

JSE Power Hour Position your portfolio for 2020

Simon Brown

5th December 2019

@JSE_Group / @JustOneLap



What you said for 2019



Simon Brown

@SimonPB

Time to ask the crowds for some wisdom

What's your expectation for the Top40 in 2019 ? **#JSE**

62% Top40 green in 2019

38% Top40 red in 2019

What you're saying for 2020



Simon Brown
@SimonPB

Time for some wisdom of the crowds ahead of our final [#JSE](#) Power Hour on Thursday.

What's your expectation for the Top40 in 2020?

Green all the way

52%

Red, red and more red.

48%





Bright The Dividend Papi 💰💰💰 @briteless · 14m

End of Year:

2015: Nenegate

2016: Trump is elected US president.

2017: Steinhoff Blowup

2018: The US stock market has had its worst December since the Great Depression.

2019: SANTA RALLY MAYBE???

Scoring 2019 predictions



Scoring 2019 predictions



- ✓ Top40 green
- ✓ ZAR stronger (6%)
- ✓ No trade peace
- ✓ Load shedding
- ✓ Inversion
- ✓ S&P500 slightly green
- ✓ No junk status (thanks Moodys)
- ✓ GDP under 1%
- ✓ Still avoiding construction
- ✓ Financials cheap
- ✓ Retailers
- ✓ Europe winner



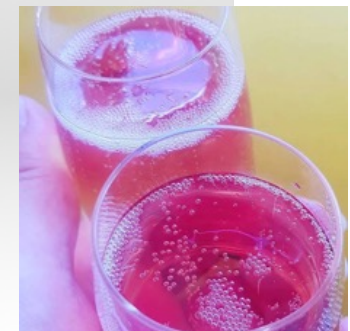
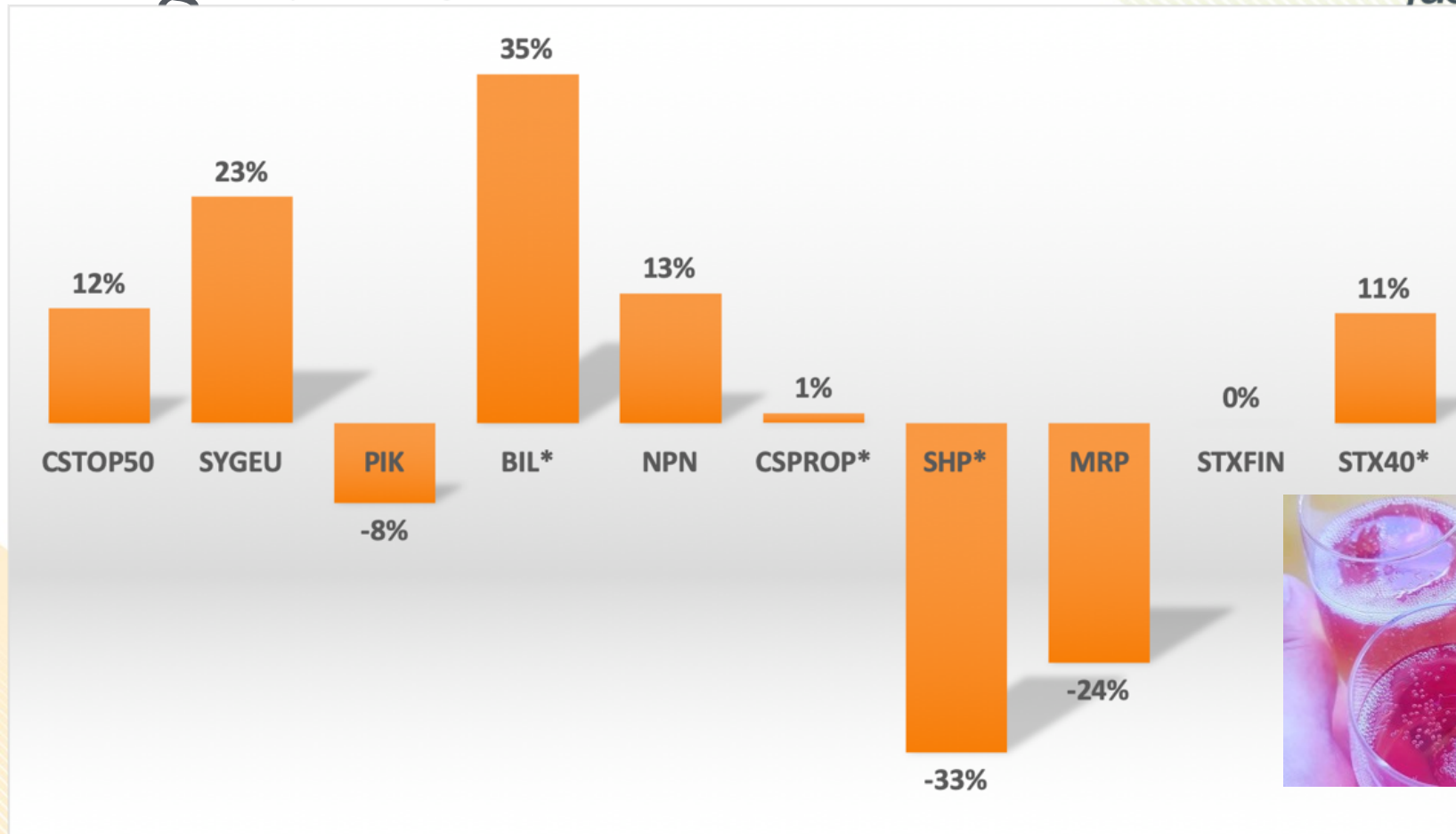
Scoring 2019 predictions



