Perspective

Winter 2022

"Let us love winter, for it is the spring of genius"- Pietro Aretino

The name jasmine is derived from the Persian 'Yasmin', meaning a gift from God, and is so named because of the intense fragrance of the blooms of the Persian or common jasmine, *Jasminum officinale*. On the Highveld, its blossom and fragrance signal the onset of spring.

Winter is the best time to travel to the Lowveld and specifically the Kruger National Park (KNP): there is little, if any, humidity and there is a distinct absence of mosquitoes. In July, I was blessed to spend a couple of days at Sand River Bush Camp in the KNP and enjoyed some fabulous sightings in a peaceful and pristine environment.

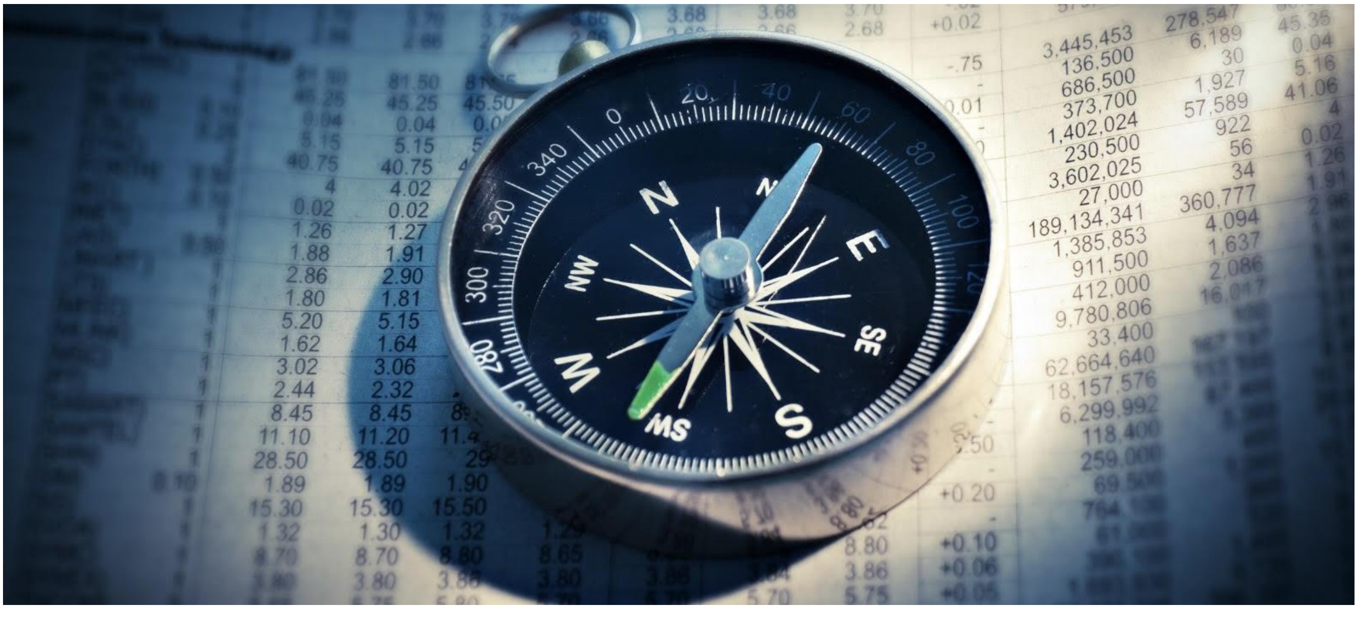
Although at odds with life in a world marked by escalating geopolitical tensions, I was reminded of the challenge of setting aside the temptation to behave emotionally rather than rationally in the face of escalating noise and uncertainty on two occasions: an encounter with an old 'dagga boy' and another with two adult rhino's and a calf on foot.

The experiences were exhilarating and in the words attributed to Benjamin Graham reminded me of a parallel to my professional life, "Successful investing is about managing risk, not avoiding it".

