Bekker Investments

ASSURANCE, INSURANCE & INVESTMENT BROKERS

News from Paul's Desk

Local markets have lost about 4% and the offshore markets are down 2-3%. The Rand fell through the floor again.

The new investment theme (and I think for the future) is AI, Artificial Intelligence. This is companies who specialize in making robots predominately. I have shares in a pre-listed health care company in London. I had a teams meeting two weeks ago with the members of the board and they said that in 10 years' time 50% of medical procedures will be performed by robots. I don't know whether to be excited or scared.

So, we have investigated this AI arena, and have come up with two shares, Symbotic and Nvidia, which we have put on our watch list. Nvidia has returned 62% pa. average for the last 10 years and Symbotic (new company) 211% in the last 12 months.

So, if you feel the urge for a bit of risk, these are the shares to buy.

Inside this issue:

MONTHLY REVIEW | GLOBAL OVERVIEW

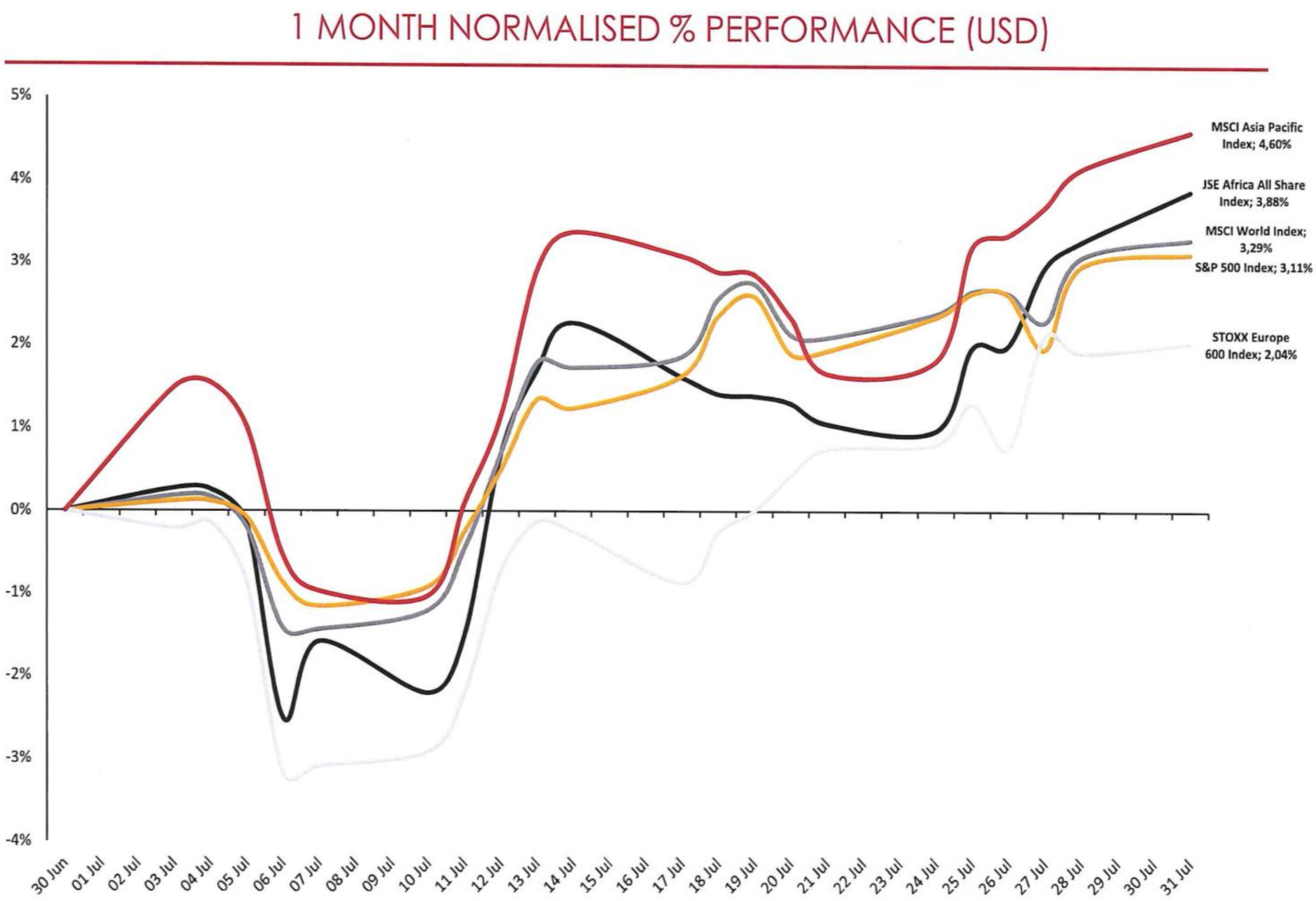
INTERNATIONAL INDICATORS	CLOSE	JUL 2023	JUN 2023	YTD	12 MONTHS	2022
MSCI World	3064.30	3.29%	5.93%	17.74%	11.58%	-19.46%
MSCI Emerging Market	1046.91	5.80%	3.23%	9.47%	5.35%	-22.37%
JP Morgan EMBI	810.38	1.61%	1.93%	5.48%	5.20%	-16.45%
Bloomberg Global Aggregate	455.43	0.69%	-0.01%	2.13%	-2.70%	-16.25%
UNITED STATES						
S&P 500	4588.96	3.11%	6.47%	19.52%	11.11%	-19.44%
Dow Jones	35559.53	3.35%	4.56%	7.28%	8.26%	-8.78%
Nasdaq	14346.02	4.05%	6.59%	37.07%	15.78%	-33.10%
Russell 2000	2003.18	6.06%	7.95%	13.74%	6.26%	-21.56%
EUROPE						
Stoxx Euro 50	4471.31	1.64%	4.29%	17.86%	20.58%	-11.74%
FTSE 100	7699.41	2.23%	1.15%	3.32%	3.72%	0.91%
DAX 30	16446.83	1.85%	3.09%	18.12%	21.97%	-12.35%
CAC 40	7497.78	1.32%	4.25%	15.82%	16.27%	-9.50%

ASIA	CLOSE	JUL 2023	JUN 2023	YTD	12 MONTHS	2022
Nikkei 225	33172.22	-0.05%	7.45%	27.12%	19.32%	-9.37%
S&P/ASX 200	7410.42	2.88%	1.58%	5.28%	6.70%	-5.45%
Hang Seng	20078.94	6.15%	3.74%	1.50%	-0.38%	-15.46%
CSI 300	4014.63	4.48%	1.16%	3.69%	-3.73%	-21.63%
SOUTH AFRICA						
All Share	78977.89	3.88%	1.28%	8.12%	14.57%	-0.90%
Africa Resource 20	64264.98	3.66%	-8.17%	-9.24%	0.00%	-0.24%
Africa Industrial 25	109103.70	2.52%	3.55%	20.81%	29.86%	-5.39%
Africa Finance 15	17332.55	7.94%	11.39%	11.64%	13.59%	4.91%
CURRENCIES						
GBP/USD	1.28	1.15%	2.10%	6.23%	5.46%	-10.71%
EUR/USD	1.10	0.81%	2.05%	2.73%	7.87%	-5.85%
AUD/USD	0.67	-0.11%	2.48%	-1.40%	-4.70%	-6.20%
USD/JPY	142.29	-1.40%	3.56%	8.52%	5.76%	13.94%

MONTHLY REVIEW | GLOBAL OVERVIEW

10 YEAR BOND YIELDS	CURRENT MONTH YIELD %	PREVIOUS MONTH YIELD (%)	PREVIOUS YEAR YIELD (%)
United States	3.96	3.84	2.65
United Kingdom	4.31	4.39	1.86
Germany	2.49	2.39	0.82
Japan	0.61	0.40	0.19
Australia	4.06	4.02	3.06
South Africa	11.53	11.76	10.79

GLOBAL INTEREST RATES	RATE
United States Fed Funds Rate	5.25% - 5.50%
European Central Bank Rate	4.25%
Bank of England Rate	5.00%
Bank of Japan rate	-0.10%
Reserve Bank of Australia Rate	4.10%
South Africa Prime Rate	11.75%


1 MONTH NORMALISED % PERFORMANCE (USD)
5%
4%
3%
2%
1%
0%
-1%
-2%
-3%
-4%
30 Jun
01 Jul
02 Jul
03 Jul
04 Jul
05 Jul
06 Jul
07 Jul
08 Jul
09 Jul
10 Jul
11 Jul
12 Jul
13 Jul
14 Jul
15 Jul
16 Jul
17 Jul
18 Jul
19 Jul
20 Jul
21 Jul
22 Jul
23 Jul
24 Jul
25 Jul
26 Jul
27 Jul
28 Jul
29 Jul
30 Jul
31 Jul
MSCI Asia Pacific Index; 4,60%
JSE Africa All Share Index; 3,88%
MSCI World Index; 3,29%
S&P 500 Index; 3,11%
STOXX Europe 600 Index; 2,04%

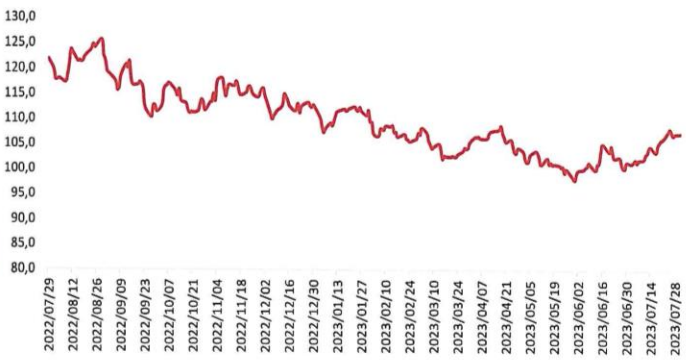
COMMODITIES

Commodities ended the month of July higher as a whole, with Oil and Copper leading the gains.

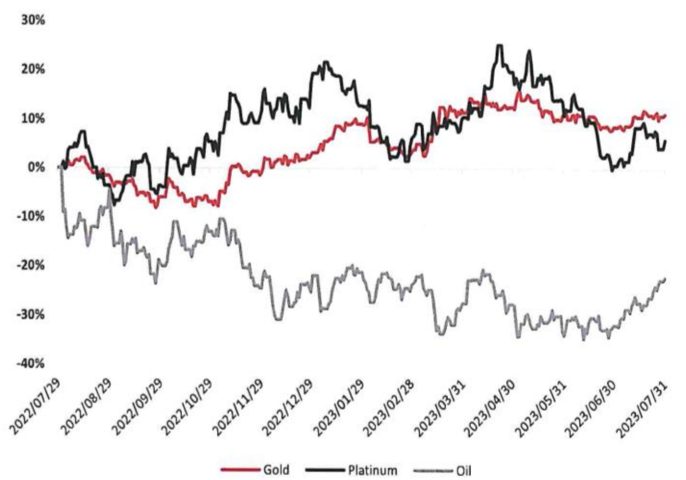
- The Bloomberg Commodity Index reached 107.3 at the end of July, the index tracks 23 commodities

