



CMEFS INVESTMENT NEWS UPDATE FOR WEEK ENDING 24TH APRIL 2020

Hello all and welcome to this our first of many weekly Investment News updates.

These updates will be posted to our website every Friday around 5pm, so please keep visiting the site to keep yourself fully up to date with what is happening with your investment in the CMEFS Flexible Fund as well as what is happening generally in the markets as the COVID-19 pandemic continues to unfold.

The reason you have not heard from me since the lock-down is because I have been FULLY engaged over the last few weeks in ensuring that all of our administrative staff are able to continue to provide you with their very necessary services whilst working from home.

Thus up until now, I have unfortunately not been able to set aside the time necessary to keep you up to date on how your investment in the CMEFS Flexible Income Fund has been doing in these tumultuous times.

And I am certain that you are rather anxious to know, so let's get on with it.

So how *did* the CMEFS Flexible fund do when the South African All Share Index (ALSI) plummeted all the way down from a year's high of 59 001.87 on the 17/01/2020 to 37 963.01 on the 19/03/2020 – a massive drop in value of -35.66%.

Did our fund do what it was supposed to do, which was to provide your capital with a shock absorber when things got as bumpy as this?

I am happy to report that this is exactly what happened, in that over the same period, the Capital value of the CMEFS Flexible Fund dropped by a much lesser -9.52%. (Nearly 4X less)

I am also happy to report that on the 23rd April (yesterday), although the ALSI is still down by -14.63%, the CMEFS Flexible Fund is down by a very much more modest -3.23% for the year, so the fund has recovered well.

When looking at your March statements (still to come – but historic), please keep in mind that on the reporting date of 31st March the ALSI was down by -23.95% for the year.

This resulted in the CMEFS Flexible fund being shown on your statement as being down -6.01% for the year.

Although this is a nonetheless respectable figure when compared against a market loss of -23.95% the figure of -6.01% is not quite accurate as it excludes the income payment that was made (but not shown on the statement) of +1.5% for the period.

If one then factors in this income payment of 1.5%, the -6.01% changes to -4.51%, which is very much in line with what we hoped the fund would do in the circumstances.

And now of course we are sitting at -3.23% so we are very much headed in the right direction.

This being said, I now need to share my thoughts with you about what I think is going to happen going forward from here.

Although the temptation was, and remains in place to take advantage of these much lower share prices in the hope of making a “quick killing”, I did not succumb to this temptation as the fact remains that **way before the Coronavirus even appeared on the scene**, there was exceptional risk out there, with a possible extreme downside risk of an order of magnitude of -60% or so, which dwarfs the -35.66% drop we have just experienced.

Not only has this risk not gone away, it has now been **worsened** by the incredible disruption to the economies of the world.

This not only in terms of the immediate mind boggling stimulus packages that have been thrown at the problem, 2 Trillion US\$ here, another 2 Trillion US\$ there and so on, but more so in terms of the “stop-start-stop-stop-start” approach we are going to have to implement in the many months going forward in so far as rebuilding our shattered economies is concerned.

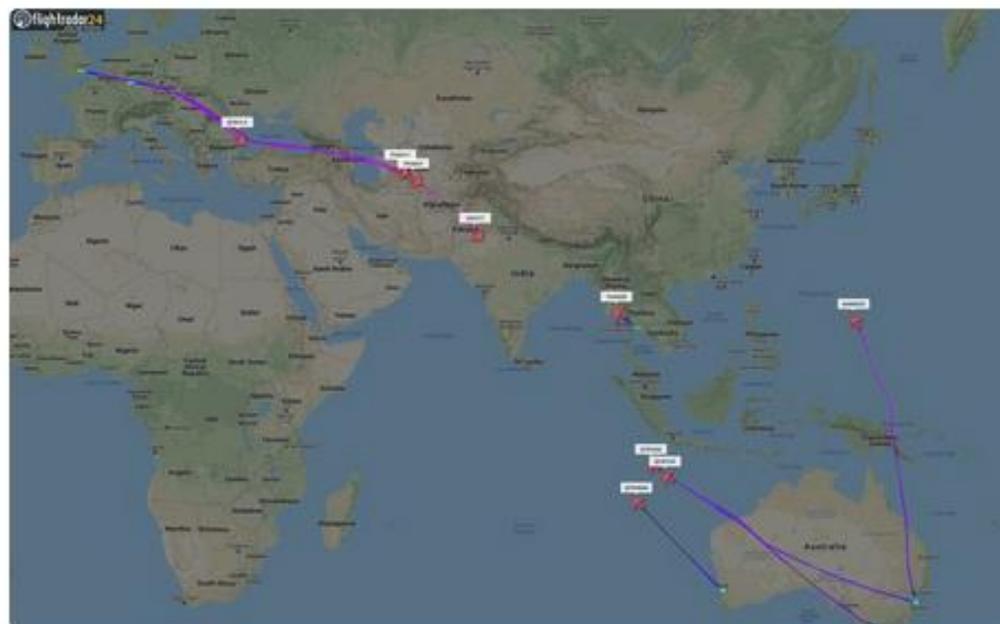
In short, it is not going to be easy.

