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OPINION: DO ANALYSTS REALLY ADD VALUE?

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from the editor

ANNELI GROENEWALD

"You know that you've pushed hard enough when you get slapped on the wrist." That's what investment manager and former trader Kweku Adoboli was told when he was pushed to drive profits at Swiss investment bank UBS.

Adoboli, Ghanaian by birth, has been living in the UK since his early teens, and started as a trainee in UBS's office in London in 2006. He admitted to having acted outside of the law to ensure bigger profits. But instead of profits, pushing "hard enough" (which included unauthorised shortfalls) resulted in a $2bn loss at the bank. Adoboli spent seven years in prison for fraud.

Speaking at the recent CFA Society South Africa's conference, Adoboli, who was since deported from the UK to Ghana, tabled a list of experiences as a young trader that slowly eroded the ethical culture of his work environment.

"In investment banking ... we're outcomes-based ... as long as the outcome is good, no one cares. Until things go wrong," he said.

At the conference, Adoboli was in conversation with Wendy Addison, whistleblower of one of SA's own corporate scandals – LeisureNet. Addison shared a similar story of a trail of small events that kept on escalating to bigger ones.

Both felt there were times early on where people (or they) should have questioned small unethical (even corrupt) actions. But, instead, silence created a space for ever bigger actions that eventually resulted in large-scale fraud.

Dare one guess that a similar pattern played out over the decade of so-called state capture in SA?

Speaking at the Allan Gray Investment Summit in Johannesburg recently, chief economist at Stanlib, Kevin Lings, said SA is now 73rd on the World Corruption Perception Index (with 1 being the least corrupt). He pointed to the change in state spending since 2009 – when Trevor Manuel departed as minister of finance. At the time, SA's gross loan debt as percentage of GDP was 26%. Now it is 59%, excluding the debt of state-owned enterprises. "Add it back, and the number jumps to 70%."

Lings said in 2009 SA was in a position to create infrastructure, and to build things like schools and ports. "But we didn't." Yet, we managed to spend ourselves into a debt trap.

Imagine if normal people didn't allow those small, initial acts of unethical behaviour to go unchallenged. Whether at government or corporate level. ■

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By Johan Fourie

INVESTMENT

Do financial analysts add value?

Ever wondered if analyst's trade ideas are worth considering in your decision to buy or sell a particular stock? New research shows that you might want to start reading their opinions.

Every morning I receive an email from a local financial institution that summarises the previous day's financial market news. Included is a section on research investment ideas, where an analyst discusses the fundamentals of a stock and its expected performance.

I'm often less interested in the stock itself – the consequence of a limited personal portfolio – and more interested in how accurate these analysts are in their advice. Are their forecasts correct more than 50% of the time?

What about 'trade ideas' – expert opinions on short-term stock price movements. This could include anything – from how a change in management, to a looming trade war, may affect the value of a specific stock.

Do trade ideas really change investors' decisions to buy or sell? And do they earn positive returns for those willing to follow their advice?

The first question is whether these trade ideas result in additional price reactions at the time of the announcement. They do.

As an economist, my gut feel is typically that this information is already priced into the market. Of course, if you believe the efficient market hypothesis, there is no reason to expect that these reams of trade ideas matter at all. The efficient market hypothesis states that stocks always trade at their fair value, and that analysts and the information they provide cannot produce risk-adjusted excess returns (alpha) consistently.

Yet analysts keep writing research reports. There clearly seems to be a demand for these services. But do these financial analysts really add value?

That's the question four economists have now answered in a new National Bureau of Economic Research working paper. Particularly, they looked at the effect of 'trade ideas' – somewhat different from normal stock recommendations based on fundamental research.

Trade ideas have short time horizons – typically between a week and three months – whereas fundamental research recommendations have horizons of maybe a year or longer.

Trade ideas are often issued in response to upcoming news or because of an over- or underreaction to past news that is expected to be corrected in the short run. It could be that an analyst makes a buy recommendation on a stock based on their fundamental research, but simultaneously recommends the short-term sale of the same stock – through a trade idea – based on a news item.

To identify whether these trade ideas yield positive returns, the authors construct a dataset of 4 543 trade ideas from 688 analysts at 77 brokerage houses between 2000 and 2015.

They then compare this to stock market data.

The first obvious question is whether these trade ideas result in additional price reactions at the time of the announcement. They do. Trading buys and sells have average benchmark-adjusted returns of 0.91% and -1.96% over the day of the announcement and the following day.

And the stock price impact continues to increase for three months after the trade idea is issued and exhibits no reversal – consistent with the fact that the information conveyed through trade ideas are permanent and stock prices do not fully incorporate all relevant trading call information at the time of the announcement.

The magnitudes are not insignificant. The results show that "both trading buys and sells generate significant benchmark and risk-adjusted returns. In economic terms, the buy portfolio generates a daily characteristic-adjusted (7-factor risk-adjusted) alpha of 4.5 (3.9) basis points, which corresponds to about 90 (78) basis points on a monthly basis. Magnitudes are about twice as large for sells."

The paper explores many other questions. Do trade ideas based on news items solicit bigger returns than those based only on mispricing? Yes. Do trade ideas exhibit stronger price reactions for calls that are in the opposite direction of outstanding stock recommendations? Yes. Do trade ideas from larger brokers and all-star analysts have a greater price impact? Yes.

Are institutional investors more likely to benefit from these trade ideas? It seems so. Using a different dataset of institutional investments, the authors find that "consistent with institutional investors perceiving trade ideas to add value, the increased trading is in the direction of the trade idea, and we do not find evidence of increased institutional trading in the direction contradicting the call".

They also find no evidence of increased trading preceding the call. However, "when we focus only on trading activity by institutional clients of the broker generating the trading call, we find that commission-paying institutional clients exhibit statistically significant increases in trading activity as early as three days ahead of the announcement of trading call". Being a client of a brokerage firm with an all-star analyst does have its benefits, it seems.

Finally, do the analysts with good trade ideas also generate better stock recommendations? They do. Stock upgrades are 0.63% higher for analysts producing trading research. This is about the same upgrade of an all-star analyst of 0.64%.

If this is true, why do not more analysts issue trade ideas? Trade ideas are riskier than calls based on fundamental analysis, as it is much easier to assess whether the idea is correct or not, given the short time horizon. But the authors show, issuing trade ideas can be a good career move: "We find that trading calls pay off for analysts who make them. Analysts who produce such calls are more likely to be subsequently included in the All-American Research Team roster."

Maybe I should pay more attention to those early morning emails in my inbox. ■

editorial@finweek.co.za

Johan Fourie is associate professor in economics at Stellenbosch University.

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>> **Mining:** Anglo American is going to reward shareholders to the tune of R25bn *p.10*

EDITORIAL & SALES

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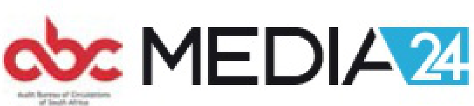

"TO DATE THERE ARE NO MAJOR INFRASTRUCTURE PROJECTS FROM CHINA HERE. WHY?"

– **China's ambassador to South Africa, Lin Songtian,** told Reuters that while fellow African nations have been undergoing a decade-long infrastructure development boom (aided by the Chinese government), it's a different story in SA. Lin said projects proposed by SA authorities lacked feasibility studies capable of reassuring the Chinese government and banks of their profitability and sustainability. He said China wants to see more certainty and favourable conditions, for example policies of extending incentives including tax breaks, enshrined in an investment law passed by Parliament. On Eskom's debt issues, the ambassador pronounced the power utility a "debt trap" and said although they [China] gave loans to Eskom before ($2.5bn in 2018) they have since become "very cautious".

"We see this action as an attempt to limit competition in the market..."

– **Liberty Holdings CEO David Munro** spoke at the company's interim results presentation on 1 August about the legal contest that is playing out between it and one of its biggest rivals, Discovery. Discovery is taking Liberty to court after the latter recently launched its Wellness Bonus programme, which rewards Liberty customers based on their rewards status with Discovery and Momentum's wellness programmes. According to Munro, this data belongs to clients and companies should not be allowed to dictate how it is used. Discovery counters that although this data does belong to its clients, it's a result of 20 years of product development and that Liberty's use of this intellectual property is tantamount to theft. At the presentation, Munro made it clear that Liberty will "vigorously defend this matter".

"IT'S THE RIGHT TIME FOR CHANGE, AND DOING IT CLEARLY AND DECISIVELY FROM A POSITION OF STRENGTH IS VERY IMPORTANT."

– **Former CEO of HSBC John Flint** said to Reuters following his exit. The surprise announcement, just 18 months after Flint was elevated to the CEO role, signals a potential change in approach at one of the world's largest banks, according to *The Wall Street Journal,* which adds that some people in the bank and on the board were frustrated with Flint's low-key style and decided that he had to go in order for HSBC to keep up and get ahead of business conditions and world events. A person familiar with the matter told Reuters Flint's more tentative approach to cutting expenses and setting revenue targets for senior managers to boost profit growth did not sit well with the chairman. The ousting went ahead despite the bank posting a 16% rise in profit.

Cape Town has recorded 4 588 different animal and plant species, making it the world's most biologically diverse city, according to the City Nature Challenge, a competition between cities around the world to see which city can make the most observations of nature and find the most species. Business Insider reported that Cape Town had 53 763 observations by 1 141 people. The Mother City's closest competition, La Paz in Bolivia, had 46 931 observations and 3 006 species recorded.

Credit rating agency Fitch downgraded the outlook on SA's foreign currency denominated debt from stable to negative, citing in a statement fiscal pressures including increased support for struggling state firms such as the power utility Eskom. The agency, however, kept the said rating at BB+ (sub-investment grade). Moody's Investors Service, the only major rating company that still has SA at investment grade, warned that a recent decision to more than double state financial support for Eskom to R59bn, is "credit negative," reported Bloomberg.

South Africa's unemployment rate increased by 1.4 percentage points from 27.6% in Q1 2019 to 29% in Q2 2019, according to Stats SA's recent *Quarterly Labour Force Survey*. The 29% unemployment rate is the highest since Q1 2008. The survey also points out that the number of unemployed persons increased by 455 000 to 6.7m in Q2 2019. When computing the broad unemployment rate, which takes into account South Africans who are no longer looking for work, the rate increased from 38% to 38.5% in the same period. The unemployment rate for people aged 25-34 (35.6%) is more than double that of the 45-54 year-olds (17.2%), according to the stats, pointing to a huge youth unemployment rate and problem.

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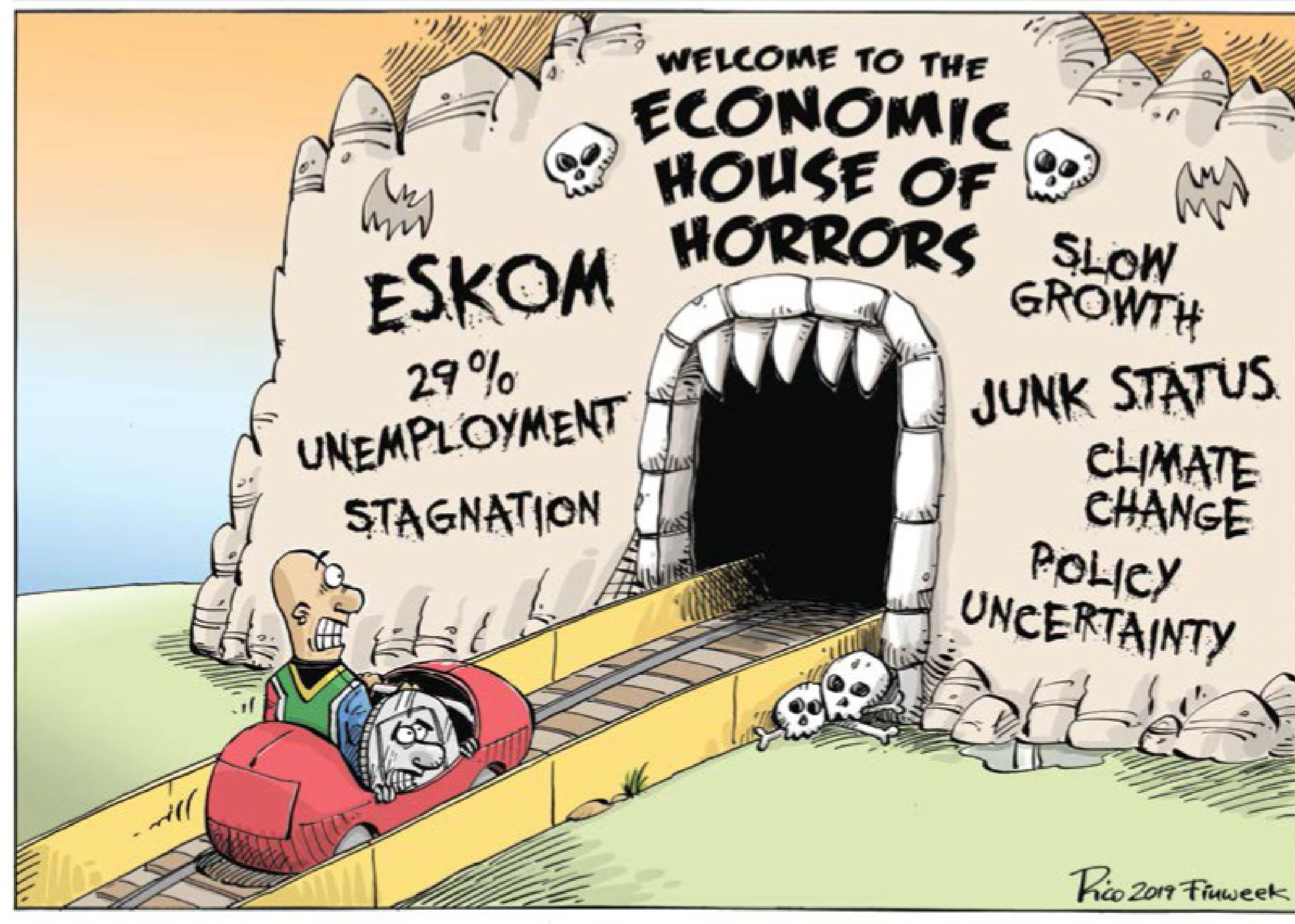
DOUBLE TAKE



EXPANDING CAPACITY

€60m

Heineken SA is currently expanding production capacity at its Sedibeng Brewery in Gauteng in order to keep pace with increased demand. The expansion, which should be complete in Q1 2020, comes at an estimated cost of €60m, according to Heineken SA's managing director, Gerrit van Loo, and will grow capacity from the current 6m hectolitres to 7.5m hectolitres. There are also plans to build a €40m maltery going forward. Heineken SA is the second-biggest player in South Africa's beer market (after AB InBev), with 18% market share. Currently, around 15% of Heineken's local consumption is imported, but, ultimately, Van Loo would like to see all of this produced locally. South Africa is one of Heineken's top-five fastest-growing markets and contributes approximately 2.7% towards Heineken's global production.

13-YEAR LOW FOR MASSMART

27%

Massmart's share price plunged 27% to a 13-year low of R42.99 after warning the market that it expects to make an operating loss of R30m in the first half of the year as a result of softer-than-expected sales, margin weakness and higher expenses, reported Reuters. "The lesson here is that while we rightly critique local companies who rush offshore in an attempt to boost earnings, only to get it totally wrong, we equally see large global companies rushing into emerging markets trying to boost profits, also getting it very wrong," commented investment expert Simon Brown. He cautioned that the new CEO from majority shareholder Walmart has a tough job as the share trades at a decade low. Walmart paid $2.3bn for its 52% stake in Massmart in 2010, which is now worth $370m and loss-making.

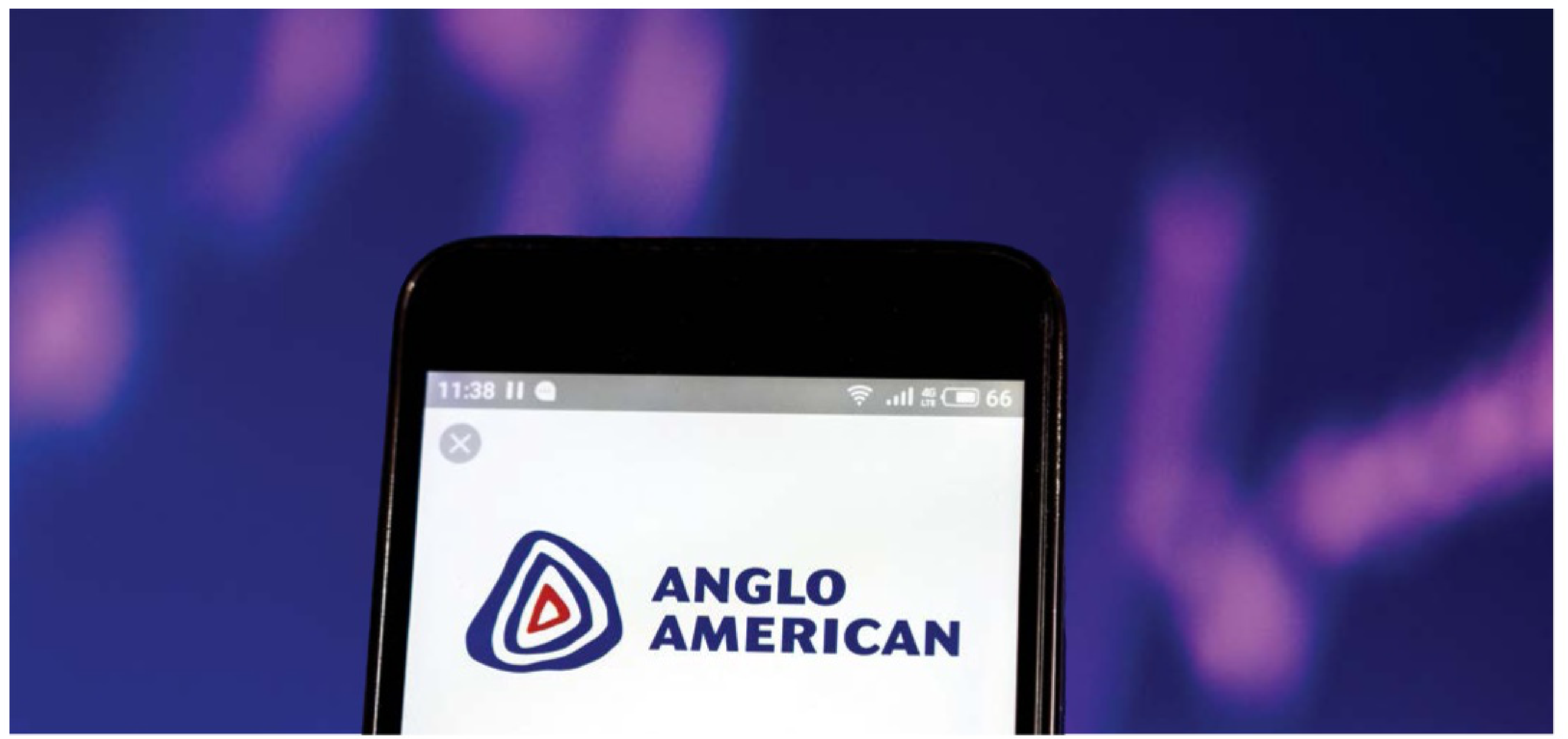
FACEBOOK FINED

Facebook was hit with a record-breaking $5bn (about R74bn) fine for privacy violations by the Federal Trade Commission (FTC), reported *The LA Times*. The fine is part of a resolution from a government inquiry that was sparked by allegations that the social media giant violated a 2012 consent decree by inappropriately sharing the information of about 87m users with Cambridge Analytica, a political consulting firm that harvested the personal data of millions of Facebook profiles without consent and used it for targeted political advertising purposes. Although it is the largest fine in FTC history, the size of the penalty has received some public disapproval as it represents about a month's worth of revenue for Facebook.

By David McKay

Anglo's remarkable turnaround

After announcing a 46% increase in interim profit to end-June, Anglo American will be returning about R25bn to shareholders via a dividend and a share buyback. And it seems that the miner might have more in the tank.



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Anglo American's remarkable turnaround under CEO Mark Cutifani has been rightly applauded. Now, however, there are the inevitable questions as to whether the $800m interim dividend payment announced earlier this month, supplemented by a surprise $1bn share buyback programme, represents an apogee for the firm. As asked by analysts: Is this "as good as it gets" for Anglo?

Apparently not

Investment banks, including JP Morgan Cazenove, HSBC, RBC Capital Markets, Morgan Stanley, and Goldman Sachs think Anglo American has more in the tank, although it does depend on the usual imponderables such as the strength of the iron ore market, and whether Anglo can tackle the 3% overall shortfall in first-half production.

There are also questions regarding how long it can take advantage of technical advances born of Cutifani's strategy to rebuild the group's ability to mine efficiently, said to have been lost under predecessor Cynthia Carroll. This risk is ultimately the question of how long Anglo's efficiency and cost gains can remain 'locked in' before competitors catch up.

