by the FANG stocks – Facebook, Apple, Netflix and Google's parent company Alphabet) and excessive capital issuance can distort valuations and dilute index investors. As an active equity investor, I would rather focus my capital on undervalued counters and reward company management who protect shareholder interests.

Second-order effects are more sinister in the bond indices, where market-cap weightings mean investor capital is being channelled into issuers who are more and more indebted. The Bank of International Settlements (BIS) recently cautioned that passive investors are "weakening market discipline".

Closer to home, highly concentrated indices can force low-cost investors into making unintended outsized stock bets. Naspers* dominates South African indices with around 17% of the FTSE/JSE All Share Index (Alsi) and 21% of the JSE's Shareholder Weighted Index (Swix), yet their prudential legislation Regulation 28 has a maximum limit of 15% in stock. In international markets, Apple is the counter that dominates US indices, and is an outsized holding in popular tech, growth and value sub-indices. So low-cost investors' expectations of a well-diversified low risk "bread-and-butter" portfolio might find they have a bit more spice than expected!

"...Try another Subtraction sum. Take a bone from a dog: what remains?"

I fear it is not just retail investors that are getting sucked down the road to potential "worsification". As the market melts up, Harvard University, in a desperate attempt to play catch up with peers, is proposing switching to a S&P 500 ETF for half of its assets. This is less looking glass, and more rear-view mirror – fighting over a bone from yesteryear's war.

"Wrong, as usual," said the Red Queen: "the dog's temper would remain."

The burden of saving is increasingly being placed on the shoulders of individuals, with defined contribution arrangements, less employer engagement, and state benefits (and past promises) being cut back. And with the next generation of savers being burdened with student debt, and at times underemployed, their capital could be viewed as even more sacred.

I believe that low-cost investing certainly has a place in one's portfolio as an effective modest core, enabling a complement of more diverse, truly active investments. However, investors should be "buying the index" when it is cheap, and with regard to market structure.

When the dust settles at the end of the next bear market, the unintended consequences of this headlong rush into low-cost (price-insensitive, valuation-unaware) investing will be revealed. We face the potential of crippling sequence risk for an investing generation who bought cheap but suffered the worst case of market timing ever seen. In an environment of growing populism and well-coordinated social media activism, it won't just be a dog's temper but a pack of wolves' fury that will remain. ■

SOME PRACTICAL THOUGHTS FOR PORTFOLIOS

■ **Separate fad from fiction**
ETFs shooting the lights out will get lots of media attention, but that does not make them the right investment for you. These funds may hide complex risks. The inverse VIX trade (XIV) made money for years until it lost a crippling 90% (after hours) and soon closed!

■ **Drink Me, Eat Me**
Just as Alice had to "right-size" herself with growth and shrinking potions, investors need to restructure their portfolio with the right blend of both valuation and cost. This might mean phasing in low-cost strategies across a business cycle. Avoid going all in. ■

Dr Michael Streatfield, a chartered financial analyst (CFA), is founding partner and chief scientist of the global hedge fund advisory Fortitudine Vincimus Capital. He writes in his personal capacity.

Quotes in bold italics from *Alice Through the Looking-Glass* by Lewis Carroll (1872).

*finweek *is a publication of Media24, a subsidiary of Naspers.*

By Schalk Louw

PORTFOLIO CONSTRUCTION

How to identify quality shares

These three factors will help you to identify shares that generate strong earnings.

There's a saying that you should begin with the end in mind – and this is true for investments as well. When you invest, your first step is to identify your expectations or, more specifically, your investment goal: whether it is a short-term one, such as saving for a holiday, or long term, such as saving for retirement.

You need to know what you expect at the end of your investment term, so you can plan accordingly. This saying is particularly apt for equity investments.

There are so many different themes of investment strategies for compiling share portfolios and I'm sure most of you have heard of the three main ones: momentum shares, value shares and quality shares. When investors look for strong momentum-driven shares, they are looking for shares that have had strong price increases and support over a specific period – three months or a year, for example. Value investors look for shares that appear, following various valuation methods, to be undervalued. Finally, quality shares, which will be our focus in this article, are shares that stand out because companies have managed to generate better-quality earnings over a particular period.

I must point out that I am not favouring this strategy in any way. On the contrary, each of the three strategies mentioned above is of equal importance for a proper analysis. In fact, you'll find it extremely difficult, if not impossible, to identify a company or share that meets 100% of all three of these criteria, and there are more than enough research reports to support this theory. So, what do we do?

If I want quality shares in my portfolio, I have to start by identifying quality earnings. I do this by using the past 12 months of a company's data, and then by analysing those companies (I only use the top 75%) that showed the best-quality earnings for that period. But this is only the first step in my analysis: later I will consider value and momentum analyses.

There are three basic factors that will show me how strong a particular company's earnings were, or how high the quality was:

ACCRUALS		
ACCRUALS	**FORMULA**	**PREFERRED**
Accounts receivable	Change in accounts receivable/Avg net operating assets	Lower is better
Inventories	Change in inventories/Avg net operating assets	Lower is better
Other current assets	Other current assets/Avg net operating assets	Lower is better
Property, plant & equipment	Change in property, plant & equipment/Avg net operating assets	Lower is better
Other non-current assets	Change in other non-current assets/Avg net operating assets	Higher is better
Other current liabilities	Change in other current liabilities/Avg net operating assets	Higher is better
Other non-current liabilities	Change in other non-current liabilities/Avg net operating assets	Higher is better

CASH FLOW		
CASH FLOW	**FORMULA**	**PREFERRED**
Cash flow from operations	Cash from operations/Avg net operating assets	Higher than industry median
Capital expenditure	Capex/Avg net operating assets	Higher than industry median

OPERATING EFFICIENCY		
OPERATING EFFICIENCY	**FORMULA**	**PREFERRED**
Operating profit margin	Annualised earnings before interest and tax (ebit)/ Annualised total revenue	Higher than industry median
Net operating asset turnover	Annualised total revenue/Avg net operating assets	Higher than industry median
Change in net operating asset turnover		Higher than industry median

SOURCE: PSG Wealth Old Oak

Accruals

Here we focus on the effect on the company's cash flow of any changes in assets and liabilities. A decrease in accounts receivable might indicate an increase in cash sales, which would have a positive effect on the company's cash flow. In the same way, a decrease in stock levels and other current assets might indicate an increase in sales; therefore, the lower these ratios, the better. A decrease in property, plant and equipment expenses can also contribute towards better cash flow.

On the other hand, a decrease in accounts payable, other current liabilities and other non-current liabilities may mean that more cash was used to cover these costs, which could have a negative effect on the company's cash flow, so the higher these ratios, the better.

Cash flow

Here we focus mainly on cash flow from operations and capital expenditure. Both ratios are compared to the company's industry median. If cash flow from operations is higher than the industry median, the company would obtain a higher score, while capital expenditure should ideally be lower than the industry median.

