

JSE Power Hour Investing while junk

Simon Brown

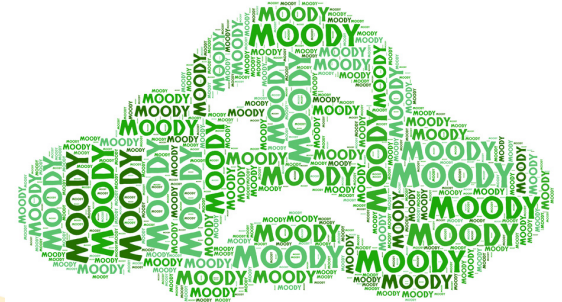
May 2017
#JSE @JustOneLap



Junk is complicated

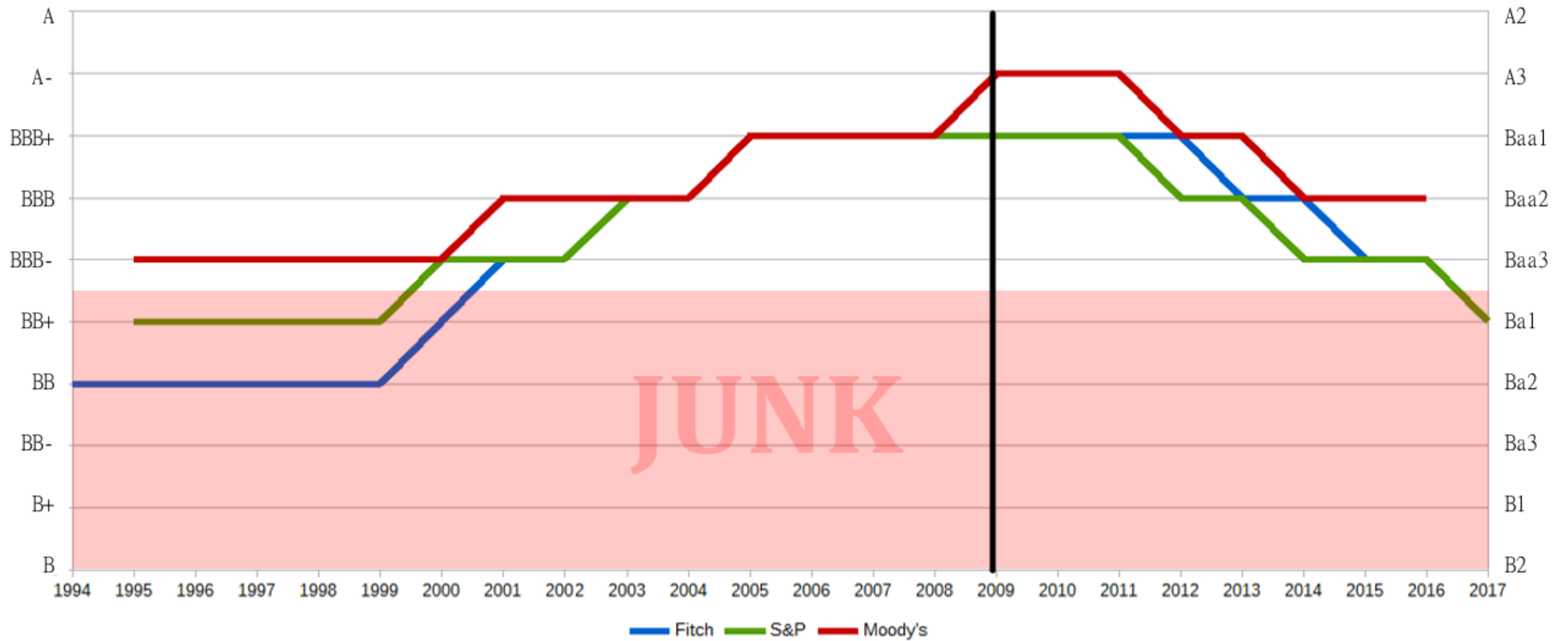
Sub investment grade

- S&P Global
 - Foreign = junk / local = good but negative (June review)
- Moodys
 - 30-90 day review (by end June)
- Fitch
 - Junk



South Africa's Credit Rating History

1994 - 2017



What does it mean

- Some funds can't invest (but many still can)
- Bond yields move higher
- Government debt costs more
 - Tax increases
- Local banks get downgraded
- Interest rates higher?
- Inflation higher?



Does it matter?



So why then does junk status even matter.

08:58

it doesn't

08:58 ✓✓

You cynical bastard!

08:59

Love it

08:59

- It does, but understand stock market vs. economy
- Foreigners been buying our bonds
- Risk on trade will see them buying our equities
 - Both makes Rand stronger

Top40 (close 19 May)

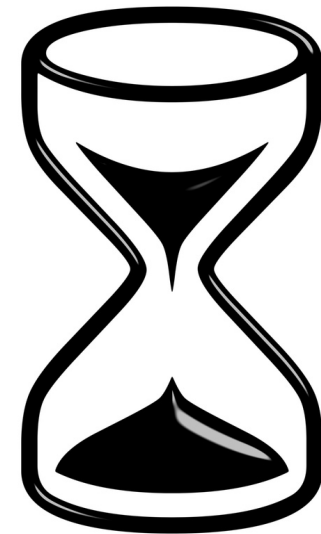


JSE-TOPI - Daily 19-May-17 Open 477694, Hi 480243, Lo 477171, Close 479626 (0.4%)



How long does it take?

- 5-7 years at best
- Economy hurts 3-5 years at best
- The global junk club biggest it ever been



SA Inc.