- ✓ Top40 green
- ✓ ZAR stronger (6%)
- ✓ No trade peace
- ✓ Load shedding
- ✓ Inversion
- ✓ S&P500 slightly green
- ✓ No junk status (thanks Moodys)
- ✓ GDP under 1%
- ✓ Still avoiding construction
- ✓ Financials cheap
- ✓ Retailers
- ✓ Europe winner



Scoring 2019 Stocks**

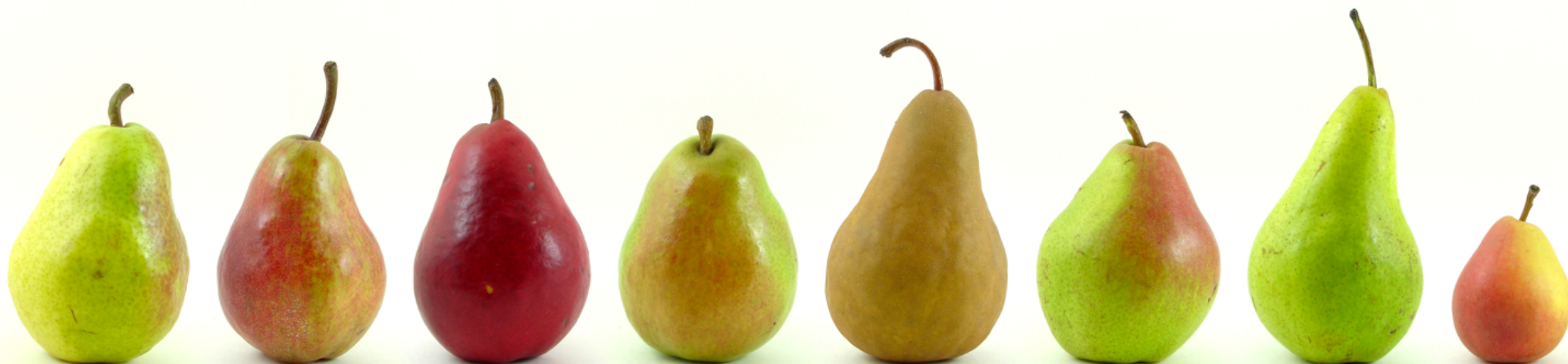


* I own these stocks as at 5 December 2019
Portfolio at www.SimonBrown.co.za

** as at close 04 Dec 2019
One-year returns including dividends

The burning questions



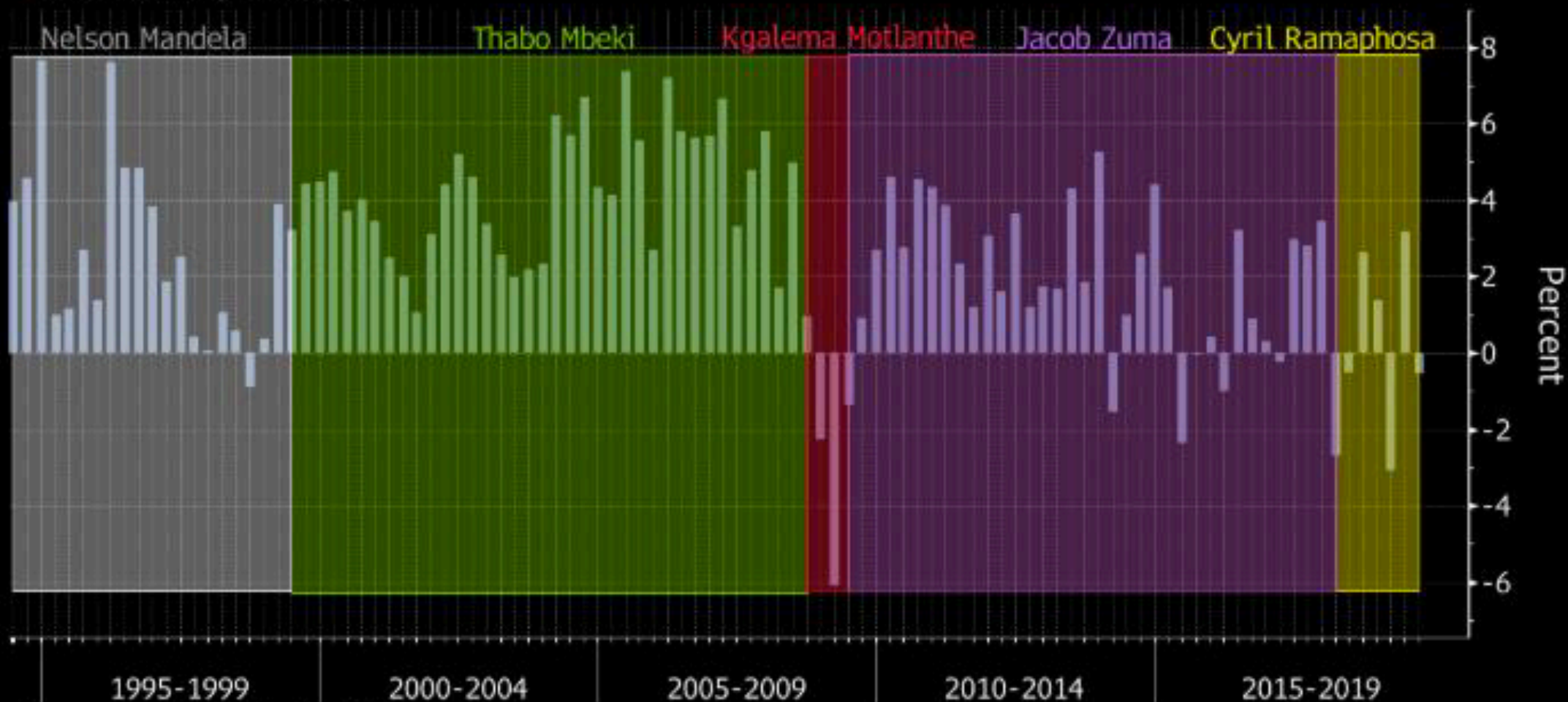


Our economy is broken

Bad Start

Based on South African GDP growth, Cyril Ramaphosa's presidency started out tough