Inflation is stressed by many market participants as the key concern around the globe right now. South African annual consumer price inflation (CPI) came in at 7,8% in July 2022, up from 7,4% in June 2022. In this edition, our headline article unpacks the insidious impact of high inflation in an already volatile environment. August was Women's Month and Culture Club features winemaker and entrepreneur, Charla Haasbroek.

You are reminded that average weighted medical aid premium increases have been for announced for 2022 and there is an opportunity to review and decide which medical scheme and plan will best suit your needs in 2023. Also, LSSA National Wills Week takes place from 12-16 September. Please contact us should you wish to take advantage of either.
Happy Heritage month: enjoy the read!

Inflation: Hold Your Course!!



"Successful investing is about managing risk, not avoiding it" – Benjamin Graham

Rapid increases in the cost of goods and services can have a significant effect on both organizations and individual households. Although the immediate sting to our wallets at the local fuel station or closest grocery store is the most unpleasant, prolonged periods of inflation are felt throughout the economy and significantly destructive to both wealth creation and management strategies if neglected.

Statistics South Africa's updated historical Consumer Price Index (CPI) headline index, our standard measure of inflation, reveals that the 1980s were a decade of rising inflation, which peaked in September 1986 at a record high of 19.7%. It further reveals the rate of inflation year over the year in April 1980 was 13.4%.

As with any aspect of the financial markets and the economy, a little perspective can go a long way.

The table below compares prices of a few basic goods from four of South Africa's major Retailers (Woolworths, Spar, Pick n' Pay and Checkers) in order to calculate an average cost.

Item	The average cost in 1980	The average cost in 2022
2-litre milk	R1.72	R28.74
Lamb chops	R6.69/kg	R194.90/kg
Toothpaste (100ml)	R1.09	R15.49
Pasta (500g)	R0.99	R14.61
2kg white rice	R1.19	R28.49
Simba chips (large,120g)	R0.99	R18.32
Sta-soft	R1.99	R39.99
Kellogg's cornflakes (500g)	R1.49	R45.49
250g mushrooms	R1.19	R25.99
Cheese	R5.99/kg	R137.45/kg

Source: BusinessTech

If we consider what R100 could buy us back in 1980 and calculate what is required in order to purchase the same items today, the findings are staggering. An amount of R100 in 1980 translates into an amount of R3,200 in 2022!

THE BASICS OF INFLATION:

Inflation is an increase in the general price level of an economy and is fundamentally a monetary phenomenon. It is represented by more than just price shocks such as an exorbitant fuel cost. Most economies are inflating all the time: every year, prices are generally higher than they were from previous years.

The Consumer Price Index (CPI) is constituted of a standardized basket of goods and services used by households including everything from lottery tickets and petrol to life insurance.

WHAT CAUSES INFLATION?

1. Demand-side inflation: When consumers spend more money, prices tend to rise faster. However, when consumers spend less, the rate of increase in prices is slower.

2. Supply-side inflation: Usually inflation decreases when goods and services are cheaper to produce. Globalisation made it cheaper to produce goods such as clothing and electronics. However, inflation increases when the same goods cost more to produce. The pandemic as well as the ongoing war in Ukraine has increased these costs.

3. Expectations: Perhaps the cause to be most concerned about, particularly to central banks, is that of expectation. Every country confronts supply and demand shocks, however the inflation rate of these differs. This is because people who set prices and wages factor inflation into their decisions.

For example: employees usually expect a cost-of-living increase yearly, rent is adjusted and school fess amended to higher tariffs. This logic applies throughout the economy. When these inflation "expectations" are high, demand may be weak, however prices still rise (aka stagflation).

In the recent past, the consumer price index for South Africa has tested and exceeded the target range set by the reserve bank.

WHAT DOES THIS MEAN FOR INVESTORS?