Operating efficiency

In this section, we focus mainly on two factors: the company's operating profit margin and any changes in the company's net operating asset turnover. Again, both factors are compared to the industry median and would lead to a higher score if the company is above the industry median.

After applying this first step in my investment process, I have identified the following 10 shares as good-quality shares:

- Astral Foods
- Anglo American Platinum
- Adcock Ingram
- South32
- Tiger Brands
- Vodacom
- Kumba Iron Ore
- WBHO
- BHP
- AECI

To reiterate: These are only the first ingredients of my recipe. Quite a bit of homework still needs to be done. Also remember that a diversified portfolio should include more shares than those I have listed above. However, by identifying quality shares as a first step, you can eventually turn your entire portfolio into one of higher quality. ■

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Schalk Louw is a portfolio manager at PSG Wealth.

By Simon Brown

COMPANY MANAGEMENT

Beware the cult of personality

Don't buy a stock just because the key player in its management team seems to be a superstar – things can still go wrong.

The cult of personality surrounding certain individuals in the business world, which holds that the people in question can do no wrong, is dangerous. Extremely dangerous. Yet in the investing world this mentality runs rampant.

Warren Buffett is probably the best example of someone who, in the eyes of lay investors, can make no mistakes. And while his formidable reputation is deserved for the most part, this perception from investors is a concern for two reasons. First, things can always go wrong regardless of who is in charge. Second, what happens when they leave?

Buffett (and there I go lionising a cult personality) reportedly said: "Buy into a business that's doing so well an idiot could run it, because sooner or later, one will."

How often do we invest in a business in part because of stellar management? Then one day, this person moves on.

Shoprite* chairman Christo Wiese is quoted as saying, when commenting on former Shoprite CEO Whitey Basson's huge bonus: "If I could find another Whitey Basson, I would happily pay him a billion. A guy with his talent is terribly rare. And the performance is there."

Fair comment on his performance, but all indications (and it is early days) are that Basson also left behind a quality business run by a top management team that will continue to replicate his success. In other words, maybe Basson's talent was as much about transferring his skills to the next generation of management as it was about running Shoprite?

Another local example is former Steinhoff CEO Markus Jooste. Before Steinhoff collapsed, many investors in the company literally stated as their investment case that Jooste was a genius and they trusted him and were happy to be along for the profit ride. And then the group's wheels came off (and its woes continue to worsen, judging by recent statements regarding its property valuations).

Now, Jooste is the easy example to pick on. But the JSE has a number of other potential cult personalities. Another example is Brian Joffe with his recently listed Long4Life*. The stock soared to almost 840c when all the company had was cash worth a little over 500c a share. That basically valued Joffe at a staggering R3bn, based on the number of shares in issue and price above cash value. Make no mistake; Joffe is a dealmaker with a solid reputation. But R3bn?

A single individual may be the face of the team and be quoted in the media, but a quality company is always going to be about more than just one person.

Perhaps the important point is that a team always needs to be running the company to ensure continuity and risk mitigation. (What happens if the CEO is hit by a bus?) A single individual may be the face of the team and be quoted in the media, but a quality company is always going to be about more than just one person. Maybe companies need to make this more apparent. Some listed companies try this by sending out different senior executives at results time to get more faces into the spotlight.

An additional hazard comes in the form of complexity. I have written before that a complex business adds extra risk when investing. Any complex business can be misunderstood by investors. Complexity also means there are more moving parts where things can go wrong. Add a cult of personality in the management team into the mix and the risk increases.

As investors we certainly appreciate a great CEO. But we need to see past that one individual – companies also should be more transparent about the team and succession planning, as Berkshire Hathaway is doing ahead of Buffett's eventual exit.

We also need to be fearful when the investment case is more about management than the quality of the business because, as Buffett says, one day the idiots may arrive to run the company. A great management team is fantastic, but the quality of the company is always more important. ■

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The writer owns shares in Shoprite and Long4Life.

Warren Buffett
Chairman and CEO of Berkshire Hathaway

Whitey Basson
Former CEO of Shoprite

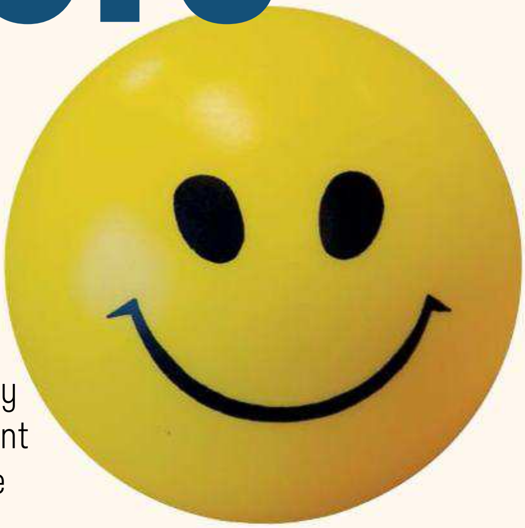
Brian Joffe
CEO of Long4Life

Markus Jooste
Former CEO of Steinhoff International

www.long4life.co.za

Gallo/Getty Images

Reasons for SA investors to smile



The hype associated with 'Ramaphoria' is gradually fading, and many South Africans are coming to terms with the fact that the government still has a great deal of work to do before the economy begins to see significant growth. But it's not all bad news.

By Marcia Klein

President Cyril Ramaphosa

Following the December ANC conference that brought winds of political change, the rand has rallied, the economic outlook is rosier and investor confidence is on the up. Yet the JSE All Share Index, which reached an all-time high of 61 684.77 in January, is down to around 56 000.

As Old Mutual Multi-Managers said in a recent investment note, "the contrast between the general sense of optimism on the streets and around the braai fires and the disappointing short-term investment returns couldn't be more stark".

It is true that despite recent waves of optimism, South Africa is a long way off from solving some of its most serious challenges including poverty, joblessness, poor education, low economic growth, crime and corruption. It is also true that South African companies are coming out of a period of low profitability and very little investment in their future growth. While global economies rallied, local investment fell off.

But there has recently been cause for much hope that the country is starting on the long path to recovery.

Unlike his wrecking-ball predecessor, President Cyril Ramaphosa is aware of the critical importance of investment and, while he may need to pick up the pace, he has shown early signs of rallying the investment community to reignite the economy so that he can deliver on his promises and begin to tackle some of those serious challenges.

In fact, spooked as they might be from the stupor of the past decade, the more recent land reform issues and the Steinhoff debacle, South African investors have a lot to be happy about.

Deals with independent renewable energy power producers, which Eskom stalled for years, have finally been given the go-ahead, representing investment of R56bn.

1. Political change

Since he was sworn in as president on 15 February, Ramaphosa has made some sweeping changes aimed at restoring the country's equilibrium and getting the economy back on track.