■ Annualized GDP growth (QoQ)



Source: Statistics South Africa

The economy is not the market

Where's SA?

- 2 years ago, Nasrec
- Feels dark, is dark.
 - We're in a better space as a country, but not the economy
 - But we're badly broken and it's very slow
- Guptas gone, ex-cabinet minister (+ others) being arrested, etc.
- We're NOT; Zimbabwe or Venezuela





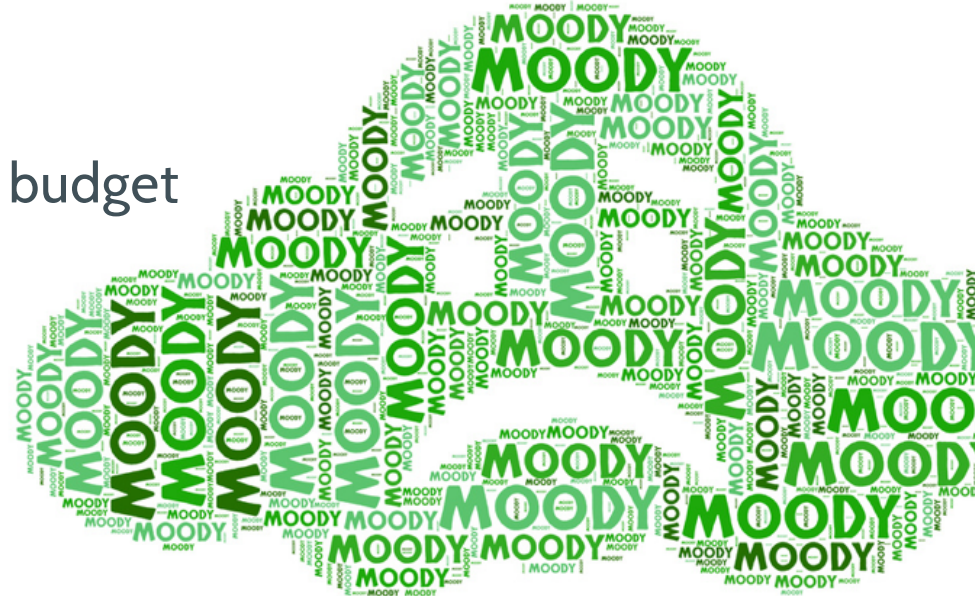


Our rating

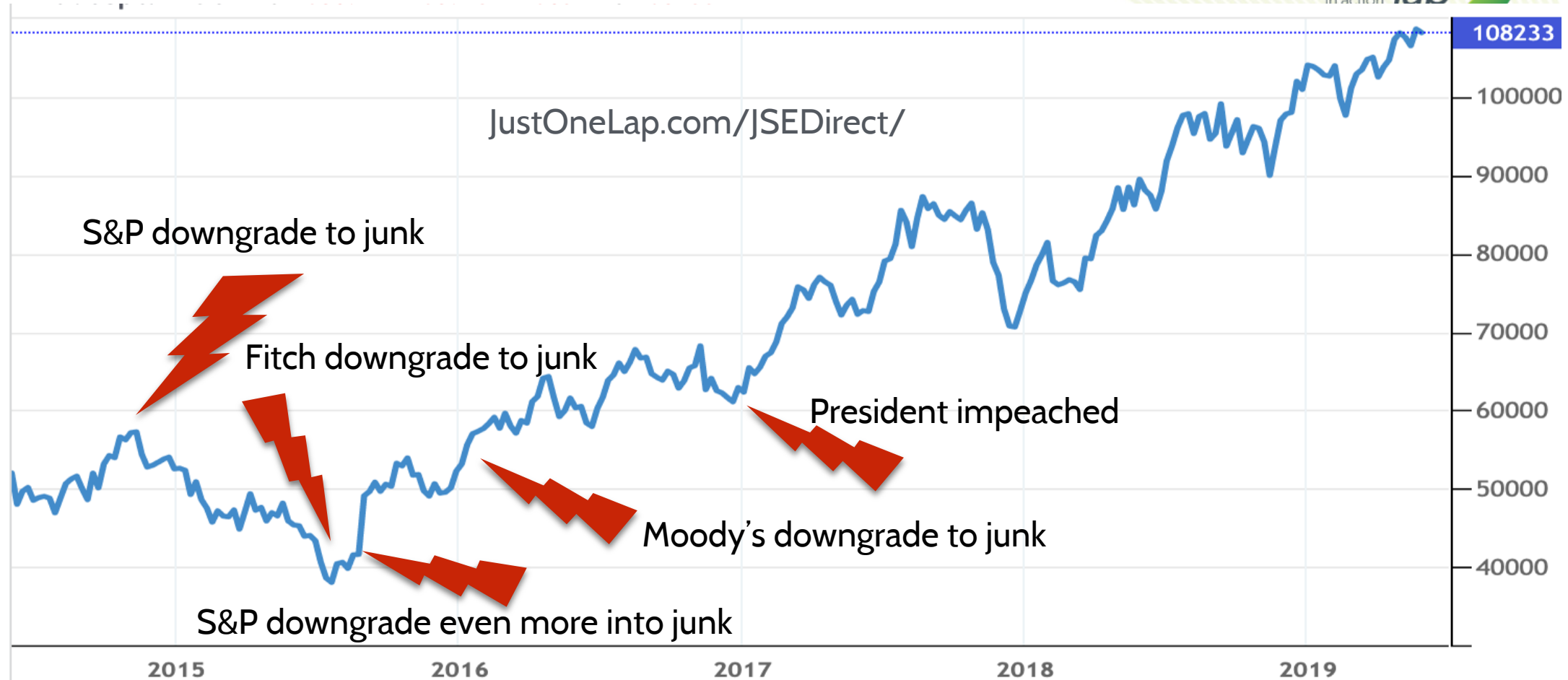
- Only Moody keeps us out of full junk
- But three feet already in
- Mboweni needs R50billion by February budget