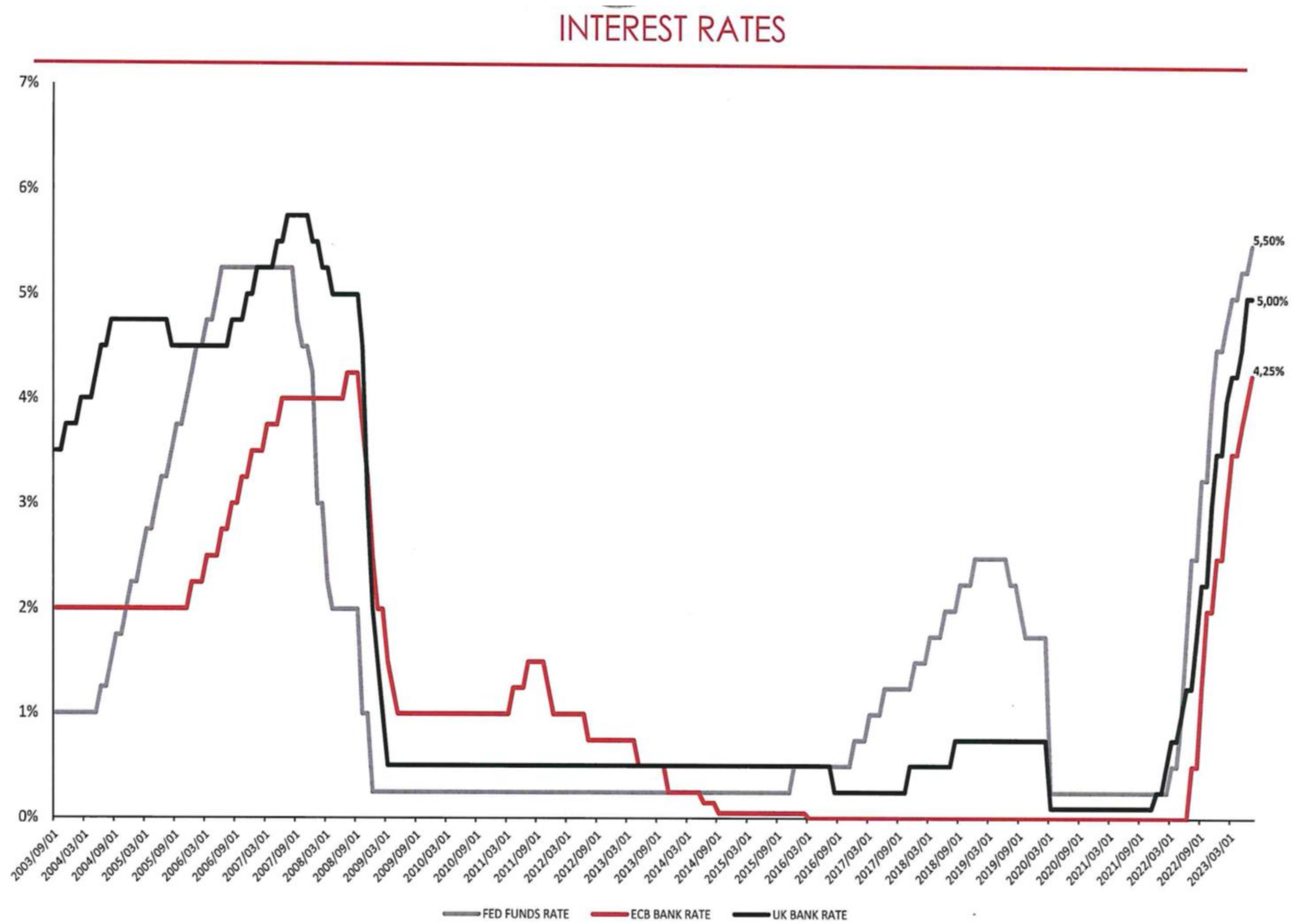
USD	CLOSE	JUL 2023	JUN 2023	YTD	12 MONTHS	2022
Gold	1970.50	2.13%	-1.76%	7.90%	11.78%	-0.13%
Platinum	958.60	5.98%	-9.46%	-10.72%	7.73%	11.33%
Silver	1275.60	4.39%	-8.87%	-29.05%	-40.10%	-5.97%
Palladium	400.80	7.14%	2.86%	5.18%	12.16%	-14.63%
Copper	24.97	9.48%	-3.29%	3.88%	23.64%	2.95%
Aluminium	2256.51	6.39%	-5.42%	-3.96%	-9.78%	-16.18%
Oil Spot	85.56	14.23%	3.08%	-0.41%	-22.23%	10.45%
Coal	137.30	7.22%	-5.15%	-66.03%	-66.34%	138.30%
Natural Gas	2.63	-5.86%	23.48%	-41.14%	-67.99%	19.97%
Sugar	24.11	5.33%	-8.66%	20.31%	37.46%	6.14%
Coffee	164.65	2.27%	-9.88%	-1.58%	-24.19%	-26.01%
Wheat	665.75	2.27%	7.07%	-17.76%	-21.51%	13.34%
Corn	513.00	3.69%	-5.17%	-16.00%	-11.59%	21.66%

1 Year | Bloomberg Commodities Index



1 Year |Gold, Platinum, Oil




INTEREST RATES
7%
6%
5%
4%
3%
2%
1%
0%
5,50%
5,00%
4,25%
2003/09/01
2004/03/01
2004/09/01
2005/03/01
2005/09/01
2006/03/01
2006/09/01
2007/03/01
2007/09/01
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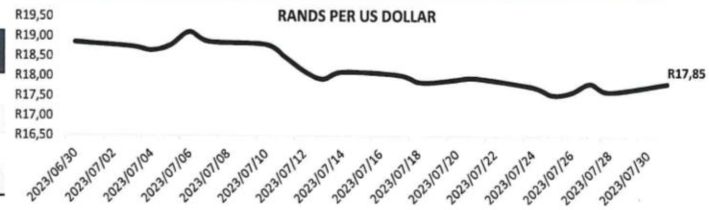
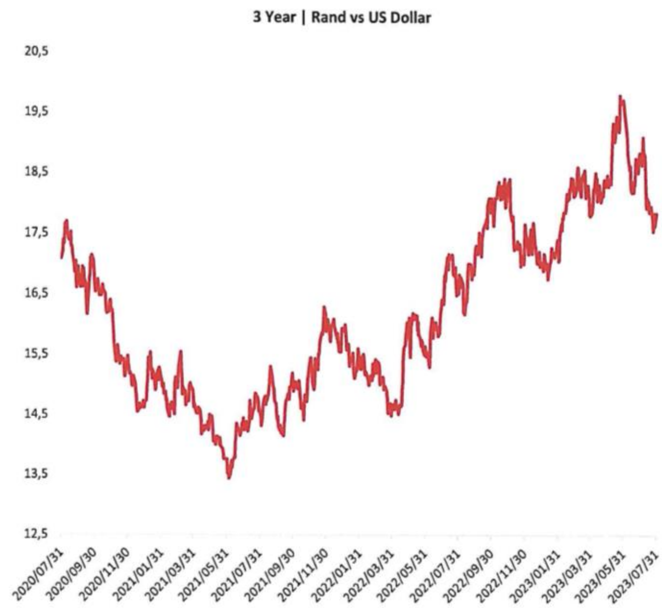
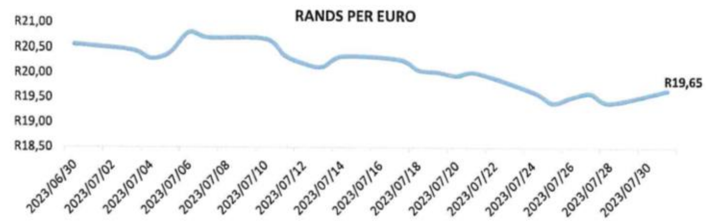
2020/03/01
2020/09/01
2021/03/01
2021/09/01
2022/03/01
2022/09/01
2023/03/01
FED FUNDS RATE
ECB BANK RATE
UK BANK RATE

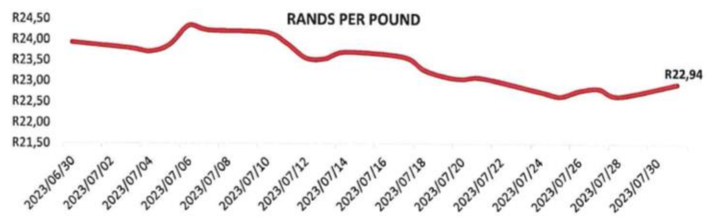
SOUTH AFRICAN RAND

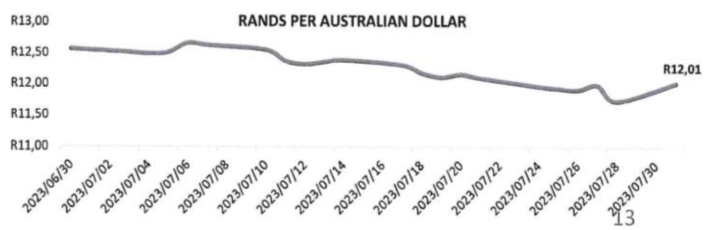
	CLOSING PRICE	JUL 2023	JUN 2023	YTD	2022
US Dollar / ZAR	R17.85	5.31%	4.45%	-4.76%	-6.90%
Euro/ ZAR	R19.65	4.42%	2.48%	-7.76%	-0.56%
Pound / ZAR	R22.94	4.13%	2.51%	-11.31%	4.49%
AU Dollar / ZAR	R12.01	4.42%	3.06%	-3.39%	-0.28%