The appointment of Nhlanhla Nene (finance minister), Pravin Gordhan (public enterprises) and Gwede Mantashe (mineral resources) and the suspension of South African Revenue Service (Sars) commissioner Tom Moyane reflect the pace at which he is rectifying the situation and should sit well with investors.

So should the return of some form of sanity to state-owned enterprises (SOEs), particularly Eskom, which has the potential to nullify all other efforts to put the economy to rights.

The boards of SOEs like Eskom and Denel have been changed and public servants involved in corruption are being weeded out.

Policy stability, probably the most critical influencer of investment decisions, is being sought with some urgency, particularly with regard to the Mining Charter and land redistribution. The complexity of Ramaphosa's task is reflected in the latter, which resulted in widespread unrest, uncertainty and investor jitters, when the president announced expropriation without compensation – but failed to explain how it would play out.

For the first time in over a decade, government is including business and investors in decisions it makes. They may not like the outcome, but their input will be welcomed and considered when these decisions are taken, as is evident with the Mining Charter, which is being reworked.

Principled investors like to know they are working within defined, equitable boundaries and proper governance. Ramaphosa has made it clear that government will "not tolerate the plunder of public resources, nor the theft by corporate criminals".

Much of this political change is aimed at promoting investment in order to grow the economy, create jobs and increase exports, all of which provide fertile ground for investor confidence and interest.

2. Economic indicators

Although South Africa remains a sub-investment grade, deeply indebted country with crippling unemployment, there are many positive signs for the economy.

Barring external influences like another global crash or an escalating crisis following attacks on Syria, the economy is expected to pick up in 2018 – from 1.3% in 2017 to anything between 1.4% to over 2%, depending on the optimism of the forecaster. That is not nearly enough, but on the right track.

The rand has strengthened from around R13.50 to the dollar in mid-December to just over R12 currently.

Inflation was 4% in February and is expected to be contained in the 3%-6% range until 2020. Interest rates continue to trend downwards, with the most recent cut bringing the repo rate to 6.5%.

Mining output has improved – growing 3.1% year-on-year in February but with surges in the production of diamonds, iron ore, manganese and coal.

Ratings agencies have held their ratings (Standard & Poor's and Fitch on non-investment grade and Moody's just one notch above) and have eased on their negative outlook.

The mining, agriculture, manufacturing and tourism sectors have been marked for special attention in order to grow the economy.

3. Policy and regulation

With the Mining Charter under review, and partial certainty provided by the courts over the "once empowered, always empowered" principle, there is some evidence that policy certainty will be expedited, although more clarity and certainty are needed before investors make the kind of long-term commitment they need to carry out in this sector.

Deals with independent renewable energy power producers, which Eskom stalled for years, have finally been given the go-ahead, representing investment of R56bn.

Issues of overregulation, specifically for small

Tom Moyane
Suspended commissioner of the South African Revenue Service

The economy is expected to pick up in 2018 – from 1.3% in 2017 to anything between 1.4% to over 2%, depending on the optimism of the forecaster.

R/$ EXCHANGE RATE

SOURCES: IRESS

FTSE/JSE ALL SHARE INDEX

SOURCES: IRESS

businesses, are also in the spotlight.

There are also indications that problems at Sars and corruption will be dealt with to ensure that taxpayers' money is not wasted and that investors can be sure they can rely on fair interactions and co-investments with government and its agencies.

4. Incentives

Ramaphosa has committed to promoting investment in key manufacturing sectors through incentives and other measures. This includes a localisation programme to benefit businesses operating in the textile, clothing, furniture, rail rolling stock and water meter sectors.

Special economic zones will remain important instruments to attract strategic foreign and domestic direct investment.

Government has acknowledged that corporate and personal tax are at relatively high levels and did its best not to weigh down companies under further onerous tax burdens.

Zwelakhe Mnguni
Chief investment officer and co-founder of Benguela Global Fund Managers

5. Investment

Ramaphosa has committed to a number of investment-positive actions, including an investment conference later this year "to market the compelling investment opportunities to be found in our country".

He committed to addressing the decline of manufacturing capacity and re-industrialising "on a scale and at a pace that draws millions of jobseekers into the economy".

He said government would focus on infrastructure investment and the implementation of new projects.

The government would work with mining companies, unions and communities to grow the sector, attract new investment and create jobs and would take decisive action to realise the economic potential of agriculture.

Ramaphosa also announced a campaign to raise $100bn of investment in the next five years and appointed a team of envoys to sell SA to investors. These include former finance minister Trevor Manuel, former deputy finance minister Mcebesi Jonas, former Standard Bank CEO Jacko Maree and Phumzile Langeni, the executive chair of Afropulse Group.

He has also appointed economist Trudi Makhaya as his economic advisor.

Renewed confidence brought by political change leads to foreign investment, deal-making, and investment in new mines, plants, stores and products. This in turn flows through to company results and share prices, and some of these prospects have already been priced in.

The JSE does, however, react to global volatility, and the All Share's performance is dominated by the performance of Naspers*, whose share price has been on a losing trend since the end of November. This, and the difficult prospect of reigniting investment interest, may be behind the overall decline in share price performance.

With economic recovery – and SA's is tentative – some sectors lag behind others, so there is still value to be found.

"Stability from a currency and political point of view creates a positive environment for foreign direct investment and for local business to start investing in the economy again," says Zwelakhe Mnguni, chief investment officer and co-founder of Benguela Global Fund Managers.

Unless some global issues emerge or the land reform question is not settled, South African companies should see improvement in profits, and we should be seeing prices following that, says Mnguni.

Investment options

Renewed confidence may lead to new deals but it is perhaps a little early to see them flow in. One example of some action is Murray & Roberts (M&R), which is facing a takeover bid and recently announced it was awarded R3.8bn in new underground mining projects over the next four years in Australasia and North America.

The R4.7bn takeover bid by German investor ATM Holding for the 70% of M&R it does not hold, which caused the share to jump 50% at one point, has less to do with renewed investor interest than it does with Aton, which owns ATM, continuing its long-term quest to increase its stake.

Similarly, the breakup of Old Mutual, which will see it return a chunk of its business to SA, has been years in the making.

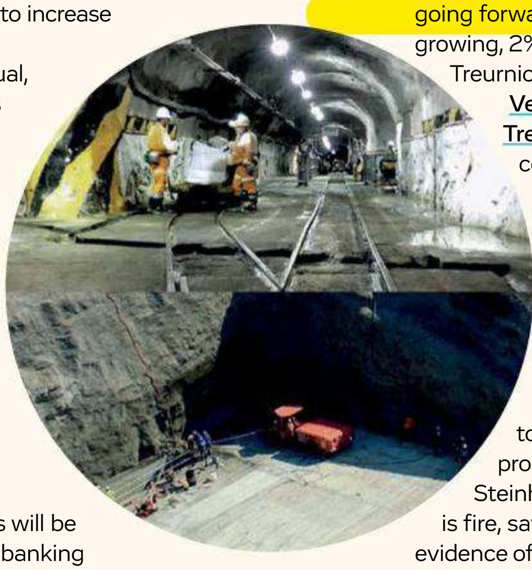
Nevertheless, we should expect to see more corporate action and more corporate success in the future. With political change, investors price in the benefits that will happen in the future very quickly, says Casparus Treurnicht, analyst and portfolio manager at Gryphon Asset Management, as reflected in the rally of some share prices on the JSE since December.