- Likely junk in 2020

- Immediate response = panic
- But priced in. Brazilian bonds cheaper than ours?

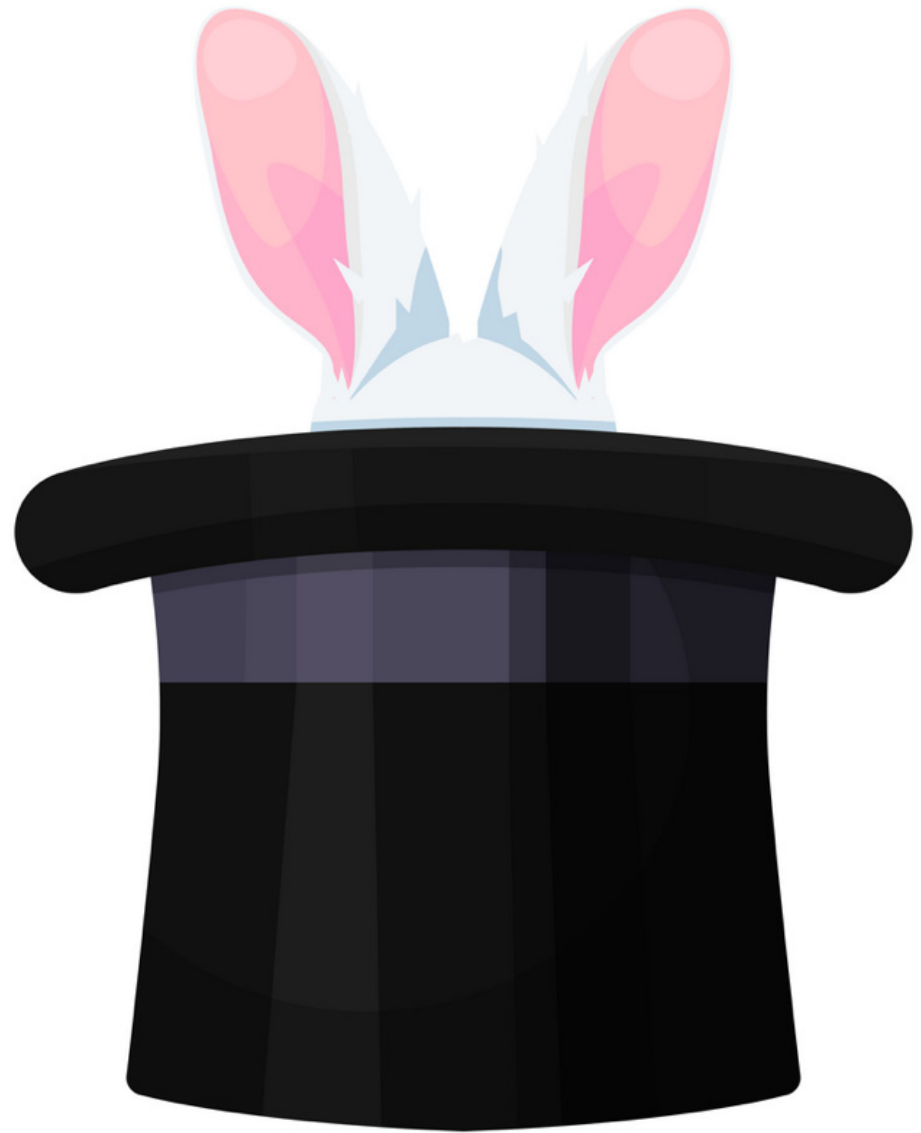


Junk is not end of world. But no fun.



