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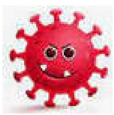
CMEFS WEEKLY NEWSLETTER – FRIDAY 26/11/2021

In this edition: Covid-19. Just when you thought it was safe /Running out of year/Has it cost you to be conservatively invested?/The markets

Hello everyone and welcome to this week's edition of our newsletter. Before we go into this week's news, let's see how the CMEFS Flexible fund has done for the year to date as compared to the All-Share Index (ALSI), Money Market Funds, and inflation, bringing all fees to account.

From 1 Jan to	ALSI actual return to date as %	ALSI projected annual return for the full year as %	CMEFS Flexible Fund actual return to date as %	CMEFS Flexible Fund projected annual return for the full year as %	Money Market actual return to date as %	Money Market projected annual return for the full year as %	Cost of Living Increase for the period as %
End Jan	5.04	82.90	0.55	6.95	0.21	2.52	0.34
End Feb	11.33	95.02	1.05	6.78	0.39	2.34	1.02
End Mar	11.83	47.32	1.27	5.47	0.61	2.45	1.71
End Apr	12.00	36.00	1.91	6.15	0.83	2.48	2.39
End May	12.27	29.45	1.99	5.09	1.05	2.53	2.47
End June	10.58	21.16	2.31	4.90	1.26	2.52	2.73
End Jul	14.66	25.12	3.03	5.47	1.47	2.52	3.84
End Aug	11.45	17.17	3.64	5.72	1.68	2.53	4.26
End Sep	6.90	9.20	3.76	5.25	1.91	2.54	4.52
End Oct	12.36	14.83	3.94	4.94	2.14	2.57	4.77
25/11/2021	17.57	21.08	4.33	4.99	2.41	2.90	

Covid-19 -Just when you thought it was safe…



You will by now have heard the news that a new variant of concern of the Covid-19 virus has been discovered in South Africa, concentrated mainly in the Gauteng area.

Although it is early days yet, there is concern that it may well be even more infectious than its predecessor, the Delta variant, as well being more resistant to the vaccine.

It is of little comfort that it is more concentrated in the Gauteng area as in very little time at all, it will find its way into other provinces and no doubt the rest of the world.

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The UK I hear has already banned travel between the two countries, to what effect I do not know as travel bans have proven singularly ineffective against the spread of the virus or any of its variants, but I guess as government you must be seen to be doing "something" as opposed to "nothing".

Damned if you do or damned if you don't, it seems, in so far as trying to get a handle on this virus is concerned.

This new variant considered along with the 4^{th} wave, which according to my own records is already now well under way in SA, is surely going to mean an increase in the lockdown level to goodness knows what, along with all those things that accompany it, such as curfews, alcohol and inter provincial travel bans etc. So, stock up on the booze and get where you need to be (if possible) now, as things could get a little bit tricky later.

I really hope I am wrong, as the last thing we need is a more infectious version of an already more infectious version of an existential problem we just can't seem to get a handle on.

It might even be necessary to cancel Christmas! Ugh!  (or is it too much "Sherry Christmas" ☺)

Watch this space.

<u>Running out of year</u>… 

I say this every year, but where on earth did this year go to?

As I write this, I have exactly 14 more workdays left to get "everything" done.

Of course, this is not going to happen even if for no other reason than "everything" encompasses so very much that even another year to do it in would not be enough.

When you run a business, it seems for every one thing you "get done", two more things pop up in its place. This is especially so in this age of ever improving technology. We no longer have to compete with each other or even with ourselves, but with machines that grow smarter and smarter by the day. Of course, no matter what, they will never be either smarter or more stupid than us amazingly impossible human beings, but somewhere in between, I guess. So don't stress too much.

However, we do need to let you know a few things as we approach the end of the year and then move into the next, the first of which is our last working day for 2021 and our first working day for 2022.

Our last working day will be the 15^{th} December, which is a Wednesday, and our first day back at work will be the 3^{rd} January, which is a Monday.