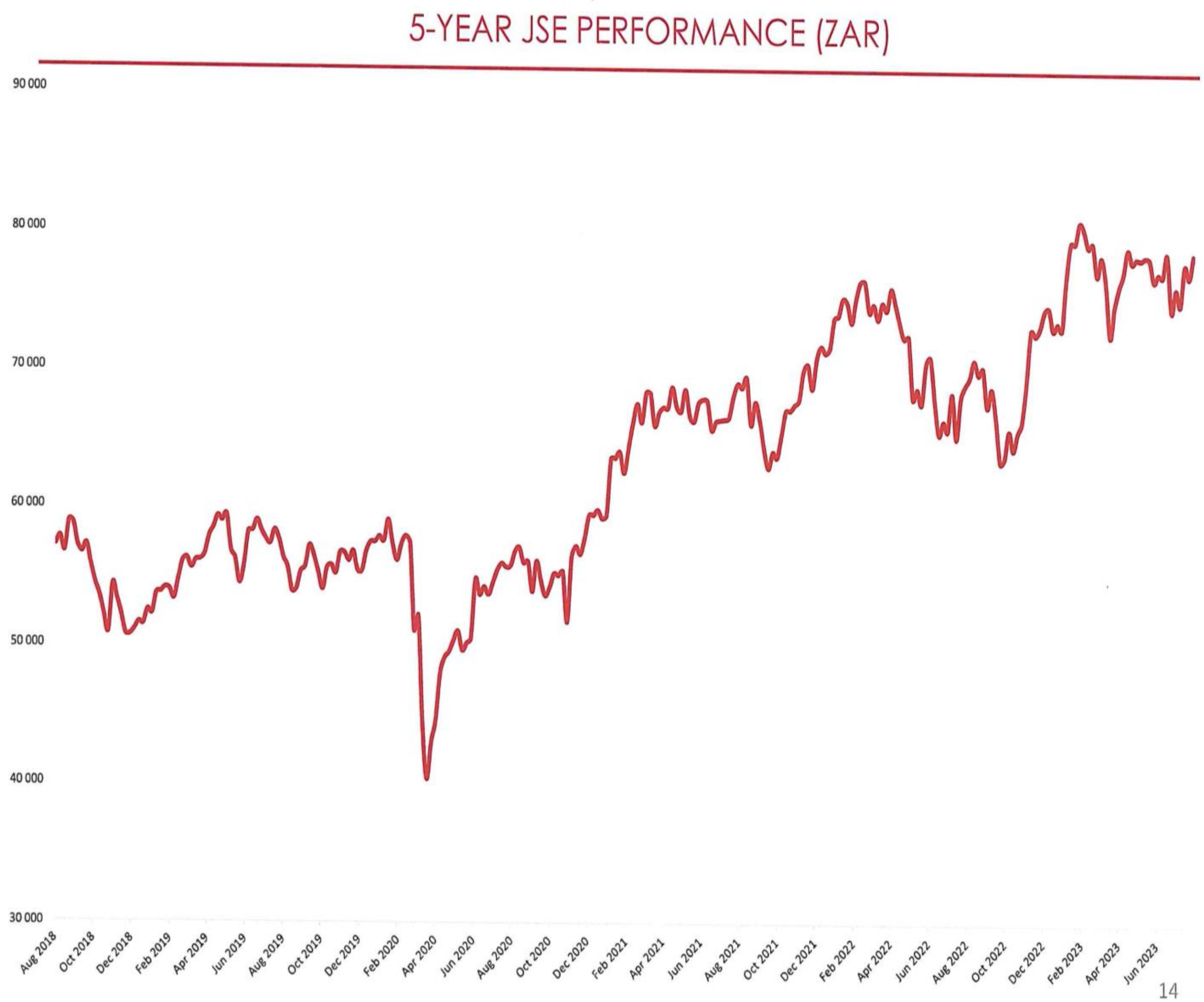






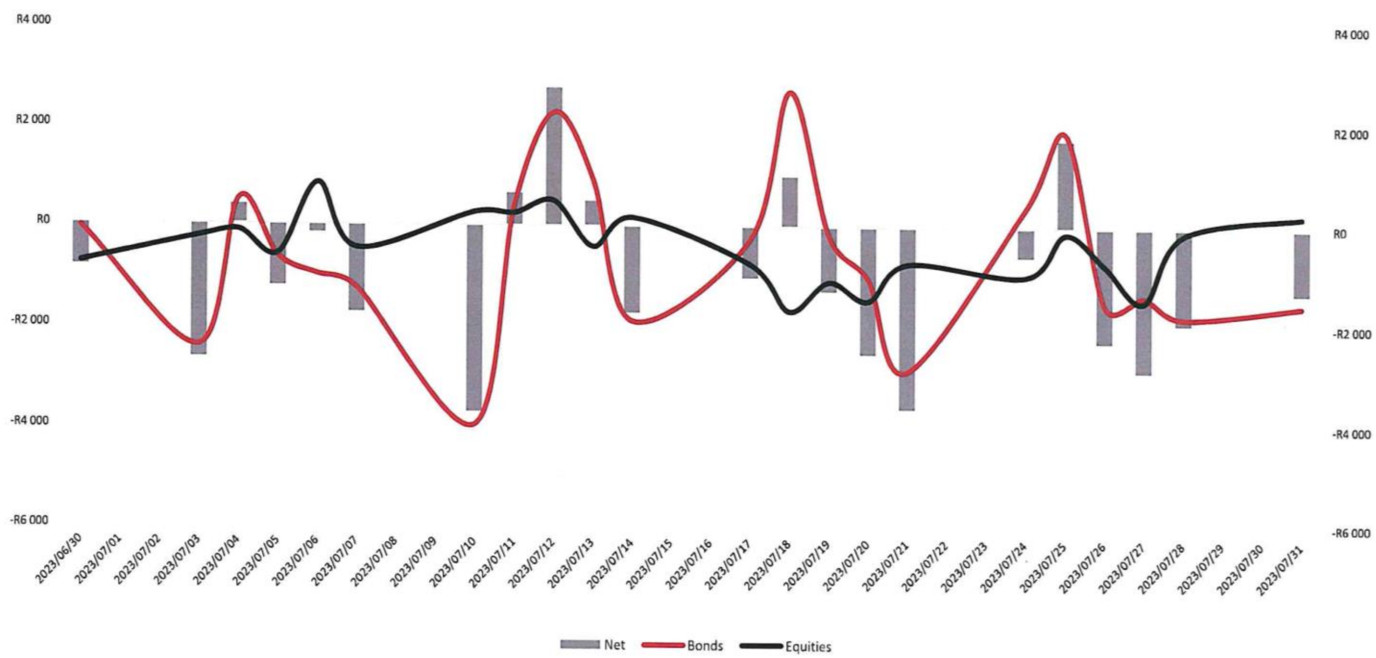


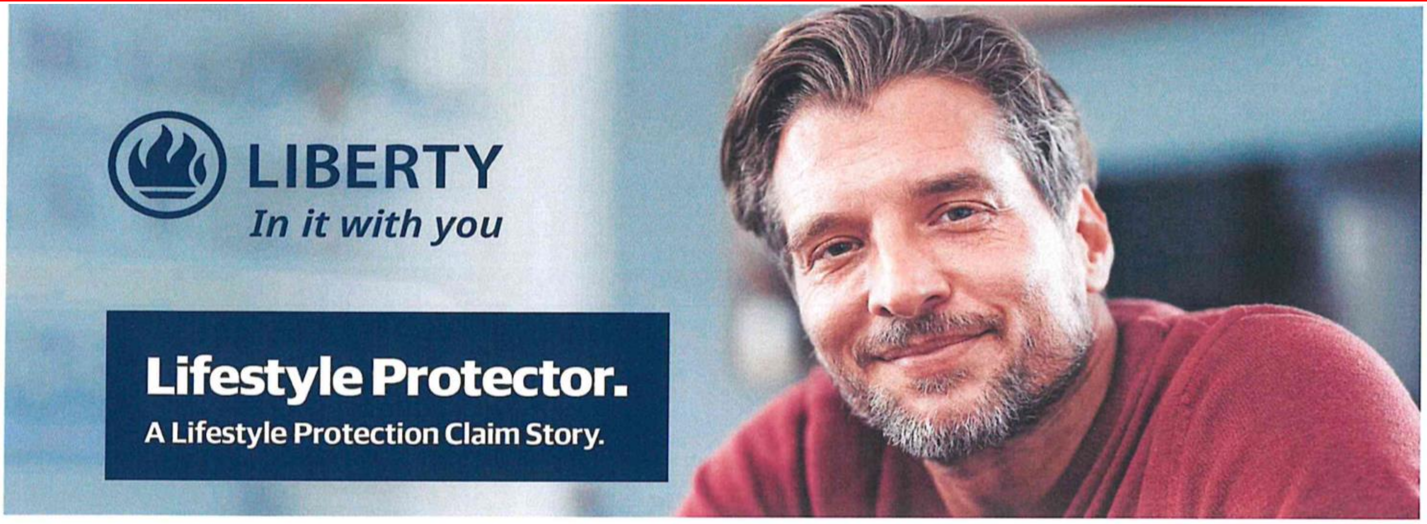



5-YEAR JSE PERFORMANCE (ZAR)
90 000
80 000
70 000
60 000
50 000
40 000
30 000
Aug 2018
Oct 2018
Dec 2018
Feb 2019
Apr 2019
Jun 2019
Aug 2019
Oct 2019
Dec 2019
Feb 2020
Apr 2020
Jun 2020
Aug 2020
Oct 2020
Dec 2020
Feb 2021
Apr 2021
Jun 2021
Aug 2021
Oct 2021
Dec 2021
Feb 2022
Apr 2022
Jun 2022
Aug 2022
Oct 2022
Dec 2022
Feb 2023
Apr 2023
Jun 2023
14

INTERNATIONAL FLOWS

	LAST PRICE	1 MONTH	YEAR-TO-DATE	1 YEAR
SA Equity Sales to Foreigners	241.89	-9645.52	-78463.40	-133852.84
SA Bond Sales to Foreigners	-1556.24	-12839.36	-230427.30	-322476.23
Net	**-1314.35**	**-22484.88**	**-308890.70**	**-456329.08**





How critical illness cover gave Brian[1] a fighting chance.

As a Financial Adviser who has been in this industry for a long time, I have been through many ups and downs with my clients. I realised very early in my career that critical illness cover should be one of those non-negotiables for every client that was able to afford it.

Something I have experienced over the years is that when clients are diagnosed with a life-altering disease, some medical aids do not cover all the costs that come with such a life-altering diagnosis. All the while, medical technology continues to expand, but often these new technologies and procedures are expensive, and even with medical aid benefits, it can be hard to gain access to much needed treatment. One of these treatments for example, is immunotherapy.

When I learned about immunotherapy and what it could achieve when dealing with some cancers, I started to educate my clients about the costs associated with this type of treatment. Especially how much harder it would be to access this treatment due to the high cost. This was the kind of conversation I had with Brian when discussing the importance of critical illness cover and how a payout under this benefit could help access medical advanced treatment such as immunotherapy.

One day, I got a call from Brian to let me know that he had been diagnosed withprostate cancer.

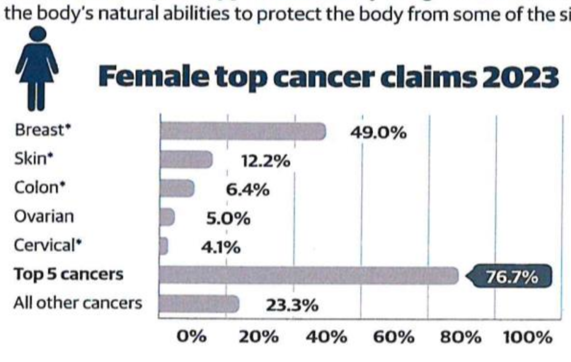
He had a significant amount of treatment to go through as his **prostate-specific antigen (PSA)** levels were extremely high. Further investigation found that he had a spot on his lungs and on his spine. Even though he faced a difficult road ahead. Brian had sufficient critical illness cover that **paid out R4.5 million**.

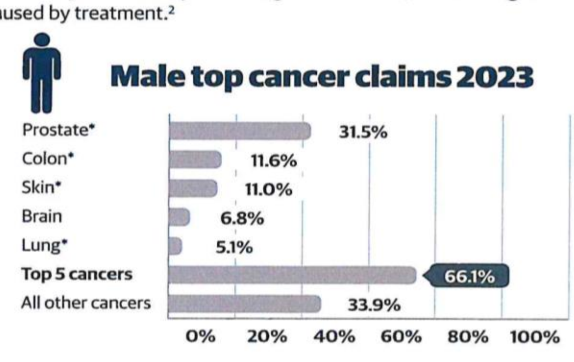
Two years after his diagnosis, Brian is in remission. His payout afforded him the ability to include new medical technologies such as immunotherapy in his treatment plan, giving him a fighting chance.

Did you know?

Immunotherapy is a form of treatment to stimulate or restore the ability of the body's immune (defence) system to fight infection and disease. The two forms of immunotherapy are **monoclonal antibodies and biological therapy.**

Monoclonal antibody therapy uses laboratory-designed treatments to empower the body's immune system to fight cancer cells, while biological therapy uses the body's natural abilities to protect the body from some of the side effects caused by treatment.[2]



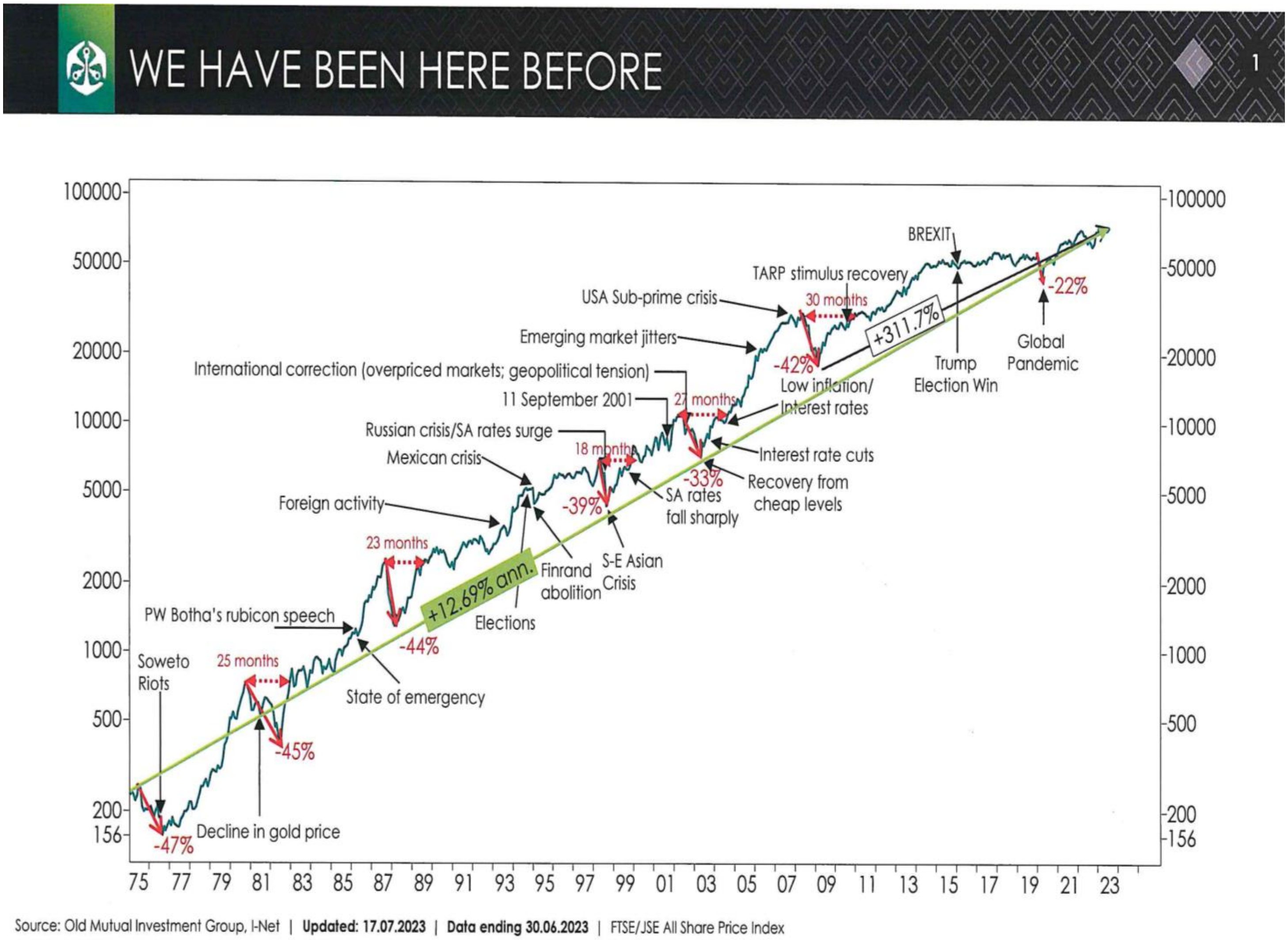


(*) These cancers are named as the top 6 Invasive Cancers in South Africa.[3]

[1] The client involved in this claim story is a Liberty policyholder. Neither the adviser nor the client has been compensated for their participation in this claim story. The testimonial made in this claim story is based on the actual experiences of the specific person.