Budget 2020

- R50billion needed
- Eskom debt?
- Unions (SAA just the first round)
- Tax revenue?
 - SARS is on the mend
 - But budget is not



SAA

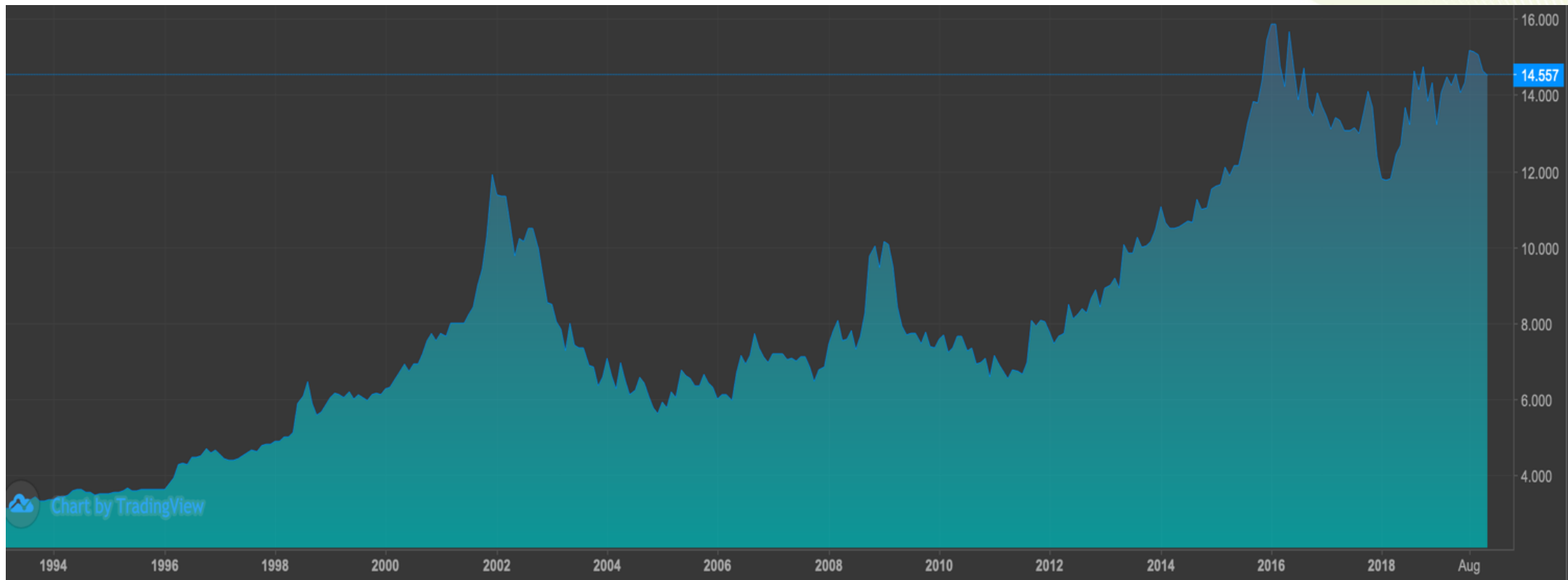
- Business rescue
 - Equity partner?
- Comair
 - But no Billion



Rand

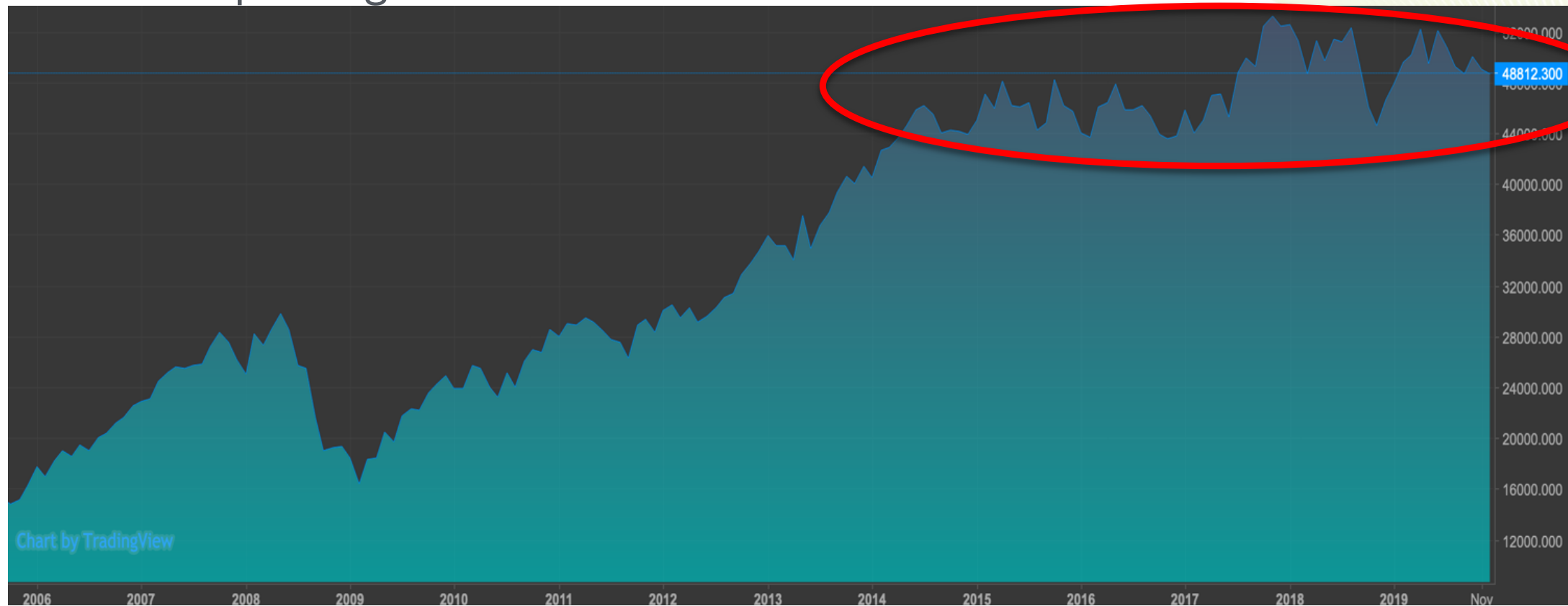


- Treading water, could go either way. Bias is stronger.



