



CMEFS WEEKLY NEWSLETTER

FRIDAY 06-11-2020

Hello. I do hope that this week's edition of our newsletter finds you and your family as well as can be.

As I write this, it seems that we have a clear winner of the US election in the person of Democrat Joe Biden.

How is this going to change things for SA as well as for the rest of the world?

Well, for SA it is going to be a good thing if for no other reason than the fact that Mr. Trump thinks that anything coming out of Africa is not even worth a look at, although he could have gone a lot further than he actually did in so far as terminating various agreements and protocols currently in place between the US and South Africa than he actually did.

So thank you for that Donald.

However, had he won a second term of office, it was widely speculated that he might have adopted a more hostile attitude towards SA which would have done us great harm from so many points of view.

The US is not only a significant trading partner, it is also a significant funder of various humanitarian projects that simply would not be able to continue without this funding.

Joe Biden, it is speculated, is much more friendly towards South Africa, so it is more than likely that the favourable trade agreements currently in place will remain so, as will the funding for those various humanitarian projects.

This is not to say that Joe Biden's election is going to be stimulatory for the SA Economy. It will be neutral as he will basically be leaving things as they are. (Hopefully anyway)

If we want to stimulate our economy, well, that is entirely up to us.

How will Joe Biden's presidency affect the rest of the world?

Well, positively, from the point of view that he is much more globalist in his outlook than Donald Trump either ever was or is, and as such, much of the tension between China and the US will be dissipated, thus allowing the two largest economies in the world to focus on growth rather than on fighting one another on a 'tit for tat' basis.

This will be positive in so far as speeding up global economic recovery once we finally see the back of the Covid-19 pandemic – and the sooner this can happen the better!

I have no doubt also that it will be positive in so far as it concerns the US dealing with its own Covid-19 crises.

In so far as pushing change within the US is concerned, this task will prove to be quite a challenge as the Senate, it seems, is going to be largely Republican-controlled and as much of this change needs to be passed by the Senate, well good luck with that.

Pretty much like Helen Zille being voted in independently as President of SA and her asking an ANC majority led government to pass certain changes through parliament that would nullify previous policies put in place by the ANC themselves.

In theory, it is possible, but not probable, and then only with some sort of significant trade-off being made somewhere along the line.

So yes, the world and more specifically SA will benefit from a Joe Biden Presidency, but the US itself, not quite as much, although there will be some benefits.

Right now I am watching markets moving in a significant upward direction in anticipation of a Biden win.

Why is this?

Well aside from the stimulus to global growth spoken of above, the “downside” to a Biden win is that the Democrats have absolutely no problem with the idea of burdening future generations with **even more debt** to take care of “immediate and pressing” needs. (And let tomorrow take care of itself.)

And this **even more debt** means printing even more money, much of which finds its way **directly** into an already over-priced stock market.

And traders have no moral issues with buying significantly over-priced shares, as they make money on every trade without fear of loss as, after all, it is not their money, but other people's money. (Otherwise known as OPM or even better and perhaps more aptly, OPIUM)

A further consequence of this further money printing frenzy that the Democrats are likely to embark on, is a weaker dollar (thus “stronger” Rand) and an escalating gold (and, yes, Bitcoin) price.

So it is not going to be all sweetness and light under a Biden presidency as this additional debt that is going to be run up is going to have to be paid back at some point in time.

Alternately it will be defaulted on – or at least some of it.

It is this debt problem, which is certainly not confined to the US only as it is a global phenomenon, that is fuelling the present conversation around what is known as ‘the great currency reset’.

In essence, a point will be reached when the US will no longer be able to “call the shots” in so far as the amount of debt it can incur is concerned.

At this time, because it is the largest economy in the world, and the US\$ is the world’s reserve currency, it is still able to “print its way” out of debt.

Now imagine for example a time when China finally overtakes the US as the world's largest economy and because so, other countries start to see the Chinese Yuan as being a necessary currency to hold in so far as continuing trade with China is concerned.

The moment this happens at any scale, it is all over for the US as they will now be subject to exactly the same disciplines as we are now subject to in SA in so far as the Rand is concerned.

That is to say, we for example have no say over the direction of interest rates globally, whereas the US basically sets these rates at this time.

And the fact that they can set these rates is what enables them to carry the quantum of debt that they are presently carrying as they can forcibly keep interest rates low, thus making this debt “affordable” to them.