First, though, the payout

Asked whether the buyback could become a regular occurrence in Anglo's capital allocation framework, Stephen Pearce, the group's chief financial officer, said it would be a "one-off". Given that elevated iron ore prices played an important part in Anglo's interim earnings, a connection is being made between Anglo's performance and the sustainability of the R9.9bn dividend paid by its 70%-owned Kumba Iron Ore subsidiary, listed on the JSE.

The Brumadinho tragedy at the beginning of this year in which a tailings dam burst at the Brazilian facilities of that country's state-owned mining company, Vale, resulted in it producing only 320 million tonnes (Mt) of the 380Mt in iron ore it would normally sell. While 15Mt to 20Mt of opportunistic production has entered the market from other sources, the deficit in iron ore production seems here to stay, at least for the remainder of the financial year, said Timo Smit, Kumba's marketing director.

Mark Cutifani
CEO of Anglo American

Photo: Gallo/Getty Images

Analysts agree: "Although we expect iron ore prices to ease lower from current levels, we are above consensus, and in the environment of robust pricing, we see Kumba continuing to pay a healthy dividend, currently yielding an average of about 10% over the next two years," said Grant Sporre, an analyst for Macquarie.

In any event, a weakening in the iron ore price will be offset by the share buyback which provides a defensive underpin to the earnings outlook. It's also not just iron ore adding strength to Anglo's arm: The presence of platinum group metals (PGMs) in the Anglo portfolio via its 80%-stake in Anglo American Platinum (Amplats) as well as De Beers, offers balance in commodity exposure and "… a differentiated investment case [that] will likely remain

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the distinguishing factor within the metals and mining space", said an analyst that is not permitted to be quoted by media.

As for the slight underperformance on production in the first half, Anglo reckons the unplanned plant maintenance problems that hindered Kumba were unlikely to be repeated. It is similarly positive about its ability to make up shortfalls in first-half production from its metallurgical coal and platinum production.

The possibility there may be delays in the renewal of an iron ore tailings licence in Brazil, given the high sensitivity the government has towards safety in waste storage, has also been played down by Anglo. At any rate, Anglo has until the second quarter of 2020 to secure the renewal.

One of the larger issues for Anglo, however, is its ability to keep innovating in terms of an efficiency drive that has been underway for most of the six years Cutifani has been in the driver's seat at the group.

Citing a roundtable meeting with Anglo management following the numbers, Bank of America Merrill Lynch (BoAML) said Anglo had approached improvements to its cost base from the bottom up rather than the normal top-down of its peer group.

Anglo thinks it has a three to five year head-start on its peers and estimates it can drive

$2bn

to

$3bn

in costs and volume improvements by the close of its 2022 financial year.

If a company pushes a 10% cost cut down on to operating assets, there is a very high risk that operators will cut sustaining and development capital expenditure to boost near-term cash flows, the bank said. This merely defers the spend and causes bigger problems "down the road … Anglo thinks it did it the right way and that other companies may have done it the wrong way," said BoAML.

Anglo thinks it has a three to five year head-start on its peers and estimates it can drive $2bn to $3bn in costs and volume improvements by the close of its 2022 financial year. "But it's all about execution," said Tony O'Neill, Anglo American's technical director.

So much depends on the strength of the markets to which Anglo is exposed. According to Dominic O'Kane, an analyst for JP Morgan Cazenove, Anglo's 5% payout of market capitalisation at the interim stage could be extended to 35% of market cap by Anglo's 2020 financial year. "This clearly shows the returns potential and capital flexibility for Anglo," said O'Kane, adding, however, that this was "a consistent" theme across all the diversified mining firms with iron ore production. ■

By David McKay

Anglo's SA assets haven't held it back

Despite economic challenges in South Africa, Anglo American's CEO, Mark Cutifani, remains positive about the country in general terms.

One of the interesting aspects of the improvement in Anglo American shares relative to their peer group is the fact that the firm's exposure to its SA asset base has not appeared to hold it back.

Given the current performance of Kumba and Amplats, investors are not too concerned with "the SA discount".

Cutifani remains positive about the country in general terms. Asked what he thought of recent comments by Johann Rupert of Rembrandt Group that the country would eventually end up in the hands of the International Monetary Fund's (IMF's) loan committee, Cutifani said: "We don't see that as a likely scenario. Rather, we see incremental impacts on the country and the government will have to decide what it wants to do," he said.

Cutifani doesn't mention it specifically, but one area where government could definitely act is over Eskom, in dire need of restructuring. "As I've said before on Eskom, if we can help with people and expertise we will be there," said Cutifani. "But government has got to navigate the policy calls," he added. The suggestion is that the SA government hasn't yet been in touch.

In terms of actual exposure to Eskom tariff increases, as well as load shedding, which Eskom executives said recently was back on the agenda with the advent of spring, Cutifani thinks it's relatively low for Anglo. "There is some exposure on the processing side at Amplats. We lost about 8 000 ounces of platinum [during load shedding] and we need to implement more renewable energy."

Of the SA assets where there may be problems for Anglo, is diamond mine Venetia's role in De Beers, the 85%-owned company suffering at the moment the effects of the US-China trade war on consumer confidence globally. Cutifani acknowledges it is one of the areas of the market that is not well-disposed presently.

"Demand and pricing conditions remain challenging and there is still no light at the end of the tunnel," said Morgan Stanley in a recent report about Anglo's interim performance. The fourth quarter remains key to the diamond market, where buying is typically robust ahead of the Christmas period. "In the medium term, however, supply shortages continue to signify appealing industry fundamentals," said Morgan Stanley.

Operationally, though, Anglo has kept it tight at De Beers. Poorer price, and even a 12% lower diamond production (in response to the decline in demand) has not made a dent on the group's cost control efforts.

"The group managed to drop unit costs to $62 per carat from $67/ct driving ebitda [earnings before interest, tax, depreciation and amortisation] to come in ahead of our expectations despite the difficult market," said RBC Capital Markets. ■

editorial@finweek.co.za

August 2019

HUBBY LEAVES TOILET SEAT UP, WIFE FILES FOR DIVORCE

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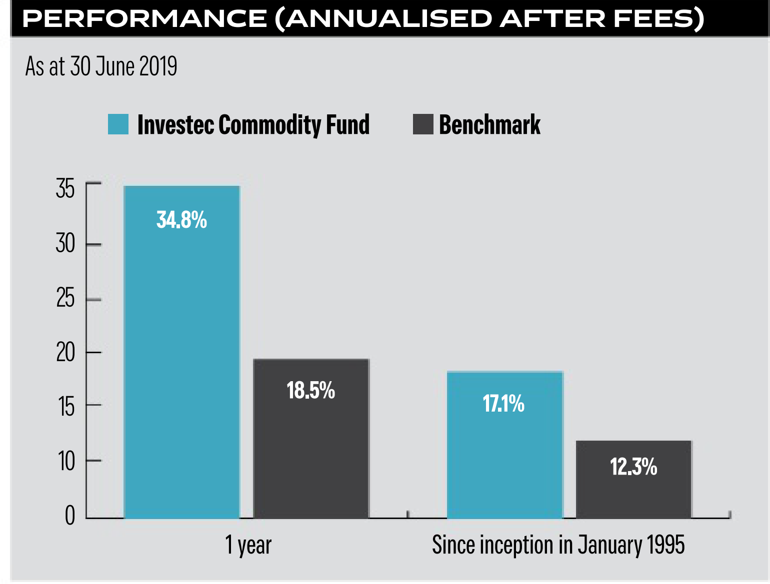
4	AngloGold Ashanti	10.5%
5	Sibanye-Stillwater	8.6%
6	Sasol	7.3%
7	Anglo American Platinum	6.1%
8	Mondi	4.6%
9	Africarhodium	2.6%
10	African Rainbow Minerals	2%
	TOTAL	**91.6%**

PERFORMANCE (ANNUALISED AFTER FEES)



Fund manager insights:

Despite the tough economic conditions that are normal in cyclical industries, Investec Asset Management's Commodity Fund – which is focused on commodity related companies primarily listed in South Africa – makes for a gripping case study to invest in resources. The fund appears to serve as a feasible investment vehicle to diversify one's portfolio to include specific exposure to the sector.

The second quarter of 2019 was very volatile for the resources sector. The fund's performance comparison index, the SWIX Resi, fell 0.66% over the period and supply disruptions in iron ore drove bulk commodity prices higher, said fund manager Daniel Sacks in a quarterly note to investors.

Weak results saw the commodity fund reduce its positions in Sasol, Harmony Gold, South32 and Exxaro. This repositioning to ensure capital growth and provide a reasonable level of income to investors was informed by, among others, capital expenditure overruns and weak chemical prices translating into lower earnings at Sasol; weak thermal coal prices and operational performance at Exxaro; and operational stoppages on safety and capital allocation concerns at South32.

Looking and moving forward, the portfolio manager notes that the fund continued to buy precious metals miners AngloGold Ashanti (fourth-largest equity holding as at 30 June) and Sibanye-Stillwater (now the world's largest miner of platinum following its recent acquisition of Lonmin). Rand platinum group metals (PGM) and gold prices continued to trend higher during the quarter, leading to substantial earnings upgrades.

"We also increased our iron ore exposure in the portfolio and bought Assore in line with our investment process," according to Sacks.

The fund pursues equities that have a history of value creation, demonstrate strong and improving operating performance, are attractively valued relative to this performance, and are increasingly drawing investors' attention.

Sacks further explains that the fund continues to position the portfolio based on earnings forecasts relative to consensus expectations, on par with commodity price views and company modelling work, which aims to pre-empt revisions by the market.

Why *finweek* would consider adding it:

Investing in a fund that focuses on a single sector is riskier as investors don't get the diversification benefits of investing across multiple sectors. The fund has nevertheless illustrated some mastery in traversing the cyclical nature of commodity demand and the resulting increased risk of short-term losses.

The fund outperformed its benchmark by a substantial 1 630 basis points, generating an annualised return of 34.8% during the past 12 months to end-June, despite a lacklustre second quarter for the sector. In 2000, it received a Raging Bull award for being a top performer and continued to scoop more accolades over the years (consecutively so from 2014 to 2016, as best equity resources fund). ■

editorial@finweek.co.za

By Moxima Gama

SHOPRITE HOLDINGS

Testing key support

After correcting between 2013 and 2016, Shoprite extended its long-term bull trend to an all-time high at 28 190c/share in March 2018.

Last year, Shoprite announced its first drop in earnings since 1998 (when Shoprite acquired OK Bazaars for R1).

At the time, the company mentioned various influences all contributed to aggravating the adverse effect of low inflation – among them armed robberies, record fuel prices, chronic unemployment, industrial action and the first VAT hike in 25 years.

Outlook: Shoprite continues to trade in its corrective bear trend – formed within its long-term bull channel.

On the charts: Shoprite has breached the lower slope of its long-term bull channel and is teetering on key support at 14 885c/share. Most recently, the share price recovered the most in 22 years after announcing a rebound in the second half of its financial year to June. Second-half sales are expected to be up 6.5% compared with growth of 0.2% in the first half of the year. Results for the 52 weeks to 20 June are due on 20 August.

Go long: With the 3-month relative-strength index (RSI) forming rising bottoms (positive divergence), Shoprite could hold firmly at 14 885c/share. It would resume its bull channel and escape the current correction above 16 685c/share. Such a move should prompt further gains to 19 180c/share. Above that level, expect continued upward impetus gradually towards 22 550c/share. Continued bullishness could see Shoprite retest the upper slope of its channel in the long term.

Go short: Shoprite would extend its correction below 14 885c/share and confirm a negative breakout of its major bull channel – thus triggering a sell signal. Downside to support at 12 405c/share could then ensue. Next support at 8 740c/share may well be tested on continued selling. ■

52-week range:	R145.10 - R223.59
Price/earnings ratio:	18.44
1-year total return:	-24.43%
Market capitalisation:	R93.8bn
Earnings per share:	R8.43
Dividend yield:	2.8%
Average volume over 30 days:	1 660 150
	SOURCE: IRESS

SOURCE: MetaStock Pro (Reuters)

SIBANYE-STILLWATER

Upside potential

Following the acquisition of Stillwater Mining in 2016, for $2.2bn, the $18/share all-cash transaction represented a 61% premium to Stillwater's volume-weighted average share price over the 52 weeks prior to the announcement – delivering immediate value to shareholders. Sibanye-Stillwater's share price subsequently tested an all-time high at 4 525c/share. It then gave up most of those gains shortly after the gold spot price started to tank and fell to 1 340c/share. In 2018, contentious strikes and significant mine safety accidents dragged production performance lower – the share price retraced further through 2015 lows at 680c/share.

Outlook: Sibanye is gradually recovering its losses – even breaching the resistance trendline of its bear trend. After prolonged uncertainty, the miner finally added cash-strapped Lonmin to its portfolio (for $286m). Lonmin investors hold one Sibanye share for every Lonmin share.

On the charts: Sibanye recently breached the neckline of an inverted head-and-shoulders; a bullish reversal pattern. Higher prices for industrial precious metals palladium and platinum have boosted Sibanye's earnings, enabling the miner to repay debt, and potentially resuming dividends. If metal prices continue upward, the company is expecting a healthy balance sheet next year that will be sufficiently deleveraged to start paying dividends again in 2020. Current net-debt-to-ebitda (earnings before interest, tax, depreciation and amortisation) ratio is at three, but CEO Neal Froneman is projecting it to be at less than 1.8 by the end of the year.

Go long: A positive breakout of the inverted head-and-shoulders would be confirmed above 1 980c/share. With a lot of upside potential, breaching resistance at 2 210c/share should push the share to 2 620c. Above that level, positions could be increased – targeting the next high at 3 965c.

Go short: A reversal below 1 340c/share would mark a false break of the neckline and would also negate the objective of the bullish reversal pattern. It could fall back to support at 680c/share. ■

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52-week range:	R7.42 - R20.08
Price/earnings ratio:	-
1-year total return:	132.44%
Market capitalisation:	R53.03bn
Loss per share:	R0.01
Dividend yield:	-
Average volume over 30 days:	13 393 890
	SOURCE: IRESS

SOURCE: MetaStock Pro (Reuters)

Moxima Gama has been rated as one of the top five technical analysts in South Africa. She has been a technical analyst for 12 years, working for BJM, Noah Financial Innovation and for Standard Bank as part of the research team in the Treasury division of CIB.

ETFPLT

BUY SELL WAIT

By Simon Brown

Once bitten...

Back in April I wrote that platinum was starting to look good, especially as palladium was coming under pressure. And maybe the long-awaited switch between the two was starting to happen. The switch that I'm referring to is where automakers start reverting back to cheaper platinum, rather than the now way more expensive palladium.

But ouch, almost as soon as I wrote this, platinum started heading back towards its $800-level low and, once again, I got bitten by the white metal.

It has now started to rally and is again starting to look attractive. But once bitten, I am twice shy. So rather than jump into the trade, I am taking a more cautious approach.

The recent highs are around $910 and if we can see a break of that, then I will be interested again. The exchange-traded fund (ETF) ETFPLT is still my preferred way to trade platinum. I will be watching and waiting.

Importantly, while this is an ETF, you cannot put it into your tax-free account as Treasury does not allow for this. ■

The recent highs are around **$910** and if we can see a break of that, then I will be interested again.

Last trade ideas

Kumba Iron Ore
25 July issue

Capital Appreciation
4 July issue

Glodiv
20 June issue

Afrimat
6 June issue

BLUE LABEL TELECOMS

BUY SELL HOLD

By Moxima Gama

A new bull in sight?

Having lost all its previous gains from an all-time high at 2 230c/share tested in October 2016, Blue Label Telecoms could be set to embark on a new bull trend.

Blue Label owns a 45%-stake in Cell C and worries that Cell C would be unable to pay down billions in debt weighed heavily on investor sentiment.

However, a recent announcement that Blue Label has bought 26% of a Cape Town-based sports technology start-up, Mobii Systems, sent the share price surging through a major resistance level at 405c/share at the beginning of August.

Mobii specialises in timing software for running events in sport matches.

According to co-founder of Blue Label Ventures, Tallies Taljaard, Mobii is set to grow its revenues by 300% in the current financial year.

How to trade it:
Blue Label has breached the resistance trendline of its long-term bear trend and has come off its all-time lows.

Currently trading sideways between 510c/share and 325c/share, Blue Label has breached resistance at 405c/share, which should fuel upside to next major resistance at 520c/share. Above that level Blue Label would embark on a new bull trend towards 708c/share and 800c/share.

With the three-day relative-strength index (RSI) in overbought territory, Blue Label is likely to correct.

If support holds above 380c/share, another buying opportunity would be presented above 405c/share.

Alternatively, downside through 380c/share could see Blue Label retest its all-time low at 325c/share. ■

editorial@finweek.co.za

Last trade ideas

EOH Holdings
25 July issue

Life Healthcare
4 July issue

Curro Holdings
20 June issue

Telkom
6 June issue

Photos: Shutterstock

By Simon Brown

INVESTMENT STRATEGY

The search for true value

Using Benjamin Graham's original concept of value investing, Simon Brown searches for value stocks on the JSE. Turns out they are hard to come by on our local bourse.

Back in March, I wrote about Barloworld* in one of my 'House View' columns. I picked this stock because it is the only local stock that meets the classic value investing definition.

Value investing is a phrase thrown around with abandon in the investment world, but in truth we have very few true value investment managers. Even Warren Buffett, who studied under the father of value investing, Benjamin Graham, is no longer a value investor in the classic sense.

There is also an argument that value no longer has a place in investing, but I disagree with that. But at the same time, finding true value stocks, especially on the relatively small JSE, is often difficult.

The original concept of value investing is Benjamin Graham's book, *The Intelligent Investor.* First published in 1949, it remains the default guide for value investing.

In the book Graham details the criteria a stock must meet in order for it to be considered a defensive value investment (he also deals with enterprise stocks, but for the purpose of this article, I am focusing on the defensive side).

The first rule is that the company should have a market cap of R10bn (as at the time of my search). So, immediately, it knocks out the majority of JSE-listed stocks, but it does leave a decent enough sample.

The second rule deals with balance sheets and states that current assets (remember current means those that can be cashed in within a year) must be twice that of current liabilities (short-term debt), while long-term debt (more than a year to maturity) must not exceed net current assets (current assets less current debt). In other words, the company is in a position where it can liquidate the current assets and pay off the debt.

The stock must also have made a profit for at least the last ten years and must have paid a dividend every year for the last 20 years. Again, these time metrics immediately disqualify the majority of JSE-listed stocks.

However, they do give us a short list of stocks that have long-term profitability and dividend payments. This tells us a lot about the quality of the stock and is therefore important.

The current price-to-earnings ratio (P/E) must not be above 15 times, while price-to-net asset value (NAV) must not exceed 1.5 times. These are fairly standard valuation ideas to select 'cheaper' stocks.

Then we get to the 'Graham number' or equation. This is how it works: One takes headline earnings per share (HEPS) and multiplies it by the tangible net asset value (TNAV). Then multiply that number by 22.5. (Graham uses 22.5 as the preferred P/E of 15 times, multiplied by the preferred 1.5 times price-to-book.) Finally: Find the square root of this equation.

That answer is what Graham considers the fair value. One then wants to buy at a discount to that value.

Lastly, Graham suggested a portfolio of ten defensive stocks using the above methodology. This means an exposure of no more than 10% in each stock at inception. Thus, JSE investors hit a wall because my recent search yielded only Barloworld rather than a list of ten.

For those wanting to really dig deep and hunt for what Graham called the 'enterprising stocks', the rules are even tighter in certain regards. But it does provide a little more scope in other criteria. Through my search, I indeed managed to find a few smaller stocks that meet the criteria. But they're not as attractive as the Barloworld discount – according to Graham's equation, the fair value for Barloworld is R200.

There is another (easier) approach, and that would be to just buy the Absa value exchange-traded fund (NFVAL). But they're using their own idea of value rather than the classic Graham theory.

But for a slice of a portfolio, they are focusing on issues such as low debt and whether stocks trade at, or below, NAV. Both are attractive valuation theories and worth a space in a diverse portfolio. ■

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The writer owns shares in Barloworld.

Value investing is a phrase thrown around with abandon in the investment world, but in truth we have very few true value investment managers.

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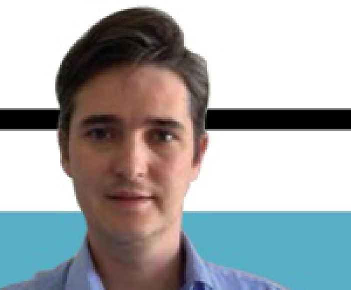


By Petri Redelinghuys

FUNDAMENTALS

Why you always need to stick to your strategy

Investors are humans, too – which means emotions can influence one's trade decisions. Maintaining discipline is key in helping you to avoid making those emotionally driven mistakes.

When we embark on the road to trading, we're usually determined to learn as much as we can about, for example, technical analysis, the practical things about how markets work, and ways that we can 'predict' what price is going to do. It is the same for most people – it was the same for me.