Top40

- Depressing



Bitcoin*

- Still struggling to be anything useful
 - Unless you need to do untraceable transactions?
- Blockchain no real world uses.



* I own these stocks as at 5 December 2019
Portfolio at www.SimonBrown.co.za

Trade wars

- Is China now controlling the process?
 - They are not easy to win
- Now maybe after 2020 Elections?
- Hurting global GDP.
- Easier for China to manage
 - Command economy



US elections

- Will be messy
 - —Impeachment
- No president won with weak economy
 - Will Trump make trade peace to juice market?
 - Can Trump make trade peace to juice market?
 - Does Trump need to juice the markets?



Brexit & UK elections

- Any day now? Surely? Please.
- Election next week
 - Does it matter?

We'll be fine. We're in good hands.



The 2020 predictions



Top40 / SA Inc.

- Top40 is cheap ~ forward PE c14x & DY +5%
- Recession possible but very modest GDP > 1%
- **The economy is not the market**
- +5 years sideways (10% in 2019)
 - Earnings increasing, but SA inc. is skrinking
 - Can do another +10% year. Lots of T&Cs apply.
 - CTOP50 / STX40*



* I own these stocks as at 5 December 2019
Portfolio at www.SimonBrown.co.za

Industrials



- Very little industrial here (Bidvest & Barloworld)
- Really all about Naspers (28.8% of index + Prosus 6.5%)
 - Richemont* / Shoprite*
 - Aspen



* I own these stocks as at 5 December 2019
Portfolio at www.SimonBrown.co.za

Financials



- Down 7% ex dividends in 2019 (DY = 5.5%)
- Low impairments & strong balance sheets
 - But downgrade will hurt
 - Growing in weak economy is hard
- Still Love CPI*, but expensive
- CML* cheap & well positioned

* I own these stocks as at 5 December 2019
Portfolio at www.SimonBrown.co.za



Resource stocks

- Commodity over supply mostly gone
- Trade wars hurting less than expected (so far)
- The biggies best
 - BIL* / GLN / AGL
- Platinum still going to struggle, palladium winning
 - Sibanye-Stillwater
- Gold, safe haven? Maybe, but no.

* I own these stocks as at 5 December 2019
Portfolio at www.SimonBrown.co.za



Retails

- ~~Very tough 2018~~
- Even tougher 2019
- Starting to see food inflation (drought?)
 - Should help margins
- Quality and well positioned
- Woolies* / Shoprite* / Pik n Pay
- Massmart for the brave turn around hopefuls

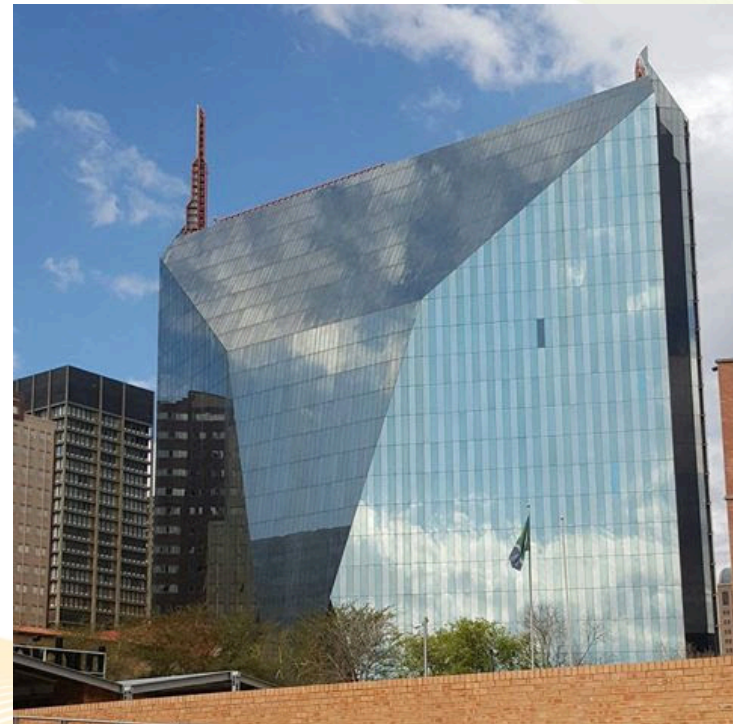
* I own these stocks as at 5 December 2019
Portfolio at www.SimonBrown.co.za



