Perspective

Winter 2021

“Winter is a season of recovery and preparation” – *Paul Theroux*

As temperatures plummet and we experience the chilliest conditions in Gauteng since 2012, I am happy to confirm that we are blessed with blue sky, the radiance of a winter sun and are all in good health.

Most of you will be aware that we moved into our new premises in May and the warm tranquil environment and extensive space lends itself to creativity and productivity.

"The Office", as a concept, is relatively new having evolved over the last 150 years. As speculation regarding the demise of the Office abounds, the reality is that its demise has been predicted for nearly 50 years, with the advent of the telephone and then the computer making it possible to 'telecommute' and work remotely and never return......is it really different this time, or simply another iteration in the complex-but-never-ending relationship between businesses and their office spaces?

"May you live in interesting times" , is a traditional Chinese curse employed ironically: life is better in "uninteresting times" of peace and tranquillity than in "interesting" ones, which are usually times of trouble.

If the challenges of the COVID-19 pandemic weren’t interesting enough, recent events have certainly made our lives in SA more interesting.

In his most recent publication, JP Landman, Political & Trend Analyst, draws a parallel with the opening lines of Charles Dickens’ A Tale of Two Cities to describe the past three weeks, ‘It was the best of times, it was the worst of times…it was the season of light, it was the season of darkness, it was the spring of hope…’

The world around us has become considerably less predictable and our financial composure is at risk when life becomes chaotic. Adopting a lifestyle based on a budget, which includes saving and investing, not only broadens your individual options but also, as a collective, those of the country. Our headline story explores this further.

Culture Club profiles Gary Hollywood, the energy behind Proud Mary and a number of other distinctive eateries in Johannesburg.

In the markets, the second quarter of 2021 was characterised by shift away from the narrative of future high expected growth and high expected inflation, prevalent since the announcement of successful vaccine trials in November 2020. An expectation of a dramatic increase in global interest rates in the near future led to an outperformance of cyclical equities.

Keep warm and enjoy the read.

Saving Increases Your Options

Our generally poor savings culture is once again in the spotlight, with the advent of National Savings Month.

As with many other things, overcoming the inertia to take the first step requires the greatest effort. Once you have the momentum, it gets better with practice: the more often you do it, the easier it becomes and the greater the sense of achievement and reward.

“The way to wealth is as plain as the way to market. It depends chiefly on two words, industry and frugality”, is attributed to American polymath and statesman, Benjamin Franklin. In context, frugality simply means applying a bit of thought to how you spend your money.

It is not about being cheap or stingy; it is about taking control. That is, waste neither time nor money, but make the best use of both. The fundamentals are:

Spend less than you earn

Spending money to show people how much money you have is the fastest way to have less money. It's not what you earn that matters. You can only grow your wealth by spending less than you earn and consistently saving the rest. You cannot begin to save until you are living within your means, and the first step in achieving this is preparing a budget. It is generally easier to reduce your spending than it is to increase your income. Ensuring that you can live within your means will no doubt entail making sacrifices, so mentally prepare yourself for the possibility that you may need to make lifestyle changes in order to achieve your savings goals.

Identify objectives that excite you

Retirement as a goal may be too far into the future in order to motivate you to start saving.

When you set clearly defined savings goals, you have a better chance of accomplishing them because you are aware what we are working towards and why. Set and write down, important savings targets such as an emergency fund, a holiday fund and other targeted savings. Once you have decided on your goals and their timeframes, then you can begin to make informed choices about how to work towards achieving them.

Include a savings category into your budget

'Paying yourself first' means making sure that, after your basic living expenses have been covered, your savings are prioritised and not negotiable. Simply put, it's establishing the discipline to set aside money for your financial goals before you spend money on expenses. When you pay yourself first, you're mentally establishing saving as a priority. As Warren Buffet said, "Don't save what is left after spending, spend what is left after saving."

Establish a fund for emergencies

Your emergency fund is the money you'll use for any unexpected costs and expenses which may arise. Ideally, you should have three months of living expenses in your emergency fund. It takes some time to save that much, but any money you save is better than nothing

Pay off debt aggressively

Debt can be (like) a millstone around your neck and a difficult place from which to escape. While you're servicing expensive debt, such as credit card and retail debt, it is difficult to save because the interest you're paying on your debt generally erodes any gains you are making on the other side.

Use the right savings vehicles

If you've committed to regular saving, the next step is to ensure that your savings vehicle is fit for purpose. There are a multitude of savings vehicles from which to choose, all with different tax consequences, notice periods and regulations, and it is important to ensure that the savings vehicle aligns with your goals.

