

JSE Power Hour Positioning your portfolio for 2017

Simon Brown

8th December 2016

#JSE @JustOneLap



Warren Buffett



“Predictions tell you more about the person making them than the future”

- Be aware of recency bias



Scoring 2016 predictions

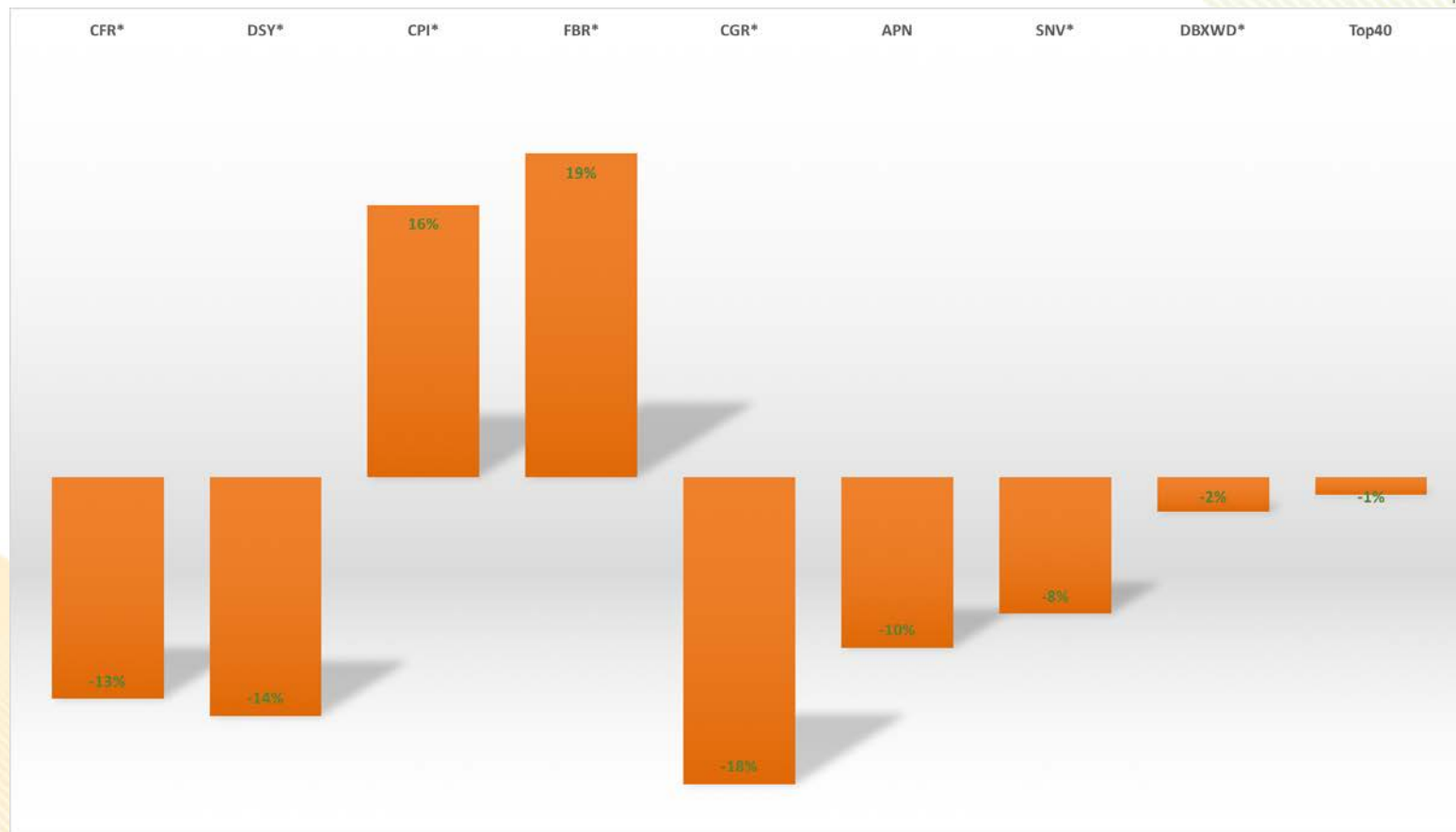


Scoring 2016 predictions

- ✓ Rand > R16.00/USD
- ✓ Eskom no load shedding