Mnguni says improved conditions will be very supportive to the retail and the banking sectors, mainly because they depend on employment and GDP to grow.

Some retail stocks have already had a good run and future prospects are priced in to some extent, says Mnguni, but with banking there could be some movement. He warns that there could also be some lags, especially if there is no certainty on land reform. "If it is not handled well it could create problems, it could be negative for banks and there could be lingering uncertainty. Banks, nevertheless, are still relatively attractive."

Treurnicht says investors should be in industrials and resources. "I would be looking at companies like Anglo [American] and BHP, or Glencore and maybe, but not yet, MTN."

"Even if we want to really see blue chips going forward, we need to see the economy growing, 2% or even **2.5%** the next year."



Murray & Roberts Cementation provides specialist engineering, construction and operational services for underground miners on six continents.

Selecting stocks is crucial, as investments tracking the All Share Index reflect the price of Naspers, which, Treurnicht says, is vulnerable to what happens in China – and in the trade war, China has more to lose than the US.

Treurnicht adds that with inflation having bottomed, it may be good to look "at the food producers like AVI, Imperial, Bidvest and Barloworld".

He agrees with Mnguni that retailers have run quite hard, but he thinks banks are "pretty safe at the moment".

"Up to now, the economy has not been in favour of smaller companies, which need real economic growth and higher disposable income to grow.

"Even if we want to really see blue chips going forward, we need to see the economy growing, 2% or even 2.5% the next year," Treurnicht adds.

Vestact portfolio manager Michael Treherne says investors should continue to look at South African companies that offer more international exposure, like Discovery, which continues to do well offshore and is launching its bank this year, and ADvTECH, which is building up its presence in the rest of Africa.

What investors do not want to see is any evidence of potential problems. They have learnt from Steinhoff that where there is smoke, there is fire, says Treurnicht, and want to see the evidence of years and years of good governance and management.

He recommends that investors look at companies like Shoprite, which has a track record over many years and has good managers coming thought the ranks: "Investors like to see those instances of good track records and a culture of managers acting in shareholder interests, and for all stakeholders."

The return of investment interest is still likely to favour South African companies that have successfully broadened their horizons offshore, but also companies that have performed poorly offshore and are now renewing their focus on their core South African businesses.

"South Africa still looks relatively good compared to the US," says Mnguni, "mainly

Images: Gallo Getty Images www.dev.solidred.co.za/benguelaglobal www.gryphon.com www.mindat.org www.murrob.com

"Stability from a currency and political point of view creates a positive environment for foreign direct investment and for local business to start investing in the economy again."

because if you look at the likes of Facebook, and indeed most companies in the US, the CEO is the CEO and chair, while we have the roles separated, so there is a big difference from a governance point of view.

"There may be issues specific to some companies and individuals, but our governance is good," he adds.

Where local management teams could be criticised is that they have been in flight mode from SA, Mnguni says: "Under the previous administration there was uncertainty, but generally what is needed is a commitment to find solutions in the economy.

"We saw recently Netcare exiting the UK – after 10 years that deal means nothing. If they had focused on a partnership in an African country as a test, it would have paid off a lot better for less capital.

"The same applies to companies like Steinhoff and Woolworths. To buy businesses in markets that are efficient takes superhuman effort and skills, but South African businesses should be looking to innovate locally," he says. Investor sentiment may now make this possible.

A major weakness of South African CEOs is that "they don't fight but choose flight", Mnguni comments. Conditions are now favourable, and there will be more certainty: "It is not that the opportunities are not there, it has had more to do with leadership saying one thing and doing another."

Investment options will also improve when things start looking better. This may take time to flow through but we have already seen the potential listing of glassmaker Consol, consumer goods company Libstar, which produces brands like Denny Mushrooms and Lancewood cheese, and, more problematically, Sagamartha, the overvalued "tech" company whose listing, should it happen, is unlikely to provide any fillip for investor confidence in South African companies.

Casparus Treurnicht
Analyst and portfolio manager at Gryphon Asset Management

Michael Treherne
Portfolio manager at Vestact

Stumbling blocks

Investor sentiment is good but remains precarious until investors start to see more evidence of the promised changes.

Old Mutual Multi-Managers said SA has been boosted by tailwinds, which include the prospect of improved governance and the return of sensible policymaking, the progression of the global economy and the benefit to local consumers of lower inflation and interest rate cuts.

But global equity markets "have experienced a torrid time in the first quarter as volatility returned after a long, quiet stretch in 2017" and the JSE has followed.

Old Mutual Multi-Mangers also cited the sudden pressure on "the high-flying technology sector" and the global tech sell-off's effect on Naspers. The potential trade war between the US and China was its other major concern.

All of these issues bring uncertainty back to the markets, it said.

For South African investors, the overriding problem remains a lack of choice. The government's focus on boosting investment in mining, agriculture, manufacturing and tourism serves to reflect just how far behind the curve SA is when it comes to Fourth Industrial Revolution investment options.

Facebook's stumble may prove their uncertain nature and volatility, but investors would be fools for not thinking that the word's future will be influenced by technology and artificial intelligence as well as biomedical and genetic advancement. Investors may have to look elsewhere for these, but that does not mean South African companies don't have a lot to offer.

At the moment, however, local investors will have to focus on tried and tested traditional companies if they want to make the most of the wave of positive sentiment and promises of better times ahead. ■

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on the money

>> **Motoring:** The sporty new BMW X2 SUV *p.42*
>> **Management:** How to deal with colleagues when you're the new boss *p.44*

CEO INTERVIEW

By Shoks Mzolo

Bringing quality healthcare to the world

Life Healthcare's new CEO Shrey Viranna will oversee the group's expansion into the developed world and comments on the South African government's plans for a National Health Insurance scheme.

It has been tough going for South Africa's major JSE-listed hospital groups – Mediclinic, Netcare and Life Healthcare – which face increased pressure on pricing from regulators and medical aids in South Africa and abroad, and uncertainty over the National Health Insurance (NHI) plan and Competition Commission inquiry into pricing in SA.

For Shrey Viranna, the recently appointed CEO of Life Healthcare, more specific challenges also await. The group is in talks with Max India, its joint venture partner in India, to buy Life Healthcare's stake in Max Healthcare Institute – a transaction that, if successful, would mark Life's exit from India less than seven years after it expanded to the sub-continent. In fact, Life paid R428m to acquire an additional 3.75% stake in the business just last year. Max contributed an operating loss of R27m to Life's results for the year to end September 2017. As the share is trading under a cautionary, Viranna cannot comment on negotiations.