For instance, a tax-free savings account may be an excellent vehicle to save for your child's tertiary education, but would not necessarily be appropriate to house money intended to be used for your annual vacation.

Include rewards and money for fun into your budget

Spending money for pleasure is important. One of the reasons we work hard as hard as we do is to ensure that we can pursue hobbies and activities that make us happy and make life meaningful.

WISE WORDS

"99% of personal finance can be summarised in nine words: work a lot, spend a little, invest the difference"

Work with your partner

If you've committed to a savings journey, ensure that you bring your partner or spouse alongside so that you can work together as a team.

It's extremely difficult to build wealth if both of you aren't working towards the same set of goals, and with the same level of commitment. Creating wealth together will necessitate mutual sacrifice, communication and respect for each other's goals.

Start small and start now

Most people have very little wiggle room in their budgets. Believing you must start saving 10% or 15% of your income is a trap and for many people completely unrealistic, especially under current economic circumstances. Commit to an amount that you know you is affordable and just get started. You can always increase this amount as and when your budget allows.

Take advantage of the time value of money. The great Albert Einstein once said, "Compound interest is the eighth wonder of the world. He who understands it, earns it … he who doesn't … pays it."

Let's use the following example: A 18-year-old who invests R750 per month (escalating by 5% pa) until the age of 65 at a 6% annual investment return can accumulate R5-million.

By the age of 27, the required monthly savings amount doubles to R1,500 per month in order to achieve the same.

At age 37 the amount quadruples to R3,000 per month to reach the R5-million.

So, save early and often, even if the amount is small.

Culture Club

Gary Hollywood

Age: 44
(*Gustatory*) Entrepreneur and Raconteur
Education: Pretoria Boys High School

According to Wikipedia, “The gustatory system or sense of taste is the sensory system that is partially responsible for the perception of taste.”

In Gary Hollywood’s world, the sensory experience begins the minute you enter any one of the *bodegas* he has created.

Born in Glasgow, Scotland, Gary’s family moved to South Africa in 1977.

He grew up in Pretoria, where he met his wife, Leila. As a Liverpool FC supporter, Gary shares his passion for football with their two sons.

After completing qualifications both as a chef and an IT software developer and with Leila in tow, Gary spent some time overseas, where he learnt very quickly that he didn’t want to spend the rest of his life at a keyboard.

Upon his return to South Africa in the early 2000’s he bought a Mastrantonio franchise, which allowed him to explore his curiosity for creating, developing and running a business. This led him to persuade Doppio Zero to grant him a franchise, where he met his current business partners.

During this period, Gary was able to hone his skills and realised that he loved developing the design and experiences around the concepts he dreamed of.

A desire to create and run the quintessential Gastro-Pub culminated in the establishment of The Foundry, “craft beers, home-roasted coffee and global dishes in a contemporary, rustic-look bar and eatery”.

This success was followed by the opening of La Boqueria, inspired by the great food markets of the world, and in this case by its famous namesake in Barcelona.

Gary did the interior design himself, the quirky double-volume space boasting reclaimed parquet floors, second-hand mid-century furniture and a solid block of orange post-office boxes propping up the bar dishing up a visual feast.

Gary’s current project is based on a concept he discovered in New York and Chicago, a lobby restaurant. In partnership with Voco, a 5-star division of hotel group IHG, Proud Mary is a modern mid-century inspired all-day eatery and wine bar to suit every taste which serves as the in-house dining area of The Bank Hotel, scheduled to open its doors early in 2022.

Proud Mary offers more than a gustatory experience, stimulating not only the five basic tastes, salty, sour, sweet, bitter, and savoury (or umami), but also indulges the visual, auditory, olfactory and tactile senses.

> **“Our time during COVID has been about refining our products, and thinking up new concepts, refining our menu and training staff. We do this with the knowledge that even though there is no business now, it will turn and it will get better.”**