- ✓ Local politics very messy
- ✓ Drought pain but rain returns
- Indi25 wining sector
- ✓ Oil remains weak
- ✓ Top40 flat to negative
- ✓ Local GDP under 2%
- Clinton wins
- ✓ Buy commodities on 100% bounce
- ✓ Don't worry about a crash



Scoring 2016 Stocks*



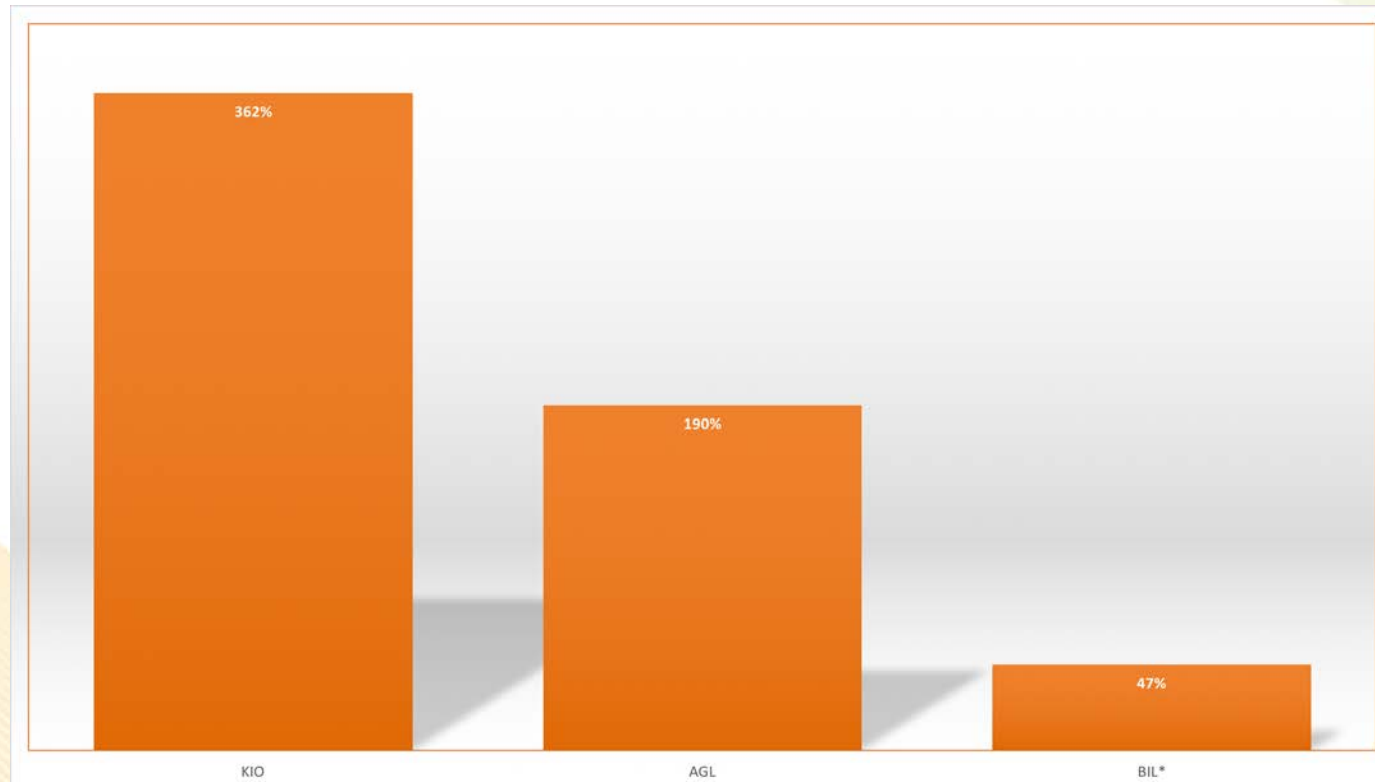
* I own these stocks as at 8 December 2016
Portfolio at www.SimonBrown.co.za