A degree of caution is advisable. When inflation is on the rise, cash investments tend to perform poorly which can lead to long term destruction of wealth as the purchasing power of future cash flows reduce over time.

WHAT CAN YOU DO, AS AN INVESTOR?

First and foremost, it is important to remember that markets are fundamentally unpredictable, driven by factors that cannot be predicted either. Markets are and will always be complex. There is a constant oscillation between euphoria and depression and/or celebrating positives and obsessing over negatives.
As a small, open economy, SA is vulnerable to volatility both at a global level and closer to home.

Although the first quarter of 2022 was positive for investors, as a modicum of certainty returned to the post pandemic world, uncertainty returned in the second quarter influenced by risks perceived in the health, economic and political environments.

Whether you are retired, and certainty in frequency and quantum of income is fundamental to your objectives, or you are accumulating savings for your twilight years, and afraid that the volatility will derail you, it is important not to under estimate the potential impact of inflation on your capital. Long-term investment outcomes are determined by appropriate asset allocation.

The best way to guard your money against inflation is to ensure that you have a solid financial roadmap in place, which includes clear goals as well as a diversified investment portfolio (that is able to withstand bursts of volatility), with some exposure to equities.

Equities provide an opportunity for growth in excess of inflation while fixed-income assets act as a counterweight in volatile times. (The ratio of fixed income to equities depends on your risk tolerance and investment objectives). Critically, the valuation of these assets is crucial: what one pays will have a significant impact on the outcome.

A well-conceived financial plan, implemented and managed efficiently will ensure that inflation, amongst all the other potential risks, is accounted for and the outcome successful.

Culture Club

Charla Haasbroek

Vintage: 1990
Winemaker
Education: BSc (Chemistry, Oenology, Viticulture)

Wise beyond her years, Charla is one of those rare individuals who disprove the dichotomy of left vs right brain thinking. Her affable nature belies an ardent determination to bend the linear thinking required of a natural scientist in the vineyard with a view to crafting formidable wines in the cellar.

The daughter of two lawyers, Charla was born and raised in Johannesburg, where she attended Hoërskool Randburg. Despite having left the city life some time ago, the contrasts and diversity in the environment and urban culture of Jozi have an energy which she finds inspiring and refreshing.

A wine tasting conducted by David Sadie was her first introduction to the world of wine. She was fascinated by the potential complexity of her new discovery. Neither of her parents drank wine and they were both somewhat astonished when Charla announced that she intended to study viticulture and wine making.

After completing her studies at Stellenbosch University, she worked at Kanonkop and Tokara before working a harvest at Margerum in Santa Barbara, California. One evening insomnia drove Charla to surf the internet where she found an advert for position as assistant winemaker at Sijnn Wines in Malgas, a remote settlement situated 25 kilometres north-west of the Breede River mouth at Witsand, and 30 kilometres south-east of Swellendam. A skype interview with David Trafford, owner and winemaker of Sijnn, led to Charla's appointment in December 2014 and has since led to her appointment as winemaker.

Being of true entrepreneurial spirit, she launched her own brand of wine called Charla Haasbroek Wines in 2017. Trincadeira, an exciting Portuguese varietal rarely found in South Africa, is her personal favourite and the 2018 vintage is aptly described as, "Feminine and aromatic profile, think lavender, perfume and raspberries. Beautifully intense, elegant and structured on the palate."

Her winemaking philosophy is pretty much summed up in the words of David Trafford, "…understanding and working with the vineyard to coax something magical from the land, after that it's hold thumbs you don't cock it up in the cellar."

Charla is very conscious of the need to maintain the fine balance between family life and work as espoused in the metaphor, "Glass Balls and Rubber Balls", attributed to ex-CEO of Coca Cola, Brian Dyson.

