EFFICIENT GROUP

ECONOMIC COMMENTARY

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YOUR MONTHLY ECONOMIC UPDATE

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Be greedy when others are fearful

Warren Buffett once said that a prudent investor should "be fearful when others are greedy, and greedy when others are fearful". This sounds rather easy, but it is much more difficult to apply in practice because of the nature of uncertainty. Even though historic analysis gives us a fairly good indication of the potential outcomes, we, as humans, often complicate decision making by adding too many what-ifs. What if this time is different: What if I missed something, what if... The reality is (unfortunately) that the investment landscape is filled with uncertainties. As evidenced throughout history, when decisions involve uncertain outcomes, they often lead to emotional decision making. Market history is filled with examples of both investor exuberance, leading to asset bubbles, and despondency, which depresses asset values to the point where buying opportunities are in excess.

A perfect example of the latter is the recent selloff in the local equity and bond markets. We are witnessing valuation metrics that are extremely depressed, with historic analysis pointing to multi-year double-digit returns should you buy local shares at these levels. This type of thinking reminds us of the wise words of Mark Twain: "History never repeats itself, but it often rhymes". Similar trends are evident in the local government bond market, with yields far exceeding most of our emerging-markets peers – indicating that investors are clearly "fearful" of our assets. Does this, however, warrant us to become greedy as Buffett suggests?

Unfortunately, one does not have to look far to find compelling reasons why our local assets should be trading at discounts, relative to the rest of the world, the obvious one being left in the dark at night owing to load shedding. But will the picture look the same ten or more years from now? The argument can go both ways depending on your perspective. There are two schools of thought: On the one hand, the Bears think South Africa is heading for a collapse and there is no hope. On the other hand, the Bulls believe that South African tenacity can overcome overwhelming odds. As realistic optimists, we are inclined to side with the Bulls; far too often, when the outcome seems obvious, alternative scenarios prevail. The world is rapidly changing and none of us can predict where we, at the bottom-most-tip of Africa, might find ourselves on the global stage ten years from now, with many of our current "issues" in the rear-view mirror.

As always, we are confronted with uncertainty. But, given the data that is currently known to us, we can say with a reasonable degree of certainty that the current environment has, indeed, led investors to become "fearful" of our assets, which is creating a great buying opportunity for long-term investors that dare to venture off the beaten track. What should investors do? As always, we would recommend that investors stick to their long-term financial plan. Contrary to the Bears out there, we believe that investors should diversify their exposures between both local and global assets. After all, diversification is the only free lunch in investing.

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