It takes us some time to truly understand that we cannot predict the future – no matter how much analysis we do. We tend to look for a strategy that gives us a logical and statistical edge. We might even build our own strategy and use historical data to back-test it. But whenever we trade that strategy in accordance with our set of rules, we still seem to keep losing.

We then seek out other, better strategies. This is a dangerous trap. Because while the knowledge quest is a good thing and should be never-ending, it takes us a long time to realise that the problem isn't with the strategy. Rather it's that we're sabotaging ourselves.

As humans, we have two primary drivers: fear and greed. Think about it: Every single emotion that we as humans feel can be traced back to one of these two primary emotions. We love, ultimately, because we want to feel fulfilled. (Sometimes we marry the wrong people because we are *afraid* of being alone.)

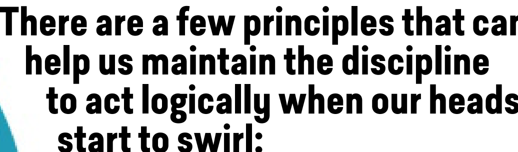
This might be an extreme example, but it illustrates how these emotions subconsciously dictate our choices throughout life. More on topic though, these two emotions cause us to make sporadic or illogical choices that are not always in our best interest.

Like the choice to trade the bear flag before it's broken out of the formation. Or the choice to not execute your stop-loss because you believe that the trade will still work out in your favour. The choice to trade five contracts instead of one. The decision to stop out and put on the opposite position, only to be wrong again. And to then again stop out and put on the opposite position… over and over. It's a collection of small, subconscious decisions that make us break the rules of our strategy without even being consciously aware of it.

If we hope to make it as traders, we have to make time for some introspection. We have to understand our own emotions and how they influence our decisions. We must learn to literally get up from our desks and walk away for five minutes, especially when we feel emotional, upset, excited, or sad – or any emotion other than calm, disciplined, logical and patient.

We must learn to *will* ourselves into a state of mind where we accept that what we are doing is unpredictable and we will sometimes lose money. It's okay – as long as we followed the rules exactly. Our desire to make money, and our fear of losing it, causes us to make poor decisions. We must learn to recognise when those emotions are in charge and we must allow them to pass before we make any decisions.

The truth is that even the simplest of trading strategies can make us money if we follow it absolutely. Even just using some basic principles like identifying the trend – and never trading against it. Or making use of stop-losses. Or making sure that every trade has at least a 1:2 risk-reward ratio. But when we're actually sitting down and doing it, we get caught up in the swirl of subconscious drivers that fuel mistakes.



There are a few principles that can help us maintain the discipline to act logically when our heads start to swirl:

1. We cannot predict what is going to happen. We can only ensure that our strategy provides a high probability of our 'forecast outcome' happening.
2. Even if our forecast outcome is highly probable, it doesn't mean that it will happen.
3. It takes many trades for a strategy to generate returns. It is inevitable that some trades will be losers.
4. If we follow our strategy exactly, there will be winning trades.
5. If we follow the 'risk management rules', even if we only have winning trades half the time, we will make money.
6. It's okay to miss a trade when you're not in the right mindset. There will be another opportunity.
7. If we feel like making a trade that does not meet all the requirements of our strategy exactly, we must walk away.

There is more to this, of course, but the first step is to make sure that we do not make emotionally driven mistakes. ■

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Petri Redelinghuys is a trader and the founder of Herenya Capital Advisors.

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COLLECTIVE INSIGHT

INSIGHT INTO SA INVESTING FROM LEADING PROFESSIONALS

AUGUST 2019

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HOW TO AVOID THE NEXT FINANCIAL SCAM

By Kelly de Kock

INTRODUCTION

Saying no to a free lunch

As technology advances, so does the sophistication and prevalence of financial scams, with many unsuspecting investors becoming victims. Why are so many still falling prey and how do we protect ourselves?

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We live in a world where we are assailed by scams. We can no longer trust emails that appear to originate from the institutions we trust the most – our employers and our banks being at the top of this list.

Our emails are being hacked, our identities stolen, our bank cards cloned. Most of us have had some experience of these scams, and they leave us feeling exposed and violated.

In addition to the scams that are directly targeted at us, we now find ourselves falling victim to deception taking place at the corporate level and affecting the funds we have available for retirement. Most of us are aware of the happenings at Steinhoff and Tongaat Hulett, for example, and the impact on our retirement funds is far from negligible. Yet we feel powerless to prevent these corporate scandals because we are simply too far removed to see these tsunamis coming.

In the midst of all this, we have bitcoin and other cryptocurrencies, which are being touted as the next big thing. Is this the means of exchange we should all be looking to in a rapidly changing world, or is it just a more sophisticated scam to be avoided at all costs?

These vulnerabilities are closely linked to the issue of financial literacy. If those of us reading this magazine are at a loss, what about the plight of the man on the street who has no insight into the world of financial markets? What can he do to protect himself against being taken advantage of by the fraudsters who seem to be waiting around every corner?

'A sure thing'

In our first article, Sohini Castille of Alexander Forbes provides us with practical guidelines of what to look out for when presented with an investment that is a "sure thing". Investments by their very nature encompass a significant amount of uncertainly, but there are definitive red flags that can be avoided when making these types of decisions, and ways to check the credentials of those involved.

Piet van der Merwe of Momentum provides a useful "scammer guide" – a checklist of things to look out for when entering into an investment.

Phiko Peter from Allan Gray turns his focus specifically to online scams, most notably those that come to us via trusted social media platforms. What stands out for me in this article is that the victims of these scams are not confined to the financially illiterate. It can happen to anyone, with the most vulnerable members of society being those facing large amounts of debt, financial stress and unexpected expenses.

What about bitcoin?

On the topic of online scams, the focus shifts to cryptocurrencies. Is bitcoin just another one of these scams, but on a much grander scale? Steven Sidley explains exactly what bitcoin is and how it works. It is by far the most understandable version of this that I've read, and gives me some level of comfort around my own very small bitcoin investment! Steven's view is that bitcoin is here to stay, but that those who want to invest should be prepared for the volatility of "the world's most vomit-inducing rollercoaster" and should take care to start small and not bet the farm.

Next, Asief Mohamed and Tinyiko Mabunda from Aeon Investments look at the recent corporate governance failures, which are effectively just another kind of scam taking place within our corporate institutions. They tell us that pensioners have lost over R200bn as a result of the misrepresentations from Steinhoff and Tongaat Hulett, a shocking number which brings to light just how important it is that the asset managers who we trust with our hard earned savings do their due diligence and start to take a more holistic approach to research when determining the quality and value of an investment.

Prevention is better than cure

So now that we theoretically know how to spot a scam, how do we equip all South Africans to be more in control of their financial wellbeing and to avoid these pitfalls? Penelope Gregoriou from Alexander Forbes presents research showing that the current approach to financial literacy simply does not work in a population as diverse as ours with the challenges that we face around unemployment and poverty.

Creating a strong savings culture in our country requires collaboration between the financial services industry and government entities such as the department of education.

While the need for financial literacy applies equally to both men and women, Alison Benzimra of Whealthcare puts forward an interesting perspective on the financial challenges unique to women, and challenges the financial services industry to provide guidance that women can meaningfully relate to and implement.

We end this edition on a lighter note, as a 'Fly on the wall at the Meeting of the Empyre of Evill'. In this fictitious article, Michael Streatfield from Oxford University takes us into the minds of the scammers and highlights the increase in sophistication in these attacks, taking advantage of the barrage of information we innocently make available online.

Scams are keeping pace with technology and the perpetrators are becoming smarter and more resourceful.

In summary, scams are keeping pace with technology and the perpetrators are becoming smarter and more resourceful. We need to equip ourselves with knowledge and view the world with a healthy dose of scepticism, asking questions and verifying facts before we leap into any new investment or entrust our hard-earned money to anyone promising risk-free or guaranteed returns.

Sad as it may be, the old adage is true – there is simply no such thing as a free lunch. ■

Kelly de Kock, CA (SA) and CFA charter holder, is the chief operating officer of the Private Client Securities, Treasury and Fiduciary businesses of Old Mutual Wealth. She is provincial chairperson of the Western Cape chapter of the Association for Black Securities and Investment Professionals (ABSIP).

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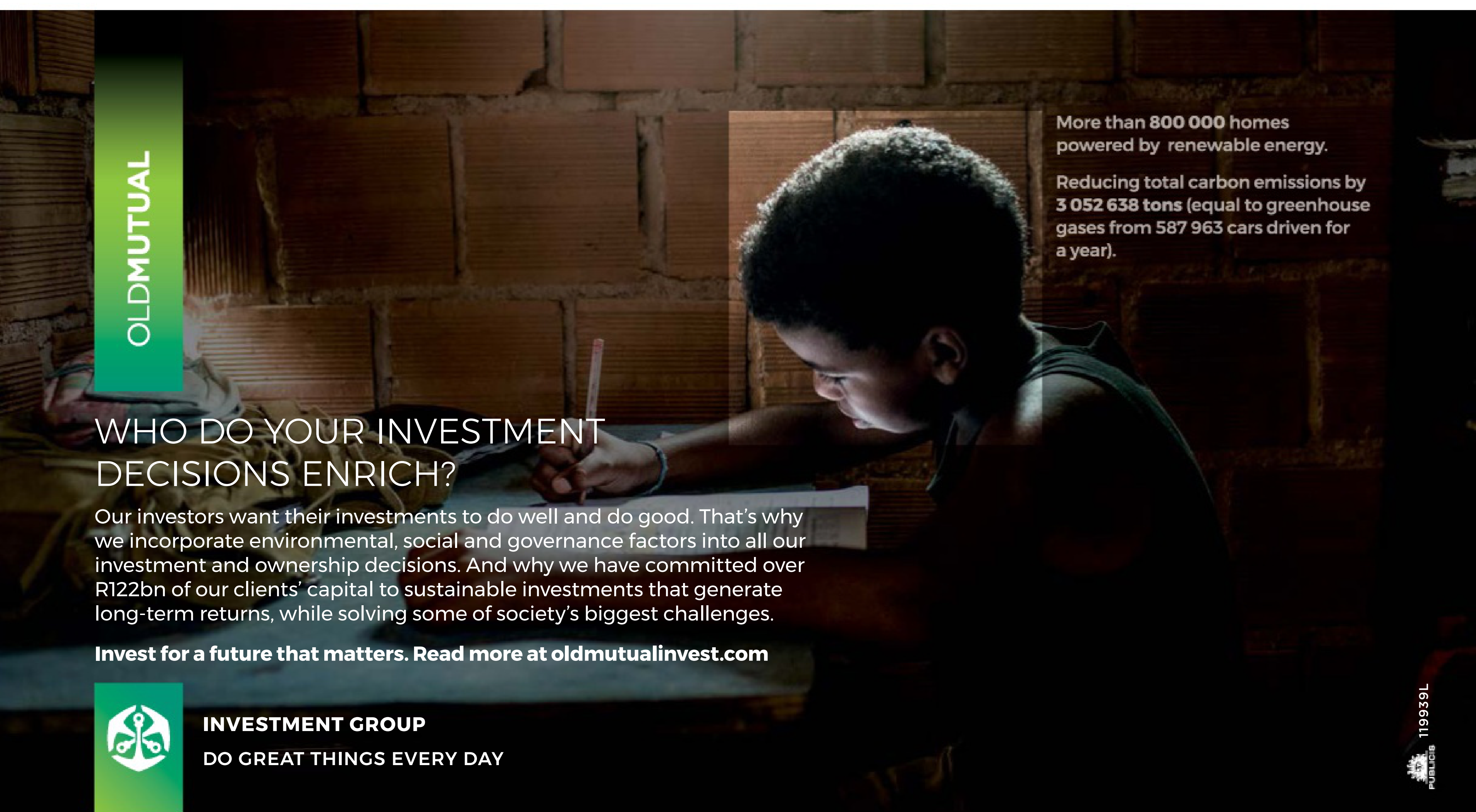

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By Sohini Castille

FUNDAMENTALS

Viewing the hidden dimensions

Investment scams have been on the rise in South Africa, often catching unsuspecting investors off-guard. But there are easily identifiable warning signs that will clearly expose ill-intentioned schemes.

The investment landscape in South Africa is vast, with a multitude of choices for investors. Often, the facts presented to potential investors offer only a partial view of an investment product's dimensions for them to consider.

We're all familiar with the barrage of highly emotive marketing campaigns associated with investment firms and their underlying products. Before being swooped away by glossy brochures and enticing value propositions, it is worth taking the time to appreciate the full picture of the investment product on offer and its suitability for you as potential investor.

There has been a sharp rise in financial-related criminality in recent times with investment scams becoming a fast-growing (and profitable) 'occupation' for the wickedly inclined. This raises the stakes substantially for unsuspecting investors who do not necessarily have the correct tools or investment acumen to identify those investment products that are backed by ill intentions.

Unethical behaviour in this area has particularly far-reaching consequences for investors looking to grow and protect their wealth.

When it comes to investing for retirement, these savings are potentially the largest pool of money that investors will accrue throughout their lifetime. The decisions an individual makes during their working lifetime could have a dramatic impact on their financial outcomes at retirement. It could very well be the difference between retiring comfortably and having to make unpalatable lifestyle adjustments in retirement. The information that informs these investment decisions is therefore of critical importance.

Another challenge facing investors is the poor levels of transparency – at least historically – in SA's financial services industry. To some extent this is still the case today.

The sector has been characterised by high fees, complex pricing structures and fee arrangements that are often not aligned with the best interest of investors. These aspects alone can have a detrimental impact on investor outcomes.

Following from the 2008/09 global financial crisis, it is not surprising that the general public's perception of the industry has deteriorated, creating a loss of confidence and often a deep sense of distrust. Subsequent stakeholder botches and mishaps continue to receive a great deal of media coverage, adding to the rhetoric of suspicion and doubt.

Traditionally, financial products and investments in particular are viewed as complicated enigmas that require the help of WWII coding experts to decipher. The war is no more and coding experts are a rare find. Investors are now left in the hands of experienced investment 'experts' who are presumed to act in good faith and in the best interest of their clients. Sadly, this is not always the case.

I recently watched *Jurassic Park* and it got me thinking about those educational dinosaur magazines that were all the rage when I was growing up. Those magazines were collectables. Each came with a pair of 3D glasses that allowed the larger-than-life dinosaurs to come alive.

Similarly, whether you are investing now

Photo: Shutterstock

The scammer guide: Signs of an underhand deal

By Piet van der Merwe

The signs of a scam follow a familiar pattern, no matter the time or country you live in. They include, but are not limited to, the following:

- The seller convinces the victim that the investment is certain to provide high returns at low risk. A trademark of the salesperson is their supreme self-confidence and ability to use emotional levers, "reading" their victims as they probe for weaknesses to exploit.
- They may tell you that this secret source of wealth is actually commonly available to "conventional" investors and that larger, reputable financial institutions use these very same techniques to enrich themselves at the expense of clients. By getting rid of these greedy "middlemen" you can keep these super profits for yourself.
- The seller is sometimes even registered to sell investments. Be very wary.
- A claim they often make is that this formula was discovered by a famous person, economist, computer scientist or somebody with whom you can readily connect as a trusted source.
- There is a fear of loss – you must buy now or the opportunity will be gone forever.
- To facilitate the fear-of-loss message, the victim – especially in the case where unlisted shares are sold – is told that the shares are available exclusively to you at a great discount and will shortly jump in value. So better buy now! (Watch out for exclamation marks.)
- Sometimes there are also tiered "memberships". This is similar to a pyramid scheme. You have to pay a non-refundable fee to become a member of this arrangement. When you recruit more members, you tend to get a share of their fee, and so on.
- There is sometimes a lot of pressure from friends and family who have already invested and, as is the case with Ponzi schemes, have already received large payouts. They are unaware that the payouts were being financed by new "investors". This social pressure is often an important lever that affects objective and critical thought when deciding to invest.

The sector has been characterised by high fees, complex pricing structures and fee arrangements that are often not aligned with the best interest of investors.

for your immediate needs or now for future needs, it is a larger-than-life decision. I bet most investors out there wish they were equipped with a pair of 3D glasses to see and appreciate the full picture upon which their investment decisions were made.

There are, however, some practical tips that investors can use to identify the warning signs as clear as if they were jumping right off the pages of those glossy brochures.

1. Verify

In the past, one of the strategies a discerning investor could employ to verify the credentials of a financial services institution they'd never heard of, was to perform an internet search for a company's website or even dial the listed phone number to check if anyone answers the call. This is no longer an effective safeguard, as these measures are relatively simple for scammers to fabricate. So where does our safeguard lie?

The Financial Advisory and Intermediary Services (FAIS) Act is one of the most crucial pieces of consumer legislation in SA. Its aim is to regulate the rendering of financial services to clients. One of the requirements is for each representative of a financial services provider (FSP) to be registered with the Financial Sector Conduct Authority (FSCA) – the industry watchdog.

This link **https://bit.ly/2SKDpIZ** to the regulator's website allows anyone to search for the name of a financial services provider as well as any of their representatives. Investors can immediately verify whether the company and the individual representative advising them is indeed legally authorised and qualified to do so. Investors can also verify if a particular representative has been debarred as a representative of an FSP, or not.

2. Consider the source

Never ask a barber if you need a haircut! It's generally good practice to apply a certain amount of healthy scepticism when venturing into unfamiliar territory. A personal favourite saying: consider the source.

Aside from the fairly obvious get-rich-quick-schemes, one should keep an eye out for the following red flags:

■ The promise of a **high return** with low or no risk involved. It is impossible to significantly exceed inflation-beating returns over any time period without taking on risk. Any promise to the contrary is suspicious.

■ Being offered a **select opportunity** that is not available to the public. As much as we would each love to believe that we have fortuitously been the lucky recipient of a hot tip of insider information – in reality it's rather unlikely and possibly even illegal.

■ A sense of **urgency.** Being placed under time pressures to make a decision to invest. It's a potential attempt to reduce one's ability to make a rational, well-considered decision.

3. Approach with caution

Some warning signs are less obvious than others, but one should take similar caution when faced with the following type of offers which are becoming increasingly common: Eye-catching advertisements for investment schemes promising attractive investment returns of up to 20% per annum or more. This should raise an eyebrow. This is by all accounts an **unrealistic expectation.** It would be a struggle to generate such returns, especially in the current market environment.

4. A free lunch

As far as I know there are no non-profit organisations selling investment products or services. If you are being sold a product that promises no administration fees, for example, it would be well worth interrogating what other types of fees are being charged separately, and the associated quantum of those fees. There is no such thing as a free lunch, especially when investment "experts" are keeping an eye on the monies.

At the end of the day, the old adage rings true – if it sounds and looks too good to be true, take a closer look. It probably is. ■

Sohini Castille is a client investment specialist at Alexander Forbes, with 12 years' experience in the retirement fund industry.

Signs confirming that you are dealing with a registered financial services provider

- Do the marketing material and letters have proper, professional layout and branding?
- Are there obvious spelling mistakes, also in SMSs? Beware!
- Does the "from" email address look legitimate?
- Does the disclaimer show a registration number, and numbers from the Financial Sector Conduct Authority (FSCA)? For example, ABC Wealth is an authorised financial services provider (FSP 1234) Reg no 1998/123456/07.
- Does their marketing material spell out what a product can do for you, but also what it does not do?
- Do they go out of their way to convey information in plain, clear language? If they have to use difficult terminology, do they explain it?
- Do they clearly disclose all fees, also the fees that they pay a financial adviser on your behalf?
- Do they warn you about the consequences of certain actions, like not paying your premium?
- Do they warn you what will happen if you don't disclose certain facts?
- Do they go out of their way to avoid publishing documents and disclaimers in small print?
- Do they have a policy to protect your privacy and your details, and do they explain it?
- Is it easy to do business with the company, and is it easy to get hold of them?
- A fund fact sheet has to state that past performance will not necessarily be repeated in future.
- You are not allowed to give a company investment money until you have filled out the application form and they have checked your Financial Intelligence Centre Act (Fica) information. (This *red tape* is actually there to protect you!)
- Companies must give you regular feedback on the performance of your investment and publish contract and regulatory information on its website that clients can access at any time.
- Companies have to tell you what their complaints resolution processes are and give you the contact details of the Ombud for Financial Services Providers or Ombud for Long-term Insurers. These institutions exist to protect consumers.
- For even more peace of mind, also check whether the company adheres to the Code for Responsible Investing in South Africa (CRISA), the United Nations-supported Principles for Responsible Investment (PRI) initiative, or belongs to the International Corporate Governance Network and the Association for Savings and Investment South Africa (ASISA). ■

Piet van der Merwe is an ESG analyst at Momentum Asset Management.

By Phiko Peter

DIGITAL FRAUD

How to spot an online scam

Technology has disrupted the financial services industry and made investing more accessible. But not only investors are benefitting from these advances: Fraudsters are giving old-fashioned scams a digital makeover.