The likely exit from India is also part of Life's strategy to move its focus from building an emerging-markets hospital group to creating a broad healthcare firm with a significant footprint in the developed world. Life wants to use London-based Alliance Medical, a medical diagnostics firm with operations in 10 countries including the UK, Italy and Ireland, to expand its presence in Western Europe. Alliance Medical, which was acquired in 2016, contributed 18% to Life's revenue and earnings before interest, tax, depreciation and amortisation (ebitda) last year.

More positive news seems to be coming out of Poland, where Life's Scanmed operations have been under significant pressure in recent years due to enforced price cuts. A new four-year contract with NFZ, the Polish national health fund, has allowed for higher prices, while improved efficiencies have helped to boost margins.

Life said in a pre-close investor presentation, released at the end of March, that it expects revenue from Scanmed to grow by between 4% and 6% in the six months to end March, compared with a 6.7% decline in the September reporting period. The normalised earnings before ebitda is expected to improve to between 7.5% and 9%, up from 4% in September.

For the group as a whole, revenue is expected to grow by between 16.5% and 18.5%, with a normalised ebitda margin expected between 23.3%

Life said in a pre-close investor presentation, released at the end of March, that it expects revenue from Scanmed to grow by between

4%

and 6% in the six months to end March.

Getting to know Shrey Viranna

Describe your leadership style

I'm a big believer in excellence, so I always encourage and support people to strive for that. I'm also demanding where staff performance is concerned. Exceptional people appreciate a bit of a push and to be given an opportunity to fly. I also strongly believe in a safety net – providing safety nets allows the teams around me to take risks, and to be bold and courageous.

What do you wish you knew back when you started in the boardroom, after leaving the hospital building?

That the hardest part is often not getting and 23.9%. Headline earnings per share (HEPS) are forecast to increase by more than 20%. The results will be released on 1 June.

Yet investors remain unimpressed. The stock is trading at less than half its 2014 highs. Despite a 27% surge in revenues last year, Life's headline earnings per share tumbled 57%, to hit 77.4c, the lowest since Life relisted in 2010. Dividends were halved to 80c/share.

Viranna, a tough taskmaster who gets satisfaction from learning something new and solving problems, is excited by the "unbelievably challenging" assignment offered by Life.

"I've always had a sense of purpose and passion and have always had this professional purpose of helping change healthcare, both in South Africa and, more broadly, other parts of Africa. If you look at my career chapters thus far, it's always been trying to shape healthcare provision in a manner that in some small way makes it matter in the country," he says.

Viranna, who as a teen dreamt of becoming a development test driver for Ferrari, started his career as a doctor at a state hospital in Durban in 1998. He went on to spend two years in the SA National Defence Force where he managed medical facilities. Twelve years at management consultancy McKinsey & Company followed, which saw him working in countries including Kenya, Tanzania and Nigeria. Life lured him from Discovery, which he had joined in 2013 and where he served as the head of Vitality.

In South Africa, which remains the main money-spinner for Life, government's NHI plans have created much uncertainty for private-sector players.

"Many look at something and see opportunity and go: 'Wow, this is great for our country.' Others look at the same set of facts and get anxious and worry it would bring more harm than good. The implementation and the execution, and whether we can afford it, is really the make-or-break there," Viranna says.

The Max Super Speciality Hospital in Saket, New Delhi.

He believes the question isn't "Why?" but "How?" – what matters is whether the NHI improves outcomes, from mortality rates to life expectancy, and reduces costs.

"For me, it's less about which of the models work – from state-led payer and private provision and so on. It's about what's right for the society; what's fair," he asserts. "If we pause and think: government is the best provider of good-quality care at the lowest prices, it is a fair question on us as the private sector to ask why we exist. As scary as that might sound, it's a fair question." ■

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LIFE HEALTHCARE

52-week range:	R23 - R30.52
Price/earnings ratio:	36.18
1-year total return:	14%
Market capitalisation:	R40.96bn
Earnings per share:	R0.77
Dividend yield:	2.9%
Average volume over 30 days:	4 643 937

SOURCE: IRESS

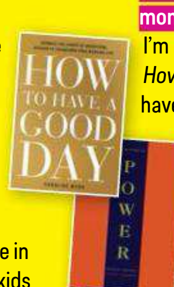
Photos: Supplied www.maxhealthcare.in/hospital-network

to the answer but rather aligning the right people so that delivery happens.

How often are you out of town and which gadgets are you never without?
Currently I'm travelling almost weekly. I never leave behind my headphones, battery pack and Minipresso.

How do you strike a balance between home and work?
I've always been quite mindful of making sure I'm present enough and we do meaningful things as a family. I tend to get away with just a few hours of sleep so can catch up with work once everyone is asleep. New roles are always demanding, as they have a period of adjustment. We've had an honest conversation at home about the reality of those demands.

What does your typical weekend look like?
I train, run, read, write poetry and take long drives in old cars. Saturdays I usually go for a long drive, and get home in time to make breakfast for the kids before we trek off to school sports. Sundays is my early long run and then a pretty mellow day unless there is MotoGP on or Manchester United is playing.



What are you reading at the moment?
I'm re-reading Caroline Webb's *How to Have a Good Day* and have just started *The 48 Laws of Power* by Robert Greene.

What is your favourite destination?
Santa Monica in the US.

Words to live by?
"Courage is not the absence of fear, but the triumph over it." ■

By Glenda Williams

New, unconventional X2 a standout in BMW stable

The German car manufacturer's compact premium sports utility vehicle, the sporty X2, makes its debut in South Africa.

Side skirts add to the athletic and rugged look of the latest models.

BMW's X-models have been given an identity that differentiates them from others in the German car manufacturer's stable. This individual positioning of X-models by BMW has, in effect, created a sub-brand, and the X2, a premium compact SUV-cum-crossover that has just arrived in the country, is an excellent example of this new breed.

The sporty crossover's unique, coupé-like personality is due to the fact that some of its siblings' characteristics have been blended in. Much of the platform suggests an X1. The low-slung seating and sporty drive hint at the BMW 1 series with a dash of Mini. Then, too, the coupé-esque sloping roofline, rounded off with a rear spoiler, is reminiscent of the X4 and X6.

Perhaps a better description of the X2 is that it creates the impression of a sportier version of the X1.

Two variants are available locally; a front-wheel-drive (FWD) 2-litre turbo petrol variant or an all-wheel-drive (AWD) 2-litre turbo diesel, both available with an M Sport or M Sport X package. Come May, the offering will be expanded to include an entry-level FWD 1.5-litre petrol variant.

finweek tested out the xDrive20d M Sport version of the new X2.

