



CMEFS INVESTMENT NEWS

FRIDAY 1 MAY 2020

Hello all and welcome to this week's edition of our Investment News.

Before we go into this week's discussion, let's quickly see how the CMEFS Flexible fund has done for the year thus far as compared to the All Share Index (ALSI)

Fund	Last week Thursday	This week Thursday
ALSI	-14.63%	-10.91%
CMEFS Flexible Fund	- 3.21%	-2.28%

As a reminder, I decided to keep my exposure "as is" to contain further possible losses as there was a very real danger of the floor collapsing and dragging world markets down to -60% or so as compared to the -35.66% that happened.

Had I gone more aggressive with the fund when the markets were down -35.66%, I would have needed to take on more risky assets, and then had the worst-case scenario played out and the drop continued down to -60% or so, the losses you would have suffered would have been far more than anything I, and I imagine you, would have been comfortable with.

Ok, we are where we are now, so where to from here?

My best guess is confusion and yet more confusion on governments' part globally over what the best way forward from here will be.

Here's the dilemma. Governments around the simply world CANNOT be seen to be "OK" with people dying from COVID-19, as this is simply not what Governments are all about, so their top priority MUST be to protect lives "at all costs" – the "at all costs" being key to the dilemma they face.

On the other side of the coin, they are also acutely aware that there is absolutely no way that economies can remain shut down for as long as it takes for either

- a) An effective treatment to be found and/or
- b) A cure to be found and/or
- c) A vaccine to be found and/or
- d) A herd immunity to be built up GLOBALLY

So people need to go back to work, and even if this is done on a phased basis with all sorts of checks and controls being put into place, there is never-the-less the very real risk (certainty almost at some point) that they will become infected with the virus and then will either recover from it or die from it.

For the healthy under the age of 60, chances are they will recover from it and thereafter “be immune to re-infection for a time.”

I am aware that the WHO has put out a statement that there is no evidence once infected, re-infection will not occur, but this is simply what they HAVE to say as the virus is so new.

It is going to take time for the necessary scientifically based research to be done for the WHO to be able to state that based on scientifically researched empirical data re-infection either will/may/might not or will not occur within a space of 1/2/3 etc years of infection or even never.

No one knows.

However, it also needs to be kept in mind that the WHO could just as easily have said, and this statement would have been equally correct, that there is no evidence that re-infection WILL occur once having been infected with the virus and recovering from it.

This puts an entirely different slant on things, but it would not be a reputational and legal liability risk that the WHO would want to, or in fact COULD take on, by saying what they have said about possible re-infection in any other way than the way they have said it.

This is important as the WHO guides Government actions worldwide, and Governments, in turn, don't need the sort of reputational and legal liability risk by acting in a manner that is counter to the direction set by the WHO.

So we find ourselves between the proverbial “rock and a hard place”.

Do we or don't we?

From my point of view, and I cannot say that this view is right or wrong, only time will tell, I have from the “get-go” (and this is way before the lock-down) believed that because we already know who those at high risk of dying from the disease are, what is needed is for those at high risk to be “locked-down”.

This to prevent them from getting the virus, and thereafter allowing the virus to simply run its course through the young and healthy community, MOST of whom (and there IS evidence out there already proving this statement) will never even know that they had it.

If this were to happen on a global scale, then I am guessing that within a period of no longer than 3 months, the WORLD would have built up a herd immunity to the illness thus allowing those in lock-down to live (and love) freely once again.

And remember that during this entire process, no economies would have been put on hold as those most at risk would have been long retired as a result of either age or illness.

However, I have nothing at stake here and nothing to lose, so these things are easy for me to say, which is not the case with Governments and organisations like the WHO who open themselves up to the reputational and legal risk spoken of earlier on.

And as good as these checks and balances are, they do have their limitations and shortcomings, and this must surely be one of them.

As I write this, I simply cannot wrap my head around what the financial cost globally has been in taking the current approach.

People, it is huge, almost beyond imagining. And this cost is going to be a MASSIVE drag on whatever limping economic recovery follows.

Do this thought experiment.

You decide to open up your own business, but going in you have no capital so you need to borrow it, but in addition to this borrowing, you have existing debt to pay that is going to consume the next 3-5 years of profit the business is going to make, IF all goes well with the business that is.

So the profits that WOULD have been available for growth, expansion, and new employment creation are not going to manifest for the next 3-5 years.

This is pretty much the scenario that is going to be faced by many small, medium and even some large businesses globally once “all this is over”.

The other more human concern I have is that until we have created some sort of “herd immunity” or a reliable working vaccine comes along, those most at risk, such as the sick and elderly, are going to have to remain in lockdown for a very long time, lonely and away from those that they most need to see, during which time they could pass on as a result of age, illness or loneliness.

So the “slow” road we are taking towards “I’m not sure what as this has not been spelled out” continues to extract a huge personal and economic cost on all of our lives.

I say “I’m not sure what as this has not been spelled out” because I am not sure what the “end-game” is now that the “curve has been flattened”

Are we trying to ensure that going forward no-one, or as few as possible, becomes infected with the virus? But what then when it re-emerges and too few of us has any immunity to it?

Or are we trying to keep the rate of infection at a slow and steady pace so as not to overwhelm our health care sector?

But how long then is this going to take to build herd immunity?

As things stand, of a total world population of around 8 billion people, only around 0.04% have been confirmed as having been infected with the virus.

So do we remain in lock-down until this elusive treatment/cure/vaccine is found – but just how long is that going to take, and what happens to the economy in the meanwhile?

And I could go on.

But until these and a whole bunch of other questions are answered, there can be no clear way ahead in so far as the recovery of the global economy is concerned, which means in turn, that the risk to the much needed economic recovery remains ever-present and more real with each passing day.

Let’s see what the week ahead brings.

Until next time then, do take good care of yourselves.

Kind regards



Charles Merrington
Member of the Financial Planning Institute of Southern Africa – Member Number 199601104
CERTIFIED FINANCIAL PLANNER® professional