[2] https://cansa.org.za/files/2021/07/Fact-Sheet-and-Position-Statement-on-the-Risks-of-Alternative-Cancer-Therapies-July-2021.pdf

[3] https://cansa.org.za/south-african-cancer-statistics/


WE HAVE BEEN HERE BEFORE
1
100000
50000
20000
10000
5000
2000
1000
500
200
156
BREXIT
TARP stimulus recovery
USA Sub-prime crisis
30 months
-22%
+311.7%
Emerging market jitters
Global
Pandemic
-42%
Trump
Election Win
International correction (overpriced markets; geopolitical tension)
Low inflation/
Interest rates
11 September 2001
27 months
Russian crisis/SA rates surge
18 months
Interest rate cuts
Mexican crisis
-33%
Recovery from
cheap levels
SA rates
fall sharply
Foreign activity
-39%
23 months
S-E Asian
Crisis
Finrand
abolition
+12.69% ann.
Elections
PW Botha's rubicon speech
-44%
Soweto
Riots
25 months
State of emergency
-45%
Decline in gold price
-47%
75 77 79 81 83 85 87 89 91 93 95 97 99 01 03 05 07 09 11 13 15 17 19 21 23
Source: Old Mutual Investment Group, I-Net | Updated: 17.07.2023 | Data ending 30.06.2023 | FTSE/JSE All Share Price Index

LESSON 1

INFLATION IS YOUR ENEMY

John Orford, Portfolio Manager

IN A NUTSHELL

Many of us suffer from "inflation illusion", as we do not notice how inflation erodes spending power over time. Unless you can grow your investments at least in line with inflation, you will face a declining standard of living in retirement. This is why it is important to plan carefully and ensure you invest in assets that can deliver inflation-beating returns in the long run. It is also why you should consider investment returns in "real" terms.

Who wouldn't be pleased with a salary increase? However, the real question is: Has your income kept pace with inflation? If not, your spending power has decreased or, to put it differently, your standard of living is going down. What really matters is your REAL income – that is, after stripping out inflation. Similarly, for long-term investors, thinking about real returns is vital. Inflation erodes spending power over time and is the biggest threat to an investor's future income.

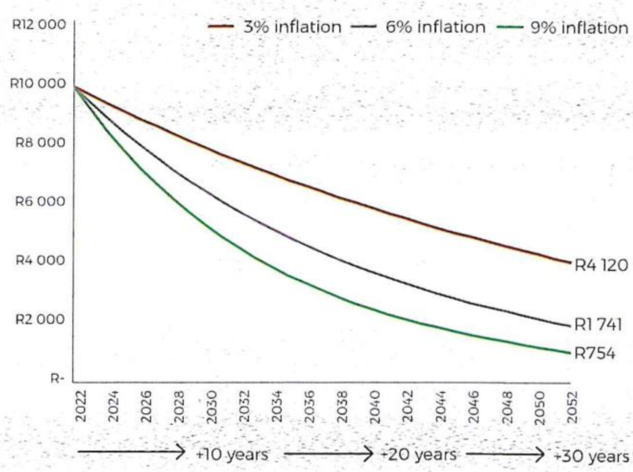
How does inflation erode your spending power? Quite simply, inflation is the rate at which the prices of goods increase. If your income and wealth don't rise by at least the same percentage, then your spending power diminishes.

Consider Chart 9 that shows the impact of inflation on spending power over time. At inflation of 3% a year, a fixed monthly retirement income of R10 000 today will decline in real terms to about R4 100 a month over 30 years. This means that in 30 years from now, you will be able to buy less than half of what you can buy today. That's an uncomfortable amount of downsizing! At higher rates of inflation of say 6% or 9% a year, the chart shows that the real decline in your spending power is even greater.

> "Inflation is as violent as a mugger, as frightening as an armed robber and as deadly as a hit man."
>
> Ronald Reagan

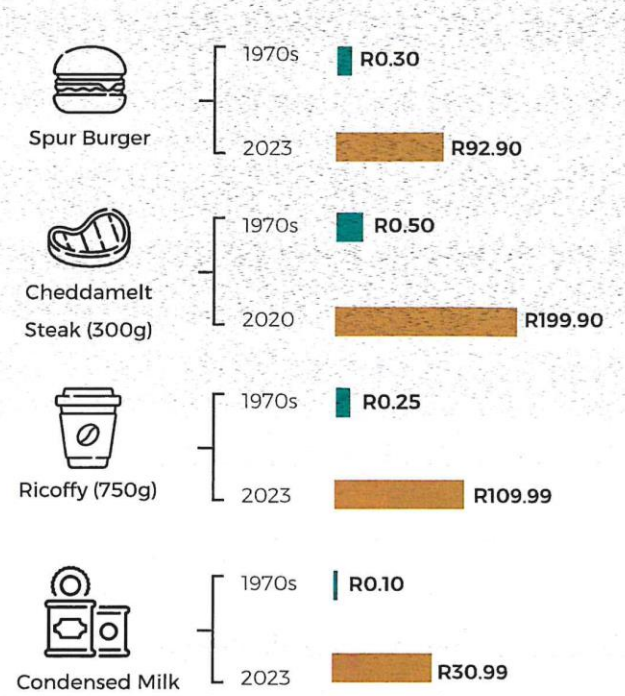
CHART 9: IMPACT OF INFLATION ON RETIREMENT INCOME

Illustrative: The eroding effect of different rates of inflation on R10 000



THE IMPACT OF INFLATION ON OUR EVERYDAY LIVES

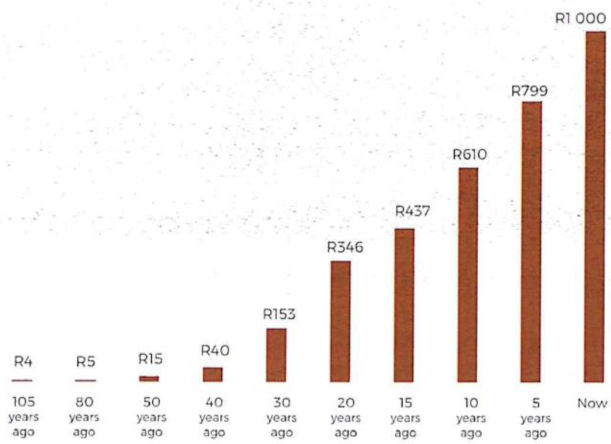
In addition to eroding your spending power, inflation also causes the prices of goods to go up. A look back in time shows how much some South African favourites cost compared with today's prices.



Similarly, using the average inflation rate over the past 109 years of 5.4% a year, Chart 10 shows how inflation impacts the cost of goods.

CHART 10: THE VALUE OF A BASKET OF GOODS THAT COSTS R1 000 TODAY

Inflation rate of 5.4% a year



Ten years ago, you would have paid 60% of what it costs today for a basket of consumer goods. Twenty years ago, it would have cost around one-third of what you would pay today to fill your trolley.

The key lesson for investors is that unless you can grow your investments at least in line with inflation, you will face a declining standard of living in retirement. This highlights how important it is to plan carefully and ensure that you invest in assets that can deliver inflation-beating returns in the long run.

THE HISTORY OF INFLATION IN SOUTH AFRICA

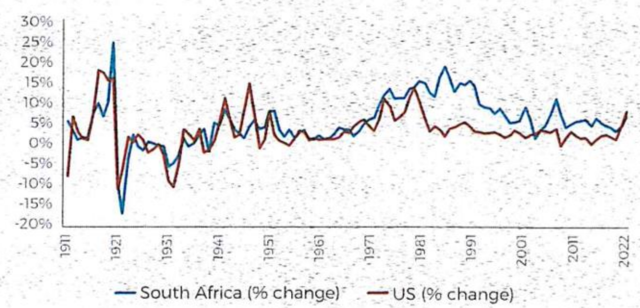
Inflation in South Africa has averaged 5.4% a year since 1911, which is significantly higher than the 3.3% average in the US. Prior to 1980, inflation in South Africa was coupled to inflation in the US – with the average in South Africa at 3.6% a year only marginally higher than the 3.4% annual average in the US between 1911 and 1980.

South Africa's inflation tracked global inflation higher in the 1970s, as successive oil price shocks pushed average annual inflation in the US to 8%. Only after decisive action by US Federal Reserve Governor Paul Volcker in the early 1980s did US inflation moderate. However, expansionary domestic policies, rapid wage growth and economic isolation resulted in inflation in South Africa remaining high in the 1980s. Only high real interest rates and a recession saw inflation begin to moderate from the early 1990s onwards. The adoption of inflation targeting in 2000 entrenched lower inflation and inflation averaged 5.5% from 2000 onwards, compared with a 12.3% annual average in the two decades before 2000.

Globally, the battle against inflation appeared to have been won in the two decades leading into the Covid-19 pandemic. Globalisation and China's entry into the global economy anchored inflation at low levels. Following the 2008 Global Financial Crisis, central banks in Europe, Japan and the US were more concerned about deflation than inflation – prompting them to ever greater rounds of stimulus. In the US, for example, inflation averaged well below target between 2010 and 2020, prompting the central bank to reformulate its inflation mandate to target an average of 2% over several years. This means the central bank must run inflation higher than 2% if it has been persistently below 2%, and vice versa.

This policy change proved untimely, coming just before the post-Covid-19 surge in inflation. In the US, consumer prices rose by an average of 4.7% in 2021 and by a multi-decade high of 8% in 2022. This has prompted an aggressive, if not belated, response from central bankers, with the US Federal Reserve leading the charge to higher interest rates. South Africa has not escaped the sharp rise in inflation, but underlying inflationary pressures in South Africa are much more muted and do not point to a sharp upward move in trend inflation.

CHART 11: ANNUAL AVERAGE INFLATION IN SOUTH AFRICA AND THE UNITED STATES



The lesson from the era of high inflation in the 1970s, which has been echoed in 2022, is that the economy is better off taking the pain of higher interest rates and lower growth in the short term than tolerating persistently rising inflation. The South African Reserve Bank has stood out as a bastion of orthodoxy amongst global central banks, remaining committed to forward-looking inflation targeting, which, in the long run, is our best guard against inflation.

LESSON 2

TIME IS YOUR FRIEND

Zain Wilson, Portfolio Manager

IN A NUTSHELL

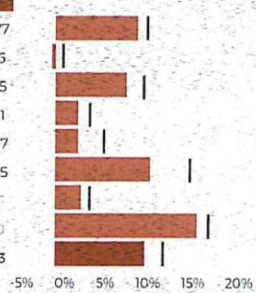
Extending your holding period, staying invested for the long run and avoiding acting during times of stress, is the best way to manage the risk of losing money in equities. A longer-term investment horizon gives you the best chance to meet your long-term financial goals, because time is your friend.

In its annual Mind the Gap study[4], Morningstar looked at how US investor behaviour drives investment performance. The analysis showed that, over the past decade to the end of 2021, end investors earned about 1.7 percentage points less than the returns of underlying funds in which they invested. This gap widened during periods of increased uncertainty, especially for "riskier" asset classes that are more volatile over the short term, like equities. Interestingly, asset allocation funds fared the best, in part, thanks to their more stable returns. You can read more on the benefits of diversification in Lesson 7 and Lesson 8.

CHART 12: INVESTORS EARN LESS THAN THEIR FUNDS

The Gap by US Category Group (10-Year Returns)

US Category Group	Investor Return %	Total Return %	Gap
Allocation	8.65	9.43	-0.77
Alternative	-0.52	0.65	-1.16
International Equity	7.18	8.93	-1.75
Municipal Bond	2.33	3.54	-1.21
Non-traditional Equity	2.32	5.19	-2.87
Sector Equity	9.59	13.84	-4.25
Taxable Bond	2.41	[illegible]	[illegible]
US Equity	[illegible]	[illegible]	[illegible]
Overall	9.31	11.04	-1.73



Source: Morningstar Direct. Data as of 31 December 2021. Excludes commodities category group. Gap numbers may not match differences in returns because of rounding.

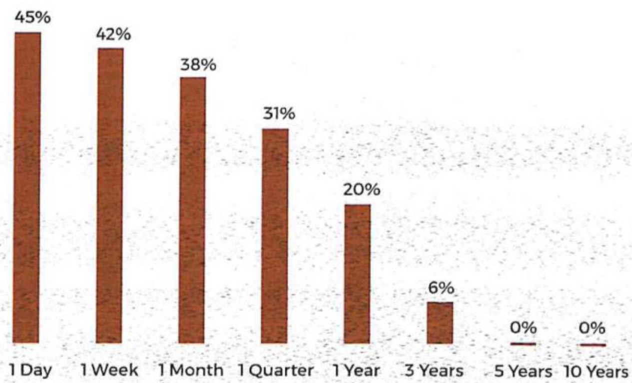
What exactly does this mean? Essentially, the Morningstar study suggests that investors are prone, especially during periods of heightened uncertainty, to making costly decisions around their investment portfolios.

FOCUSING ON THE LONG RUN

Over the short term, equity markets are volatile, responding to news flow and the appetites of investors. This can be difficult to digest, especially with conflicting explanations from commentators for why markets were up or down on any particular day, week or month. Increased uncertainty leads to increased risk aversion.