There is an interesting correlation between our need for instant gratification and the rise of digital. Technology makes our lives easier and more efficient, but it also taps into the part of our brain that is wired for instant gratification.

Neuroscience research suggests that the "like" buttons or "hearts" on our social media accounts are directly connected with the social reward pathway in the brain, so the more likes or clicks you rack up, the more likely you are to feel rewarded, creating a cycle to continue chasing the 'like' to get your next 'fix' or reward.

Many researchers claim that the rise of social media, together with other digital advances, have made millennials in particular more impatient than previous generations. They claim that our need to experience immediate fulfilment has affected everything from our expectations in the workplace, to our spending habits and the way we approach our health and wellbeing.

This impatience is also extended to the way many of us approach investing: We want great returns and we want them now. This ultimately makes us even more susceptible to fraudulent get-rich-quick schemes. The first step in protecting yourself against these schemes, is being able to identify them.

With a reported **1.5bn** active users in over 180 countries at the start of 2019, WhatsApp has proven useful for con artists who operate using pyramid schemes.

The WhatsApp pyramid con

The traditional pyramid scheme has, thanks to the advent of social media, moved to social networks. With a reported 1.5bn active users in over 180 countries at the start of 2019, WhatsApp has proven useful for con artists who operate using pyramid schemes, as they can now communicate efficiently and encourage recruitment with relative anonymity, spreading their con far and wide.

Essentially the scam is the same: A con artist introduces an amazing financial opportunity, promising unbelievable returns to a small group of investors. Each investor is then encouraged to sign up and recruit new investors (friends, family, acquaintances and colleagues).

In turn, these new investors recruit even more investors, and a multi-level pyramid structure is formed, with the fraudster firmly on top.

Each time an investor invests in the scheme, their contributions are funnelled upwards and used to fund the returns due to some of the investors higher up the pyramid. The scheme is unable to provide returns to its investors over the long term and inevitably collapses, leaving investors with permanent capital losses.

Separating fake from real online investment platforms

The *Financial Times* earlier this year reported that the UK's financial sector watchdog, the Financial Conduct Authority (FCA), said that the number of crypto and forex fraud claims jumped alarmingly from 530 to over 1 800 in little over a year. The majority of the claims related to cryptocurrency.

Fake investments on online trading platforms are especially alarming because it is hard to distinguish which ones are legitimate, and which ones are fake. There have been a number of cases in South Africa of unsuspecting victims falling for such fake sites.

Victims are usually convinced to buy fake cryptocurrencies because the website looks convincing and uses the right terminology, or there are fake endorsements from celebrities, politicians or other 'successful' case studies.

Money-flipping scams on social media

Money-flipping scams have ripped off many local investors through social networks like Facebook, Twitter and Instagram. About 71% of Instagram's 1bn daily users are younger than 35, making the social network an increasingly popular playground for scammers wishing to target millennials.

Money-flipping scams promise to double or triple your money in a very short period. Victims are convinced to send funds to a scammer who promises to deliver excellent returns for a small commission.

In SA, these investment opportunities are often sold as forex trading, binary options or offshore property opportunities.

A scammer will create a legitimate-looking social media profile showcasing exotic travel destinations, expensive cars and designer clothing. These opulent lifestyle images are used to position the scammer as a successful and trustworthy investor. Some will even boast about working for less than an hour per day, selling the dream and tapping into our need for instant gratification.

Once scammers have hooked a victim, they may even supply detailed investment reports to show investors how their money is growing and encourage larger investments. As soon as the investor requests a withdrawal, they are met with a series of delays and may be asked to fork out even more money to release the funds. This escalates until the scammer deletes their account and ceases all contact.

It can happen to anyone

If you think scammers only get the attention of the uninformed, think again. *The New Yorker* bestselling author and psychologist, Maria Konnikova, has studied and written extensively about con artists and believes we are all vulnerable. According to Konnikova, "It's not who you are, but where you happen to be at this particular moment in your life." Consumers facing large amounts of debt, financial stress and unexpected expenses are most vulnerable.

Social media gives us a false sense of security, prompting us to trust members of our online social networks. According to Konnikova, con artists use this to their advantage, and manipulate our emotions to get cash.

Many investors fall prey to scammers because they do not have a solid financial plan, and feel pressured to catch up on lost savings opportunities. Rather follow the route of a good financial adviser who will explore your unique set of circumstances and implement a long-term investment strategy to help you reach your financial goals. ■

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By Steven Boykey Sidley

CRYPTOCURRENCIES

Whither bitcoin?

We all know bitcoin. Well, sort of. What about other cryptocurrencies like ether, litecoin, EOS, or Facebook's libra?

Central banks, as *finweek* readers would know, control the supply of money. They regulate the monetary system tightly to ensure stability. It has worked fine thus far. Well, mostly. Save for Weimar Germany, Zimbabwe, Venezuela and others.

Commercial banks, of course, facilitate financial transactions within the system. But commercial banks have grown obese and slow-witted on inflated transaction fees, leading to marble-bedecked lobbies and, often, arrogance and complacency – especially in an age of rapid new technology-driven deployment options.

Recently a great rumbling was heard, especially among a few tech nerds. Money is a private affair, they said, we need a new sort of money. We want a financial system in which there are no central banks and prying eyes, and which is infinitely secure, immutable, borderless and answerable to no central authority.

And so, in 2010, bitcoin was born. For the first time there was a small but noisy competitor to the traditional monetary system. Bitcoin was designed, from the ground up, as a token of exchange between strangers. Particularly untrusted strangers. It turned out to work exactly as envisaged.

Anyone who tells you what the price of bitcoin will be tomorrow or next week or next month is either an idiot or a crook.

What is bitcoin?

The bitcoin blockchain allows your wallet to send bitcoin currency to someone else's wallet. Delivery is guaranteed, can't be changed, is logged forever (literally), is perfectly accurate, reasonably fast (at a negligible fee) and can be used anywhere in the world. Currently, banks cannot match this on any level.

Secondly, it is anonymous. Anyone can see the transaction, but they don't know that it is connected to you. Not even your government knows. Only you know how to get into your wallet. (Try doing this with your bank.)

That's it. That's what blockchain technology and its love-child, bitcoin, hath wrought.

Then, on 17 March 2010, a strange thing happened. Someone sold two pizzas for 20 000 bitcoin. Prior to that transaction, bitcoin had no value. Ten days later the value had risen by 1 000%, to 8c (US$) per bitcoin. It had magically turned into a real, tradable token of value.

Today, as we know, it sits at roughly $10 000.

And it's freaked out every bank, regulator, investor and government in the world. This is because it's simple, anonymous, un-hackable, private and cheap. And trusted by millions.

It cries out for analysis. But let's get to the real questions: What is this thing? Should you invest in bitcoin (or any of its lesser-known cousins)? Will you get rich… or lose all your money? And if you invest, how much should you invest? And how?

Let me make some bold statements. Anyone who tells you what the price of bitcoin will be tomorrow or next week or next month is either an idiot or a crook. Even if they have a PhD in finance. I have followed the price of bitcoin for three years. Nobody has a clue where the price will move to, at least in the short term.

Anyone who wants to charge you commission to invest in bitcoin is a crook. (If you want to buy bitcoin, go to Google and type in "best and safest crypto exchange in [my country]".)

Ignore anyone who punts any coin other than bitcoin or ether (another type of cryptocurrency, different, respected, mature). Most other coins (called altcoins) will simply die.

My personal view – not to be taken as financial advice, and all the other indemnities and caveats – is that bitcoin is here to stay. It will be more volatile than the world's most vomit-inducing roller-coaster, at least for a while. It's not for sissies.

But by the year 2140, a maximum of 21m coins would have been created (or 'mined'). Then, no more bitcoin will be mined.

So what, you ask? Consider the increase in beachfront house properties. Scarcity means value appreciation. So, it's my view that bitcoin prices will continue to rise, perhaps dramatically (and not in a straight line), over the next decades.

Of course, there are risks to bitcoin – for example the appearance of competitor cryptocurrencies like Facebook's proposed libra.

Furthermore, governments and central banks the world over are working on ways to regulate cryptocurrencies. This will be impossible with the bitcoin network (which belongs to nobody – it is governance proof), but regulation could well be applied to downstream service providers like regulated exchanges.

A short diversion about Facebook's libra. Facebook has 2.4bn subscribers. This is no small thing. It's the largest single-service platform in history. They know a terrifying amount of stuff about each individual who comes into their platform. (They probably know more about you than your government.)

Facebook has said (and I paraphrase): "Let's become the largest financial service provider on earth, dwarfing even the largest global banks." This is a grand, audacious and (in principle) achievable goal. Everyone is apoplectic about this. Banks simply cannot compete with Facebook's knowledge of its customers.

But, importantly, Facebook's libra has made cryptocurrencies legitimate, real and tangible to the man on the street. Bitcoin will benefit. Libra is very, very different to bitcoin, but it hardly matters. When Facebook says crypto is legit, everyone's view of it changes. It breaks out beyond the nerds. (Libra's value will be pegged to a basket of stable currencies, and so will not rise in value any more than that basket.)

I believe bitcoin will be around in the long term. There are too many believers. Even staid old institutions and financial institutions are diving in. But if you want to invest, ensure that you understand the risks, and start small. Don't bet the farm. ■

Steven Sidley is a director at Bridge Capital Future Advisory and was previously chief technical officer at Project UBU (a blockchain initiative).

Photo: Shutterstock

By Asief Mohamed & Tinyiko Mabunda

INVESTMENT PROCESS

Avoid getting caught up in investment

A more sceptical approach to investing needs to be adopted to avoid or reduce the loss of capital for investors.

With an increasing rise in the cost of living and a contracting economy, there is a lot of pressure to deliver above-average returns for investors. The hunt for lucrative investments is a fierce one and investors will often overlook the qualitative red flags associated with potential investments in search of the hidden gem.

There is no one successful method to detecting a financial scam. Investors cannot, unfortunately, be fully immune and protected from such scams. Even highly experienced and educated portfolio managers sometimes fall prey to companies that, at the time, seemed undervalued. But then they're confronted with the salty blow of a company's Sens announcement notifying shareholders to disregard the reliability and accuracy of their financial reports.

It is important to avoid the "noise" around seemingly tempting investments and to conduct thorough due diligences. In addition to constructing a financial valuation with a high margin of safety, investors should also place emphasis on qualitative research such as environmental, social and governance (ESG) analysis.

Often, anecdotal evidence helps one steer away from scams. Investment analysis is no longer just about numbers; a more holistic approach to research is needed when determining the quality and value of an investment – such as factoring in the notion of "once a thief *most likely* always a thief".

'Too good to be true' investments

In the search for alpha and overall outperformance, active investors are always looking for under-valued investments. Once invested, it's easy to justify remaining in an unsuccessful investment to avoid admitting one's error.

However, for a large number of asset managers, it is especially important to remember their fiduciary duty to their clients, to be self-aware that their original investment case might have been wrong and to promptly reverse their investment decision in order to protect their clients' assets.

Companies such as Steinhoff International and Tongaat Hulett are recent examples of the devastating financial impact of white-collar crime. Since Steinhoff's heed of the "accounting irregularities" and Tongaat Hulett's announcement of their inflated profit, investors and pensioners have lost a combined market value of approximately R290bn – possibly as large as alleged state capture losses.

An investment that is too good to be true is particularly difficult to scope out if the market is yelling "BUY!". It's crucial for a responsible investor to justify their investment case and resist the call of the herd.

Transparency in the financial industry

A higher degree of transparency is required within the financial industry. This industry is largely driven by money and with it, unfortunately, greed often follows.

As such, effective control measures have to be implemented to ensure that money flowing in and out of the business is legal, accurate and justified, and that it's received and transferred to the rightful person(s) and/or corporations.

An objective, accountable governance structure and a fair remuneration plan are key foundational blocks to ensuring transparency within a company.

Corporate governance lapses have been a recurring topic in South Africa. Even in the face of an ever-evolving financial market, theft and fraud at management level remains a high threat. Shareholders, both institutional and retail, have to play an active role in holding management accountable to their actions and decisions.

One way to ensure this, is for investors to engage with the board on issues that include but are not limited to fair remuneration policies, director independence and the effectiveness of elected management teams.

Companies often draft remuneration policies with unsubstantiated executive pay structures. These policies implement key performance indicators (KPIs) that aren't aligned to key business strategies and carry high weightings, thus enabling CEOs to award themselves with ridiculous and excessive bonuses.

KPIs must be fairly weighted and relevant. If, for example, a company's operations have an adverse effect on the environment, non-financial targets – which measure management's ability to reduce and rehabilitate the environment they operate in – need to be included in determining the awarding of short- and long-term incentives.

The gender pay gap and the CEO-to-worker pay ratio – the difference between the CEO's remuneration and the median employee remuneration – also need to be disclosed to improve transparency.

Board directors guide the quality of governance within a company. Investors need to consider the number of external directorships that board members hold. If a director sits on more than three boards of listed companies, one has to question the director's level of active commitment to their current role. Are they allocating adequate time to their duties to detect misstatement and fraud?

King IV stipulates that a balance of power must exist within a board. It steers away from a tick-box approach when assessing independence. Listed companies are not legally required to implement this approach as it is merely a guideline. This creates discretion and room for failure to timeously identify current and potential conflict of interests when electing non-executive directors.

Therefore, it's imperative that companies disclose their independence assessment criteria and subsequent director independence scoring in their integrated reports and notice to their annual general meetings. This will provide shareholders with a better understanding and assurance of independence.

The impact of a potential scam can be avoided, to a certain extent, if adequate investment processes are followed, and meaningful company engagements are conducted. Companies also have to play their part by remaining actively transparent – not only when compelled to do so through proposed shareholder resolutions. ■

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By Penelope Gregoriou

FINANCIAL LITERACY

The painting needs more colour

Research does not paint a pretty picture of financial literacy in South Africa. If we really want to financially empower the diverse demographic that is South African society, we need to rethink our approach to financial education.

Another brush needs to be used to paint the South African financial literacy landscape. Attempts to enhance financial wellbeing through financial literacy programmes haven't created a pretty picture. The way financial literacy currently looks needs to be changed.

Financial literacy, as defined by the Organisation of Economic Cooperative Development (OECD) International Network on Financial Education, is "a combination of awareness, knowledge, skill, attitude and behaviour necessary to make sound financial decisions and ultimately achieve individual financial wellbeing". Essentially, being financially capable.

Let's narrow this definition down and bring it closer to investing. In a series of studies conducted in 14 countries by the World Bank Development Research Group, analysing financial literacy around the world, financial literacy was explicitly defined as "the possession of financial knowledge on interest rates, inflation, and risk diversification, and numeracy skills".

Another broadly used definition that comes in handy? Context. Defined as the circumstances that form the setting for an event, statement, or idea, and in terms of which it can be fully understood to clarify meaning, context is a crucial element of understanding, insight and ability.

These two definitions haven't been used collectively in a South African context and the results of this misalignment speak for themselves.

An inadequate investment

As cited in Alexander Forbes' 2014 Benefits Barometer, studies show that engagements that have taken place in an effort to improve financial literacy have about a 0.1% effect on practiced behaviour. To round this off: They have no effect on actually improving the financial wellbeing of the intended audience being engaged.

As Albert Einstein famously said: "The definition of insanity is doing the same thing over and over again, but expecting different results."

Extensive studies and surveys conducted have concluded that the current model for deploying financial literacy does not work, yet the programmes still continue.

Could it be that we're satisfied by the mere fact that we're speaking about it, writing about it, hosting a few seminars on it and taking comfort in the fact that we've contributed to the conversation? The conversation makes us feel better, but it's also the same conversation that doesn't educate or empower people to make better decisions.

How do you approach financial literacy in a society that is dealing with financial insecurities and complexities? Other than teaching helpful tips and investment terminologies, how do we enable people to translate that knowledge into financial mobility? The proverbial 'knowledge is power' regrettably isn't an appropriate fit with how financial literacy has served the South African lower and middle classes.

In October 2018, it was reported that over 25m people in SA were in debt, according to the National Credit Regulator, with 40% of them behind with their repayments.

Old Mutual Unit Trusts conducted a study which found that millennials – a significant bulk of the population – have a savings account, but only 44% are investing in pension funds.

If financial literacy is meant to support people to make the right decisions, why are these the current statistics?

A study conducted by Elizabeth Nanziri and Murray Leibbrant from the School of Economics at the University of Cape Town analysed FinScope surveys that have been used to get a nationally demographically representative set of data.

People were asked about their knowledge and understanding of phrases concerning financial concepts (such as bad debt and compounding interest), financial regulations (such as the National Credit Act) and financial institutions (such as credit bureaus). They were also asked in which financial areas they needed financial education and were asked questions relating to savings and investment products, among other things. Results included a considerably low understanding of interest rates and budgeting and only about 24% of people said they had knowledge of insurance, savings and investment products.

And that's just knowing about the products.

Diverse needs for a diverse demographic

In the study by Nanziri and Leibbrant that explored the distribution of financial literacy among South Africans, they found variations in adequate financial literacy that were dependent on education, age, province and race. Therefore, we need a South African model for financial literacy because of the uniqueness of our societal and financial challenges.

The Rainbow Nation needs an approach to financial literacy as diverse as its population.

The results from the FinScope surveys showed that there was a lower-than-average level of financial literacy among women, black South Africans, and those between the ages of 18 and 29 – three groups that comprise the majority of the country.

There needs to be more effective audience segmentation on who is being engaged with and how they're being engaged with, taking into consideration varying degrees of education and income brackets, among other factors.

Coupled with distinctions brought about by race, location and age, it gets more complicated. Communication and teaching strategies – and when they're deployed – need to be subjective to the conditions and characteristics of the varying demographics. The aforementioned groups need a more targeted and concerted effort from the investment community if we want true transformation in member behaviour.

It's all connected

Financial capability – an aspect that is unique and relevant to each individual – is the knowledge and attitude that determines how an individual manages their money in the best way possible, considering their socio-economic background and personal needs.

This is where a gap is created between how

Photo: Shutterstock

financial literacy is deployed and how it enables capability. Knowledge of investment concepts and products does not translate into financial capability and thus – perhaps, most importantly – economic mobility.

If financial literacy is designed to address and instil a greater degree of financial capability in its audiences, then, by virtue, it should also address harmful financial behaviour.

One of the best ways that this could be approached is by reconceptualising the curriculum of financial literacy into something that is relatable, practical and real. In a presentation addressing 'just in time' financial education, Senior Associate Dean for Research at the Leeds of Business John Lynch proposed that telling people what they need to know at the exact time in which they need to know it is how a real impact is made and how most things are learnt.

As with everything else, regardless of how much theory you know, you get better at something the more you practice it; that is what would make people more financially capable.

Since the investment industry and the government have a shared ambition in having more people invest and be financially mobile, collaboration between these two establishments in combating this problem shouldn't be a bizarre suggestion. In 2012, National Treasury and the Financial Services Board (now the Financial Services Conduct Authority) established the National Consumer Financial Education Committee (NCFEC) with the aim to help individuals understand financial products, key concepts and risks better, and to enable them to navigate the complexities presented by financial products and decisions needing to be made in relation to their responsibilities. This initiative, coupled with the expertise of the investment industry, would equip and protect even those most vulnerable to financial errors – and financial scams.

How do we teach people to manage money when they don't have money to manage?

Not being able to make sound financial decisions is a result of something innate in people that a few financial terms would be unable to address. Decision-making skills and consumer behaviour is linked to the mindset and attitude of an individual. This is where collaboration between entities such as the NCFEC and professions such as psychology could yield a holistic outcome that tackles all the angles of this multi-faceted problem.

The gap between economic mobility and investing

In the SA income puzzle, the microeconomic rationale of the consumption-saving trade-off does not fit. A substantial amount of the population does not get salary increases that escalate to the point of permitting them to actually save after having paid for their and their families' living expenses.

How do we teach people to manage money when they don't have money to manage? To put it in context, why are we teaching people fundamental investment terms, yet they don't know how to apply the fundamentals of investing and money management?

This introduces another predicament: The emphasis of a strong savings culture should accompany a commitment to a culture of compensation from both the private and public sector that is proportionate to the aspiration of a financially capable public that gives them the room to both invest and have a decent standard of living. This dilemma requires its own conversation, but cannot be seen as mutually exclusive to the desired benefits needing to be reaped for financial literacy to be a success.

Time to get creative

A possible cause for financial literacy not achieving its desired result – together with socio-economic ill-being and a deeply entrenched spending culture in SA – is that the principles are not relevant and timeous when they're taught. Furthermore, the discernment needed is not strong enough to navigate fraudulent financial schemes because people's financial naivety has already been embedded.

Once the basic principles of financial literacy and capability are understood and practiced respectively, then only can the landscape and outcomes of investments thrive. ■

Penelope Gregoriou is the stakeholder engagement coordinator at Alexander Forbes Investments and is passionate about inclusion, empowerment and sustainability.