For example, just what are we going to do with all of very expensive commercial aircraft that are sitting idle on runways around the world, currently estimated at around 8 500 or so?

Here's an approximate of what the skies looked like on the 29th Feb 2020



Here's an approximate of what they look like now.



A picture is indeed worth a thousand words.

Although a large amount of this travel was for either leisure or pleasure or both, much of it was also for business, and even though much is being made of the effectiveness of “virtual” meetings being held through the use of “Zoom” and the like, having worked remotely from home these last few weeks has really cemented this very simple truth in my thinking, that being that “NOTHING” beats being able to interact in person with other people.

NOTHING.

For example, any-one who has ever been in a business meeting of whatever sort will know that you have the formal meeting itself, and then you have the more informal (and in many cases more important as it generally sets the agenda for the next meeting) “after-meeting”.

With a virtual meeting, this vital second leg is missing all together, and thus much (and up until now altogether invisible) value is lost.

And if you substitute the word “value” for “economic growth” then one can better imagine the true cost of not being able to meet “in-the-flesh one-on-one, or in groups” so to speak.

So no, virtual meetings are not a real long-term and “albeit green friendly” substitute for actual face-to -face meetings.

Further, ALL business is founded on a very simple premise, that being TRUST.

For now, those doing business “virtually” with one another mostly built that relationship of TRUST through interacting personally with one another over time spent together in the past.

However, going forward NEW relationships will need to be built as old ones fall away, and for this to happen, we need to get people to meet one another again, not virtually, but actually.

As Stephen M.R. Covey so correctly observed “NOTHING travels faster than the speed of trust.”

What he meant by this is that if I were to call you as a client of long standing right now and advise that you do “X”, chances are you will go along with my recommendation right away based on our relationship of trust we have painstakingly built between ourselves over the many years of doing business together.

However, if a complete stranger were to call you and suggest to you that you do exactly the same thing, chances are that you either wouldn’t do it at all, or if you did, it would take you a hundred times longer for you to build up enough trust in the person now advising you, before you went ahead and did as advised.

So let’s say, with my phone call the entire transaction would take a day, whereas with a complete stranger it takes a month.

Now let’s also say that that transaction added value to the economy of R1 000.

If I were to be able to do 30 of these transactions a month (based on this relationship of trust) then I would have added R30 000 in value to the economy, whereas if I were to be able to do only one of these transaction a month I will only have added R1 000 to the value of the economy over the same period.

And this is exactly what is happening now on a global scale as relationships break down and new ones need to be formed, but without the benefit in many cases of persons being able to interact personally with one another.

So even though we will see a stuttering re-start of individual **sectors** of economies taking place on a global scale, even ignoring all the ADDITIONAL debt that is either going to be written down to zero or repaid, this restart is not going to be smooth sailing by any stretch of the imagination.

And then of course, in addition to this, we have all of the service and entertainment industries that have ground to a complete halt, and which are not coming back any time soon, more so the industries that have traditionally drawn large crowds like sporting events. (I so miss my rugby!



Go Sharks!

That is to say, many sectors will not restart **at all** leading to massive wealth destruction on an almost unimaginable scale.

Oops, I have just noticed that am past my deadline time, and I also see that I am now running into five pages when I only intended to write two, just goes to show, so MUCH to talk about.

So I will follow up on this theme in next week's edition in order to bring **this** week's edition to a close.

Before doing so however, and on a more fundamental note, if you own a **Living Annuity** and you need to draw either more or less income from your Living Annuity as a result of the COVID-19 pandemic, please know that a **temporary** reprieve has been granted in that you have the opportunity to change the amount of your income draw (again either **more** income – up to 20% of capital- or **less** income – down to 0.5% of capital) **before** your normal anniversary date. That is to say, if you wish, you can change your income draw right now.

So if this is something you need to do, please get in touch with your advisor who will provide you with the necessary assistance in this regard.

Until next week then, do take good care of yourselves, wash your hands thoroughly and regularly, maintain safe distancing, wear a mask when you go out and if you are at high risk, continue self-isolating.

And if you are getting fed-up with this entire “Coronavirus thing”, keep in mind that perhaps the greatest danger lies in the fact that the virus is not impatient. It can wait. And it does. So please, don’t ever become impatient or complacent. Your life, or that of another, may depend on it.

I trust you enjoyed the read.



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