Paradoxically, in most instances, the best way to manage the risk of losing money is not to sell when uncertainty rises, but to rather remain invested. Looking at the past performance of a more volatile asset class, like SA equity, Chart 13 shows that historically, as soon as you extended your holding period for more than three years, the chance of losing money became negligible.

CHART 13: FREQUENCY OF NEGATIVE RETURNS OVER DIFFERENT TIME PERIODS



Sources: Old Mutual Investment Group, FactSet
1 day and 1 week: Rolling total returns, June 1995 to December 2022
1 month to 10 years: Rolling returns, January 1960 to December 2022

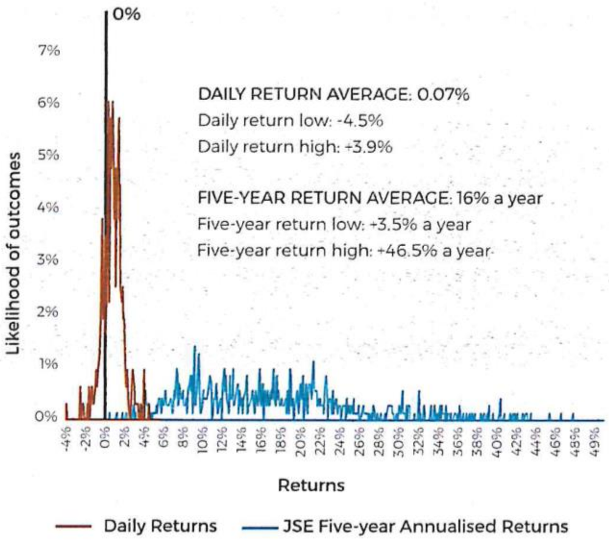
TWO-SIDED RISK

Cognitively, we are hardwired to weigh losses and recent experiences more heavily than gains and past events. Acting in response to recent losses exposes investors to a greater long-term risk of missing out on the compounding power of equities over time. You can read about the invaluable benefits of compounding growth in Lesson 5.

To better understand the implications of reacting to short-term events, Chart 14 shows daily returns for SA equity versus annual five-year returns[5]. Daily returns averaged a meagre 0.07% and ranged widely from -4.5% to +3.9%. In contrast, five-year returns averaged 16% a year, and there were no negative returns. When trading in the short term, it is difficult to distinguish trends within the randomness of the noise. Add our cognitive biases to this, and it is clear that the odds are stacked against the short-term trader.

CHART 14: A LONGER-TERM VIEW REDUCES POTENTIAL FOR LOSSES

Range of annualised real returns from SA equity



Daily data 1995 - 2022, annual data 1925-2022

THE BENEFITS OF BEING PATIENT

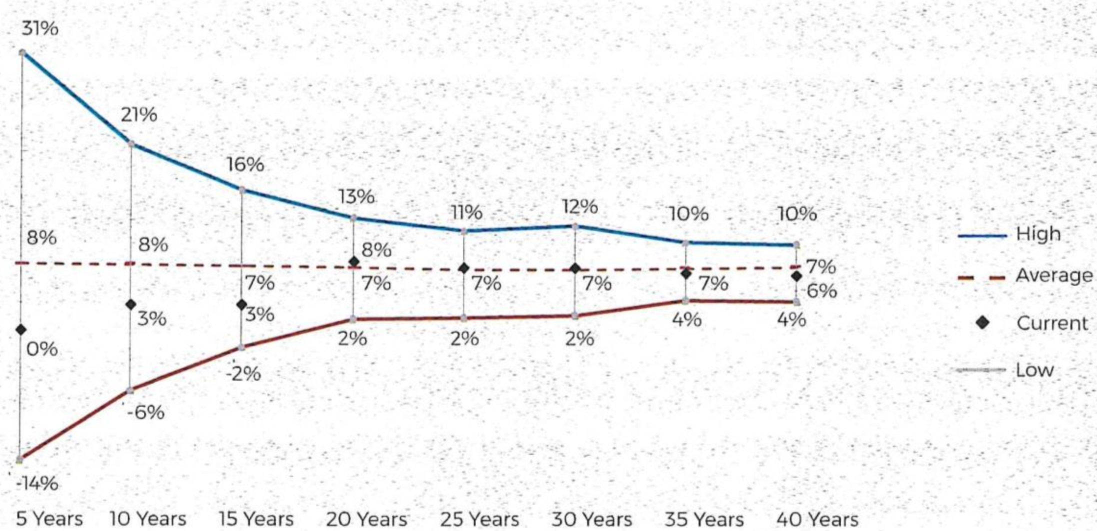
Shifting your decision-making to a longer time horizon reduces the pain of losses and the randomness of noise, while also increasing the probability of meeting your financial goals. The time funnel (Chart 15) shows the range of the annualised real returns investors would have achieved over various periods (listed on the horizontal axis). The funnel narrows from both the top and bottom as you increase the length of time invested, showing that time softens the impact of large positive or negative periods. And the longer you stay invested, the less you have to worry about capital losses from equities.

The main reason investors prefer cash to equities is the fear of losing money. This fear makes us react irrationally and, in the long run, can meaningfully impede wealth generation and the likelihood of us meeting our financial goals over time.

The adage holds true: It's time in the market, not timing the market, that counts.

CHART 15: OVER TIME RETURNS BECOME LESS VOLATILE

Range of annualised real returns from SA equity (December 1924 – December 2022)



"We think about time as something not to waste, not as something to invest."

Garry Kasparov, former World Chess Champion

LESSON 3

YOU NEED EQUITIES

Urvesh Desai, Portfolio Manage

IN A NUTSHELL

We need to be disciplined savers. Importantly, those savings need to be appropriately exposed to equities. This is because equities have shown to deliver strong inflation-beating returns in the long run – which is particularly important in a world where people are living longer.

We save for different reasons – e.g. large purchases (homes/home renovations, cars, education, holidays, etc.) or so that we can continue to have an income when we retire. Either way, at the end of the day, the final pot we have to spend is made up of two parts:

WHAT WE PUT IN

(how much we save)

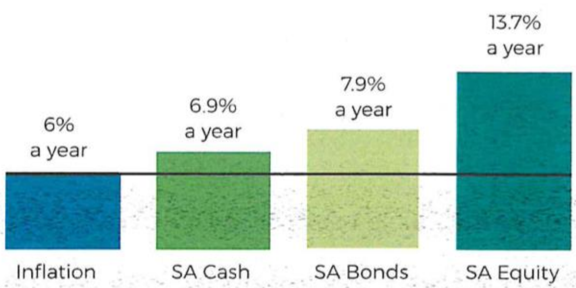
WHAT WE DO WITH THOSE SAVINGS

(the returns our savings earn)

Saving is difficult and involves tough choices, hard work and sacrifices. This is one of the reasons why most of us do not save nearly enough for our retirement. The second part is equally important. We don't always do justice to the effort we put in to save by investing these funds appropriately. If we saved and didn't get a return on our savings (e.g. money under a mattress), it would be far from ideal, as the price of goods is likely to go up (read more about the destructive forces of inflation in Lesson 1). We need the value of our savings to grow over time – and to grow in excess of inflation if we are to have a sufficient pot of assets to meet our future goals.

To maximise our returns to beat inflation by the largest possible margin, the answer can be found in analysing 93 years of data. Chart 16 shows the annualised returns delivered by different asset classes over this period. It is clear that SA equities have delivered significantly better returns than bonds and cash, outperforming inflation by 7.2%. The portion above the line represents real returns. This is the part that is helping you grow your savings pot faster than the rate at which prices are going up.

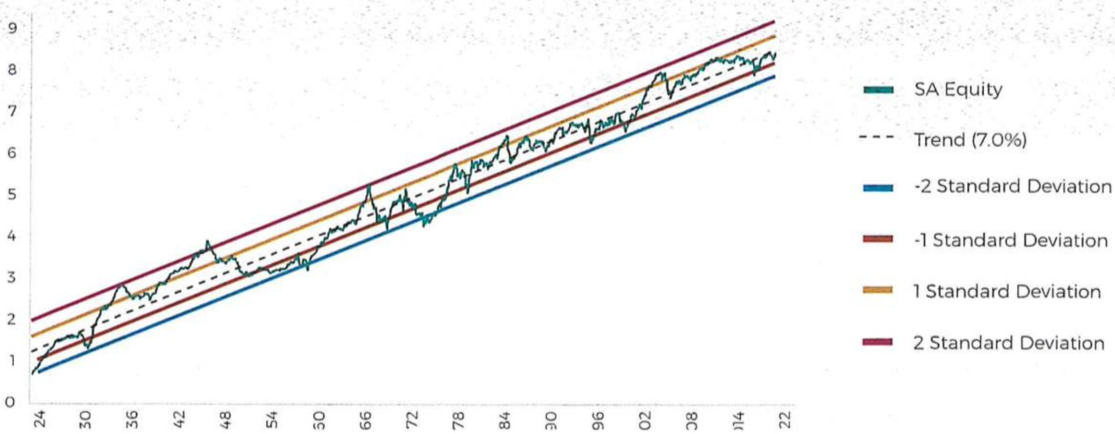
CHART 16: PERFORMANCE OVER 93 YEARS (NOMINAL RETURNS)



Looking at the SA equity market over these 93 years, Chart 17 shows that while the trend is upward, it is not a smooth ride and there are times of extreme volatility. However, this upward trend over time is why equities are a key ingredient to growing your savings over time. And the longer you stay invested, the less you have to worry about capital losses from equities (as discussed in Lesson 2).

CHART 17: UPWARD TREND, DESPITE VOLATILITY

SA equities in real terms (December 1924 – December 2022)



THE SECRET SAUCE

Why do equities go up in the long run? Firstly, over time companies grow at a faster rate than the economies in which they operate – company earnings are leveraged plays on the growth prospects of economies in which they do business. At the same time, superior companies are able to generate above-average profit growth over a sustained period, thereby becoming a larger portion of the equity market. Equity investors allocate capital to companies and are ultimately rewarded through this leveraged growth and gain in market share.

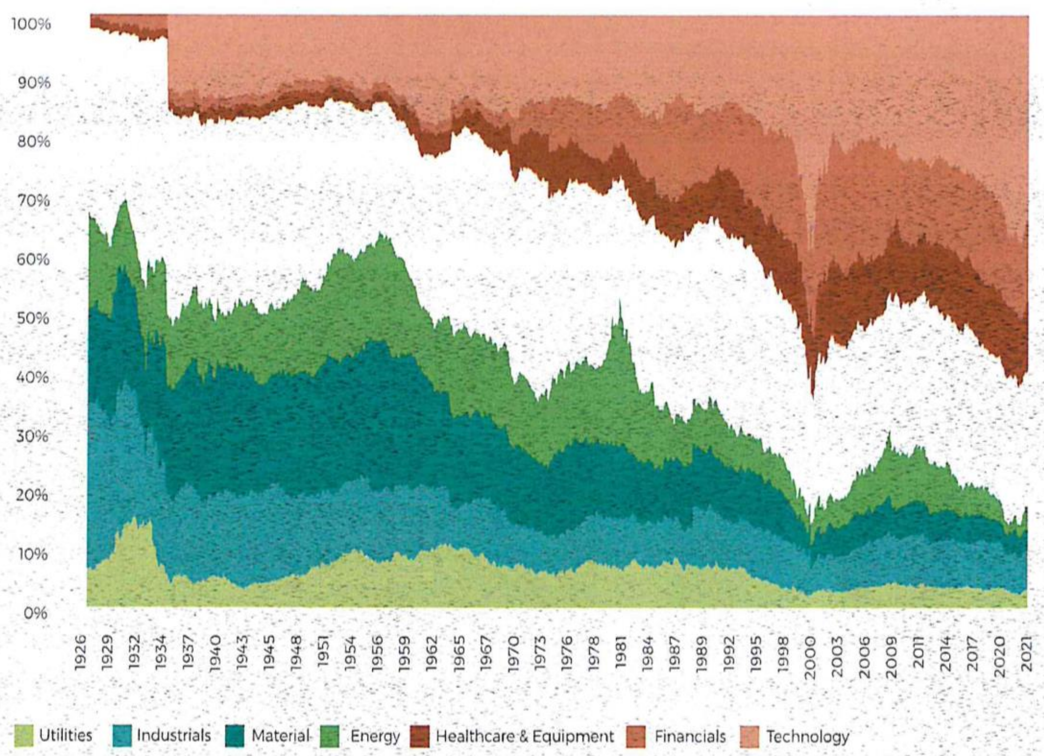
Secondly, markets are dynamic. New companies with better growth prospects enter the market, while stagnant companies and dying industries exit (think US railroads in the 19th and early 20th centuries). This is known as "creative destruction".