Unique exterior

The somewhat unconventional BMW X2 has retained many of the elements we saw in the concept phase. Its low-slung and coupé-esque exterior gives this compact premium sports activity vehicle (BMW-speak for an SUV) a distinctive appearance.

Design lines that include coupé language and proportions give the impression of motion and athleticism.

Although the X2 looks robust, with large air intakes on the nose, black side skirts, rugged wheel-arch trim, 19-inch alloy wheels and dual exhausts, it still manages to signal, with its sloping side profile and dipping roofline, that it is much sleeker and sportier.

The characteristic six-eyed face of the X-family includes halogen headlights and fog lamps and LED daytime running lights.

BMW's signature kidney grille, though, has a somewhat wider base on the X2.

And, in a first for an X-model, the C-pillars are adorned with a BMW badge.

Svelte yet muscular looking, the sporty five-door crossover also conveys urban charm, most notably when painted in the model's funky new colour, Galvanic Gold.

All told, it's a fresh look that makes this model a standout in the BMW stable.

A quick and responsive engine makes inclines effortless, overtaking stress-free, highway travelling relaxed and urban commuting fluid.

The higher rear end of the X2's 20i and 20d.

Quality interior fit and finish

The interior is more conventional BMW, with the usual quality cabin offerings such as perforated leather seats, driver and passenger sport seats, door trim contour lighting and a sports steering wheel with optional gearshift paddles.

Renowned BMW offerings are intuitive switchgear and instrumentation as well as a host of connectivity options accessed via the rotary controller and standard 6.5-inch screen. Optional offerings on this front include an 8.8-inch touch control display and voice control. Added standard offerings on the X2 models include navigation and Apple CarPlay.

It may fall into the compact car bracket, but the BMW X2 is fairly roomy, even for adults in the rear despite its sloping rear roof. Admittedly, the X2 boot has less capacity than that of its X1 sibling. Nonetheless, as in the X1, the rear seats can be folded down to create additional carrying capacity.

Also standard is the automatic tailgate function that makes for easy loading.

Performance

The X2 xDrive20d M Sport does all it is supposed to do on the road. The cabin is comfortable and quiet, the spirited engine is efficient, performance is smooth yet dynamic, steering precise, and the ride comfort and handling are excellent.

More a sporty urban five-door crossover than a full-blown SUV with off-road ability, the X2 offers an engaging and confident driving experience on tar. A quick and responsive engine makes inclines effortless, overtaking stress-free, highway travelling relaxed and urban commuting fluid, while the car's chassis and xDrive intelligent all-wheel drive system produce a roll-free and compliant ride.

BMW's usual three drive modes are on offer: Comfort mode, the fuel-efficient Eco Pro mode, and Sport, the last-mentioned offering dynamic steering and powertrain responses.

As its name suggests, the ride in Comfort on the standard 19-inch wheels is polished, easily soaking up road blemishes. In Sports mode, while still polished, the car stiffens up – which is a confidence booster when navigating the tight switchbacks of the Franschhoek Pass at pace.

An added confidence booster when negotiating hairpin bends is the X2's M Sport suspension, which has been lowered by 10mm for even sportier road holding. This assigns the all-wheel-drive X2 a lower centre of gravity, which gives the car more grippiness in the turns.

Specially adapted anti-roll bar bearings and Dynamic Damper Control (shock absorption) – also a standard feature on the M Sport suspension – provide enhanced sportiness and dynamism.

If steep descents make you uncomfortable, fear not – another standard offering is the model's Hill Descent Control, a feature that automatically maintains a desired speed and controls braking on steep descents.

Low-slung seating helps one feel more at one with the car and imparts a sportier feel. But for better visuals and a more SUV-like experience, higher seating is a better fit, a feature that is easily adjusted, albeit manually.

Many camera-based semi-autonomous driving features that include active cruise control, lane departure and pedestrian warning are optional, as is the full colour head-up display.

As a fan of the torque that comes with a diesel mill, it came as somewhat of a surprise to me when I found myself favouring the X2 sDrive 20i petrol variant (also tested) over the diesel version.

Ironically, given the added torque of the 20d, the 20i felt more responsive on the straight. Perhaps it had something to do with the spread of the 20i's gears. The 20i petrol model has an efficient seven-speed gearbox, which is more than enough for the mill's requirements.

However, the 20d diesel variant has an eight-speed gearbox, the additional spread being required to convert the torque.

While the 20d's gearbox comes with textbook shifting, perhaps the smidgen of turbo lag I thought I detected on an incline turn in the 20d had more to do with gear ratio spread than with turbo lag.

But in the X2 20d's defence, time did not allow for a rigorous analysis of the petrol variant, nor was the 20i tested on the pass, which might have changed my view of the petrol version.

Crisp design, a quality build, premium interior, sporty performance, ample space, and excellent safety features all make for a good recipe. All that, though, does not come cheap.

But the X2's biggest strength – aside from its refreshing looks, unconventional personality and spirited and agile performance – is the unity that it rekindles between driver and car.

The X2 is a vehicle I felt more at one with than any other in the X-range. That probably has much to do with its size, sporty personality and lower centre of gravity – all of which speak to more dynamism and driver engagement. ■

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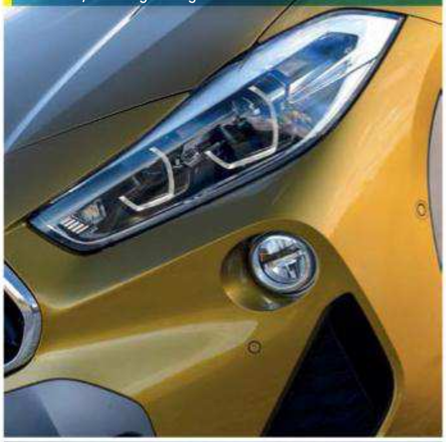
From top to bottom: Halogen and LED lights with a hexagonal bumper treatment; large air intakes on the front of the car; and elegant ergonomic interior.



Tested: BMW X2 xDrive20d M Sport

Engine: 2-litre 4-cylinder
Transmission: 8-speed automatic
Power/Torque: 140kW/400Nm
0-100km/h: 7.8 seconds
Top speed: 221km/h
Fuel: 5 litres/100km (claimed, combined)
Fuel tank: Approx. 51 litres
Ground clearance: 182mm
Turning circle: 11.3 metres
Luggage capacity: 470-1 355 litres
CO_2 emissions: 131g/km
Safety: Driver and front passenger airbags and side airbags, head airbags for front and rear seats, crash sensors, tyre defect indicator.
Service/maintenance Plan: 5 yr/100 000km motor plan
Price at launch (incl. 15% VAT but excluding CO_2 emissions tax): R699 000 (M-Sport package)

By Amanda Visser

How to deal with colleagues when you're the new boss

So you got that promotion and now your peers are suddenly your subordinates. Experts explain how to make this transition easier for your new team.