* as at 07 Dec 2016
One year returns including dividends

Scoring 2016 Commodity Stocks*



- ✓ Buy commodities on 100% bounce off lows



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* as at 07 Dec 2016
One year returns including dividends

The 2017 predictions



Rand



- Expect stronger against US\$



Government

- ANC 54th elective congress ~ December 2017



SA Inc.

Mama Taxi™



- GDP 2% at best but no recession
- **Top40 I am bullish**
- **NPN is the risk**
- Three years sideways
 - Earnings up
 - = valuations cheaper
- Bad news all in?



SA Inc ~ Are we Brazilian?



Rain

- Rainfall is returning to normal
- Dam levels 2 years to normal
- Growers (TON* / QFP)
- Producers (PFG / RFG / ZED)
- Retail (SHP* / PIK / SPP)

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Rating agencies

- More worry to come
- S&P MUST decide in 2017
- Odds for junk = even ?



Exhibit 1: South Africa sovereign rating summary

South Africa	Moody's*	S&P	Fitch*
Investment Grade	A3	A3	A-
	Baa1	BBB+	BBB+
	Baa2	BBB	BBB
	Baa3	BBB-	BBB-
Sub Investment	B3	B3	BB+
Outlook	Negative	Negative	Stable
	Local Currency Rating		Negative
	Foreign Currency Rating		

* Moody's foreign and local currency rating set at Baa2, Fitch foreign and local currency rating set at BBB-

Source: Bloomberg; RMB Morgan Stanley Research

November 21, 2016

Industrials



- Indi25 struggling
 - All about NPN (+32% of index)
 - CFR* / MTN / MRP / SNH* / WHL*
 - **I expecting bounce**
- Construction / manufacturing
 - Still avoiding



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Financials

- Really good 2016
- 2017 = tough but they cheap
 - Bad debts rising
 - Increased regulations / compliance
- CPI* remains the pick (like SYG but expensive)
- Deutsche Bank to survive