Leveraged growth and this process of "creative destruction" (winners growing and losers shrinking) are largely why equity markets, in aggregate, tend to rise in the long run. As you can see in Chart 18, over time, the US equity market has evolved from a 60% weighting in "old economy" sectors (cutting edge at the time) in the early 20th century to 60% in "new economy" sectors today.

Lesson 3 is simple: To grow our real wealth over time, we need equities. However, from Chart 18, it is clear that we need our portfolios to be actively managed – lest we remain invested in "old economy" companies. That is why active management and good investment advice from an accredited financial planner are so important. See Lesson 8 for more on the value of active management.

CHART 18: CREATIVE DESTRUCTION KEEPS EQUITIES RISING

Select US equity sector weights from 1926 to 2021



Source: Kenneth R. French Data Library

LESSON 4

CASH IS TRASH

Urvesh Desai, Portfolio Manager

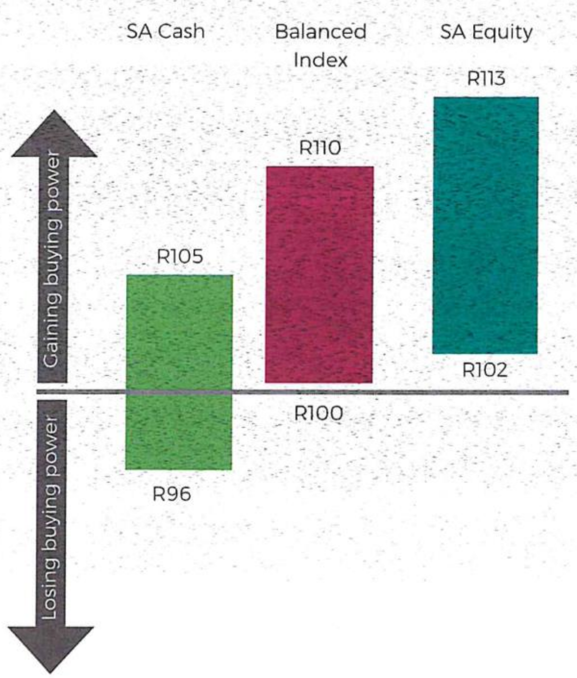
IN A NUTSHELL

While a bank deposit exposes you to minimal uncertainty and you are unlikely to lose money, over the long term you pay the price of not getting a return that sufficiently grows your savings. Over time, cash provides a relatively low return and, in particular, a relatively low real return.

Depending on your investment needs and time horizon, cash may be king or trash. If you have a short-term need, parking your assets in cash can prove to be king. This is even true in a retirement investing framework where you use the lump sum retirement benefit to, for instance, pay off debts or take a holiday. Investing this portion in cash may be an appropriate decision – and you would be able to sleep soundly knowing that your capital is safe. However, there is a price to pay for this good night's sleep.

CHART 19: RANGE OF BUYING POWER OF R100 AFTER INVESTING FOR 20 YEARS

Using all 20-year periods from January 1925 to December 2022

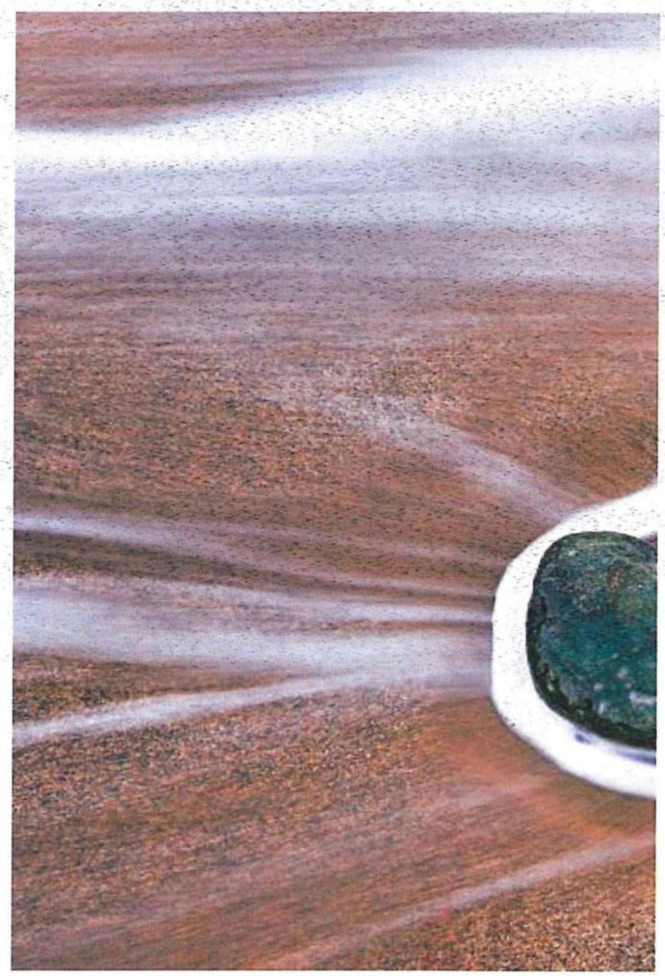


TIME NEEDED TO DOUBLE YOUR MONEY

While cash offers stability, to better understand its risks, look at how long it would take to double your REAL investment value. Using each asset class's long-term average returns, it would take 88 years for you to double your money if invested in cash – an appropriate timeframe if you are saving for your great-grandchildren's education!

SA EQUITIES	SA BONDS	SA CASH
10 YEARS	41 YEARS	88 YEARS

The reality is that cash provides a relatively low return in exchange for the security and peace of mind it offers. When saving for longer-term goals, like retirement, cash is a terrible investment.

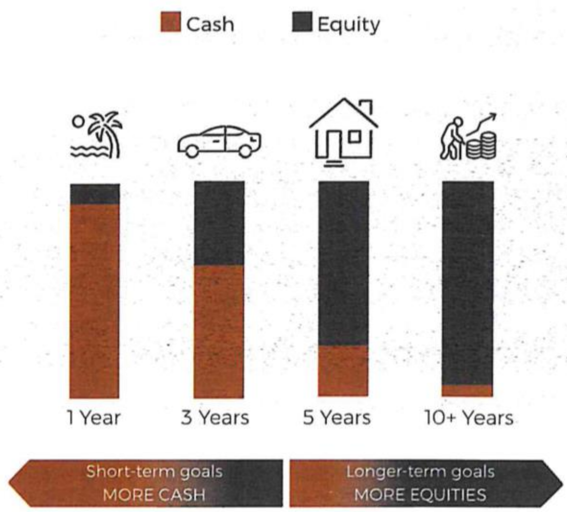


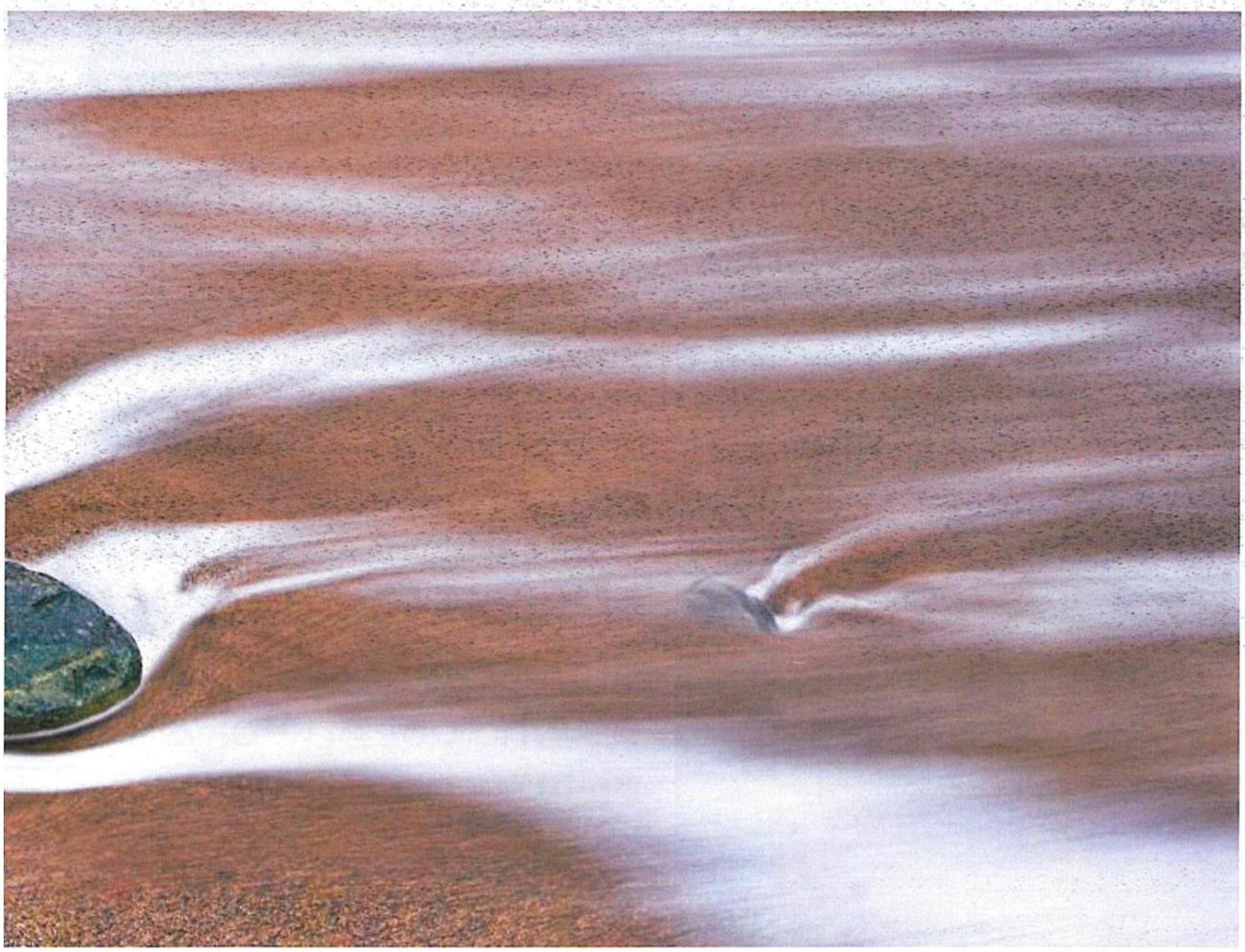
DON'T MATCH A LONG-TERM NEED WITH A SHORT-TERM ASSET

SA equity is the obvious alternative when saving for a longer-term goal. The bar chart is a simple guide as to what percentage of your portfolio should be invested in cash and equities relative to your investment goals and timeframes. This chart only looks at two asset classes and, as such, we encourage you to speak to your financial planner as to how best to structure your entire portfolio of assets.

For cash, the longer you stay invested, the greater the chance of eroding the buying power of your savings (as seen in Chart 19). And that is a hefty price to pay just to sleep better at night.

YOUR INVESTMENT TERM AND GOALS DETERMINE YOUR EXPOSURE TO CASH (ILLUSTRATIVE)





LESSON 5

COMPOUNDING IS A POWERFUL WEALTH GENERATOR

Zain Wilson, Portfolio Manager

IN A NUTSHELL

Savings need time to benefit from the full potential of compounding growth. This is often an underappreciated characteristic of investing. Start saving as soon as you can, leave it for as long as you can, and let compounding do the work for you. And tick the dividend reinvest box on your investment application form to further maximise your growth.

THE EIGHTH WONDER OF THE WORLD

Compounding growth is simply about making money on your original investment as well as on the gains made in previous years (i.e. growth on growth over time). Importantly, compounding also happens with inflation. Lesson 1 talks to why inflation is an investor's biggest enemy. Similarly, time can also be an enemy of the saver but, unlike inflation, through compounding, it can be used to great advantage.

Compounding growth needs time to take effect. Using the long-term nominal average return of 13.7% a year from SA equity, we look at what happens when a lump sum is invested over time. At the end of the first year, you would have R1 138, but with compounding growth (and patience) your investment would have more than tripled after 10 years and tripled again over the following 10 years.

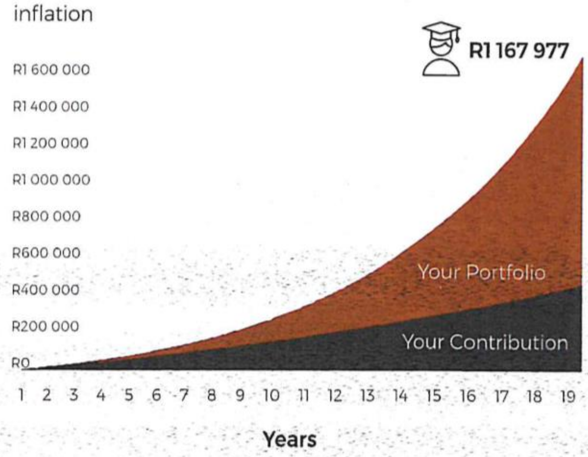
Interestingly, if that annual gain of 13.7% was earned on the R1 000 starting value, but all gains were paid out as an income, then you would have R2 380 after 10 years and only R3 760 after 20 years, versus the R13 078 had you reinvested your gains.