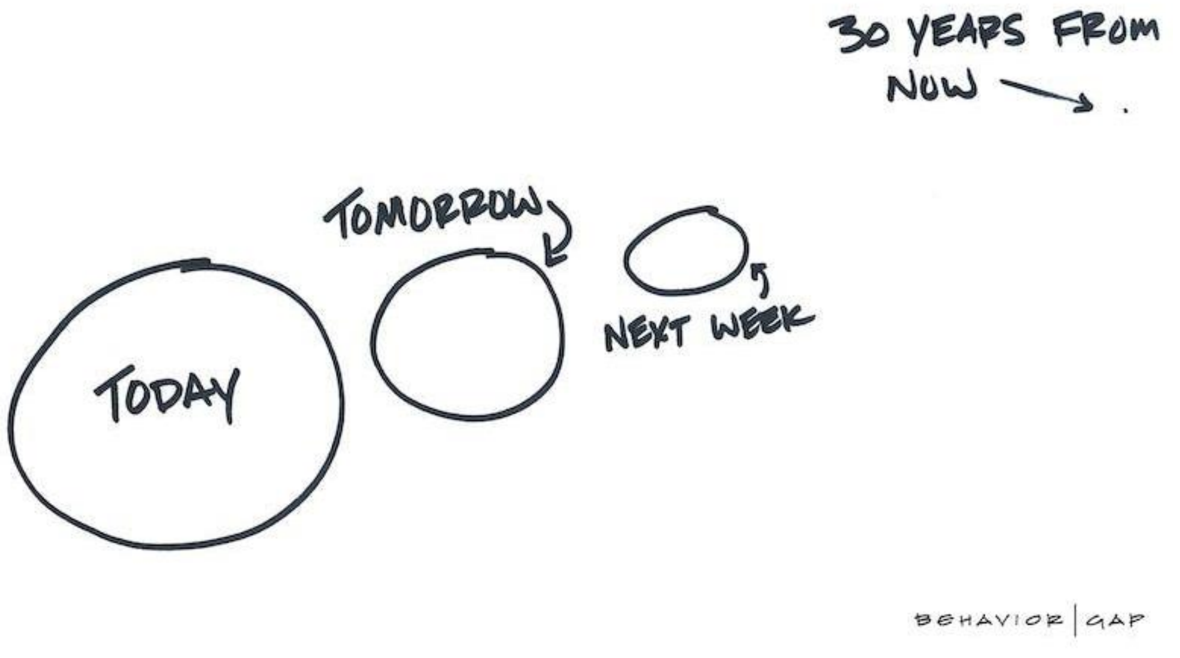
As any astute investor and/or businessman knows, there is opportunity in the challenging times we face. Gary tells us, “Our time during COVID has been about refining our products, and thinking up new concepts, refining our menu and training staff.

We do this with the knowledge that even though there is no business now, it will turn and it will get better.”

Bearing in mind that Proud Mary was launched late in 2020, his statement reflects the core of his life philosophy and advice to any budding entrepreneur daunted by the current environment: resilience and a belief that your hard work will eventually pay off.

Most importantly, you need to show up!!

Who do you think you'll be in a year from now?



One of the big problems with setting goals, especially financial ones, is that we're really bad at imagining our future selves.

Just remember what you imagined you'd be as an adult when you were a kid. I'm guessing there are some gaps between that dream and your current reality.

The reality is that when we talk about financial goals, we're often talking about long time frames. When we talk about retirement, for example, that could be upwards of 20 or 30 years from now. You can't even imagine yourself at that age, let alone plan for it. That's your parents, not you!

We do the same thing with our children. When my first daughter was born, college was the last thing on my mind. But by the time we had our fourth child, I had a good idea how fast 18 years would go by.

When we start talking about our distant future selves, it's easy to rationalize the decision to not do anything. In fact, our future selves can actually often feel like some other annoying person constantly stealing heaps of fun from our current selves.

"Don't eat that now, you'll regret it later; don't spend that money now, save it for your future self; don't take that vacation now, work overtime so you can have an even bigger vacation later."

What a party pooper!

And yet, in spite of our ability to imagine our future selves, when the future arrives, that person is still fundamentally you. So while our future selves may feel like a big old pain in the neck, it's important to realize that appeasing that person is still very much in our best interest.

So what's the solution? To start with, we need to get really clear on our goals. And I'm talking broad here. You don't have to know exactly what college your first-grader is going to go to and exactly what the tuition is going to be. Just don't pretend that 18 is a long way off. It's not. So you better start saving now.

You may feel like you're still 30, but if you just celebrated (or mourned) turning 40, it's time to get real. Our future selves will be here faster than we think. Remember all the stupid stuff you did as a teenager? Don't be the 60-year-old that wants to hit your 30-something self over the head for doing stupid adult stuff, like not getting clear on your financial goals.

I promise you that your future self will be happier the sooner you reconcile today with tomorrow.

Source: Carl Richards | Behavior Gap | 11 Feb 2021

Intelligent Optimism

Intelligent optimism seeks to **learn** how to fashion a life of difficulties. It does not deny the reality of today's world. Psychologists agree - optimism can be taught.

