It's all about the price now

I literally spend my days playing devil's advocate in trying to soothe investor fears.

We all know South Africa is in a mess – from our education to employment, or should I rather say lack of employment, through to escalating social tensions and what appears to be a total disregard for the rule of law.

Every day we are exposed to more and more negative news flow, whether its Eskom or another Maverick exposé, the writing appears to be on the wall, which is why we are all so negative on South Africa. We are smart after all; we can connect the dots! But can we?

Investors mistakenly extrapolate the past into the future, which is known as recency bias. Recency bias makes it very difficult to see the "wood from the tree" with our emotions influencing our ability to think rationally.

Let me try proving that by taking a step back to five years ago, when the R/$ was at R11,50 and nobody wanted to invest offshore. The JSE was flying and investing in South Africa seemed a lot less scary than going offshore, and investing in the developed world, which had just made an unconvincing recovery from the great financial crisis thanks to extraordinary measures taken by global central bankers.

Most investors were sceptical of the economic recovery and the sustainability of the bull market in global equity indices, which gingerly climbed a wall of worry driven by excess liquidity from quantitative easing (QE) and zero interest rates (ZIRP).

Fast-forward five years and we are now living in the era of negative interest rates (NIRP) where you pay someone to take your money and lock it away for a fixed term. There is currently $11 trillion in negative yielding bonds in issue.

So, it is no wonder US global equity markets reached record highs in 2019 as investors chose between investing in a US 10-year bond at 1,5% versus 0% in the bank, versus the 31,5% the S&P500 generated for the year.

The question is where are South African investors wanting to invest today? Yes, you guessed it, most South African investors want to sell Rands at R15/$ to invest in the US. The herd, once again, under the influence of recency bias are running in the wrong direction.

The most important determinant of your future returns is the price you pay. The Prudential slide sourced from Bloomberg clearly indicates that South African equities, which were more expensive than global equities back in 2015, have now de-rated and are trading at a significant discount to global equities.

The risks are obvious and reflected in the price. History has taught us that from these levels investors should be handsomely rewarded for the risk taken.

Unfortunately, our behavioural biases make it very difficult if not impossible for us to seize the opportunity. Only in hindsight will we realise this was just another price cycle, which found us wanting!

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