	TODAY	10 YEARS LATER	20 YEARS LATER
REINVESTING THE GAINS Growth on growth over time	R1 000	R3 610	R13 078
WITHDRAWING THE GAINS Growth over time	R1 000	R2 380	R3 760

Time and compounding growth can turn an ordinary saver into a millionaire. Assume you start saving R1 000 a month and increase this contribution by the average inflation rate of 5.4% each year. If that investment now grows at the same annual return of 13.7%, the portfolio would grow to one million rand within 18 years – just enough time to send today's newborn baby to college or university.

CHART 20: HOW TO BE A (PATIENT) MILLIONAIRE

R1 000 monthly investment, escalating annually with inflation



Compounding also works on cash. However, given the lower long-term returns from cash relative to other asset classes (see Lesson 4), the compounding effect over time is also obviously less.

> "Compound interest is the eighth wonder of the world. He who understands it, earns it... he who doesn't... pays it."
>
> Albert Einstein

MAKING MONEY ON MONEY

While time in the market is a critical component of compounding, the more money you expose to the power of compounding, the more there is to grow the following year. There are two simple ways to maximise this:

Reinvest distributions

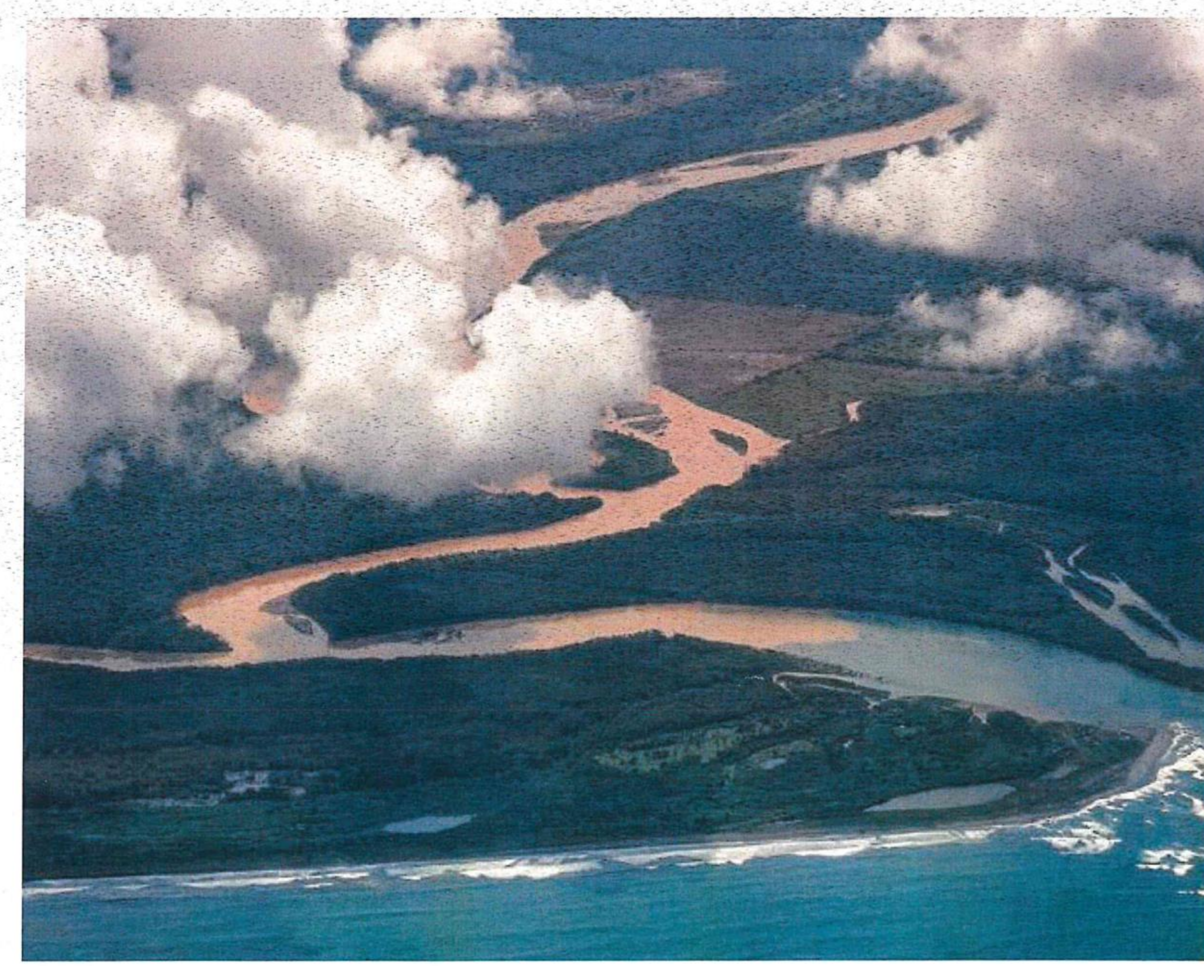
Companies and funds periodically pay out distributions (dividends and/or interest) to investors. To take full advantage of the eighth wonder of the world, tick the distribution reinvest box on your application form.

Limit early drawdowns

Withdrawing capital is a stealth destruction of financial wealth and could impact your quality of life at retirement. Establishing when and how much to draw is a specialised area of expertise. We strongly recommend that drawdowns be discussed with your financial planner.

"Money makes money. And the money that money makes, makes money."

Benjamin Franklin



LESSON 6

HIGH PRICE OF MISSING OUT

Jason Swartz, Portfolio Manager

IN A NUTSHELL

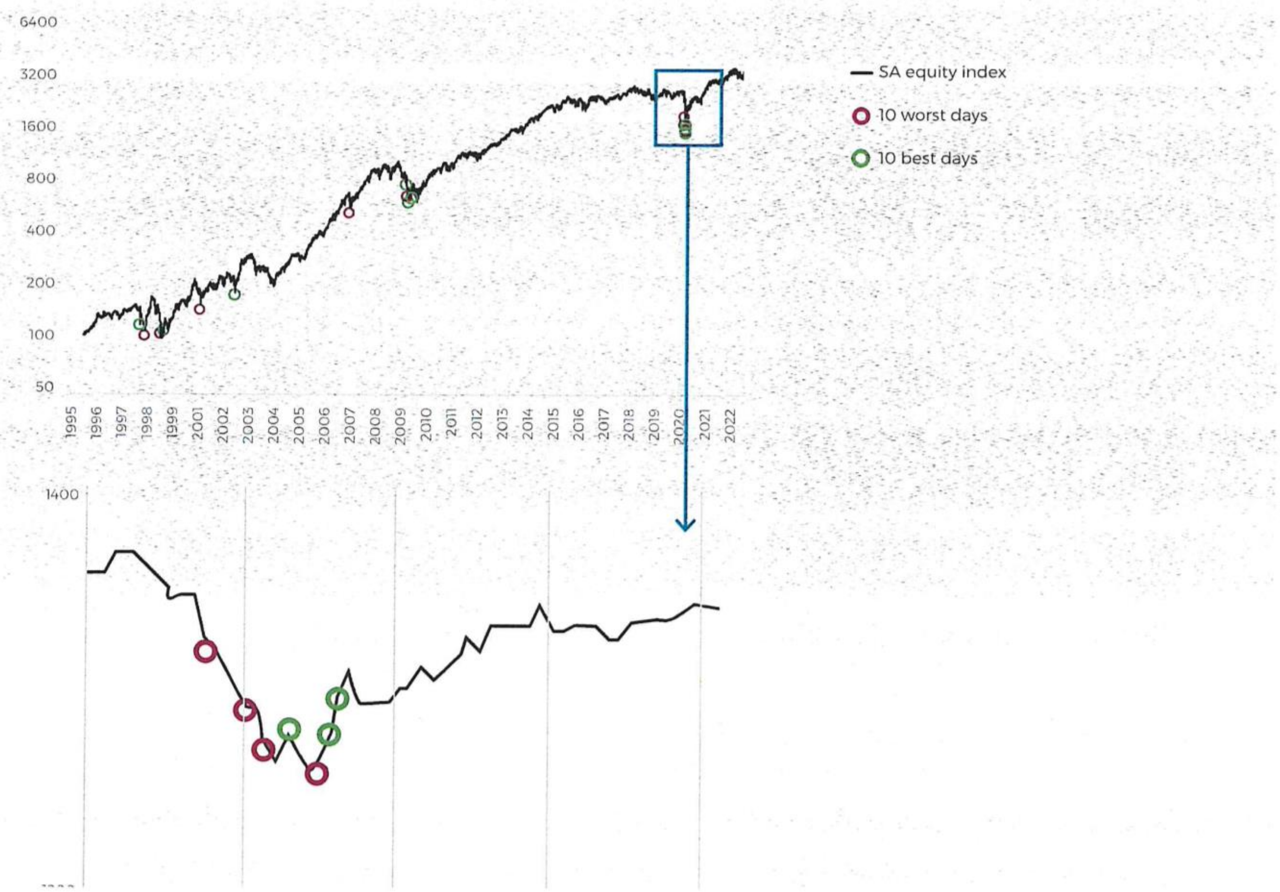
Short-term volatility often leads to investors selling their investments at the worst time. History shows us that the worst days on the market are usually followed by the best days. While the urge to sell when markets are volatile may feel like you're mitigating risk, the reality is that you are likely to make a poor timing decision and can put your portfolio years behind in its objective of reaching your financial goals.

We want to grow our wealth, yet many of us have a relatively low tolerance for loss. We tend to panic, which can lead us to exit the market to avoid further loss to our portfolios. This phenomenon is understandable, as we are all averse to losing money. However, in most of these panic-response situations, selling stocks and waiting until the markets have "calmed down" before reinvesting, is a poor strategy (and helps grow the wealth of those investors who bought the assets you sold).

The primary reason is that, while the equity market does experience down days on the back of bad news, this is almost always followed by "up days". Interestingly, history shows us that, particularly during uncertain times, the worst days on the market are usually followed by the best days on the market. In fact, it is very rare that the best days in the equity market occur on a standalone basis or during an extended bull market. The best days are more likely to present during periods of high volatility and/or during a bear market. Take what happened in 2008: after a negative 30% real return, the market rebounded to deliver 14% a year over the following five years.

CHART 21: THE BEST DAYS IN THE MARKET USUALLY FOLLOW THE WORST DAYS

SA Equity Index, Log Scale (June 1995 – December 2022)

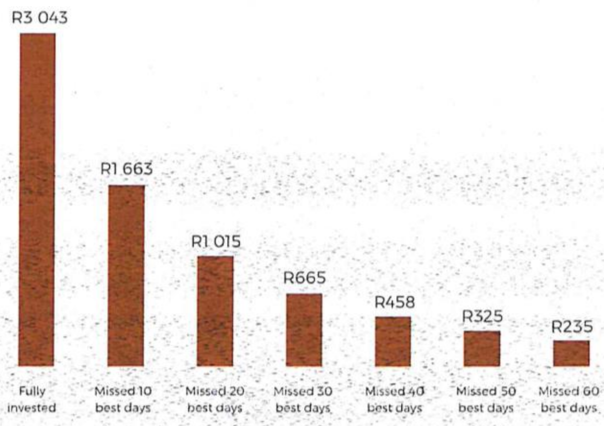


It is practically impossible to predict the down days, and investors risk selling once the market has already fallen, locking in these losses. Of course, with perfect hindsight, avoiding down days is an excellent strategy and will produce outsized returns relative to remaining invested. If you had the ability to miss the 10 worst days in the market from 1995 to 2022, your return would've been 19% a year versus 15.3% a year. However, in the hope of missing the worst days, we run the very real risk of missing out on good days, weeks or months.

