



CMEFS WEEKLY INVESTMENT NEWS

26 JUNE 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	-5.35%	-4.62%
CMEFS Flexible Fund	-0.57%	-0.49%

I did say that we will be talking further on the book I am currently reading this week, but so much else has happened in the interim that I am struggling to make up my mind as to just what I should be writing about in this week's edition.

So please forgive me if I set this aside until perhaps next week.

Before doing so, however, I am finding it so interesting that I almost want to reproduce the entire book itself!

But let's move along.

Although I touched on the supplementary budget in the accompanying newsletter, there are still several more points I would like to touch in on here.

I thought that I had misheard Tito Mboweni when he made a few points during the course of delivering the supplementary budget speech, but much to my surprise, much of what I had picked up on was confirmed in a letter written in the Mercury the following day by (as I recall) a Professor of Economics at one of our many Universities.

I am not able to bring all of this back right now, but one of the things Tito quite distinctly said (confirmed the next day by the said professor) was that should the government debt reach 100% of GDP, we would then be in a position where we would need to default on our debt and go into what is known as Sovereign Default.

This is just simply not true.

As long as we could afford to continue servicing our debt, and we WOULD be able to at 100% of GDP, although it will leave a lot less over for everything else, we will NOT automatically go into Sovereign Default.

It worries me though that he said it, along with some of the other remarks that he made that I (and the good professor) picked up on, but I just can't bring to mind right now. (I must see if I can retrieve that newspaper and revisit the letter.)

The only reason I can give myself (other than gaps in his knowledge, and this remark is not intended to either demean or belittle as he is without a doubt a very clever man) is that he used a bit of "artistic licence" to make the proverbial "man-in-the-street" sit up and pay attention to what he was saying.

However, in a past life, he was also once Governor of the South African Reserve Bank and I can remember being quite shocked by a remark he made soon after leaving the Reserve Bank and going into business for himself.

Apparently, he had approached various banking institutions for a loan to finance his new business enterprise and said that he was horrified to learn that he would need to put up certain of his personal assets as collateral to secure the loan asked for.

He then went further to say that this kind of thing was quite unacceptable and that this indicated that there was clearly a need for a State-Owned Bank to take on this risk so that his own assets were not at risk should the business enterprise fail.

This came out of an interview conducted by a journalist working for the Financial Mail at the time, so the source was quite credible.

It was also to the best of my knowledge never disputed.

Again, none of this intended to diminish all he has achieved in his life, which is a lot more than any one of us (including me) may or ever will achieve in our respective lifetimes so kudos to him.

But these seeming knowledge gaps are a bit of a concern to me (if indeed they even are) given, in his own words, the Herculean task that lies ahead for all of us if we are to prevent a Sovereign Default.

On this point, he is 100% correct.

And on this, I worry still more.

And what I am about to say here to a great extent applies to so many developed countries of the world as well

The USA, Western Europe, Japan, etc.

I cannot say how or where it began, (but I will find out) but it seems that we are living increasingly in a never-never land in so far as managing our debt and our economies are concerned.

Every one of these countries ACKNOWLEDGES that they have a problem, as did Tito on Wednesday, but beyond that, no one seems to have the necessary political will to actually DO anything at all about the problem in any real sense.

If I look back starting from the end of the Mandela era, I am hard-pressed to find examples where the state has been successful in addressing problems such as those we are now facing.

Eskom, SAA, Denel, The Post Office, SABC all come immediately to mind.

A big part of the problem, I think, is that the ruling party remains way too reliant on the Unions to back them come election time and the Unions are totally inflexible when it comes to talking about anything that might threaten their members continuing employment.

So we end up not with a stale-mate situation (as that implies that things kind of remain as they are) but rather an ever-worsening situation, as a cornerstone of continuing progress is to allow the process of what is known as creative destruction to take place with a little hindrance as possible.

Creative destruction is a process through which something new brings about the demise of whatever existed before it.

The term is used in a variety of areas including economics, corporate governance, product development, technology, and marketing.

If one only looks at all of the problems we are currently having with the supply of energy/electricity, much of this was brought about by the pressure from Unions to block alternative, sustainable and more environmentally friendly sources of energy production from getting any sort of traction over the last number of years.

This was to save jobs in the coal mining industry.

Had they not done so we would not now find ourselves in the position we now find ourselves in.

No matter how much we are encouraged to get back to work and get the economy going again, and no matter how much we might want to do so, the fact is that we have a structural problem that cannot easily be addressed in the short-term as to do so, we need energy, and even at these now **VERY LOW LEVELS** of economic activity, we are, right now, being asked by ESKOM to **PLEASE REDUCE OUR POWER DEMAND** as they are struggling to keep up.

Failing which, we are going back to load shedding...go figure...

I hope you enjoyed the read.

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

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