Consider these basic steps:

Focus on what you can control
Don't get carries away by the circumstances you cannot change. Rather focus on what you can control.

Don't be victim; re-fame the event
There is always another way to view the situation. My choice is to figure out what I can do when unexpected events happen.

Remember what you have
When we concentrate on what we don't have, we miss all the many things we do have.

Cultivate optimistic responses
Ask what you can **do** to see a result that gives you a sense of power.

Remember the power of generations
Children are prone to behave like their parents. What do you choose to pass on?

Ultimately, intelligent optimists understand that change and chaos are given. Yet, they **choose** to take whatever action they can and then settle back. It is enough.

Market Wrap | 2021 Q2

	WORLD	SOUTH AFRICA
EQUITIES	The global equity rally was sustained despite speculation of US interest rate increases occurring earlier than expected, based on continued stimulus, vaccine rollouts and the improving global economic outlook. European indices underperformed amid the rapid spread of the COVID-19 delta variant while Eurozone inflation leapt to 2% in May, surpassing the ECB's target for the first time in two years. Emerging markets rose, led by oil exporters Brazil and Russia.	The JSE moved sideways, weighed down by the retracement of the resources index on lower commodity prices. Listed property posted its third straight positive quarter following the significant losses for the three previous quarters. The ALPI and SAPY returned 11.1% and 12.1% for the quarter respectively, significantly outperforming equities and bonds
BONDS	Developed market bond yields declined despite US and Eurozone inflation rising faster than expectations given the Fed's comments attributing the rise in inflation to transitory factors.	The All Bond Index rallied as SA bond yields tracked global rates lower. Longer dated bonds outperformed as the yield curve flattened.
CURRENCIES	The US dollar appreciated against the euro, British pound and Japanese yen.	The rand rallied through R14/$ on South Africa's favourable terms of trade and record trade surplus but later retraced on waning commodity prices and SA's COVID-19 caseload
COMMODITIES	Commodities retraced as the dollar strengthened with precious metals gold and silver and industrial bellwether copper falling sharply. But oil rose above $70 a barrel for the first time in two years after OPEC+ signalled strong demand amid managed supply.	
ECONOMY	The World Bank says global GDP will expand at its fastest post-recession pace in 80 years, led by a few key economies but many emerging economies will still struggle with the pandemic's aftermath.	Mining output has sustained the recovery of the SA economy, albeit with economic output still well below pre-pandemic levels. The jobs bloodbath continues.
MONETARY AND FISCAL POLICY	Investors bet that the US Fed would not tolerate runaway inflation after it brought forward its anticipated rate-hike timeline from 2024.	SARB again kept rates on hold but cited growing inflationary pressures as SA CPI rose to 5.2% in May. Most economists now forecast repo rate increases in late 2021 or early 2022.

Asset Class/Currency	CCY/Price	Index as at 30 June 2021 (close 29 June 2021)	2021 Q2	1 Year	3 Years Annualised	5 Years Annualised
SA Cash						
STeFI Composite Index	ZAR	473,05	0,9%	4,0%	6,1%	6,6%
SA Bond						
BEASSA All Bond Index	ZAR	794,6	6,9%	13,7%	9,2%	9,2%
SA Property						
FTSE/JSE Listed Property Index	ZAR	1 455,14	12,1%	25,2%	-8,9%	-6,9%
SA Equity						
FTSE/JSE All Share Index	ZAR	66 548,71	0,00%	25,1%	8,1%	8,1%
Global Bonds						
Bloomberg Barclays Global Agg Index	ZAR	146,37	3,2%	-15,7%	5,7%	1,8%
Global Property						
FTSE EPRA Nareit Developed Rental Index	ZAR	2 180,88	5,1%	10,7%	8,3%	4,1%
Global Equity						
MSCI AC World Index	ZAR	719,97	5,6%	15,2%	16,7%	14,6%
Exchange Rates			**31-Mar-21**	**30-Jun-20**	**30-Jun-18**	**30-Jun-16**
Rand / US$	ZAR	R14.27	R14.78	R17.35	R13.73	R14.74
Rand / Euro	ZAR	R16.93	R17.33	R19.50	R16.04	R16.39
Rand / GBP	ZAR	R19.75	R20.37	R21.52	R18.13	R19.73
SA Inflation			**3 months**	**1 Year**	**3 Years (pa)**	**5 Years (pa)**
CPI (one month lag period)			1,43%	5,16%	3,89%	4,30%

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