By Alison Benzimra

FINANCIAL EQUALITY

It's not about minding the gap – we have to close it

Research shows that South African women rank very low on the financial literacy scale, relative to other countries. There are various reasons for this, but chief among them is that the financial services industry has historically catered to men.

The lower a person's financial literacy, the higher their susceptibility to falling prey to scams and bad financial advice. Visa's International Barometer of Women's Financial Literacy ranked South African women 23rd out of 27 countries as the least financially literate, highlighting the vulnerability of women in this country.

This situation won't be solved by a top-down approach of giving women more financial information. An enduring solution involves educating both women and the financial services industry about the financial challenges women face during their lives.

The industry needs to begin by acknowledging that its structures have been built on a patriarchal foundation. The financial services industry has catered to men. It has defaulted to men's salaries, career paths, family roles, lifespans and preferences. The emphasis therefore needs to be placed on respect for women's realities and inclusion of these realities into financial planning.

But we also cannot bundle all women together. They do not share

one voice. They have different education levels and professions. They have unique family structures and, in turn, financial responsibilities. What they do have in common, is their shared experiences in society and they are more likely to have financial setbacks as they make accommodations to care for their family.

Women and investing

Women and men share equal confidence when it comes to financial tasks and budgeting. The divergence between the sexes occurs when it comes to investing. Women's lack of confidence has a negative effect on their wealth creation and retirement planning.

When it comes to investing, women cite lack of knowledge as the number-one barrier. This is a signal to the industry that they need to increase women's exposure to investing. It also means changing the conversation with female investors. Women lean towards value-based decisions. They are more likely to align their investment decisions when the conversation centres around what the investment can do in terms of the betterment of themselves and their family.

Gender pay gap

The World Economic Forum estimates that it will take 202 years before the gender pay gap is closed. SA ranked 117 out of 149 countries for wage equality. Middle-income earners show the greatest disparity, with men earning 25% to 35% more than women. The pay gap has an accumulative and compounding effect over a woman's lifetime. Earning less, women accumulate less wealth to fund their longer lifespans.

Gender wealth gap

What is not publicised and spoken about is the gender wealth gap. This is not the same as being wealthy. It highlights the difference between men and women's accumulation of assets.

The average single woman has three times less wealth than the average single man. This persists between shared education level and age. It can be attributed to women's missed opportunities of getting on the wealth escalator. Not being on board this trajectory inhibits their ability to create wealth beyond an income.

On average, SA women live six years longer than men and tend to marry men that are four to five years their senior. Their financial plan should account for the probability that they may outlive their husband by many years. In addition to planning for a longer life expectancy, the financial services industry can engage with women at various touchpoints along their financial planning journey.

The World Economic Forum estimates that it will take

202

years before the gender pay gap is closed. SA ranked 117 out of 149 countries for wage equality.

Early adulthood

SA's population is young and female. Of the 2015 graduates, the ratio was 3:2 in favour of females. These favourable statistics are diminished by the fact that female graduates gravitate towards less financially lucrative fields, such as the arts, and fewer females than men pursue post-graduate programmes.

Merrill Lynch and Age Wave's 2015 study showed that one in four 18 to 29-year-old women stated that they had no financial plan for the future. Younger women express that financial planning is too difficult to think about, yet also believe that they will have greater responsibility than their parents' generation to fund their retirement. The sooner a young woman can understand her finances, the sooner she has the key to greater career flexibility.

Parenting

Women, more so than men, are likely to make trade-offs for their family. In households where both parents work, women apportion twice as much time per day to childcare and take more responsibility for managing their children's schedules and activities. In SA, 40% of homes are run by single mothers, which means all this responsibility falls on them. Time-poor women allocate less time towards financial management, planning, saving and investing. In the same Merrill Lynch study, 30% of 30 to 44-year-old women said they had no financial plan for the future. These are critical years for building a retirement nest egg.

In addition, the "mommy penalty" hinders working mothers' income progression due to missed opportunities when it comes to networking and promotions, and taking on less responsibility than their non-mother female colleagues.

For stay-at-home mothers, often their husband's pension fund, investments and insurance policies are in his name. Correspondence relating to these financial products is directed to the policyholder. Not being privy to this information, perpetuates women's financial illiteracy.

Eldercare

Two-thirds of eldercare are undertaken by women. For women sandwiched between the care for their children and aged parents, the strain is both financial and emotional. Women who care for their elderly parents have pressure placed on their time, finances and long-term savings plans.

Retirement

Retirement planning does not consider breaks in careers for child rearing and eldercare. These work interruptions lead women into more part-time positions or self-employment situations.

As a result, women have limited access to employer-provided pension funds. Women enter retirement having accumulated less wealth and they will encounter unique challenges in retirement that men won't experience. On average, women retire earlier than men, will live longer than their husbands, will spend their later years alone, incur higher healthcare costs and will be reliant on formal paid care in their final years.

Spousal care

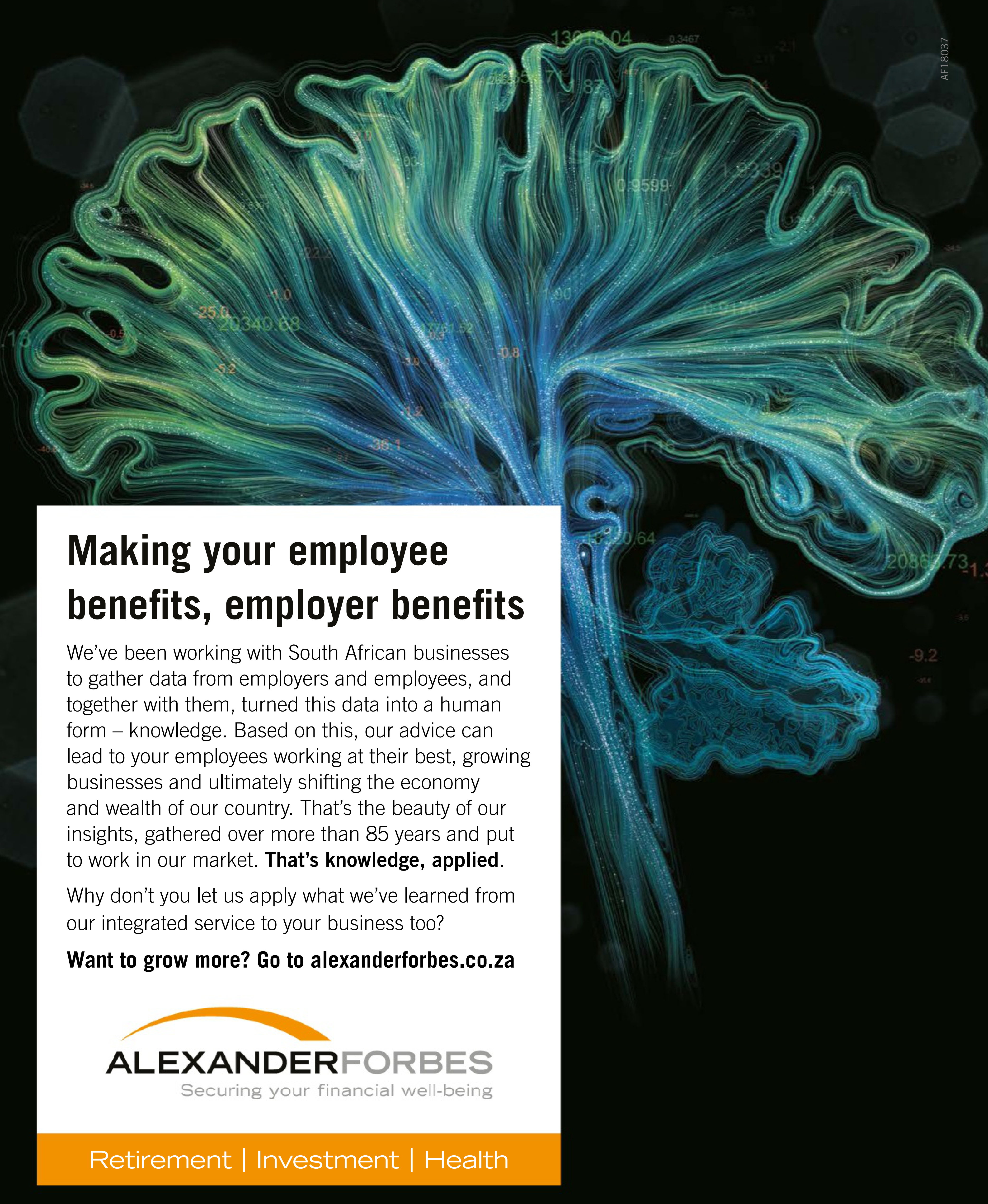
In later age, women are often forced to take an early retirement in order to care for their ailing spouse. This care takes a toll on women's physical and emotional well-being.

However, the expense of her husband's healthcare and end-of-life costs can take a toll on what may remain of her nest egg. A widow's financial needs are different. Research showed that up to 70% of widows will change their financial adviser after the death of their husband. This statistic may incentivise financial advisers to stop using the term "my client's wife".

It's evident that it will take several generations before the balance of wages and burden of responsibility is equalised between the sexes. This does not, however, mean that women should sit idle.

The best investment that women can make is an investment in themselves and fellow women. Older women can use their financial regrets as a resource for mentoring younger women. Along the life course, women and their partners need to come to the financial planning table and be vigilant that the advice they are receiving is relevant to their family as a unit, irrespective of income or career disparities. The financial services industry has a responsibility to provide guidance that women can meaningfully relate to and implement. Ultimately, women can use their longevity as an asset, as compound interest's best ally is time. ■

Alison Benzimra holds a Masters degree from UCT Graduate School of Business and is pursuing a PhD with a focus on health, wealth and wellbeing in retirement.



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By Michael Streatfield

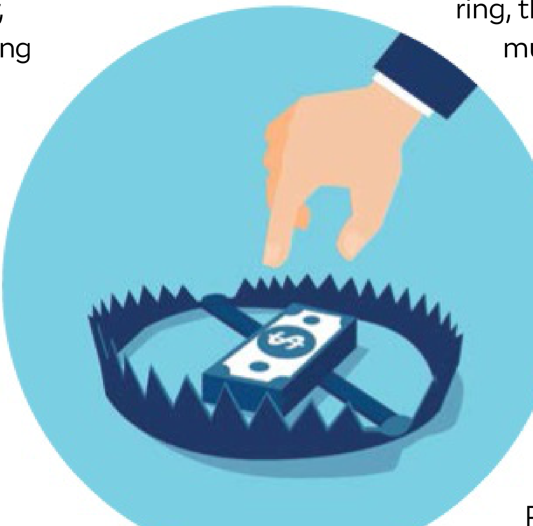
FRAUDULENT STRATEGIES

Fly on the wall at the Meeting of the Empyre of Evill (sic)

Beware financial fraud, we always hear. Yet, people still get conned. This cautionary tale goes 'behind-the-scenes' to take a closer look at the methods fraudsters use to fool so many, and the new ways in which these villains plan to scam you.

Join us as a fly on the wall at this fictitious villain's meeting where we will learn how criminal masterminds look to scam individuals. Now, please be quiet, mute your microphones – their meeting is about to begin...

"Order! Order! Let the fifteenth AGM of the Empyre of Evill begin," went the chair, banging his gavel, stilling the chattering in the rather hazy (from vaping, no longer cigars!) boardroom.



"We, the Empyre of Evill, pride ourselves on duping the herd and separating them from their hard-earned savings. Recall our three pillars: one, financial statement fraud; two, fraudulent mis-selling. And finally, today's focus, financial scams – from investment sham businesses to Ponzi schemes and financial identity scams.

"Today, our collective is gathered to discuss new ways forward."

A hand shot up. It was that young new data science guy, Doc Data. "Er. Pardon me, but...um...Why is the organisation name spelt wrong?" The table groaned. Someone hissed "Not again!"

The chair patiently intoned with an iron glare.

"Yes. Yes. We know. Our Nigerian prince 419 scam operative never got around to installing the English US dictionary on his pirated Eastern European Office software. It's our website name on the dark web, and so be it.

"Google spam filters now spot those corkers a mile away. Can we stick to the agenda? New ideas. How do we trick people now?"

Ms X of Incredible Wealth Inc. piped up: "We still love emails and dubious marketing. You simply cannot beat this old chestnut. Take the best short period of an investment track record, say it went up like 20% in three weeks, and blow it up over a year and dupe them so you can get 346% per annum!" ((52/3) * 20%)

The shield of financial knowledge

The picky Prof Blacklist tut-tutted: "Nonsense madam, your analysis is confounding the current structural lower interest rate cycle, which is making investors yield-hungry. My erstwhile Durham University colleagues found that one standard deviation more financial knowledge predicates a higher propensity to detect fraud by 3%. Alas, being prudent is no help though."

"Yeah, right on guv," popping out a huge vape smoke ring, the tattooed London gangster, Lewis Cipher, mused: "The people's been reading financial blogs and such, innit? Like, *Collective Insight,* like. So they know wicked financially literal now..."

"Hughhh", interjected Prof. "You mean literate, financially literate, you ignoramus."

"Stay focused please villains," interjected the chair. "What are the current barriers?"

The young Doc summarised: "It is certainly not as easy these days. Well, as Prof said, people are more knowledgeable, and sharing horror stories on social media raises awareness."

Bank barricading but fintech flimsy

Cipher cracked his knuckles. "Yeah plus Banks 2FA – two factor authentication – is a right on pain. Protecting the geezers. Mr Regulator been all over the banks so they toughened up like a frozen walnut.

"But I love me fintech man," chortled Cipher. "These guys in a garage are always behind the innovation in proper data security. Crack 'em open like a lobster."

"These guys in a garage are always behind the innovation in proper data security."

Doc continued. "In a digital world, more info is our friend. We need to move from spam to more targeted attacks."

"Yes, yes," interrupted the Prof. "We need to exploit information asymmetries. The eponymous Dunning Kruger effect means those with less knowledge are overconfident and over-estimate their abilities."

[Fly note: In a 1998 article in The American Journal of Economics and Sociology, *Steven Pressman disagreed – it's not asymmetry, but psychology and decision-making under uncertainty about the future that makes fraud prevalent.]*

Weakness of human nature induces the leap of faith

"True. Well, truish," Ms X beamed. "For the heart of a good scam is human psychology. You have to lower your mark's

"You have to lower your mark's level of suspicion. Simplifying the decision to lower their need for research validation or chatting to others."

level of suspicion. Simplifying the decision to lower their need for research validation or chatting to others. And then – BAM – rush them with a quick, limited-time offer to shepherd them in the trap. Let's not forget you also need to work on the greed element. Plus," Ms X purred, "I like adding a tinge of something illicit, inside information or buying something discounted as it is stolen, so they don't rush to the authorities."

[Fly note: Research by Pressman (1998) revealed the victims could have "bridged" the asymmetries themselves. "The skill of the con artist relies on the ability...to induce the mark to make a leap of faith," wrote Arjan Reurink in a literary review on financial fraud that appeared in the Journal of Economic Surveys *last year.]*

"Mmm. We are going over old ground. Any ideas from the other end of the table?" harried the chair.

The Red Baron cleared his throat, and all fell silent. He hardly spoke, but when he did, it paid to listen.

"Da. You are ALL right. Chair, if I may?" It was more a command than a question.

Data-driven attacks and the treasure trove on your phone

"People are trustink zeirrr phones and advice from strangers more zan face-to-face advisers (Sorry Ms X). Da, fintech is the way to go but we need a two-pronged attack," the old Soviet strategised.

"Doktorrr Data, first give us a list of people with high disposable income, whittle out the very financially literate, bias to the elderly.

"Cipher, develop us an app or two zat vill appeal to zem. People never check ze digital signatures. We vill move from the shadowz and hide in plain sight. Ziss Trojan horse will monitor the victim's SMS trail to see bank details and payments. We vill let zose silly helpful banks do the work for us. Muhaha!" the Red Baron chuckled.

The Genie of Technology… in the wrong hands

"We record zeirrr voices. If zeirrr phone's security says nyet, zen we ping zem with computerised calls 'Can You Hear Me?' and zen when zey answer 'yes', we record zem. We repeat with other questions, like 'Is that Mr X? Please repeat your name so I can pronounce it right.' After a few calls, we have zeirrr whole voice library of zeirrr identity to spoof bank verification systems. My AI comrades can duplicate speech from only 60 seconds of voice!"

[Fly note: Lyrebird's AI system claims to replicate someone's voice with just a minute of data.]

"Oh yes," Ms X cackled. "After fooling their banks, we then do a reverse of the `Grandchild in trouble' and scam the out-of-town grandchild who gets called the most and lives furthest away!"

"Easy peasy with call history an' location data. Gonna call it the Doubledecker. Wicked!" puffing Cipher blows two vape rings at once in his excitement.

Dark side of behavioural finance – exploiting group trust and steering behaviour

When the smoke cleared, the Red Baron continued: "Zen with ze young, we subset zose in financial distress like most student debt, or late with car payments. Cross correlate and assess ze wealth of friends and family zey can draw on for funds. Key is building a fake social affinity group network to induce trust. Ms X can craft a decadent, upbeat 'save the world and get rich easy' marketink newsletter, filled with fake stories of lucky breaks by taking risks."

[Fly note: Academic research notes you need to lower the victim's defences by appealing to trust, or to greed or leveraging distressed financial situations. See Reurink's Survey 2018. *Don't be rushed!]*

"Dok Data can, from ze reader's history, customise ze right vector of attack for each victim. Wait some time for ze trust to build, zen pump in scam. Ze victim vill be 'psychically' primed to take risk...and ze bait appeals. Use something time honoured 'The Spanish Prisoner' or a famous concert ticket 'GlimDropper'. Take your pick. It's simple." (See https://bit.ly/1KKRyOP for a good list of scams.)

The chair commended the Baron. "Excellent stuff. Time to wrap up! One step closer to world domination – greed is good!" ■

Dr Michael Streatfield, CFA, is founding partner and chief scientist of global hedge fund advisory Fortitudine Vincimus Capital (fvcadvisors.com). He writes in his personal capacity.

Photos: Shutterstock

By Lucas de Lange

BUY OPPORTUNITIES

Prosperity for platinum groups

Those who invested in platinum shares during the dark days are now smiling.

It was during one of the darkest days in the economic history of modern-day Greece that Mark Mobius, world-renowned asset manager at the Franklin Templeton group, revealed that he was in the process of investing on the heavily depressed Greek stock exchange.

This debt-ridden economy was in deep trouble. In addition, in a referendum, the Greeks rejected a rescue package from the European Commission, the IMF and the European Central Bank. Rumours were rife that Greece would have to exit the European Union.

However, Mobius – he has been nominated as one of the top-ten asset managers in the world – saw it as an opportunity to invest in well-managed companies with good potential on the Greek stock exchange at bargain prices. Once again, he was successful ($10 000 invested 30 years ago in his first Templeton fund has grown to about $3.3m).

In the table depicting the weakest shares on the JSE, dual-listed Intu Properties leads the pack after it dropped by about 90% since its high of R75.50 in 2015. It's one of the biggest British property groups and it enjoyed a long run as one of the top 100 shares on the London Stock Exchange.

Fourth is Hammerson, another locally listed British property giant, which at one stage wanted to take over Intu. Another buyer also recently got cold feet, which apparently contributed to Intu's recent major drop in price. But it's especially that old enemy of investing – uncertainty – that is causing the pain.

In this instance, it is Brexit that is unnerving investors. It is, however, interesting that there are analysts who regard the new British premier, Boris Johnson's, vigorous kicking up of dust to withdraw Britain from the Euromarket, come what may, as politicking to give him room to take unpopular steps, which could even lead to a general election.

It's important to remember that large property groups such as the two mentioned are mostly well-managed and own valuable properties. A person could possibly accept that value market players such as Mobius, who are looking a few years ahead, would be interested.

Mobius watches commodities carefully. The potential for share profits is great, and to be discouraged is quite common, which can often be followed by strong price increases. Mobius buys when things are at their darkest, after he has done thorough research on a specific company and the commodities it produces.

Implats, the current top share in the table of the strongest shares, is a good example of this. A year ago it was trading as low as R15.90 and it currently stands at almost 375% higher at about R75. It is a strong and well-managed group.

There are analysts who believe that the day has arrived for platinum group metals.

For example, René Hochreiter of Noah Capital believes that a deficit of rhodium and palladium could last from next year until 2026. In a comprehensive analysis by Nicholas Hops of Coronation, something similar is predicted. The recent excellent results of Amplats confirm how the cash flow of companies in this sector is pushed by the higher prices of rhodium and especially palladium. If analysts such as Hops and Hochreiter are right, the current prosperity enjoyed by platinum group metals could be regarded as the early days.

Sibanye-Stillwater is the fourth-strongest share after it rewarded its shareholders with a price increase of about 130% over the past 12 months. Its Stillwater mining complex in the US is the largest single producer of palladium in the world. It is enjoying a strong cash flow which stands the group in good stead given its high debt levels.

