



**CMEFS WEEKLY INVESTMENT NEWS**

**FRIDAY 15 MAY 2020**

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

Before we go into this week's discussion, let's 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	-12.70%	-12.14%
CMEFS Flexible Fund	-1.72%	- 2.22%

As there was almost no shift in the R/\$ exchange rate over the last 7 days, R18.58/US\$ vs R18.57/US\$ I can only put the poorer performance of the CMEFS Flexible Fund vs the ALSI down to fund selection itself. This will happen from time to time as it is not always possible to get these calls 100% right 100% of the time, just so long as they get the majority of the calls right.

In this regard, a "heads-up" in advance.

I am giving serious consideration to moving the 50% Coronation Balanced Defensive Fund portion of the CMEFS Flexible Fund into a "near-cash" fund.

This because, as I am concerned that we are going to see markets soften, and then remain soft for an extended time in the months to come, as the full extent of the damage done to the world economy by government actions internationally to combat the virus start to sink in.

This being said, and in direct relation to the above, let's get on with the topic of this week's discussion.

Imagine that your parents could borrow money to fund their expenses during their lifetime, "live the "Goodlife", and then leave their debt to you, with the repayment of this debt, by you, being enforceable under law.

Sounds crazy, doesn't it?

And surely that would never be allowed under law, would it?

I mean, how can you possibly be held liable for their debt whilst having no say, and more importantly no control, over how they spent, what would, in the end, be, your money?

It's one thing to be living in a house that your parents went into significant debt to purchase, and then maybe inherit the ownership of the house along with the remainder of the debt owing on it.

It's quite another thing entirely to inherit the debt your parents ran up funding the purchase of their favourite beverage they were denied during the period of the lockdown, for the 30 years that followed on from then until their date of death.

And anyway, irrespective of either of the above scenarios, when starting out in life, who wants to be burdened with significant debt right at the outset, none of which you created.

I don't see very many of you putting up your hands here so I am going to assume that you agree it's a bad idea.

It is, and I agree with you.

And to put your minds at rest, the good news is that no, your parents cannot do this to you.

The law does not allow it.

However, the bad news is that there IS someone who can do this, and the law DOES bind you to the repayment of this debt.

So much so, that if you are deemed responsible for the repayment of some of the debt, and you do not cough-up, you could end up in prison.

### **This is what government debt is.**

It is debt that you, your children, your grandchildren, or great-grandchildren – ad infinitum – will have to repay someday.

Correction.

It is debt you are **currently** re-paying via taxes paid and will continue to pay until the day you die, at which point it is handed on to your children, grandchildren, and great-grandchildren – ad infinitum.

And it is debt that you would have had very little, if any, control or say over.

### **Governments incur it, you pay it.**

So just how deep in the hole are we taxpaying South Africans?

Not much, if you consider debt of **R3 000 000 000 000** not much as at the 31/12/2019.

But maybe I'm wrong and you do consider debt of three trillion Rand to be a lot of money owed. (I've just looked at the SA debt clock on the internet (<https://commodity.com/debt-clock/southafrica/>) and I see the debt has now rolled up to R4.1 trillion,

This is money owed by you, me, and not very many other South Africans.

Although we have a total population of around 54.5 million, the total tax-paying population only numbers around 5 million of us.

Using those numbers, if the debt were equally distributed, then you, me, and the few other taxpayers owe R600 000 each with annual interest payments amounting to somewhere around R35 000 pa each.

Note that the above figures do not include the collateralised loans of Eskom, SAA et al or even municipal debt.

The numbers **also** do not include the myriad additional costs that have come along with Covid-19, the latest of which is the special grant of R350 per month to provide money to unemployed South Africans.

This is expected to cost (us) an additional R10.5 billion Rand **per month**.

As much as no one in their right mind would want anyone to starve to death, or sleep out in the cold and wet, or to suffer any kind of hardship, I have already become anxious about just what is going to happen when this money tap is turned off.

I do not foresee passive and placid acceptance on the part of the desperately poor when this happens.

These very wise words someone told me a long time ago come to mind right now. "Charles, before you start something, be sure you can stop it."

However, getting back on subject, this special grant alone adds R2 100 every month to the R600 000 debt each of us already owes, not including the interest due on the debt.

And then, of course, SARS is predicting a revenue shortfall of approximately 1/3 by the end of this tax year as a result of tax under-recoveries resulting from the Covid-19 decisions and actions taken by the government to contain the spread of the virus.

If this is correct (I hope not) and Government does not cut their costs (I hope so – but it is acknowledged that will create an even greater unemployment problem), when the end of the year arrives, government's shortfall in income before borrowing will grow from a current budgeted 370 billion Rand to somewhere around R900 billion Rand, just R100 billion Rand shy of R1 trillion.

Maybe it will even get there. I hope not.

As it is, we're broke.

And this was before the virus landed on our shores.

We did not have the money to bail out Eskom. Less so now.

We did not have the money to bail out SAA. Less so now.

We did not have the money to bail out so very many other failing state enterprises. Less so now.

We did not have the money to increase government employee salaries by CPI+2% as is being demanded by the Unions. Less so now.

And so on.

And we simply, can't afford to borrow more, even under the most favourable conditions, without incurring MAJOR negative economic and social ramifications down the line.

And this is why I continue to question what I consider (yes, little old me, what do I know) to be an ill thought out strategy on the part of government, from the "get-go" in so far as combatting the spread of the virus is concerned.

By all means, protect the vulnerable. In fact, protect the entire populace, but for goodness sake do it smartly, and not in a way that it shuts down the entire economy.

I am aware that other models and plans have been put forward by others a whole lot smarter than me, but it seems to me right now that we're once again caught up in the middle of a political bun-fight by two sparring factions within the ruling party, which situation is further aggravated by certain ministers using the opportunity to pursue very short-sighted personal agenda's.

And the tragedy is, in the end, they won't pay, we will.

Or our children will, or grandchildren or great-grandchildren – ad infinitum.

This is why I have for a very long time been beating the drum about every one of us paying a whole lot more attention to the national debt than we have done in the past.

Somehow, we seem to think it is "Government" debt and not ours.

It's not.

Its OUR debt to repay.

I know this is not a very “positive” newsletter, but to survive and thrive in the future we need to prepare for it, even if just mentally, and this is one of those times when we need to prepare ourselves for a **very** bumpy ride ahead, not just this year, but for many years ahead.

So if you are currently in employment, or anticipate returning to paid employment soon:-

- Think very carefully about incurring any new debt, and if you must, try to incur only what is absolutely necessary.
- If you have debt, try and get it paid down as quickly as possible, even if not fully, any reduction in debt will help.
- If you have no debt, try and build up savings, as much as possible.
- Do this in conjunction with thinking carefully about your monthly living expenses, and cut back where you can and save the “savings”.
- Have a plan in place should either you or your spouse or both of you, lose your job. What *would* you do?
- Modify your expectations around bonuses and salary increases going forward, as these are not going to be as they were in the recent past. If at all. Don’t bank on them.
- Do everything within your power to be more than just as an employee in whatever business it is you find yourself and act more like a business partner. This to give the business, and your job, as much a chance of survival as possible.
- Keep positive. No matter how bad things get, things only become worse by adopting the wrong attitude and better by adopting the right one.

And I’m sure if you think about it, you could find items to add to this list, as it is not exhaustive, just illustrative.

Have a go at it!

I hope you enjoyed the read.

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

Kind regards, Nine, Charles, and all at CMEFS.