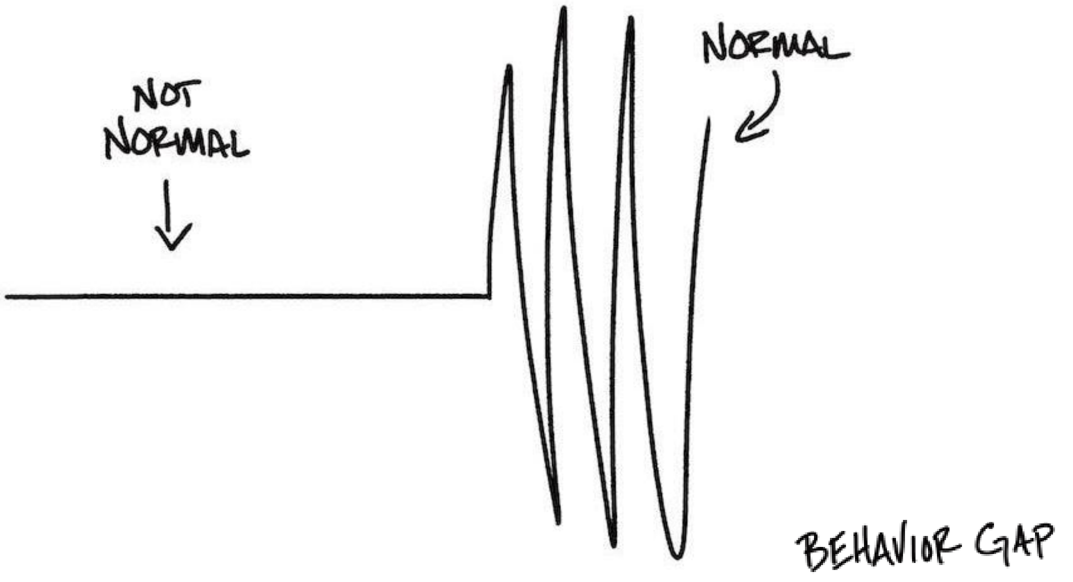
> "…never compromise on quality and maintain an open mind when it comes to trying new things."

The Great Outdoors is Charla's favourite place not only when she is at work but also when it comes to leisure. Camping, cycling and running are pursuits which are shared with her husband, Casper. In her own words, she "lives in the middle of nowhere" with Casper and their two children, the youngest of whom accompanies her to the farm daily.

She describes herself as an adventurous cook, although she doesn't get much time to dabble in this past time currently.

Charla's life philosophy and advice to those in her wake is to work hard, never be afraid to ask for advice or guidance, never compromise on quality and maintain an open mind when it comes to trying new things.

Volatility is normal… so don't go overboard



Imagine it's a very still day, and you're in a boat on the ocean.

There's no wind.

No swell.

The water is as flat as a mirror.

The calm goes on just long enough for you to start to feel like it's normal.

Then a small wave comes… it feels huge.

And you're shocked at how enormous a regular wave feels.

As scary as it might feel… it's important to remember that waves are normal.

In fact, occasional storms are normal.

And the last thing you want to do when you get into a storm is abandon ship.

Source: Carl Richards | Behaviour Gap | 29 July 2022

"The Correlation"

There might be a 100% correlation between what you do and what you get and what you want (if you're trying to train for the hundred-meter dash.)

Anything that makes you go faster is correlated with the goal, which is winning the race.

On the other hand, being funny isn't always correlated with being a rich and famous comedian. Being the funniest is not the same in comedy as being the fastest is in sprinting.

And most of what we spend our time on is closer to comedy than it is to sprinting. The things we believe are important, useful or moral are not always related to the metrics that the marketplace focuses on.

That's partly because we're not being compared using something as simple as a stopwatch. And it's because what other people seek out might not match what we think is the point of the work.

It's important to figure out whether the thing you want to accomplish is correlated with the performance that some imagine it might be.

For a lot of us, that's more difficult than it sounds.