Property

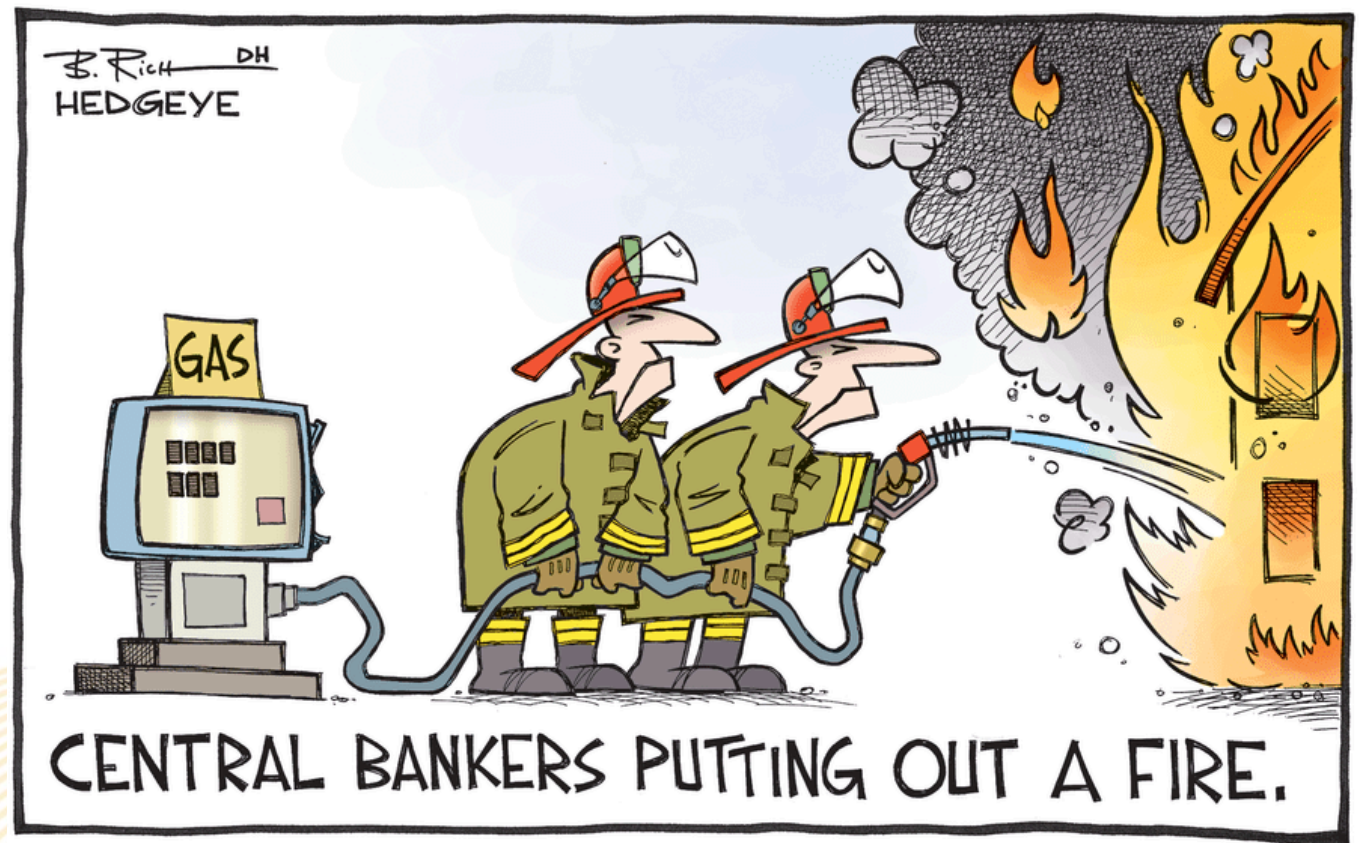
- Still very tough
- Still very cheap
- Good yields
 - But could come lower
- Preferred ETFs
 - CSPROP* / STXPRO*

* I own these stocks as at 5 December 2019
Portfolio at www.SimonBrown.co.za



Interest rates

- Low for longer?
- How does this end?
- Painfully?
- Scrap debt?



China

- The worlds second largest economy
 - Marching on, but slowing
- Undergoing important transition
 - Industrialisation → consumerisation
- Controlling the trade wars?
- I get exposure via Richemont* / Discovery*



USA

- Cyclical bear market 2001 - 2013



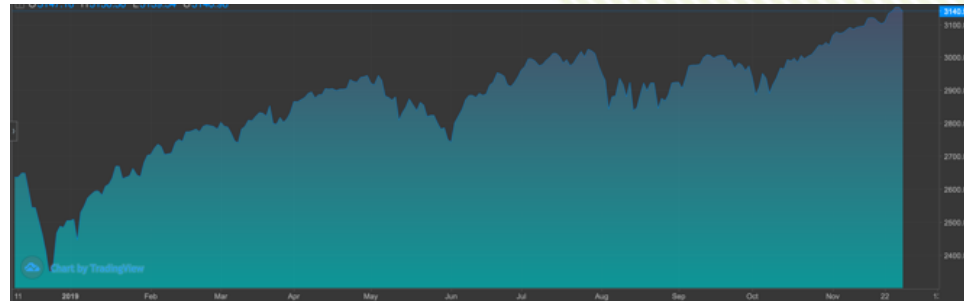
USA ~ longest bull market ever



- Cyclical bull market, 2013 - ? Careful of trying to 'sit in cash'