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Retails

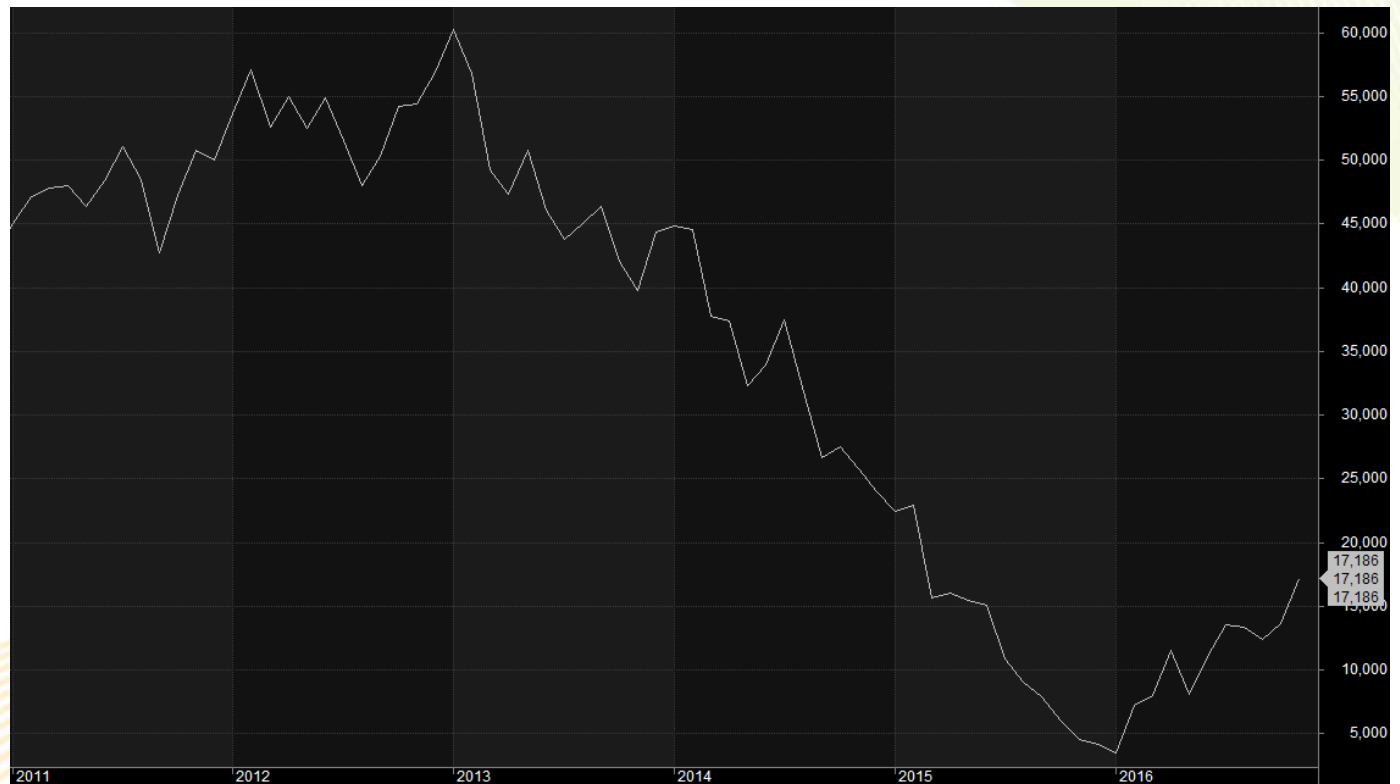
- The year it went south
- Is Cotton On / H&M damage permanent?
 - MRP / TRU / TFG
- Low income households – SHP*
- Cheap – WHL*?
 - Forward PE 13x
 - Last time September 2009 / 1500c



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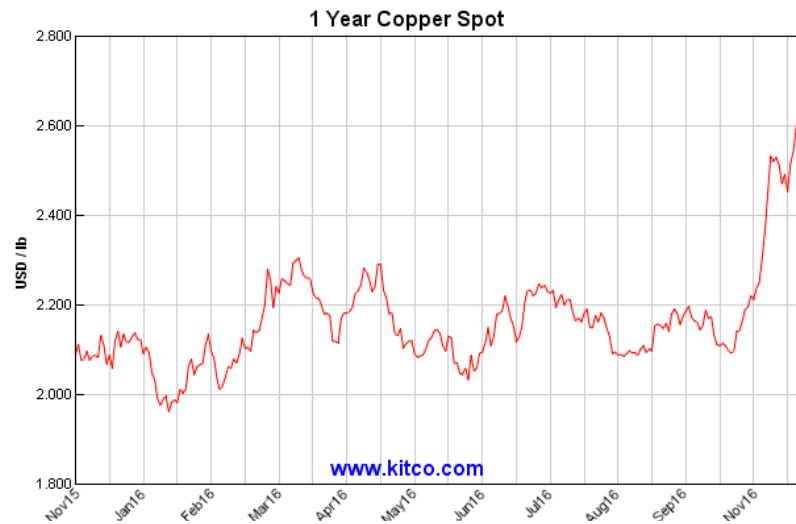
Commodities

- Buy when +100%
- KIO low 2415c
- Buy 5000c



Commodities ~ gone crazy

- Enjoy the run, but fundamentals not much changed
 - US infrastructure spend?
 - But over supply remains
- BIL* (energy) / AGL (diamonds / plat) / plat miners (IMP)



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Commodities ~ oil

- Going nowhere any time soon
 - US\$40 ~ US\$55
 - SBAOIL (ETN)
- OPEC is a non issue



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Interest rates

- Locally ~ no change
 - Maybe starting down H2:17
- Europe ~ no change
- US ~ edging higher