Of the shares that have broken through, Sirius, a German property group, looks promising, while Liberty Holdings is experiencing firm buying pressure. Exxaro is a potential buy in the region of the support level offered by its 200-day moving average.* ■

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Lucas de Lange is a former editor of *finweek* and an author of two books on investment.

WEAKEST SHARES*

COMPANY	% BELOW 200-DAY EMA
INTU PLC	-61.54
BRAIT	-55.17
MASSMART	-40.49
HAMMERSON	-40.38
SAPPI	-33.67
ASPEN	-32.00
KAP	-28.51
NETCARE	-24.80
RCL	-24.50
SASOL	-22.64
NAMPAK	-19.83
OLD MUTUAL	-16.67
SUN INTERNATIONAL	-16.48
TRUWORTHS	-16.48
GLENCORE	-16.34
JSE	-15.59
DIS-CHEM	-15.21
CORONATION	-14.56
TIGER BRANDS	-13.90
MR PRICE	-13.22
SUPER GROUP	-12.90
HYPROP	-12.78
FORTRESS B	-12.53
MERAFE	-12.51
SOUTH32	-11.51
ASTRAL	-10.96
SHOPRITE	-10.79
DISCOVERY	-10.23
PPC	-10.09
MEDICLINIC	-10.05
RMI HOLDINGS	-9.34
PEPKOR HOLDINGS	-9.25
AVI	-9.02
LIFE HEALTHCARE	-8.80
EMIRA	-8.55
OCEANA	-8.55
INVESTEC PLC	-8.46
NEDBANK	-8.36
BIDVEST	-7.77
VIVO ENERGY	-7.64
REDEFINE	-7.62
PSG	-7.23
REMGRO	-7.17
WBHO	-7.16
MONDI PLC	-7.08
BARLOWORLD	-6.27
VUKILE	-6.23
ASSORE	-5.97
STANDARD BANK	-5.85
FIRSTRAND	-5.84
SANTAM	-5.68
TFG	-5.59
RMB HOLDINGS	-5.11
ABSA GROUP	-5.09

WEAKEST SHARES*

COMPANY	% BELOW 200-DAY EMA
PICK N PAY	-4.76
SPAR	-3.50
ANGLO AMERICAN	-3.04
SANLAM	-2.88
CAPITEC	-2.83
MPACT	-2.73
GROWTHPOINT	-2.63
SA CORPORATE	-2.54
VODACOM	-2.43
RAUBEX	-1.94
RHODES	-0.82
RESILIENT	-0.78
BAT	-0.12
QUILTER	-0.01

STRONGEST SHARES*

COMPANY	% ABOVE 200-DAY EMA
IMPLATS	39.79
ANGLOGOLD ASHANTI	36
HARMONY	32.34
SIBANYE-STILLWATER	31.23
GOLD FIELDS	27.21
PIONEER FOODS	21.33
AB INBEV	21.13
TRANSACTION CAPITAL	21.1
AMPLATS	19.88
RICHEMONT	14.59
MTN GROUP	14.46
TELKOM	14.12
KUMBA IRON ORE	13.13
NORTHAM	12.9
PAN AFRICAN RESOURCES	12.22
NASPERS N	10.98
REINET	10.14
WOOLWORTHS	10.06
FORTRESS A	9.83
ARM	7.04
CLICKS	6.42
BHP	4.28
ROYAL BAFOKENG PLATINUM	4.13
THARISA	3.91
BIDCORP	3.73
NEPI ROCKCASTLE	3.58
SIRIUS	3.14
LIBERTY HOLDINGS	1.83
LIBSTAR	0.83
EQUITES	0.6
EXXARO	0.19

BREAKING THROUGH*

COMPANY	% ABOVE 200-DAY EMA
SIRIUS	3.14
LIBERTY HOLDINGS	1.83
LIBSTAR	0.83
EQUITES	0.6
EXXARO	0.19

*Based on the 100 largest market caps.

Photo: Gallo/Getty Images

By Simon Brown

COMPANIES

When a business is too indebted

Be wary when a company breaches its debt covenant and the bank needs to step in.

They say a banker lends you an umbrella when it's sunny and then wants it back when it's raining. But this cliché isn't really fair. Bankers often come in at the worst time in a company's life, having to try and save it.

Sure, they're protecting their own business interest – in most cases loan advances. Let's be fair, protecting their business interest is not a bad thing. If they didn't, the company *and* the bankers would go out of business and there would be no bankers left to lend us money.

Currently, many locally listed stocks are getting into trouble with debt and breaching their debt covenants. These covenants are essentially conditions imposed at the time of the loan and require certain financial ratios be maintained, otherwise the debt is in breach.

In good times, covenants are no problem. But when things go south, they become a real problem for both lenders and borrowers.

While a covenant breach means a debt can be recalled immediately, this seldom happens. When debt is recalled, the company is likely to go bankrupt, and the lender would get very little (or nothing) back. Therefore, with covenant breaches, bankers often pretty much take over the finances of the company, certainly the bigger picture issues like asset sales and raising cash to reduce debt.

You don't want bankers running the business; they're not necessarily experts in a specific sector. But they are experts in debt, refinancing and other issues critical to the survival of the business. They know how to restructure loans and generally keep the business afloat while waiting for trading conditions to improve.

Bankers won't gut the business purely for their own gain. (Where there have been claims of this, criminal proceedings should follow.)

Similarly, large shareholders often put serious money in via a rights issue aimed at saving the business. The claim is that they're throwing good money after bad. But they're also trying to save their original investment by keeping the business alive.

Bankers try to protect the business and get it profitable so that they can get the loan(s) repaid. But a few important questions must be asked. Will they succeed? Why did the business reach such a critical state? Can management be trusted to not almost bankrupt the business a second time after the bankers have 'repaired' it?

A company going bankrupt will always be the last resort. But even a 'saved' company will struggle to regain market trust. Yes, the business has been kept afloat, but at what cost to the business and, ultimately, shareholders?

So, while a stock you own may be saved – and that's great – it is no longer a great investment. You're better off exiting and finding a great investment. ■

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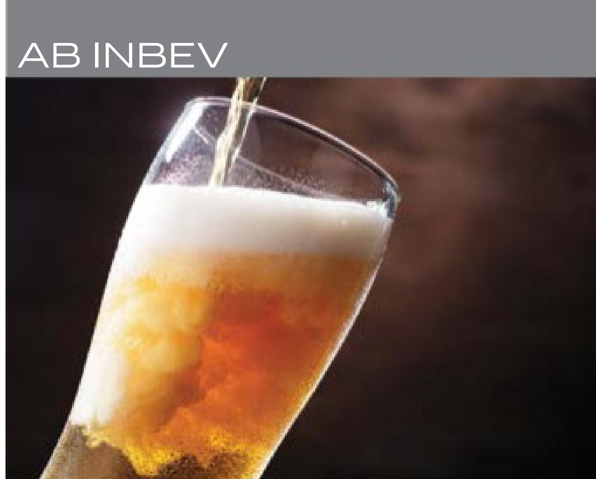
By Simon Brown

Simon's stock tips

Founder and director of investment website JustOneLap.com, Simon Brown, is *finweek*'s resident expert on the stock markets. In this column he provides insight into recent market developments.

AB INBEV



Too much debt

Anheuser-Busch InBev had some decent half-year results with margin expansion, but it suffers from the same problem as British American Tobacco – too much debt after recent large deals. AB InBev bought SABMiller for an eye-watering valuation, considering this is an industry struggling to grow, while BAT did the same with its purchase of Reynolds for an equally eye-watering valuation of $49bn. Both companies now have large debt piles in low-growth industries and are under pressure as a result. They need to reduce the debt as the merger savings are never going to be enough in the short term. AB InBev is selling assets to manage the debt, while BAT looks content, for now, to trade that debt pile lower. Either way, large deals are expensive.

SHOPRITE

Jump in local sales

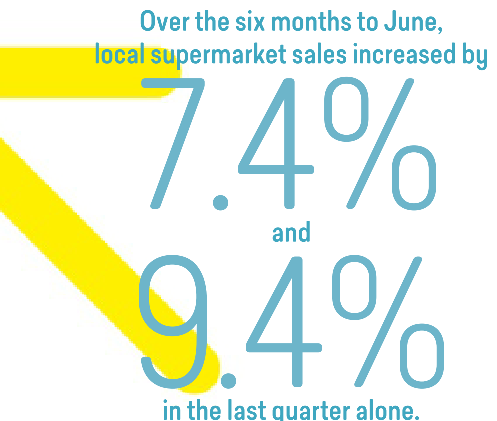
Shoprite's* 30 July trading update was not great, but it did indicate a better second half to the year. This would suggest, in part, better trading conditions, but also that management is fixing the own goals around the fumbled IT rollout and strike action at their distribution centres. Over the six months to June, local supermarket sales increased by 7.4% and 9.4% in the last quarter alone, showing positive turnaround and momentum. They still face hyperinflation in Angola and internal inflation is at 1.2%, with 9 679 products still showing deflation. This is hurting margins as costs are increasing, but they're not able to increase prices on the deflation products as they'll then lose customers.

Photo: Shutterstock

CLOVER

MilCo deal in the offing

The MilCo takeover of Clover received Competition Commission approval. They also managed to replace Brimstone, which was to be the B-BBEE partner. While the tribunal hearing is still to happen, it does seem that the deal will go through. That said, one caveat remains: If Clover's performance drops, MilCo could walk away from the deal, but I suspect that's unlikely. When Clover was around 2 000c I wrote that this was an attractive punt for the deal being approved and the stock has jumped to 2 350c at the time of writing, and I would be taking profit here. The deal price is at 2 600c per share.



VIVO ENERGY

A waiting game

Vivo's half-year results for the year ending 30 June were decent, but we've still not had an update on potential fuel price regulation in their largest market, Morocco. They are seeing margin squeeze already in this market, but this still remains the risk in the business. Finalisation is out of the company's control as they wait for the king to rule on the issue. I'm waiting for finality before taking any position because this is a massive unknown. It's unfortunate as I like the investment case here for increasing African GDP, which will lead to higher fuel sales; and Vivo's ability to add further forecourt services such as fast food, which will also boost profits.

ANGLO AMERICAN

Buyback not the best route

With Kumba Iron Ore and Anglo American Platinum both delivering knockout interim results for the year ending 30 June, it was no surprise that parent company Anglo American did the same. But I am not convinced that the share buyback of roughly R25bn announced in the wake of these results is the right response from cash-flush Anglo American. Sure, the balance sheet is very strong, with plenty of cash, and a buyback is often preferred over a dividend as it escapes the 20% dividend withholding tax locally. But I prefer buybacks when valuations are cheap and commodities are at the bottom of the cycle. I'd rather not buy at the top at a price that, in the next few years, may seem overly high for a cyclical business. As a side note, the large diversified commodity stocks probably have the strongest balance sheets in their histories, with pretty much no debt and great cash generation. My concern is that they may rush off and attempt a major deal at a time that is likely to be the top (or very close to the top) of the commodity cycle – once again destroying value. So far they've resisted that capital destruction route. But share buybacks at these levels are not much better. Rather give the money to shareholders, we'll pay dividend tax and decide what to do with the money.

18+

WHAT IS AVAXHOME?

AVAXHOME -

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Protect your downloadings from Big brother
Safer, than torrent-trackers

18 years of seamless operation and our users' satisfaction

All languages
Brand new content
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JSE

The struggle to attract listings

The JSE's interim results released on 30 July weren't great. Costs rose on the back of increased development costs as they roll out new, improved services. Coupled with weak volumes, it hurt profits. With Naspers** listing Prosus in Amsterdam in September, volumes will drop even further, hurting this largely fixed-cost business even more. JSE CEO Nicky Newton-King also announced her retirement after eight years at the helm, and I think she's done a great job, with only one potential criticism. New listings, especially of a decent size, have all but disappeared as the JSE continues to shrink. This is a tough battle to win since the real competition for the JSE is not the new local exchanges, but rather global established exchanges. These days capital can list wherever it likes and the JSE seems to have been caught on the back foot. That said, and in their defence, the political and economic conditions over the last decade have not made it easy to attract listings.

MURRAY & ROBERTS

Aton deal gets blocked

The Competition Commission has recommended to the Competition Tribunal that Aton's proposed takeover of Murray & Roberts be prohibited, probably bringing an end to this drawn-out process. The Murray & Roberts share price has fallen over 13% to under 1 200c on the news, leaving shareholders badly in the lurch, especially Aton, who holds some 44%. I had expected the deal to close. Aton can state its case before the tribunal, but the finding is around the combined companies having too much power as it "will, for both parties, result in the removal of their closest and strongest competitor". This is a very hard hurdle to overcome, as opposed to, for example, quelling concerns about job losses, which can be mitigated with promises of no retrenchments for a period of time. So, Murray & Roberts is likely to remain listed and management now has to get the business going, and the share price to the 2 200c-level they state is fair value.

The Murray & Roberts share price has fallen over 13% to under 1 200c on the news, leaving shareholders badly in the lurch, especially Aton, who hold some 44%.

INTU PROPERTIES

Brexit burden looms

Intu's half-year results for the year ending 30 June were a disaster. Income has fallen as retailers in the UK are being squeezed, in turn squeezing landlords. This will of course be worsened by Brexit, which new Prime Minister Boris Johnson insists will happen by 31 October, regardless of a deal with the EU or not. Johnson and his Tory hardliners can spin it anyway they like, but there are two undeniable truths here. Firstly, trade blocks such as the EU are good for capitalism and as such good for a country's economy. Secondly, a hard Brexit without a deal will be an absolute disaster.

MONDI LTD

No more LTD

Mondi Ltd has disappeared from the JSE as it has effectively been taken over by Mondi PLC. This dual structure came into effect when then finance minister Trevor Manuel was concerned by the rush of locally listed stocks wanting to move their primary listings offshore. So, instead, we got a dual listing of the local and offshore companies, with both having equal claims to the profits of the business. In a sense it worked, but it did always seem an odd solution. Local LTD shareholders now have PLC shares with exactly the same economic rights. Investec is the other stock with a similar structure, and I suspect that after they've completed the unbundling of their asset management business, they will also move to simplify their dual LTD and PLC structure.

PIONEER FOODS

Photo: pepsico.com

PepsiCo bid for Pioneer a plus

The other big merger deal was PepsiCo announcing a R110 per share offer for all listed shares in Pioneer Foods. This is a chunky premium to the price, albeit still well off the +R200 share price of 2015. The big winner here will likely be Zeder, which holds over 25% of Pioneer, although they paid just under R100 for the shares, so not a great return. But they have in a sense been tainted by that holding as their other assets are not considered when pricing the share. This windfall of some R6bn for Zeder could clear debt of around R1.5bn, pay a special dividend, and make them a much more interesting niche agriculture player in the local market. ■

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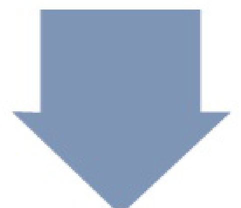
*The writer owns shares in Shoprite.
** finweek is a Media24, subsidiary of Naspers, publication.

WHY *SHARE PRICES* TANK

When a share price suddenly goes into freefall, investors scramble to get out of their holdings. But the question that's top-of-mind is always the same: Why did it happen? Factors range from a company's underlying fundamental indicators, to over-arching market sentiment. How can investors spot a bad stock before it's too late?

By Jaco Visser



Seeing the price of a prized share drop by between 80% and 90% over the commonly advised medium term will lead to the inevitable question: Why didn't I see it coming?

Various South African "solid stocks" went through such drops over the past couple of years – leaving heavily invested retirement funds and retail investors alike in a world of pain. Not to mention those listed companies that succumbed to corporate governance issues (PR-talk for unethical behaviour and sometimes outright fraud). The latter is far harder to spot.

How do you avoid the future losers?

"At its most basic level share prices tank when there is a significant difference between expectations and reality," says Jean Pierre Verster, founder and CEO of Protea Capital Management. "Especially when investors realise their expectations are not aligned with reality. Therefore, their expectations need to adjust. When their expectations suddenly need to adjust downward because they realise that reality is not as optimistic as they thought, it leads to a share price that tanks."

Expectations were realigned in various local companies over the past couple of years. Fertiliser-maker Omnia's share price dropped by more than 85% over the past five years through 30 July. Aspen Pharmacare slumped by 69% over the same period. Information technology company EOH, with sales of over R16bn in its last fiscal year, plummeted more than 80% over the past five years – with almost half of the decline since the beginning of this year.

Jean Pierre Verster
Founder and CEO of Protea Capital Management

Sugar and starch producer Tongaat Hulett fell 91% over the past five years and had trade in its shares suspended on 10 June.

Then, of course, there's Steinhoff. It destroyed 98% of shareholders' value due to the misstatement of financial performances and asset values over many years.

These companies are well-known and well-researched corporates.

Avoiding the pitfall of a plummeting share price is a difficult art, with the entire investment management industry as its practitioners.

Fundamentals

One way to spot a share price heading for choppy waters is by looking at the company's so-called financial fundamentals.

"When looking at fundamentals when investing, one must remember that investing is a holistic endeavour," says Verster. "There aren't just one or two or three indicators that will give you the full picture of what is implied in share prices."

Share prices tend to decline when a company announces worse-than-expected results, including sales and net profit data. This was the case when Aspen told

Photos: Shutterstock | Archive

investors that its revenue would drop by around R1bn for its 2018 fiscal year, mainly due to a stronger rand exchange rate. The drop was repeated when the company said its half-year profits would be lower earlier this year.

Omnia saw a steep increase in its share price at the end of 2017 after announcing higher-than-expected profits and a slight increase in its sales. The opposite happened when its full-year results showed a slump in profit six months later. At the end of 2018, its share price slid further when it announced a loss for the first six months of the 2019 fiscal.

EOH saw a similar negative reaction to its share price during the first half of 2018 on lower profits, as did Tongaat Hulett during the second half of last year.

Reuben Beelders, chief investment officer and portfolio manager at Gryphon, looks at a range of fundamental indicators to make buy or sell decisions.

"The DuPont 'disaggregation' of the return on equity is a very basic but very effective means of looking at how a company has performed," he says (see box on p. 42).

The asset turnover ratio is important to Beelders, because it shows how efficient the balance sheet is in generating turnover. "I have learned that when companies make lots of acquisitions, it is this metric which starts indicating the slowdown first," he says. "Management is able to fudge the profits, but because acquired assets have been 'overpaid' for, they cannot generate returns above the cost of capital."

Even an increase in revenue, or sales, should be viewed with circumspection. Where revenue is growing fast, but stock, or inventory, is growing at a faster pace (measured as a percentage change on the previous year's figures), it generally isn't a good sign, according to Beelders. The company will need to invest its cash in inventory, which is a form of working capital, and this type of capital doesn't earn a return, he says.

Likewise, an increase in profit isn't necessarily an example of a healthy company.

"If a company is growing its profits but it is doing so by taking out unnecessary debt, while the short-term result may be 'good', the long-term impact will be negative," says Beelders.

Working capital, which in most cases includes debtors, stock and cash, could also be gauged for problems in a company's finances.

Companies with long working capital cycles, such as converting debtors into cash for example, must be managed very carefully. So too those with long lead times when it comes to expanding capacity, says Beelders. An example is Sasol and the construction of its US-based Lake Charles Chemicals Project, he says.

A company's ability to translate a large proportion of its profit into cash is another fundamental indicator to determine the health of a stock.