A team of peers may operate with relative ease when each member has the same rank, status and sources of power. When one person's status or rank changes due to a promotion, this unspoken power dynamic changes too.

If you get that big job rather than your colleagues, some may be happy for you, but others may resent that they have been overlooked.

Katlego Kolobe, founder of Thrive Live Design, says all relationships have a power dynamic. This dynamic dictates how the relationships work.

"We must act and interact in correlation to our sources of power," she says. Once a peer becomes the boss, their behaviour must change. But change is difficult for most people to handle and some may resist it.

Kolobe also warns against the new boss trying to remain "one of the team". The power dynamic has changed and it will not be sustainable to ignore this.

Mark Murphy, the founder of Leadership IQ, says you can't really control it if a few former co-workers becomes upset with you for getting the promotion. "Trying to discuss their feelings of anger is likely to make the situation worse," he writes in a *Forbes* article.

The change in dynamics depends on the situation. If the co-worker has been promoted on merit and colleagues believe in that individual's skills, then it is more likely that they will be supportive. Management's decision may even be celebrated.

Industrial and organisational psychologist Ann Werner says if the team does not approve of the new appointment and there are others better equipped to manage it, then there is a good chance the new boss will be met with resistance: "There will be increased difficulty for the new boss to gain support and to make a success of the strategies and approach he would like to use."

"Leaders who succeed will address behaviour changes in themselves and others. They tend to make the changes normal rather than avoiding them."

Shutterstock

Allow time for adjustment:
Kolobe says transparent communication and team-building processes can help the team adjust in the long term to allow for healthy new dynamics.

She suggests one-on-one conversations with the team members as well as team conversations relating to the change. "Leaders who succeed will address behaviour changes in themselves and others. They tend to make the changes normal rather than avoiding them."

Murphy says the new boss has to be empathic, but does not have to get sucked into conversations about team members' feelings.

He warns of the possibility that co-works might say hurtful things when the new leader starts talking about why former team members resent the change, or why the team appears to be angry. If the new boss tries to defend himself, he might also be tempted to say hurtful things.

"The net result of such a conversation is that there will be lots of hurt feelings. You will end up spending your days trying to repair the hurt instead of succeeding at your new manager job," Murphy says.

Werner agrees and notes that the way the new manager responds to those who support him, and those who do not, is critical. Change always requires a time of adjustment and it is important for the boss to be sensitive to a range of natural behavioural responses such as envy, resistance and even resentment.

Friends of the new leader will not expect undue favour. And any "perception of favouritism" should be nipped in the bud, says Kolobe.

Create a supportive environment:
Help the team to adjust by encouraging open discussions about concerns and creating a supportive environment. Testing the water about the new

Katlego Kolobe
Founder of
Thrive Live Design

Ann Werner
Industrial and
organisational psychologist

group dynamics really means "sensing" them and applying strategies and incentives to reach an optimal "temperature", says Werner.

Kolobe provides pointers for a new manager:

- Take full responsibility for your behaviour, and understand the new team dynamic as the leader;
- To establish your authority, ask for help from the human resources team, your own boss and from team members who are supportive;
- Acknowledge informal leaders in the team to earn their "buy-in";
- Own your new role fully. If you try to remain a peer while having the privilege of being the boss it will not work in the longer term; and
- Be considerate of the fact that resistance to change is not a personal attack, but rather a normal response to uncertainty.

Determine the new direction:

Murphy says the new leader should focus the team's direction towards the goals it has to achieve. "When people have something to think about besides themselves and their own feelings, their energy can be directed more productively."

He also advises new leaders to enquire about their team members' aspirations. Despite the fact that they did not get the promotion, it is likely that there are other opportunities within the firm.

"Discuss their career goals and think about ways you can help them position themselves. [...] You now have access to resources, insights and training that can help the team grow and develop."

Werner says the mere knowledge that the leader cares about his employees on an individual level and how they fit into the team, and knowing how the new leader wants to use their skills, is often enough to win team members over.

Managers can also take inspiration from Japanese ideology, which focuses on servant leadership.

This is an inclusive approach, where the leader is on the floor with the team. Servant leaders help find solutions, check in on the team's progress and provide guidance, feedback and leadership, Werner explains. ■

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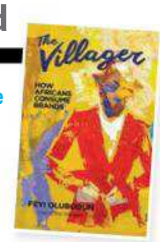
Photos: Supplied



We'd like to congratulate Thokozani Mavuso, who won a book prize in a recent giveaway. Well done! This week, one lucky reader can win a copy of *The Villager: How Africans Consume Brands* by Feyi Olubodun. To enter, complete the online version of this quiz, which will be available via fin24.com/finweek from 23 April.

1 Which company intends to relist on the JSE?
- Steinhoff
- Kumba Iron Ore
- Consol Glass

2 **True or false?** Lesotho is part of the Commonwealth.

3 Of which country is Luiz Inácio Lula da Silva, known simply as Lula, the former president?

4 What is Coachella?
- A new auto manufacturer
- A music festival
- A brand of beer

5 **True or false?** Sars has not yet announced how it intends to tax gains from cryptocurrencies.

6 In which country is ATM Holdings headquartered?

7 **True or false?** Cape Town International Airport is to be renamed.

8 What is the Pomodoro Technique?
- A way of selecting stocks
- A technique for preparing vegetables
- A time management method

9 **True or false?** The EFF has called for each sector to have its own minimum wage.

10 Supply the missing word: 4IR stands for Fourth _______________ Revolution

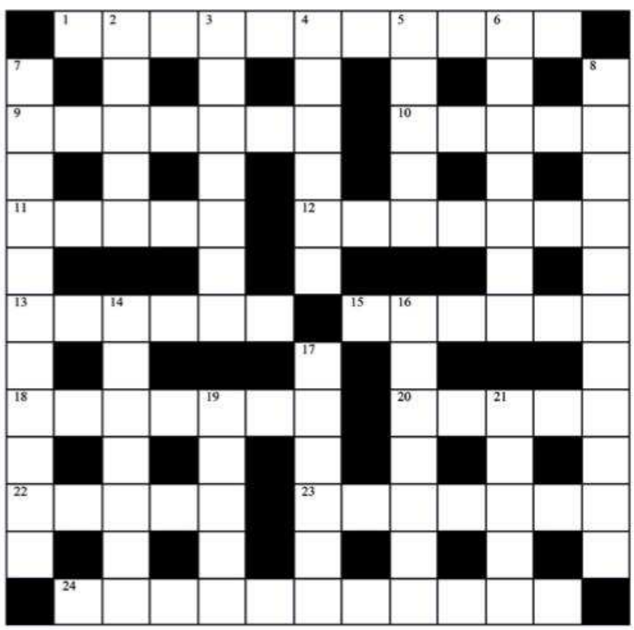
CRYPTIC CROSSWORD NO 706JD

ACROSS

1 Automatically run out to writer taking books to friend (11)
9 Cheer noble right to the end (7)
10 Recorded studies show fourth stomachs in ruminants (5)
11 Private landlady (5)
12 Getting more awkward in Georgia by the week? That's right! (7)
13 European writer featured in learner book (6)
15 Know, and more than that, back the African (6)
18 French King's time with English Queen should be uproarious (7)
20 Return on investment leads doctor up the downs! (5)
22 Confused man embraces Old English "the perceived object, as perceived" (5)
23 Online contributor against fella, we hear (7)
24 It will be a hairy result with a narrow margin separating Bill and Ed (11)

