Dear Client

We have pleasure in enclosing your latest quarterly investment review.

Our local markets continue to reflect the uncertainty resulting from political forces and poor economic fundamental. While we would all like to see business-friendly resolution to the issues that face our country, in reality this may take some time. It is therefore clear why Plexus Wealth focusses not only on income as a key part of investment return, but also on the offshore exposure in your portfolio.

In markets where capital growth is low, a large portion of return comes in the form of dividends. In our Plexus Wealth Funds, we focus on stocks that yield a reliable and growing dividend, whether it be in the Listed Property sector or general equities.

The effect of flat markets is especially felt by retired investors who seek to fund their retirement by selling off a pre-determined number of investment units each month. When normal or average capital growth occurs, this works, but when markets are down, a larger number of units are sold to achieve the same Rand value of income, and the capital depletes. Investors seldom recover from this scenario. By contrast, if your expenses match your income, then you don’t have to sell units of investment, and your investment capital remains intact, irrespective of short term market fluctuations.

Not everyone has enough capital to produce income equal to their expenses, and sometimes a drawdown has to be built into plans, but in most cases we are able to match income to expenses by using, at least partly, listed property in retirement portfolios.

Listed property companies, with a few exceptions, are reporting increases in earnings and distributions. On average, we still expect income from Listed Property Portfolios to increase in line with inflation (in better economic times we can expect income increases in excess of inflation).

We note that with increasing income distributions and flat share prices over the last 2 years, the yields on many Listed Property Stocks are now firmly in attractive territory, especially when viewed in the context of a loosening interest rate cycle (we believe interest rates need to come down to give our ailing economy a shot in the arm, and this has played out with a first 0.25% interest rate decrease this year).

We continue to favor offshore portfolios for clients who do not need the higher yields offered in South Africa to support their income needs. There is much in the media about the US stock market being at all-time highs, but much of this is driven by large technology companies.

It is also worth noting that stock markets regularly make new highs. This is because companies increase their prices along with inflation so investors would at least expect an inflationary gain. Added to this, on average, investors would expect their portfolio’s revenues to increase along with GDP growth. If one assumes a 2% inflation rate and 3% world economic growth, you would expect 5% long term returns as a minimum, plus average dividend yield that is accrued in global indices, say another 2%, equals 7%.

If one applies this 7% average market return, then the equivalent of the 1999 high of 6,993 on the FTSE 100, for example, would be over 20,000 today. The recent highs of around 7,500 are thus neither surprising or spectacular. The same calculation in the USA does not yield as large a gap, but the principles remains worth remembering.

Kind Regards
Eric, Connie, James, Don, Amanda and the team at Plexus Wealth