"I am a great believer in the ability of a business to generate cash and to generate high levels of cash as a percentage of profit," says Beelders. "While this may seem

Gus Attridge
Deputy CEO of Aspen

Adriaan de Lange
CEO of Omnia

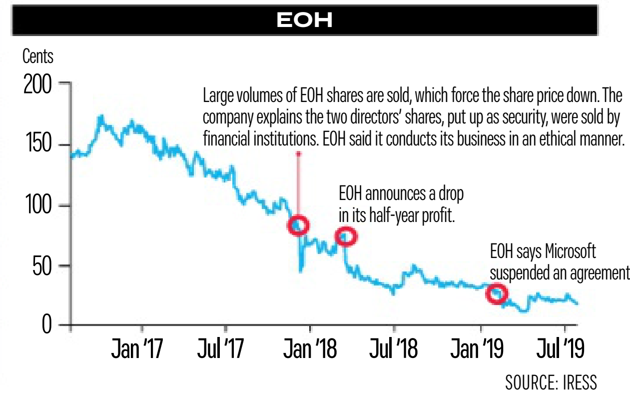
52-week range:	R68.99 - R298
Price/earnings ratio:	95.01
1-year total return:	-66.95%
Market capitalisation:	R38.59bn
Earnings per share:	R0.89
Dividend yield:	3.71%
Average volume over 30 days:	1 549 315
	SOURCE: IRESS

ASPEN

Cents
400
300
200
100
0
Jan '17 Jul '17 Jan '18 Jul '18 Jan '19 Jul '19
Aspen announces a R1bn drop in sales due to the rand's strengthening.
Aspen announces a drop in half-year profit.
SOURCE: IRESS

52-week range:	R9 - R50.10
Price/earnings ratio:	-
1-year total return:	-61.44%
Market capitalisation:	R2.95bn
Loss per share:	R12.84
Dividend yield:	-
Average volume over 30 days:	358 360
	SOURCE: IRESS

EOH



SOURCE: IRESS

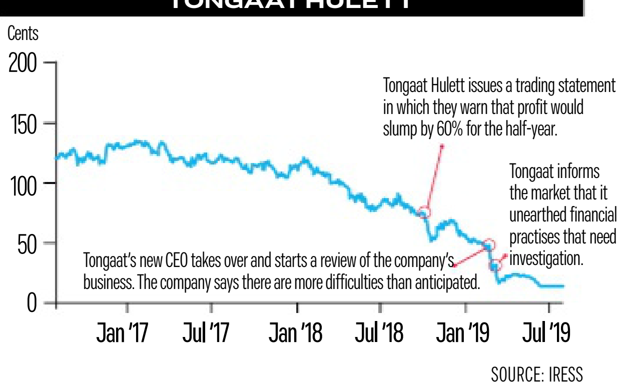
52-week range:	R28 - R134
Price/earnings ratio:	-
1-year total return:	-74.6%
Market capitalisation:	R2.25bn
Loss per share:	R1.12
Dividend yield:	2.31%
Average volume over 30 days:	222 153
	SOURCE: IRESS

OMNIA

Cents
200
150
100
50
0
Omnia releases its full-year results showing a drop in revenue and profit.
Omnia announces a jump in half-year profits and slight increase in sales.
Omnia says it expects a half-year loss.
Jan '17 Jul '17 Jan '18 Jul '18 Jan '19 Jul '19
SOURCE: IRESS

52-week range:	R13.19 - R90
Price/earnings ratio:	-
1-year total return:	-
Market capitalisation:	-
Loss per share:	R1.13
Dividend yield:	-
Average volume over 30 days:	-
	SOURCE: IRESS

TONGAAT HULETT



SOURCE: IRESS

When things go wrong

Companies' communication with investors at difficult times differs markedly.

Omnia, the fertilizer-maker, recently announced a rights issue in a bid to decrease its debt. The company received the support of 98% of its shareholders to raise the R2bn it needs, according to **Adriaan de Lange, CEO of Omnia.**

"Since the announcement of its debt situation and rights issue earlier this year, Omnia management has increased engagement levels and shareholder interaction has taken place in one-on-one meetings since then," says De Lange. "The JSE has also been included in this engagement process. Omnia continually looks at ways of improving its communication with all stakeholders and is currently reviewing its investor relations programme with the intention of enhancing communication."

Pharmaceutical company Aspen, which sold its infant-formula business earlier this year to Lactalis, and its prescription portfolio business in Australia to Mylan, is struggling to cut its reported R53bn debt.

"While the last three years have, admittedly, been challenging for a number of reasons, through our approach of candid reporting and disclosure to investors and stakeholders, we have sought to actively inform the market of Aspen's outlook and the challenges the group has experienced in this time," says **Gus Attridge, deputy CEO of Aspen.**

The company prioritised the reduction of debt and organic growth when it released its financial statements for the six months through December 2018.

"We continue to actively pursue these priorities and expect investor confidence to return once we are able to demonstrate delivery against these priorities," Attridge says.

Information technology company EOH has been at the receiving end of bad news since 2017, when reports about the company's involvement in government's grant-payment agency, Sassa, hit its share price. EOH denied any wrongdoing.

In April 2018, the company again issued an announcement cautioning investors relying on "false and defamatory articles". At the beginning of this year, the company said that employees at one of its subsidiaries were involved in corruption with government-related work. The company indicated that the details were "subject to legal privilege". An investigation is ongoing. The company released an update on investigations on 16 July, and advised shareholders to exercise caution when dealing in its shares.

Tongaat Hulett, rocked by the news that its financial statements were misstated, had trade in its shares suspended in June. It has since released two announcements to investors: One concerned the resignation of a non-executive director and the other was a renewal of a cautionary announcement regarding its restructuring, but with no new information to investors.

"The company has a strong engagement plan in place with its shareholders and stakeholders, with ongoing updates on the progress that is being made on its turnaround plan," says Michelle Jean-Louis, a spokesperson for Tongaat. "A further announcement will be made when appropriate." ■

insignificant, a number of frauds have been caught when companies who declare large profits don't pay sufficient 'cash taxes'." These companies declare an accounting profit, but the underlying profit for tax purposes indicates that these profits are not what they seem, he says.

Looking to the future

Indicators based on published financial results are backward looking, Verster points out. In order to gauge gaps in the market, such as a share price about to tank, an investor should determine the difference between expectations of a stock and the reality facing the underlying business, he says.

"Quite often the largest gaps in expectations are when the forward-looking outlook is quite different to the recently experienced history of a company," says Verster. "You must realise that you are looking in the rear-view mirror while driving when you should be looking out of the windscreen."

In addition to quantitative factors, there are also qualitative factors that are not encapsulated in financial statements, says Verster.

"It is quite important to assess if the future financial statements of the company might look different to the financial statements of the recent past," he says. "That is an opportunity for short sellers to be quite profitable."

When a company reaches an "inflection point" and it can be judged that its future financial position will look a lot different than recent statements, a short seller can adjust their expectation faster than the rest of the market, says Verster, who also shorts stocks.

"In that way a short seller can not only protect capital from a tanking share price, but can also profit from it."

> "You must realise that you are looking in the rear-view mirror while driving when you should be looking out of the windscreen."

Debt and acquisitions

A debt-laden company can be a red flag for investors. Examples include unlisted Edcon, the clothing retailer struggling to find a way out of its debt situation; Omnia, which is restructuring its loans and announced a R2bn rights offer; and Tongaat, which asked creditors to temporarily freeze repayments on its R11bn debt.

Most businesses should have a level of debt in order to maximise their return on equity, says Beelders. However, too much debt is often the cause of many failures, he says.

"Ironically, the failures seldom arise when times are 'good', such as when the economy is growing and the sector in which the company operates is doing well," says Beelders. "However, the moment growth slows or stops, the debt becomes a burden which cannot be met. Then there are problems."

The largest drops in share prices are normally associated with high debt levels, Verster says. If a company's profits before finance costs are expected to be lower than anticipated, the existence of a high level

Photos: Supplied

of debt and a high level of debt-servicing costs will lead to a magnifying effect on the decrease of the net profit of the company.

"Debt always magnifies the financial performance of a company," Verster says. Where a company disappoints the market, the existence of debt would lead to a larger disappointment on the bottom line. If this disappointment is large enough and the level of debt is high enough, it can even lead to the possibility of a rights issue, he says.

"In those cases, we see a significant tanking of the share price because there is an expectation that the current shareholders will be diluted if the company is forced to raise capital," says Verster.

In many instances, companies source debt funding to acquire other businesses. Growth driven through acquisitions should also be viewed with circumspection.

"I have been in financial markets for more than 20 years and there are seldom 'good' acquisitions," says Beelders. "The few 'good' acquisitions that I have seen have generally been of companies that no one else wants and hence a low price was paid for them."

Verster has a similar view. When analysing historic mergers and acquisitions, one will find that most of these transactions didn't "really" add value to shareholders, he says.

"They lead to a destruction of value because the acquirer usually overpays."

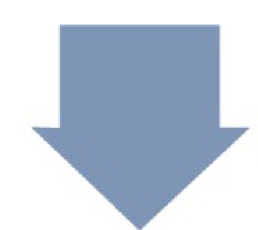
Many acquisitions are justified on the basis that they will create "synergy", where duplicated expenses are eradicated in a merged entity. The aim is to cut costs and bring about better profitability than when the two entities operated separately, says Verster.

"The problem is that in concluding the acquisition, the acquirer pays a premium and usually pays away all the benefits that would accrue to the combined entity on day one," says Verster.

Management

When investors lose confidence, or sharply downgrade their expectations of a company's management, the share price is bound to follow. Once-off events such as a company's CEO or finance chief leaving also raise red flags, says Beelders. He also mentions companies where the board of directors is dominated by a single person, particularly when that person "built the company" and has filled the board positions.

In addition, investors should be on the lookout for accounting policy changes and particularly those associated with the capitalisation of expenses and



What is the DuPont model?

The DuPont model of breaking down the different drivers of return on equity consists of an analysis of a company's operating efficiency, asset-use efficiency and financial leverage, according to an article published in the US-based scholarly journal *The Accounting Review.*

A company's after-tax profit divided by revenue represents its operating efficiency. The asset turnover ratio is used to represent a company's asset-use efficiency. It is calculated as total sales divided by half the difference between the opening and closing assets of a company. Financial leverage is calculated by dividing a company's average assets by its average equity. ■

> "I have been in financial markets for more than 20 years and there are seldom 'good' acquisitions."

depreciation and amortisation, he says.

Changes in how corporate information, such as financial statements, is presented to investors should also be viewed with suspicion. "For example, does the management team often change the various reporting segments? If so, it is generally a bad sign," says Beelders.

When a share price slumps, the company should address the handling of the events that led to it. In extreme cases of share price declines, company boards ask the stock exchange to suspend trading in its shares. But is this a correct approach?

"The damage has generally been done and my sense is that the best way to address it is to speak to the market and tell them exactly what you know," says Beelders.

A sharp movement in a share price, whether up or down, is in itself not a legitimate justification for suspending trading in the share, says Verster.

There is, however, one legitimate reason to suspend trading. "The only objectively justifiable reason for suspension of trading in a share is when important non-public information is available to some in the market but not all participants in the market have access to it," Verster says.

When a company realises that only some participants in the market have access to such information, whether positive or negative, it has a legitimate reason to suspend trading in its shares, he says.

Tongaat suspended trading in its shares in June amid the finalisation of a restructuring of the company's operations and debt.

"The decision to request the share suspension was due to the board's concern that while our comprehensive review is underway there was insufficient information to enable investors to make informed decisions," says Michelle Jean-Louis, a spokesperson for Tongaat.

Effective communication in such cases is crucial, according to Beelders.

"If the management team has stuffed up, the sooner they are fired and a reputable team is put in place, the better," he says.

That is what Tongaat did by appointing a new CEO, Gavin Hudson, in February as well as gaining a new chief financial officer, Rob Aitken, in March.

The more a company engages with its investors, the better their expectations are managed. And the best advice to manage expectations lies in communication.

"I would, until the matter is resolved, over-communicate with the market," Beelders says. ■

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By Terence Gregory

Risk, returns and resilience in the face of volatility

While a prudent approach to risk is advisable, it remains a factor that investors need to tolerate and accept in order to achieve inflation-beating returns.

When you hear the word "risk" in relation to your finances or investments, how does it make you feel?

This question is bound to elicit a variety of different answers. That is because our perceptions of risk and tolerance of risk are such personal experiences. Often, these also don't relate to the true risk profile of the investment.

It's personal

While the trade-off between high reward and high risk is understood as a universal investment concept, it is easily misunderstood in practice.

When expressing their attitudes to risk, investors may find a high-risk, high-return investment appealing. However, the same investor may panic if the investment value decreases by 5% overnight. This disparity makes the matching of risk appetite and risk tolerance difficult. It helps to understand the different concepts to manage your reactions to investment price volatility.

Investment risk is the probability that an investment will permanently lose its value, or its returns will be lower than expected.

Volatility, on the other hand, brings uncertainty about the fair value of market assets. It can be a helpful indicator but is ultimately an ongoing statistical expression of market risk, rather than a predictor of potential capital loss.

Terence Gregory
CEO of Ecsponent

In other words, although risk is frequently equated to price volatility, these are different and independent concepts.

If risk is not volatility, what is it?

A high-risk investment has two common characteristics. Either there is a high probability that the investment will lose capital, or that it will underperform. Or there is a probability, albeit small, of a devastating loss of capital.

The first is largely subjective. If you were told there is a 50% chance that your investment would underperform, you might find it risky. However, most people will agree that an investment is risky if the odds of underperformance are greater than 90%.

The second characteristic is about the magnitude of loss. You may have a lifetime risk of being involved in a car accident of 30%, but the odds of death are more reassuring.

Similarly, the odds of being involved in a plane crash are low at one-hundredth of a percent, but if you're involved in one, you are very likely to die. Therefore, this common equation aimed at quantifying risk becomes useful: risk = probability x impact.

In other words, a fixed deposit might seem like a safe option, but if there is a great probability it will not outperform inflation, particularly after fees, you are at risk. Even more so if all your money is invested there. This reality makes it difficult to assess investment risk at face value and it needs to form part of a greater review process.

Risk ≠ volatility. Risk = opportunity (if managed properly)

If all investments were high return and low risk, the actual rate of return would be driven down until it reached a level where the return was no longer commensurate with the risk. By accepting the risk premium, investors are rewarded with a higher total return.

Therefore, to the astute investor who is not only focused on price and volatility, risk is simply a factor to tolerate and accept. Instead, they focus on buying great assets at good prices to give a margin of comfort, despite price fluctuations.

So, while the market price of the asset may periodically backtrack and lose value temporarily due to price volatility, the key is to look at the underlying value of the investment. If it provides a tangible backing for the value of the underlying asset, over time the returns will compensate investors appropriately for the risk involved.

In reality, most perceived losses could be recovered, given enough time. This means a real loss occurs only when you sell your asset at a price lower than its purchase price, or if the underlying company collapses.

So, while prudently avoiding risk is important, total risk aversion will almost certainly not lead to inflation-beating returns. No investment is ever 100% guaranteed given fees and inflation – and taking measured risk to generate wealth is essential.

Managing the risk/return trade-off

A further consideration when assessing risk is the impact of costs on returns. The riskier an investment, the more it requires research and monitoring, which in turn requires expertise and ramps up costs.

This is especially true when the quantum of the potential loss value is greater than the potential gain value. Increased monitoring may introduce additional levels of cost, which can erode investment returns and negate the benefit of the higher returns commanded by the risk premium.

So how does an investor find investments that match their risk appetite (to achieve greater returns) with risk tolerance (panic when there is volatility in the price)? By taking a balanced approach to risk and an investment horizon that will smooth out short-term volatility, an investor has the ability to generate sustainable inflation-beating returns.

Most importantly, the underlying assets of the investment and fee structures will determine the successful outcome over time. ■

Terence Gregory is the CEO of Ecsponent.

By Mariam Isa

WHY IS SOUTH AFRICA STILL W

Mobile data prices in South Africa are higher than in many other countries in Africa and elsewhere. leaves consumers with costly data bills and hinders economic growth.

A long-awaited government policy directive has raised more questions than answers for South Africa's telecommunications industry, and quashed hope for the quick release of spectrum – which existing mobile network operators say would help them to improve their services and cut data costs.

Spectrum refers to the radio frequencies used for communication over airwaves by radio, television and the mobile telephone industry, as well as other wireless applications like Wi-Fi and Bluetooth. It is both a sovereign asset and a limited resource, managed by national regulatory authorities, which issue the licences needed for its use.

However, policy paralysis and mismanagement has blocked the allocation of new spectrum in SA for more than a decade, forcing existing operators to spend more money on repurposing their infrastructure to meet demand.

The indecision has also prevented local television broadcasters from keeping up with digital migration, a global shift in technology that would have released spectrum which the broadcasters now occupy, to mobile operators.

Addressing the scarcity is crucial to the economy, as wider, cheaper and more efficient network coverage would stimulate innovation, create jobs and ease the cost of doing business in South Africa – attracting more investment into the country. But analysts say that the announcement by communications minister Stella Ndabeni-Abrahams on 26 July, while welcome, points to further delays.

The government has decided to allocate much of the country's unused high-demand spectrum to a Wholesale Open Access Network (WOAN), which will be established through a consortium of companies with diverse ownership.

The intention is to boost competition by opening the market to small- and medium-sized enterprises, favouring black-owned businesses and including the participation of targeted groups including women, young people, and persons with disabilities.

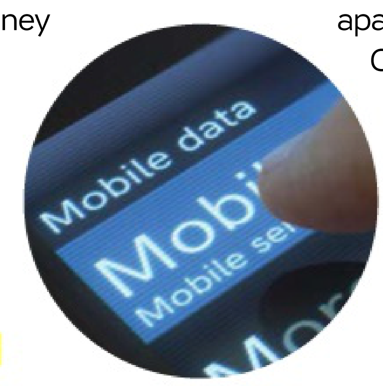
The directive sets conditions for existing operators wanting to purchase the remaining chunks of spectrum, requiring them to deploy infrastructure in less profitable rural areas first. It gives preferential access and additional support to the WOAN.

Operators that secure their own spectrum will have to buy 30% of their national capacity from the WOAN for at least five years, and will be required to make their infrastructure available to the entity on a wholesale basis as soon as it has been established.

The Independent Communications Authority of South Africa (Icasa) will award licences for the spectrum and government has asked it to reduce or waive licence fees for the WOAN, which would give the entity an input cost advantage and allow it to charge lower prices.

But no timelines have been set for establishing the WOAN, for making it operational, or for auctioning what is left of the spectrum to the existing operators. Shortly after the announcement, Icasa issued an invitation for tenders to help the authority value high-demand spectrum bands ahead of the allocation of licences.

How much spectrum will be assigned to the WOAN and how much to the existing network operators is also unclear, apart from the guidance given in a study last year by the Council for Scientific and Industrial Research, which concluded that to be viable, the new entity had to have 20% of the entire market.



"What is absent from this directive are prescriptions and mechanisms on how the spectrum will be awarded, and what type of business model is going to be used for the WOAN consortium," said Naila Govan-Vassen, research manager at Research ICT Africa.

"The biggest concern is the timeline of WOAN, along with the lack of clarity over what proportion of spectrum will be assigned to it and the amount of remaining spectrum that may be assigned to other electronic communications network service licensees.

"This whole process will take long and further delay the release of spectrum. The longer the delay, the longer prices will stay high."

> **"This whole process will take long and further delay the release of spectrum. The longer the delay, the longer prices will stay high."**

Mobile data prices in SA are higher than in many other countries in Africa and elsewhere, with a recent investigation by Cable, a UK mobile broadband comparison website, ranking the country 143rd out of 230 worldwide.

The Competition Commission has blamed the absence of competition and lack of transparency by big operators like Vodacom and MTN for high data costs, but also acknowledged that scarcity of spectrum is a factor.

Vodacom CEO Shameel Joosub has said that access to further spectrum would allow mobile networks to cut their data prices in half, and has been scathing over what he describes as incompetence among policymakers.

South Africa has had 11 communications ministers over the past 11 years.

Photo: Shutterstock

WAITING FOR CHEAPER DATA?

The quick release of spectrum could change that – but continued indecision by policymakers

Neither Vodacom nor MTN have responded to the policy directive, saying that they are reviewing the document and will comment in due course. Analysts say they are effectively being nudged out of the market and may find it difficult to get adequate returns on the capital investment which they have already ploughed into their infrastructure.

Louis Avenant, manager at PwC's Strategy&, says it could potentially take two years before the WOAN becomes operational, although the spectrum earmarked for existing players could be released within the coming months.

"On paper it's a really good thing. If this WOAN can come into operation and has the kind of credentials that are intended – driven mostly by SMMEs – and is able to offer the kind of universal service which is required, clearly it would be a good thing for development in SA," he says.

"But at this point it's not clear how that WOAN is going to operate – who is going to participate, who is going to fund the infrastructure, what will be the relationship between the WOAN and the current operators, what will happen to the current infrastructure? All of those questions are left unanswered."

So far WOANs have a poor track record. The Global System for Mobile Communications (GSMA) – a trade body representing the interests of the industry worldwide – warned two years ago that they are not the best solution for providing better coverage and more affordable prices.

Dobek Pater, director of business development at ICT consultancy Africa Analysis, says the structure of the WOAN will be key to ensure that it does not become dysfunctional.

"It can be a vehicle that delivers what the government wants, that provides good-quality broadband service to rural areas, but it needs to operate like a commercial entity. It needs to be efficiently managed by one or two parties to make sure that it functions properly."

Pater says a spectrum auction to existing operators is possible in a few months but would probably take place in the first quarter of next year. The longest delay would be in the release of the spectrum occupied by broadcasters, as they are not required to switch from analogue to digital technology before the middle of next year.

SA missed the International Telecommunication Union's digital migration deadline of June 2015 due to disagreements among broadcasters, legal wrangling and power struggles within government. It also missed a self-imposed deadline of June 2018, set by former communications minister Faith Muthambi.

Shameel Joosub
CEO of Vodacom

Operators that secure their own spectrum will have to buy **30%** of their national capacity from the WOAN for at least five years.

Naila Govan-Vassen
Research manager at Research ICT Africa

Photos: Gallo/Getty Images | researchictafrica.net

The new policy directive also pushed out the timeline for the use of fifth-generation wireless networking technology (5G) in SA, which is being rolled out globally this year. It said that consideration of 5G spectrum would be covered in a separate policy directive sometime in 2020, after preparation of a report which would be presented to the minister six months after the next World Radiocommunication Conference in late November.

