

Stay calm, even though it looks like Ship SA is sinking

Anyone who followed the reports on the dramatic cash in transit heist at the OR Tambo Airport followed by the sacking of our (first choice) finance minister, can be forgiven for thinking that Ship SA is heading for the rocks. Before you start packing, please read the following.

Many South-Africans are frustrated with the fact that their worthy and legitimate efforts to bring a positive change in the regime and welfare of the country are fruitless and feel even more convinced that to board the ship (with their capital) is paramount and the only option.

The problem with this state of mind is usually that it was driven by very recent events and probably not well thought through. If there is one thing that I've learned over the last 2 decades, is that emotions and financial markets do not go hand in hand and when you act re-actively you can almost be certain that you are making sub-par decisions.

Your irrationality is probably not based on the assumption that you expect that the SA Rand is going to depreciate to R 20 to the Dollar overnight, but the fact that you've now missed the boat to diversify offshore.

Irrespective of the outcome, if the motive for the decision was incorrect, so was the decision. Even if by chance or luck the outcome is positive, it doesn't mean that it was a good decision.

How should one then approach decisions regarding your own and financial welfare in this politically and economically turbulent times?

Get Perspective

At the time of writing, the rand traded at about R 13.80 to the dollar. Only a few weeks ago, (24th of March) it traded at its best rate the past 20 months, at R 12,40 against the US Dollar. This represents a strengthening of the dollar of more than 10%. This is a significant depreciation but in the currency world, almost a regular occurrence. During 2016, this type of movements occurred almost 4 times and on a year to year basis, the rand appreciated by 18% to the dollar. A year ago, the rand traded at R14.67 for one dollar. If a trader, one year ago, offered you a deal to trade South African rand at R13.60 against the dollar, would you have been interested?

Who can recall the events around December 2001? The rand traded at R 13.13 against the dollar on the 20th of December 2011. Who would have been prepared to take a bet that 15 years later it would trade at R 13.60?

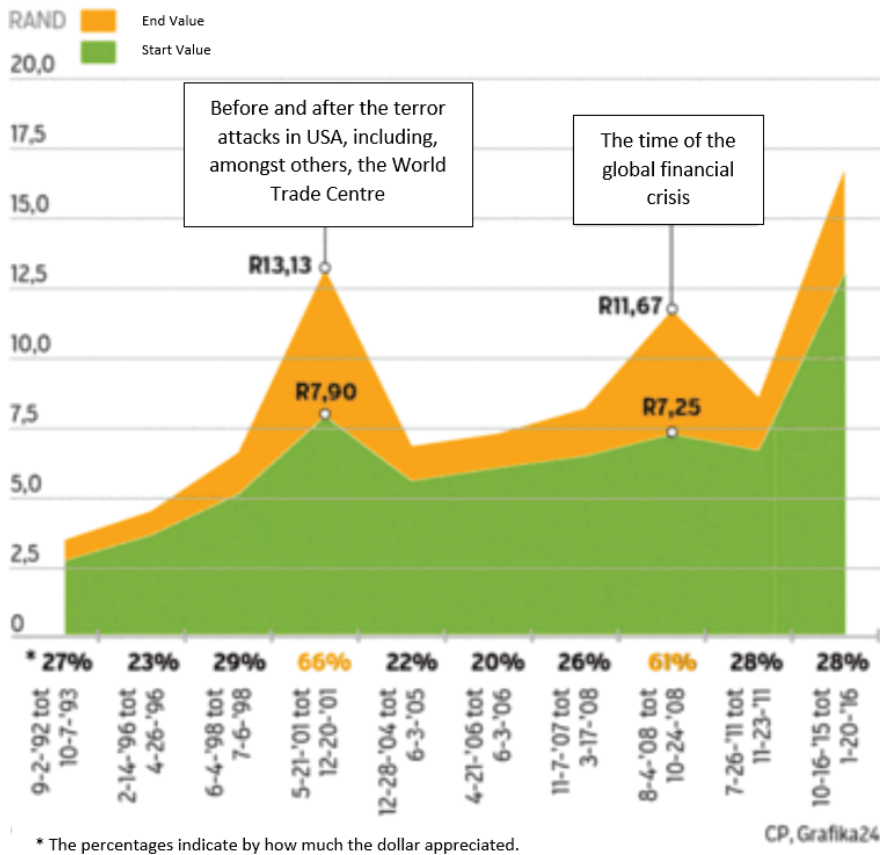
Our currency has behaved very unpredictably over the last decade or three. The graph below shows a few examples where the currency depreciated by more than 20% against the dollar. I've got a suspicion that the events of 2001 and 2008 are (permanently) engraved in the back of our minds and any indication or sign that these events may repeat itself, makes us scramble for cover.

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There are two things to consider here. Firstly, both currencies tumbles were due to international financial market shocks (bubbles?) and not due to local political events. Secondly, most of these losses were recouped during the subsequent two years.

Precariousness is the rand's middle name



* The percentages indicate by how much the dollar appreciated.

What is your plan?

Investors have different motives for wanting to move funds offshore.

There are those that advocate that a second Zimbabwe is our fate and moving funds abroad is basically an act of desperation and fear. However, if you have dispatched the funds, what then?

You might feel that Ship SA has gone under, but what if, just after you bought dollars, the rand bounces back (like what happened AFTER Nenegate in December 2015). Would you be able to stand by your initial decision?

Suppose you buy dollars today and three weeks later the rand depreciated with another 10%. Would you bring your funds back and pocket the profit or keep the funds offshore?

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Once your funds are in dollars, do you invest in equity markets or in bonds? When do you bring it back?

Have you considered that offshore cash (dollars) was the worst performing asset class (measured in SA rands) during the past 20 years? On top of this, it is also the asset class with the most volatility (even more so than SA Equities). Measured against these facts, I would probably prefer to avoid too much dollars in my cash portfolio, especially for extended periods of time. When you purchase dollars, you unfortunately should try and think like a trader and get the timing spot on. If you keep dollars forever and history repeats itself, the outcome will be appalling.

Don't get me wrong, I'm not advocating that what is happening in SA should not make us uncomfortable or worried, I'm merely cautioning investors that making long term decisions based on short term events can be disastrous. What I, and a lot of sensible commentators out there, want to bring home is that changes in your portfolio, should be the result of a well thought out process, taking more than currency movements into account. This should assist you to stay calm during uncertain waters.

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