Source: Seth Godin | Seth's Blog | 15 July 2022

Market Wrap | Q2

	WORLD	SOUTH AFRICA
EQUITIES	Rising inflation and recession fears caused global equities to retreat further — tipping US and European bourses into bear market territory with declines exceeding 20% this year.	The JSE tracked other markets sharply lower, despite a late surge by media giants Naspers/Prosus — compounded by the bourse's higher weighting to economically sensitive resources companies
BONDS	Developed market government bonds provided little refuge for investors — rising yields caused bond prices to fall, despite a brief quarter-end rally as yields fell on recession fears.	The All Bond Index was lower as yields followed global yields higher — the SA listed property sector also retraced sharply on higher yields.
CURRENCIES	The US dollar was materially stronger against the other majors — on widening interest rate differentials and the dollar's safe-haven appeal.	The rand weakened in tandem with other emerging market currencies — increased risk aversion saw a flight to US dollar safety.
COMMODITIES	Commodities were mixed as sharp price falls in industrial metals on rising recession fears were offset by rising energy prices on supply constraints — but precious metals were lower on the increased opportunity costs afforded by rising fixed interest yields.	
ECONOMY	The global economic outlook is clouded by dual concerns of elevated inflation and slowing growth — the Russia-Ukraine war has potentially dire economic consequences for Europe amid potential gas shortages and planned rationing.	After a relatively strong first quarter, the likelihood of a contraction in the second quarter of 2022 increased markedly — on flood damage in Kwazulu-Natal, escalating loadshedding and weakening global demand.
MONETARY AND FISCAL POLICY	The US Fed implemented a series of aggressive rate hikes to tame 40-year high inflation — raising the federal funds rate by 0.75% in June for the first time since 1994.	The increasingly hawkish SA Reserve Bank raised interest rates another 0.5% in May to 4.75% as was widely expected — the largest interest rate increase since 2016.

***Source: Foord Asset Management:** Investment Newsletter — Foreword | Issue 62 | 2nd Quarter 2022*

Asset Class/Currency	CCY/Price	Index as at 30 June 2022 (Close 30 June 2022)	2022 Q2	1 Year	3 Years Annualised	5 Years Annualised
SA Cash						
STeFI Composite Index	ZAR	492.9	1,2%	4,2%	5,0%	5,9%
SA Bond						
BEASSA All Bond Index	ZAR	806,9	-3,7%	1,3%	5,8%	7,8%
SA Property						
FTSE/JSE Listed Property Index	ZAR	1 470,2	-11,6%	0,2%	-9,0%	-7,3%
SA Equity						
FTSE/JSE All Share Index	ZAR	10 981,3	-11,7%	4,7%	8,2%	8,7%
Global Bonds						
Bloomberg Global Agg Index	ZAR	142,3	2,9%	-2,8%	4,7%	4,0%
Global Property						
FTSE EPRA Nareit Developed Rental Index	ZAR	1 887,7	-9,4%	-1,7%	4,2%	6,7%
Global Equity						
MSCI AC World Index	ZAR	596,8	-6,1%	-3,9%	11,9%	12,3%
Exchange Rates			**2022 Q1**	**1 Year**	**3 Years Annualised**	**5 Years Annualised**
Rand / US$	ZAR	16,28	-10,3%	-12,3%	-4,7%	-4,3%
Rand / Euro	ZAR	17,06	-5,3%	-0,8%	-2,1%	-2,6%
Rand / GBP	ZAR	19,80	-3,1%	-0,2%	-3,3%	-3,0%
SA Inflation			**3 months**	**1 Year**	**3 Years (pa)**	**5 Years (pa)**
CPI (one month lag period)			2,30%	6,50%	4,56%	4,51%

Source: PortfolioMetrix

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Summa Financial Services (Pty) Ltd
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Suite 1, 2 Clamart Road, Richmond
Johannesburg
010 020 1350
info@summafs.co.za
www.summafs.co.za