DOWN

2 Theatre needs to resolve long term debt first (5)
3 Foe near, perhaps, to changing sides for no consideration (2,1,4)
4 Gee, CIA's out in the cold, period! (3,3)
5 Director of school for East Enders (5)
6 Flower girl always goes around in a wary manner (7)
7 Perplexing existence in which to find Mad Queen (11)
8 Star-gazers worked from strange zero-gravity rooms (11)
14 Unaffected by Lawrence's frankness (7)
16 Sees alternative to mineral wasteland (7)
17 Solicits credit to go to "The Birds" (6)
19 Time ahead for show (5)
21 Find out about short rod, go on without a pause (5)



Solution to Crossword NO 705JD

ACROSS: 1 Reichstag; 8 Lam; 9 Assassinate; 11 Signs in; 12 Umber; 13 Acidic; 15 Gloria; 17 Pride; 18 Die-hard; 20 Astringency; 22 Own; 23 Algedonic

DOWN: 2 Eos; 3 Hosts; 4 Triune; 5 Gradual; 6 Plea-bargain; 7 Ampersand; 10 Significant; 11 Star-proof; 14 Inertia; 16 Adding; 19 Edged; 21 Chi

On margin

When winter madness grips SA's office workers

This issue's Zulu word is *ukuhlanya*. *Ukuhlanya* is madness/to go crazy. The root word is *hlanya* (mad/insane).

Whenever we switch from summer to autumn and the temperatures begin to drop, *ukuhlanya* starts to rear its ugly head. Nothing highlights this madness like the Great Office Aircon Wars. These wars start early in April and last until deep into September, with the most brutal skirmishes taking place in June and July.

That is six months of *ukuhlanya*, half the year. During this period, colleagues who are usually cordial to each other are at each other's throats. There's name-calling, plotting, conspiracies, tears and lots of chattering teeth.

You've probably noticed that at the beginning of April some people already started wearing boots, long johns and electrically heated onesies to the office because of the *ukuhlanya* of office aircon wars. It's their body armour.

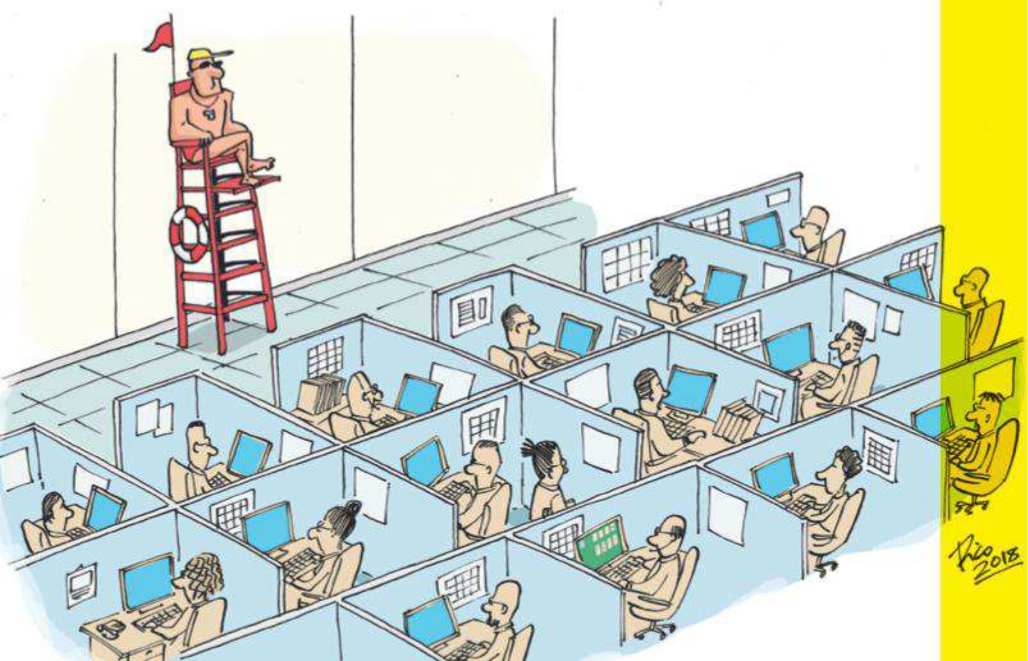
As long as South Africans continue to work in air-conditioned offices, this country will never know peace. Forget land, the aircon is the real fly in the rainbow-coloured ointment.

It's *ukuhlanya*.

Outside the office, this drop in temperature helps some of us acclimatise to the *ukuhlanya* that is shopping at Woolies. In summer the difference between atmospheric temperature and Woolies temperature makes it too risky to simply waltz in there without an electrically heated jacket, but it isn't as dangerous during this time of the year.

So, fellow South Africans, I implore you to think carefully before reaching for the aircon switch at work between now and September. You might lose a hand. This is a sensitive time. Managers and company owners, yes, you might be in charge but that doesn't mean the temperatures you find comfortable work for everyone else. This kind of thinking is *ukuhlanya*.

– *Melusi's Everyday Zulu,* by Melusi Tshabalala



Verbatim

Conrad Clifford @Conradcl
A Steinhoff share now costs less than a lotto ticket, just saying.

Stephen Colbert @StephenAtHome
Almost feel bad for Zuckerberg. There's no way he left that room full of old people without having to set up their WiFi.

Scapegoat @AndiMakinana
Patricia de Lille: "You know what I learnt from Mama Winnie, politics is not for sissies...
"She was not the kind of a politician that when you hit her on one cheek, she gives you the other cheek; she klapped you back!"

Tom Eaton @TomEatonSA
ANC says it is regaining ground.
DA says it is growing.
EFF says it is growing.
2019 is going to be a shock for some people.

turanga maison @maisonshouting
I had no idea that half of my time spent at work would be deciding the most passive aggressive way to list people in the To/Cc/Bcc fields.

Yiddish Proverbs @YiddishProverbs
A meowing cat catches no mice.
– Yiddish proverb

Kent Graham @KentWGraham
Sometimes I go into the fitting room with jeans three sizes too big so I can feel what it's like to succeed at a diet.

"What you choose to work on, and who you choose to work with, are far more important than how hard you work."

– Naval Ravikant, CEO and co-founder of AngelList, a website for start-ups, angel investors and jobseekers looking to work at start-ups.