China (no change)

- The worlds second largest economy
 - Under 7% growth is still plenty
- Under going important transition
 - Industrialisation → consumerisation
- Strong leader combating corruption
 - ETN = DBCHIN
- I get exposure via CFR* / DSY*



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USA

- Trump
 - Closing borders
- Rate increases
- Economy growing
- CSP500*
- I prefer DBXWD*



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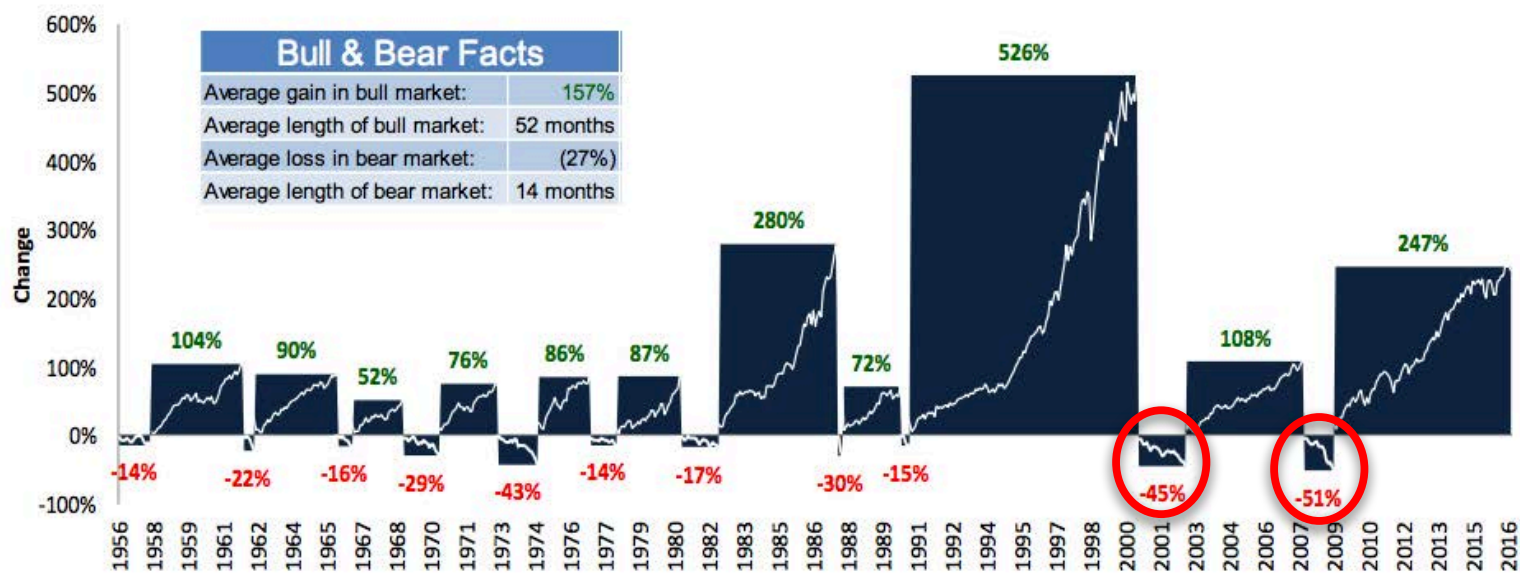
USA ~ bull market