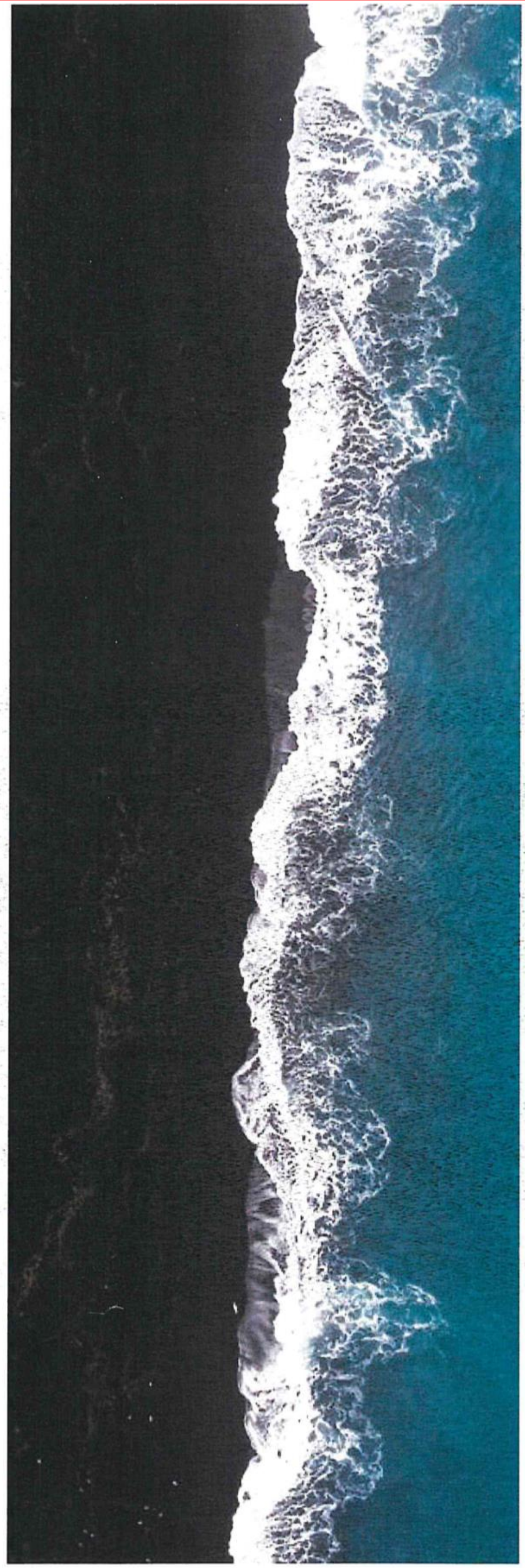
Chart 22 illustrates what would happen to your portfolio if you missed these days in an attempt to avoid market downturns.

CHART 22: THE HIGH PRICE OF MISSING OUT

The performance of R100 invested in SA equity (January 1995 to December 2022)



While trying to time the market during volatile periods is tempting, the outcome will invariably lead to selling after bad days and sitting on the side lines for the good days that ensue. This strategy can be detrimental to your savings. The one thing you can control is to have a well-considered plan, crafted with the guidance of your financial planner, and then to stick to that plan. It is the best way of ensuring you have a secure retirement.



LESSON 7
DON'T PUT ALL YOUR EGGS IN ONE BASKET

Jason Swartz, Portfolio Manager

IN A NUTSHELL

Diversification is the one free lunch in investments; use it. That's because it pays to invest across different asset classes. After time in the market, diversification is the second most valuable tool you can employ to manage risk, as it reduces the impact that a single poorly performing asset has on your overall portfolio.

IT PAYS TO DIVERSIFY

Investors tend to have a low tolerance for loss and uncertainty, with the fear of losing money outweighing the desire for gains. In Lesson 3 we discussed why you need to invest in equities, but the stock market is sometimes like a rollercoaster. This can cause people to panic and sell at the wrong time. (Yes, you guessed it... refer to Lesson 6 on why this can be a risky move.) A good way to soften the extent of the ups and downs of the equity rollercoaster is to diversify. This lets you have a smoother ride, as the negative performance of one asset is counterbalanced by the positive performance of others.

The advantages of diversification were particularly evident during the market downturn in 2022, where many asset classes experienced extremely negative real returns (see tables on pages 36 and 37). To this end, it is vitally important to ensure your portfolio has the optimal blend of asset classes to reduce the impact of large drawdowns and, ultimately, lower your portfolio's overall volatility.

WHAT MAKES A GREAT DIVERSIFYING ASSET CLASS?

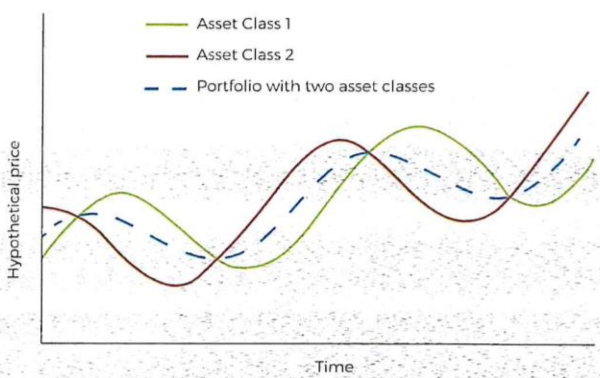
1. Low Volatility. Asset classes with low volatility, like cash, improve diversification in the portfolio and help limit large drawdowns. However, low volatility can also be costly, as you sacrifice long-term returns by not having exposure to higher-risk growth assets, like equities (as discussed in Lesson 3).

CHART 23: A BALANCING ACT BETWEEN RISK AND RETURN

Annualised real returns versus volatility of nominal returns (December 1929 – December 2022)

2. Low Correlation. Asset classes with similar returns, but with low (or preferably negative) correlations to each other are a more effective means of improving diversification. Simply put, low-correlated assets have different drivers of returns and so will outperform/underperform under different market conditions. Low-correlated asset classes provide "offsetting" returns that improve the portfolio's drawdown profile and smooth the bumps in the investor's journey without compromising the long-term return prospects of the portfolio.

LOW-CORRELATED ASSETS BENEFIT THE NET RESULT



VOLATILITY

Volatility is the variability of an asset's returns. The higher volatility for equity means that it has a wider range of possible returns than bonds (both positive and negative).

EQUITY VOLATILITY

17.8% for SA equity

BOND VOLATILITY

7.1% for SA bonds

(The above figures are based on the volatility of monthly returns since 1925.)

ASSET CLASS CORRELATIONS

Correlation is the extent of co-movement between the returns of two asset classes. A high correlation reflects a positive relationship between asset classes, which means their returns move up or down in parallel. A low correlation means that asset classes move relatively independently of each other. Lower correlations assist in improving the

MARKET INDICATORS AS AT 30 July 2023

	DY %	P/E Ratio	1 Month %*	12 Months %*
FTSE/JSE All Share Index	4.6	9.8	1.4	19.6
FTSE/JSE Resource Index	6.8	5.7	-7.6	3.0
FTSE/JSE Industrial Index	4.1	8.3	3.7	34.2
FTSE/JSE Financial Index	5.1	10.3	10.1	13.6
FTSE/JSE SA Quoted Property Index	8.7	11.5	0.9	10.0
ALBI BEASSA Bond Index			4.6	8.2
STeFI Money Market Index			0.6	6.8
MSCI World Emerging Markets (R)			-1.0	17.3
MSCI World Emerging Markets ($)			3.8	1.7
MSCI World Index (R)			1.1	37.4
MSCI World Index (US$)			6.1	19.1

*Total return index percentage change

Economic Indicators		Latest Data	Previous Year
Exchange Rates			
Rand/US$	June - 23	18.85	16.29
Rand/UK Pound	June - 23	23.94	19.82
Rand/Euro	June - 23	20.57	17.06
Rand/Aus$	June - 23	12.56	11.24
Commodity Prices			
Gold Price (US$)	June - 23	1 919.6	1 815.0
Gold Price (R)	June - 23	35 764.4	29 663.0
Oil Price (US$)	June- 23	75.4	109.0
Interest Rates			
Prime Overdraft	June - 23	11.8%	8.3%
3-Month NCD Rate	June - 23	8.5%	4.9%
R186 Long-bond Yield	June - 23	9.2%	8.9%
Inflation			
CPI (y-o-y)	June - 23	5.4%	7.4%
Real Economy			
GDP Growth (y-o-y)	March - 23	0.2%	2.3%
HCE Growth (y-o-y) (Household Consumption Expenditure)	March - 23	1.1%	2.8%
Household Consumption Expenditure (HCE) Growth (y-oy)			
Gross Fixed Capital Formation (GFCF) Growth (Y-O-Y)	March - 23	3.7%	4.1%
Manufacturing Production (y-o-y) (seasonally adjusted)	May - 23	1.7%	-1.4%
Balance of Payment			
Trade Balance (cumulative 12-month)	May - 23	$10.2	$30.9
Current Account (% of GDP)	March - 23	-1.0%	2.5%
Forex Reserves (incl. gold)	June - 23	US$1 166.5	US$963.9

Sources: JSE, Iris, I-Net

Fund	Year To Date Performances 1st Jan to 31st December 2023	30 July 2023
Allan Gray Balanced	7.87%	1.06%
Allan Gray Stable	6.12%	0.06%
Coronation Balanced Plus	10.82%	0.79%
Investec Managed	6.17%	-1.57%
Prudential Balanced	8.23%	0.76%
Prudential Inflation Plus	5.94%	0.88%

Skybound Capital Funds
South Africa

Fund	Year To Date Performances 1st Jan to 31st December 2023	Current Performances as at 31 June 2023
The Apello Fund	6.06 %	0.71%
The Azacus Fund	5.96%	0.70%

Skybound Capital Funds
INTERNATIONAL - GBP

	Year To Date Performances 1st Jan to 31st Dec 2023	Current Performances as at 31 July 2023
Prism Income	2.90%	0.60%
Prism Income Australian	2.90%	0.60%
The Willow Tree	1.50%	0.40%

What a Joke

Getting their cut

A florist went to a barber for a haircut. After the cut, he asked about his bill, and the barber replied, “I cannot accept money from you. I’m doing community service this week.”

The florist was pleased and left the shop.

When the barber went to open his shop the next morning, there was a “thank you” card and a dozen roses waiting for him at the door.

Later, a cop came in for a haircut, and when he tried to pay his bill, the barber again replied, “I cannot accept money from you. I’m doing community service this week.”

The cop was happy and left the shop.

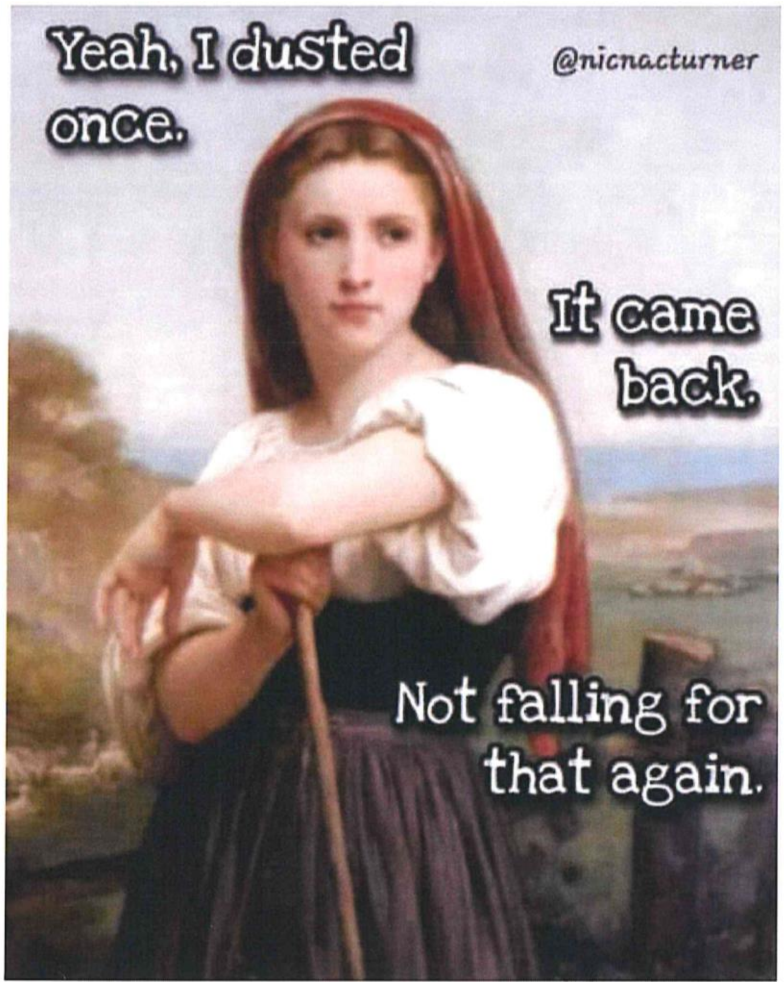
The next morning when the barber went to open his shop, there was a “thank you” card and a dozen donuts waiting for him at the door.

Then a Member of Parliament came in for a haircut, and when he tried to pay his bill, the barber again replied, “I cannot accept money from you. I’m doing community service this week.”

The MP was very happy and left the shop.

The next morning, when the barber went to open his shop, there were a dozen MPs lined up waiting for a free haircut.


Is this good for wasps?
No, it kills them.


Yeah, I dusted once.
@nicnacturner
It came back.
Not falling for that again.


Dude!
Best tattoo ever!
©Dan Piraro 5·6·11 w/Wayno®
BIZARROCOMICS.COM
Dist. by King Features


IF YOUR DOG
POOPS
PICK IT UP
PLEASE


For the last 30 years, all you've done is find mistakes in everything I say.
31years

Paul Bekker

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