USA

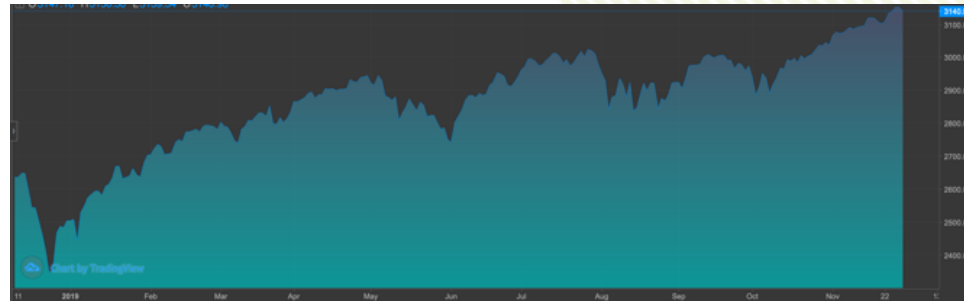


- Longest economic expansion?
- Tech profits driving indices higher.
- Reversion to the mean?
- Recession? Inversion + ISM < 50 4 months
 - Light recession at worst?
- Impeachment? Not happening.
- GLODIV / SYG500



Less tech

USA



- Longest economic expansion?
- Tech profits driving indices higher.
- Reversion to the mean?
- Recession? Inversion + ISM < 50 4 months
 - Light recession at worst?
- Impeachment? Not happening..
- GLODIV / SYG500



Less tech

European Union

- Looking alright
- Expecting modest GDP growth
 - Germany avoided recession, just.
- Offering better opportunity than US?
- SYGEU (I prefer ASHGEEQ*)
- Capco (CCO) for some risk

* I own these stocks as at 5 December 2019
Portfolio at www.SimonBrown.co.za



2020

- Will the bear come out to play in 2020?
- Top40 upside potential, but global & local risks
 - Local economy downgrade & low GDP
- US remains global economy of note
 - But modest single digit gains
 - Euro Stoxx 50 to perform better
 - SYGEU



2020 stocks



- CTOP50 / STX40* for SA
- Food retailers ~ Shoprite* / Pick n Pay / Woolies*
- Financials ~ Coronation* (watch STXFIN after downgrade)
- Resources ~ BHP* / Anglo
- Small caps ~ASHMID
- Punts ~ Capco / Comair / Massmart
- Global ~ SYGEU / ASHGEO* / GLODIV

* I own these stocks as at 5 December 2019
Portfolio at www.SimonBrown.co.za



2020 big ideas

- Brexit will finally happen
- Short & sharp US recession at worst (S&P500 single digit return)
- Interest rates remaining low
- We hit full junk status (no IMF bailout)
- SAA gets equity partner
- Big arrests
- No trade peace or impeachment

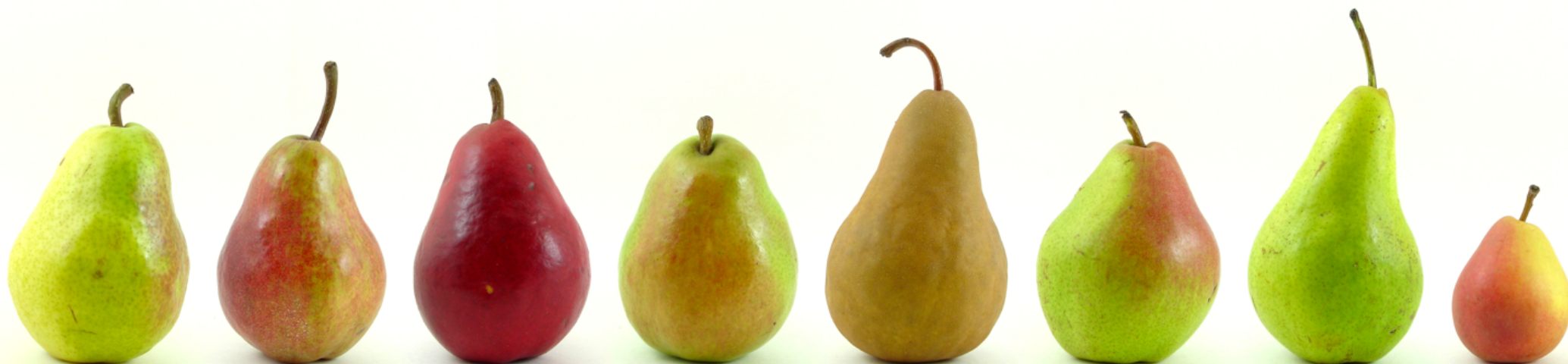


ETFs



- Keep your long-term ETFs and max your TFSA





Bloodhound ~ here at last (testing)



- Hakskeenpan Northern Cape ~ 2016 / 2017 / 2018 / 2019 / 2020



Contact



www.JustOneLap.com

simon@justonelap.com



[@JustOneLap](https://twitter.com/JustOneLap)

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

[#JSE](https://twitter.com/hashtag/JSE)



Disclaimer



The information and opinions stated in this presentation/document/video/webinar are of a general nature, have been prepared solely for information purposes and do not constitute any advice or recommendation to conclude any transaction or enter into any agreement. It is strongly recommended that every recipient seek appropriate professional advice before acting on any information contained herein. Whilst every care has been taken in preparing this document, no representation, warranty or undertaking, express or implied, is given as to the accuracy or completeness of the information or representations. All information contained herein is subject to change after publication at any time without notice. The past performance of any investment product is not an indication of future performance.