Investing Insights

Bull & Bear Markets

S&P 500 Index to October 31, 2016



European Union

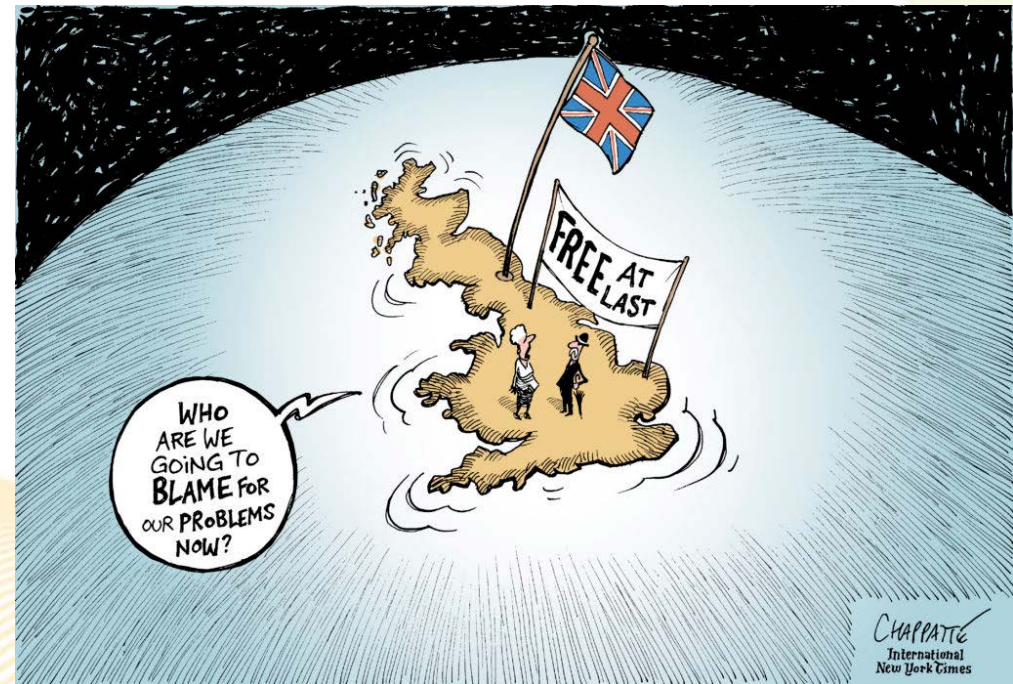
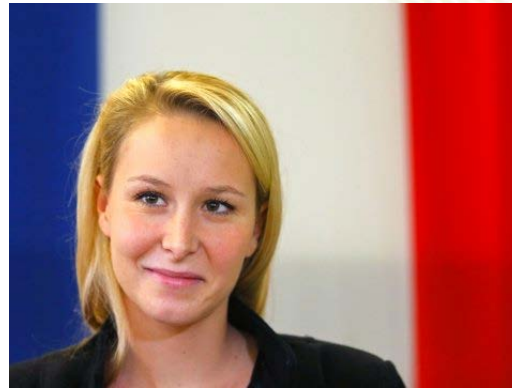
- Negative / low rates & QE continues
- Muddling along
- Brexit
 - French / German elections
- DBXEU
 - I prefer DBXWD*



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Nationalism

- Brexit / Trump/ Le Pen
 - Le Pen in 2012 came third (out of nine) with 17.9%
- Italy / Belgium
- Closing borders / trade
- Long term serious implications



2017

- Offshore + local
 - Rand strength may hurt a bit
- US remains global economy of note
- Commodities run some more
- President Zuma will create lots of noise
 - Ignore it



What, Me Worry?



2017 stocks

- CSP500* / DBXWD* for offshore
- CSEW40* for SA
- Tongaat* / Quantum for rain
- Shoprite* / WHL* for retail
- Billiton* / plat miners for commodities
- Keep your ETFs and max your TFSA



What, Me Worry?



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2017 stocks

- The beaten bunch
 - Bounce in 2017 ?
- IPO
 - Premier Fishing @ 500c



What, Me Worry?



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Bloodhound

- Land speed record, attempting 1,000 mph (current 760 mph)
- Hakskeenpan Northern Cape ~ Oct / Nov 2017



We want you vote

Voting open until 8am tomorrow ~ have your say

[Twitter.com/SimonPB](https://twitter.com/SimonPB) / @SimonPB



Simon Brown
@SimonPB

Last year 54% of you said the Top40 would be down for 2016 and so far that's the right call. What's your 2017 call for the Top40?

#JSE

30% Top40 down in 2017 :(

70% Top40 up in 2017 :)

Contact



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