From Dec 16
Position portfolio for 2017



- 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?**



Global

- Global economy is doing alright
- Surprises done for now?
 - Brexit / Trump / Le Pen
- Some 75% Top40 earnings outside SA



Drought

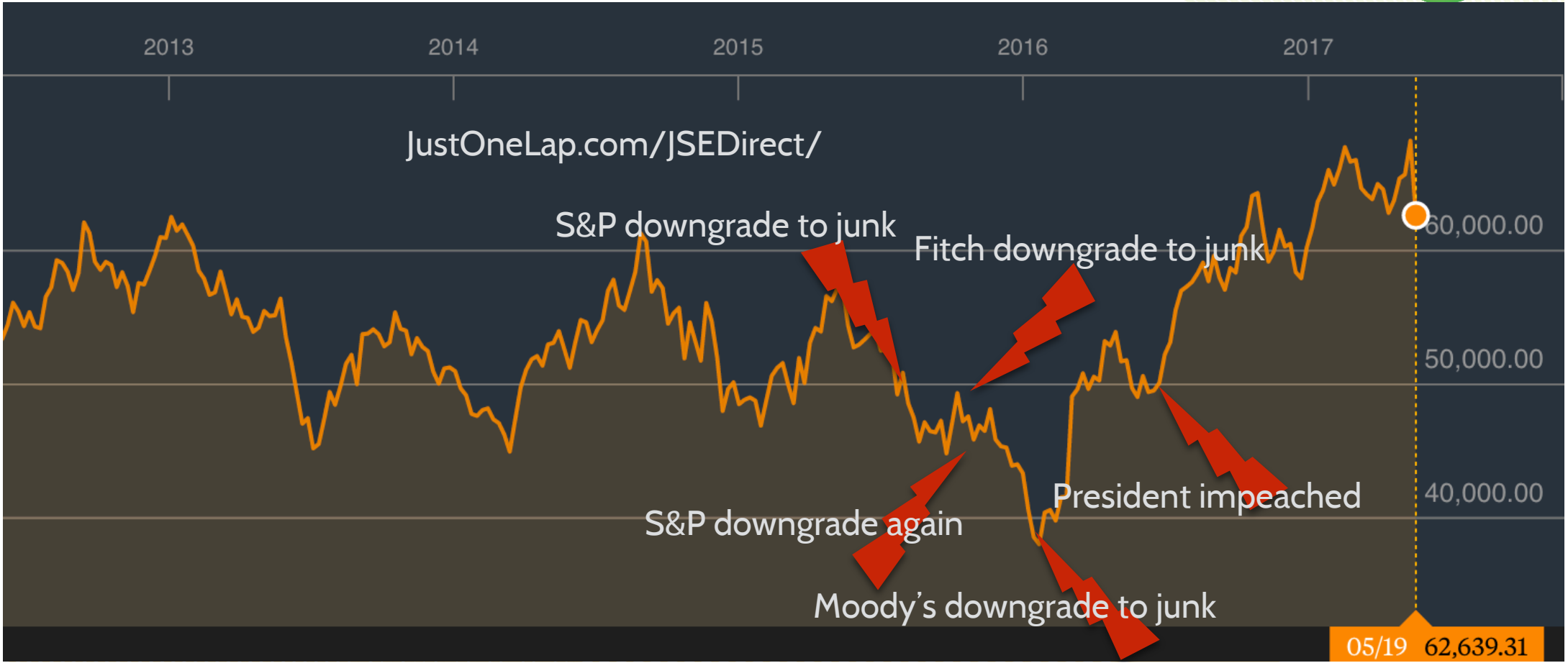
- Mostly gone
- Good news for;
 - Food producers
 - Food retailers
 - Inflation
 - Consumers

From Dec16
Position portfolio for 2017

just one
money
in action *lap*



Brazil



How to manage - personal



- No panic
- Reduce personal debt / liabilities
- You want assets that pay you not liabilities you pay for
 - Going to be a tough 3-5 years for the economy
 - Low growth
 - Inflation
 - Interest rates

What, Me Worry?



How to manage - portfolio



- No panic
- Exit second rate shares
- Hold high *quality* only
 - Offshore *quality* earnings
 - *Sustainable* earnings
- Avoid local GDP dependent stocks
- Keep some cash

What, Me Worry?



Small / mid cap stocks

- Suffering
 - Likely to continue
- Liquidity and localised earnings will hurt
- Be very careful here
 - Best of best, offshore earnings



Practically

I repositioned my portfolio in December 2015

- Don't like large banks (Capitec* exception)
- Retail; low LSM food = defensive
- Local defensive = Metrofile*
- Themed = Tongaat*
- Resource – stock / commodity specific



* I own these stocks as at 25th May 2017
Portfolio at www.SimonBrown.co.za/portfolio

ETFs tax-free

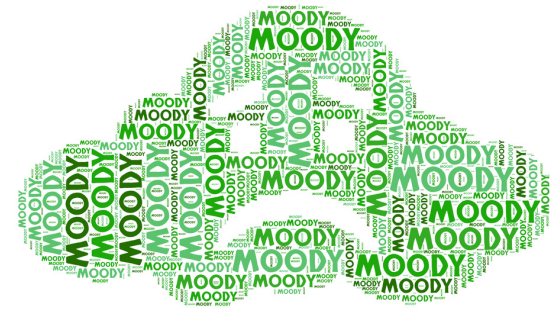
- No change
 - Assuming general with offshore bias
- CSP500 / DBXWD* / GPROP*
- CSEW40* / PTXEN*



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Re cap

- Messy
- Not the end of the world
 - Tough economic
 - Strong market
- Rand stronger
- Local market higher





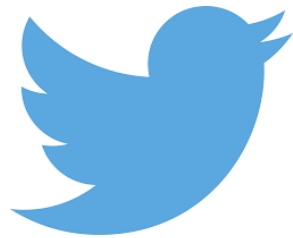
Questions?

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