Now imagine a time when they can no longer to do this and they are forced to start increasing their borrowing rates.

Right now, they can borrow money long-term at less than 1% interest, but for the sake of argument, let us use 1% as the benchmark rate.

If they were now forced into paying 2% on their debt, this would mean a 100% increase in the cost of servicing their debt.

This is not an insignificant increase, as in US\$ it would mean that their interest servicing costs would rise from US\$250 billion to US\$500 billion virtually overnight.

And given that the US is currently running annual budget deficits exceeding 1 trillion US\$ (around 5% of GDP) with debt servicing costs at their **current** low levels, this would present a problem of some magnitude.

All of this being said, however, keep in mind that there is an ABSOLUTE disconnect between economic reality and the markets.

That is to say, as long as stock prices continue to rise, and rise they will as funds under management migrate across from actively managed to passively managed portfolios (this subject was covered in a previous newsletter) and the central banks continue to print money, then people will continue to buy stocks, and because people will continue to buy stocks, stock prices will continue to rise.

The fact that share prices are rising should NOT be the determinant as to whether you should own a share or not.

You should only own a share if there is a reasonable prospect that your capital will not be at significant risk of loss AND the company you are invested in is likely to continue to operate profitably into the foreseeable future.

It is actually as simple and as complicated as that.

All of the rest is just a lot of hot air.

But as these recent elections in the US have shown, despite being **proven** to be factually incorrect not hundreds but literally thousands of times during his term as president of the US, voters still turned out en masse to cast their votes in **favour** of Donald Trump.

Despite what we might wish for ourselves, or think of ourselves, the fact is we human beings are not rational by any stretch of the imagination.

We're basically a bunch of crazy (but adult) mixed up (heavily armed) kids trying to find a way to govern ourselves on a small blue marble hanging somewhere in the space-time continuum, with each one of us having a different view (and in our view this being the only **right** view) on just how this should be done.

Now if only the rest of the world would come around to our way of thinking...

I trust you enjoyed the read.

Nine sends love and thoughts to all, as always.

Until next time then, from all of us at CMEFS, do take good care of yourselves. Kind regards.
Charles.

Name	Division	Cell Number	Detail
Alicia	Wealth	063 434 8074	Learner. Servicing attaching to the following classes of business. Investment Accounts, Tax Free Savings Accounts, Retirement Annuities, Living Annuities, Pension and Provident Preservation Funds, Endowments.
Andrew	Wealth	063 321 7399	Intern. New business and servicing. Medical Aids & GAP Cover. In the process of migrating across to the Wealth Division.
Andrisha	Wealth	063 378 1473	Representative. New business. Investment Accounts, Tax Free Savings Accounts, Retirement Annuities, Living Annuities, Pension and Provident Preservation Funds, Endowments.
Bernelee	Tax	078 708 4536	Administrator providing admin support to Geraldine and understudy to Geraldine.
Brady	Wealth	071 843 3933	Representative. New business. Investment Accounts, Tax Free Savings Accounts, Retirement Annuities, Living Annuities, Pension and Provident Preservation Funds, Endowments.
Felicia	Risk	071 880 9576	Learner. Servicing attaching to Short-Term insurance, assisting Stella. Starting to obtain some exposure to Medical Aids, GAP Cover and Life Insurance.
Geraldine	Tax	083 754 1699	Head of tax division.
Jamie	Wealth	071 850 1389	Learner. Core responsibility being to produce and send out the monthly investment statements and to handle any queries connected to them. Satellite responsibility to assist where possible in the Wealth Division.
Luh	Bookkeeping	063 102 3313	Head of Bookkeeping Division. Professional Accountant (SA) SAIPA 30345
Nadean	Tax	063 026 1351	Intern. Administrator providing admin support to Bernelee and understudy to Bernelee.
Siso	Risk	060 376 6605	Learner. Starting to obtain some exposure to Short-Term insurance Medical Aids, GAP Cover and Life Insurance.
Stella	Risk	078 784 6462	Head of Short-Term Insurance Division.
Terisha	Books	071 858 3373	Intern. Bookkeeping Division. Data Capture and other functions relating to the bookkeeping Division.
Thabo	Risk	078 004 3864	Learner. Starting to obtain some exposure to Short-Term insurance Medical Aids, GAP Cover and Life Insurance.