The news will be a disappointment to operators that have begun trial deployment of the high-speed technology in SA – particularly for data-only network operator Rain, the only company to have launched a 5G commercial network so far.

In many ways the absence of 5G is not a pressing concern for SA — but it is seen as crucial to the deployment of Internet of Things technology, self-driving cars, and smart cities. It will also provide the infrastructure to carry huge amounts of data and spur innovation in new technologies, such as industrial automation and medical monitoring.

"We are always playing catchup with the rest of the world and it's exactly because of this kind of mindset," Avenant said. "If current operators deem it viable to introduce 5G technology, there's no reason not to do that, because it's going to create new markets."

An economic report from the GSMA in July predicted that releasing 5G capacity will spur economic growth globally and provide a $5.2bn boost to gross domestic product in sub-Saharan Africa alone by 2034.

Faster internet access matters — a World Bank study this year showed that its arrival in sub-Saharan Africa nearly two decades ago increased the probability that an individual was employed by up to 13%, with the impact for unskilled workers more positive than in wealthy countries.

The mobile ecosystem in SA generated 7.6% of GDP, or $28.5bn of value added to the economy in 2018, the GSMA said.

"Supported by the right policy environment, this economic impact is expected to rise to $30bn by 2023, due to the productivity benefits from increasing mobile internet penetration," it said. ■

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Mariam Isa is a freelance journalist who came to SA in 2000 as chief financial correspondent for Reuters news agency after working in the Middle East, the UK and Sweden, covering topics ranging from war to oil, as well as politics and economics. She joined *Business Day* as economics editor in 2007 and left in 2014 to write on a wider range of subjects for several publications in SA and in the UK.

By Glenda Williams

Nissan's beefed-up bakkie

Nissan's edgy looking Navara Stealth – soon to be manufactured locally – blends toughness with luxury.

Double-cabs used to be rare beasts, compared with the single-cab variety. But whether single-cab or double-cab, bakkies were no-frills, no-fuss workhorses and their owners were predominantly farmers and small businesses.

There are a lot more frills nowadays. And an increasing number of double-cab owners are sporting suits and ties rather than *vellies.* The double-cab bakkie has evolved as a premium family car and leisure vehicle. Its continuing popularity is assuring it a place among the country's top-selling vehicles.

So, when Nissan launched its Navara Stealth, I was eager to get behind the wheel. The double-cab leisure bakkie – currently imported into the country – will start coming off the local production line in late 2020 together with the rest of the Navara model line-up (see sidebar).

This premium double-cab is available in 4×2 and 4×4 configuration with either manual or automatic transmission. All models come with a robust 2.3-litre twin-turbo diesel engine.

finweek found much to like in the Navara Stealth two-wheel drive, 7-speed automatic.

Outer view

Modelled on the Nissan Navara luxury edition, the new Nissan Navara Stealth has been the recipient of design updates – albeit cosmetic – that make this premium double-cab even more rugged and distinctive-looking.

There's little chrome detailing on this macho bakkie. Black trim is the order of the day, featuring on the grille, roll-bar, roof rails, antennae, alloy wheels and mudflaps. Fog lights, LED headlights and daytime running lights feature on its face. Chunky wheel arches, rear spoiler and dollops of orange accents on the front bumper, side mirrors and side steps, contribute to a very handsome bakkie.

Double-cab comfort

Orange accents continue in the cabin, the Stealth's exceptionally comfortable and form-fitting seats featuring black leather side bolsters with orange stitching and orange and black patterned fabric inserts.

This rugged four-door on- and off-roader is spacious, able to comfortably accommodate five with good leg- and headroom. The crisp cabin is uncluttered and well-constructed with simple instrumentation and switchgear, durable plastic trim and chrome accents. Leather also makes an appearance on the steering wheel, gear lever and handbrake.

No premium vehicle would be complete without the vast array of infotainment offerings, and the Stealth does not disappoint. Standard fare includes a touchscreen colour display, navigation, CD player and radio with six speakers, USB connectivity and Bluetooth hands-free phone system, cruise control, drive-assist display and rearview mirror with electric anti-dazzle and compass.

Nissan's double-cab leisure bakkie, the Navara Stealth, is currently imported. It will be coming off the local production line in late 2020, along with the rest of the Navara model line-up.

TESTED:

Nissan Navara Stealth 4x2 AT

Engine: 2.3-litre twin-turbo diesel
Power/Torque: 140kW/450Nm
Transmission: 7-speed automatic
Payload: 961kg
Towing capacity (braked): 3 500kg
Ground clearance: 229mm
Fuel tank: 80 litres
Fuel consumption (claimed combined): 7 litres/100km
CO_2 emissions: 186g/km
Safety: Driver and front passenger front and side-impact airbags; driver knee airbag, front to rear curtain airbags
Service plan/warranty: 3 year/90 000km service plan; 6 year/150 000km warranty
Price: 599 900 (incl. VAT)

Photos: Supplied

Also standard are remote keyless entry, power windows, heated seats (works a charm), tilt-adjustable steering column and a rear sliding window that opens or closes at the push of a button; perfect for a cool breeze. Storage offerings include a sunglasses holder in the overhead console.

Just about anything can be loaded in this premium bakkie. And with a 3.5-tonne braked towing capability you can haul just about anything too.

Piloting the Stealth

The Stealth's side step makes it easy to enter this high rider and sink into its seriously comfy seats. Notwithstanding its workhorse ability, it's a comfortable journey both on- and off-road, the leisure-cab's suspension tweaked to offer a more sophisticated ride.

> It's a tough bakkie, yet a very comfortable ride and an enjoyable and easy drive.

Despite feeling that it lacked just a tad in the grunt department, power delivery from the 2.3-litre twin-turbo is gutsy and gearing from the 7-speed automatic gearbox is seamless. The Stealth gets a thumbs-up for its precise power steering that also provides good road feedback.

On the road this arresting bakkie is mostly planted. The back end does, however, have a tendency to be somewhat twitchy around sharp corners and rutted road surfaces… but that's without a load. Industry peers, however, convinced me of added grippiness when laden.

The two-wheel drive Stealth copes exceedingly well in the rough. The 18-inch tyres and independent double-wishbone front suspension, front stabiliser bar and 5-link coil rear suspension absorbs all the challenges that ungraded gravel roads, dirt tracks and dongas offer up. The Stealth's hill start assist and hill descent control also came in handy, aiding traction when navigating steep rises and drops.

Even reversing this beefy high-rider is trouble-free thanks to the standard reverse camera and reverse sensors.

The Nissan Navara Stealth is good to look at. And it's functional, versatile and high riding. It's a tough bakkie, yet a very comfortable ride and an enjoyable and easy drive. The many bells and whistles offered with this premium vehicle add significantly to its appeal.

Locals love their bakkies, especially premium double-cabs like the Stealth. That said, the Stealth has formidable locally built rivals in the Toyota Hilux, Ford Ranger and Isuzu D-Max all vying for an increasingly expanding leisure market. ■

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NISSAN INVESTS R3BN LOCALLY TO PRODUCE THE NAVARA

In April, Nissan announced an investment of R3bn into its Rosslyn plant for the production of the Navara locally. The decision is expected to create around 1 200 jobs at Nissan's Rosslyn facility in Pretoria and across the local supply chain.

Manufacturing of the next-generation Navara is expected to commence in 2020 and grow the plant's current production output by more than 50%.

The Navara's arrival will add 30 000 units to Rosslyn's current annual production volume of 35 000 and create the need for a new, second shift at the plant. That alone will result in the immediate creation of an additional 400 jobs.

Nissan currently produces the NP200 and NP300 locally. This latest investment into the facility will expand the plant's role as a light commercial vehicle (LCV) manufacturing hub for Nissan and augment Rosslyn's role as an LCV export centre.

The Navara is Nissan's highest-selling bakkie worldwide and has won multiple awards globally, including the 2016 International Pickup of the Year. ■

By Amanda Visser

Dealing with disciplinary action

Bringing disciplinary action against an employee is something most employers would hope to avoid. But when it does come to pass, there are some important steps to follow.

An employee is faced with disciplinary action, but then resigns with immediate effect. Should the employer continue with disciplinary action?

The labour law seems to be silent on what the correct action by employers would be in such cases and has left it to the discretion of the courts to decide, says Ivan Israelstam, CEO of Labour Law Management Consulting.

In the past three years there have been different decisions on the matter in the Labour Court.

In the most recent case – Naidoo and Another v Standard Bank SA Ltd and Another – the Labour Court was called on to determine whether their resignation with immediate effect meant the employment relationship was immediately terminated. The court found that it was.

But in a 2018 case the same court found that an employment relationship only terminates once the notice period has been concluded.

In that case the court also held that resignations with immediate effect are only permitted where the employer has committed a material breach of the employment contract, or if the employer accepts the resignation with immediate effect.

Johan Botes, head of Baker McKenzie's Employment Practice in Johannesburg, says the effect of this recent case is that employers cannot simply continue with disciplinary action when the person resigns.

The court found that if the employer wanted employees to honour the contract by serving their notice period, it had to approach the court for a specific "performance order" to hold the employees to the employment contract and finish their notice period. If the order is granted, the employer can continue with the disciplinary action.

"In practice courts are reluctant to issue an order for specific performance if it means holding someone against their will," says Botes.

Israelstam says if the employer has a good reason for a disciplinary hearing, he would advise them to continue with it.

"You would be protecting yourself against a potential constructive dismissal claim and also be able to have on the employee's record that they were fired."

He says employees may suspect, and sometimes it is a genuine suspicion, that the employer has purposely charged them and called them to a hearing in order to provoke a resignation, and not really because the employee has done something wrong.

Ivan Israelstam
CEO of Labour Law Management Consulting

Employers who want to ensure that their action is not misconstrued, should go ahead with the hearing so that it is clear that it was not merely a ploy to get rid of the employee.

If the employer feels there is a "more than likely chance" of the employee claiming constructive dismissal by saying they were "coerced into resigning" because of the threat of disciplinary action, the employer may feel more comfortable holding the hearing and inviting the employee to attend, says Israelstam.

But, according to Israelstam, until a higher court such as the Labour Appeal Court makes a ruling, things remain "really messy". A much better option would be to institute criminal or civil action if there has been a loss suffered by the employer because of the employee's conduct.

"If the employer suffered a material, quantifiable loss as a result of the premature departure of the employee, the employer is quite entitled to go to court and sue the employee for the amount of that loss."

What about criminal charges?

"If the employer suffered a material, quantifiable loss as a result of the premature departure of the employee, the employer is quite entitled to go to court and sue the employee for the amount of that loss," says Israelstam.

Botes adds that if there has been evidence of fraud or theft, the employer can lay criminal charges. It is then up to the National Prosecuting Authority to decide whether it will prosecute or not.

He says when an employer has to incur additional expenses by bringing in an expert on short notice to finish a project, or suffered a penalty because a project could not be finished on time due to the sudden resignation, it is entitled to claim the differential (between the employee's pay and the additional costs).

Johan Botes
Head of Baker McKenzie's Employment Practice in Johannesburg

Be proactive

Employers can be proactive by making sure their employment process will be able to catch people whose conduct at a previous employer will not sit well with their business.

Botes says employers may request a signed undertaking from new employees that they have made a full disclosure of all the facts that may impact on the decision to employ them or not.

Israelstam advises his clients to request a

What do people lie about?

The most common types of deception, according to the *South African Labour Guide*, are:

- claiming qualifications that do not exist;
- falsification of CVs and academic certificates;
- offering false reference letters;
- lying about reasons for leaving the previous job;
- withholding information such as criminal convictions and disciplinary action.

Employers *must*:

- ask applicants why they left their previous job and whether any disciplinary action was taken against them;
- check all the information the job applicant provides you with;
- consult with a law expert to see if deceptive behaviour merits disciplinary action and dismissal.

signed undertaking on the application form from prospective employees that they will allow the employer to obtain references.

The employer requesting the references should ask factual and not subjective questions, such as:

- Was the person punctual?
- Were they ever disciplined?
- How did they perform their tasks?

The employer should avoid questions such as:

- Were they a troublemaker?
- Did you like them?
- Did they get along with everyone?

He says there are organisations that specialise in checking for criminal records, credit history and the authenticity of references and qualifications. (See sidebar.)

The employer has to give a huge amount of thought, and do a lot of work, to make sure they are able to get the right references, rather than from bogus people who may be friends of the applicant, says Israelstam.

What happens if a less-favoured employee lists you as a reference, and you are eventually called by their potential future employer? Israelstam says you could remain "neutral" should you receive this call. To avoid jeopardising the person's future employment, you could say that the company does not provide references. But you can also say that you are not prepared to give a reference in this particular case. That really says it all. ■

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Photos: Supplied

Up for some trivia testing? To complete this edition's quiz, head to fin24.com/finweek where the online version will be available from 12 August.

1. In its latest financial results, power utility Eskom reported a net loss of how much?
2. On 30 July, the CEO of the JSE, Nicky Newton-King, retired from her position. Who is set to take over from 1 October 2019?
3. **True or false?** Credit rating agency Fitch downgraded South Africa's outlook from stable to negative.
4. What is Samsung's first foldable smartphone, available in selected markets from September, called?
5. South Africa's unemployment rate currently stands at:
   - 27%
   - 29%
   - 27.9%
6. **True or false?** Africa's largest supermarket chain, Shoprite, increased its sales for the first six months to June by 6.5%.
7. American singer-songwriter Katy Perry was ordered by a US court to pay Flame, a gospel artist, $2.7m for copying which 2013 song:
   - Unconditionally
   - Hot N Cold
   - Dark Horse
8. Rwanda briefly shut its border with the Democratic Republic of Congo, escalating its response to what medical outbreak?
9. What do the three letters in the name of mining company BHP stand for?
10. Which country's government launched an inquiry into e-waste, calling for devices and appliances like phones and washing machines to be 'made to last'?

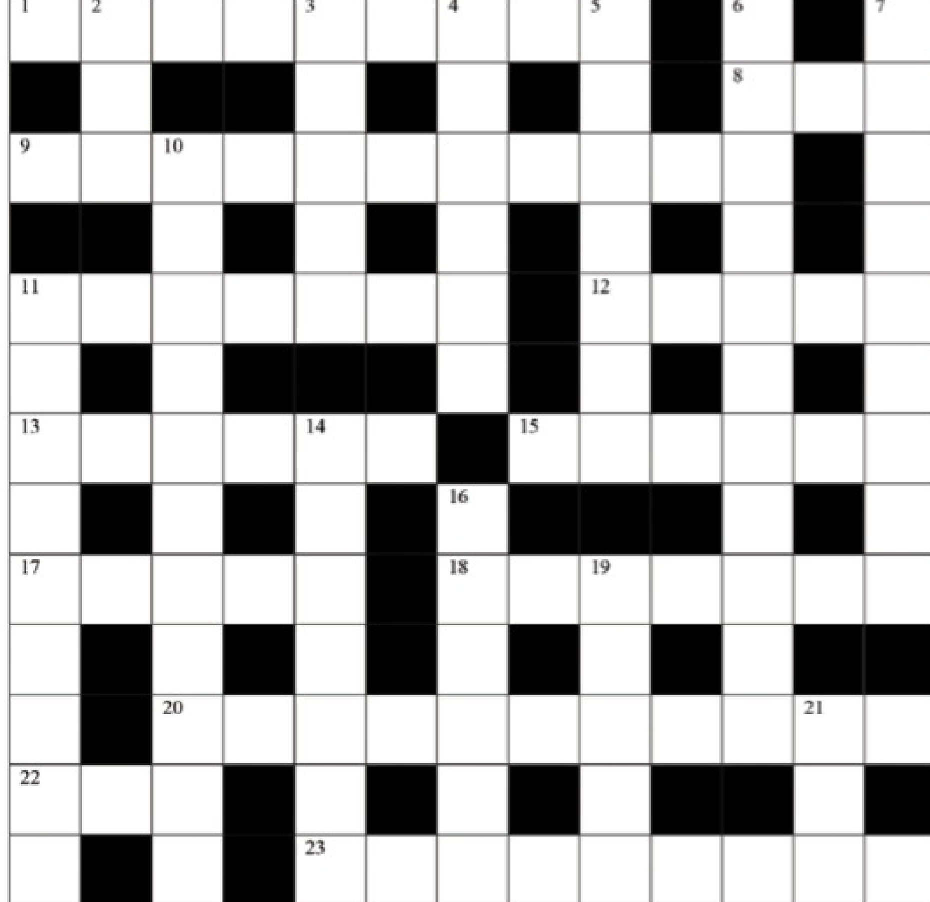
CRYPTIC CROSSWORD NO 737JD

ACROSS

1 Time to mind the halfwit (9)
8 Head teachers (3)
9 Racing out or playing from the crease (11)
11 Stream through, we hear, to get time at church (7)
12 The lady's working, getting the bird (6)
13 Contribute to the end result (6)
15 Gifted four missing from occasion (6)
17 May return to the house for food (5)
18 Basil in trouble, perhaps (18)
20 Set camping charge at a pound (11)
22 Employment agency? (3)
23 Able to be put right about the lesson (9)

DOWN

2 Nigerian in taxi booking scam (3)
3 Impact one in railway junction (5)
4 Indian rapidly lassoing horse (6)
5 Underwriter to enter – not yet (7)
6 I rattle an inventor, that's stimulating (11)
7 Participants need a test flight (9)
10 Straining threatened minority (11)
11 Charted in interpretation of divine and human union (9)
14 Credit of small territory to farm tenant (7)
16 Feline come-on I need to change for a sleep (6)
19 Erica involved in pipe-making (5)
21 Everyone seated in the gallery (3)



Solution to Crossword NO 736JD

ACROSS: 1 Galosh; 4 Let lie; 9 Inconsiderate; 10 Diocese; 11 Abbey; 12 Scrap; 14 Other; 18 Canoe; 19 Climate; 21 Crowd of people; 22 Egress; 23 Attend

DOWN: 1 Guilds; 2 Lack of candour; 3 Sense; 5 Elegant; 6 Lead by example; 7 Evelyn; 8 Aides; 13 Agendas; 15 Icicle; 16 Scuff; 17 Behead; 20 Inept

On margin

Following the letter of the law

This issue's isiZulu word is *umthetho*. *Umthetho* is law/legislation/rules.

I have been following stories around the Public Protector closely, but have stayed far away from commenting because I am out of my depth here. I don't know *umthetho*. That said, based on media reports and court judgements, it seems the Public Protector and I are in the same WhatsApp group – we get confused by *umthetho*. In fact, she might be the group admin.

It is not good for our country to have a Public Protector that gets confused by *umthetho*. So being the good South African that I am, I will help her by hooking her up with people who are very good with *umthetho*. Yup, you guessed it – I will put her in touch with townhouse complex body corporate aunties. Man, those people know *umthetho*.

They know complex laws, simple laws, by-laws, buy-laws, bye-laws, bi-laws, *baie* laws, *iBhayi* laws, in-laws, outlaws, Murphy's Law, the law of the jungle, the law of attraction, Newton's Laws, Gauss' Law, L'Hôpital's Rule, Leibniz's Law, Marconi's Law, *Ostwald's dilution law, Torriceli's Law, *LA Law, Law and Order, Law and Order: Special Victims Unit*, *Law and Order: True Crime*, *Law and Order: Hate Crime*, *Law and Order: Paris enquêtes criminelles*, *Закон и порядок: отдел оперативных расследований*, *Law and Order: Criminal Intent*, *Law and Order: London, Law and Order: LA, Law and Order: Trial by Jury*, Darryl from Lawley...

I am not sure if the word *umthetho* is related to *thetha*, which is to shout, but I think it is. Why else would these suburban enforcers love both things?

Thetha as talk is isiXhosa.

*Ostwald's dilution law is the application of the law of mass action to weak electrolytes in solution.

Yeah, I also have no idea what all that is about, but if it's in the complex rule book, Mary from unit 25 will tell you all about it.

– Melusi's #everydayzulu by Melusi Tshabalala

Bianca van Wyk @BiancavanWyk16
Yesterday, I wore something from 5 years ago and it actually still fits. So proud of myself. It was a scarf. But hey, let's be positive here.

Emily Galati @emilygalati
Boomer: Don't quit your day job!
Millennial: Which one?

Zakes Mda @ZakesMda
Too many Twitter lawyers who have never been admitted to the bar or side-bar.

Angel Campey @YesReallyAngel
A taxi driver just slowed down and flicked his lights to let me cut into the lane in front of him. And people say climate change isn't real.

Donald Trump Jr. @DonaldJTrumpJr
Comedy Central should really be the host of the next round of these debates. #DemDebate

Comedy Central @ComedyCentral
Nah, last time there was a joke at a debate it became president.

Gwen Ngwenya @GwenNgwenya
If high-ranking politicians know something about the state of our economy that we as citizens don't, and they move their assets abroad on that basis, is that insider trading? It certainly should be seen that way.

"If you wanted to forestall bad events, the best thing to do is anticipate them and try to correct them before they get close."

– Lloyd Blankfein, former CEO of Goldman Sachs (1954-)

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