However, such is the nature of our work that we will be available for emergencies during this 'shut-down" period.

We will also be posting to our website a guide to things you might need to know during this time.

This will include such things as what to do if you get that nasty letter from SARS on the day before Christmas; when you can expect to receive your pension payment if you are invested with us; who to contact if you get back to where you parked your car, and it is no longer there, and so on.

So, before calling anyone, as people do need "recharge" time and it has been another tough year for all, please check this help notice before calling anyone. Many thanks.

PS" The notice is not there yet as it is a work in progress, but it will be posted before the 15th of December.

<u>Has it cost you to be conservatively invested?</u> 

On an absolute basis, yes, but not so much that it is a train-smash, but on a risk adjusted basis the answer is an emphatic "NO". (See table below)

Although the table at the start of this newsletter shows some very sexy looking returns (21.08% projected by year-end, so far…) coming out of the ALSI (the all share index), if one takes a longer view than this a very different picture emerges.

For "the longer view" I like to work on 5-year time horizons.

I have compiled a spreadsheet which I update monthly showing what things would have looked like had you been invested in the CMEFS Flexible Fund for those 5 years versus being invested equally across the 4 top South African "flagship" fund management companies, being Allan Gray, Coronation, Ninety One (previously Investec) and M&G (previously Prudential).

It then goes one step further than that, in that it then looks at what your investment would have done across 3 different risk profiled funds for each of these flagship fund management companies.

These 3 different risk profiles would be very broadly classified as (1) High Risk Equity only funds (2) Medium Risk or "Balanced" Funds and finally (3) "Low" (but not "no") Risk "Stable" funds.

Finally, the returns shown need to be considered against the risk of loss out of each of the risk categories shown based on a measure of risk known as the "standard deviation" measured over the period.

Now there is a very technical and complicated definition of how the standard deviation is calculated, but for ease of understanding sake, I am going to describe it as follows:-

It is the % by which the return expected might deviate, over the period measured, from the "standard" or "average" return one might expect over that same period.

So, if for example, you expected an “average’ return of 12% over the period and the standard deviation was 8, then in one year you might expect a return of 12+8 = 20% and in another year 12-8 = 4%.

Of course, these deviations are based on what you might expect when the markets are operating “**normally**” (whatever that is nowadays) and would NOT apply in an abnormal situation such as when the markets crashed in 2008.

Further, if you were to be lucky/unlucky enough to buy at the bottom/top of any one cycle, then at the bottom you could add 16% onto the norm or if you bought at the top, you would subtract 16% - that is to say you would “enjoy” a negative return of -16% in that year.

So, within that context, timing is everything!

These are the actual results between the 01/11/2016 and the 31/10/2021, bringing ALL costs to account, taken from the most recent available data.

Risk Space	Description	Actual return you would have enjoyed to date after all costs	Standard deviation (The higher the number the higher the risk of loss)	Worst case scenario in a “normal” market environment, depending on timing. (This would be subtracted from the return shown – shown in brackets below)
High	Equity Funds	8.07%	16.17	-32.34 (-24.27)
Middle of the road	Balanced Funds	6.75%	10.47	-20.93 (-14.18)
Moderate	Stable Funds	5.68%	7.32	-14.63 (- 8.95)
Low	CMEFS Flexible Fund	5.10%	1.17	- 2.34 (+ 3.93)

Now look at the next section. Scary.

The Markets: 

I subscribe to a number of newsletters that deal with all things financial. After a good many years in the business one is able to discern the “good from the bad” so to speak.

One such writer is John Hussman, a person I describe as a “propeller-head of note” in so far as things financial are concerned.

Now I have been following John’s newsletters for the last 10 years or so I guess, and he puts one out each and every month, like clockwork.

What he has NEVER done is pen an “interim” newsletter BETWEEN month-end newsletters. NEVER.

After penning this month’s (November) newsletter, I saw an “interim” one pop up in my email on or around the 22nd. And then ANOTHER “interim” one two days later, I think on the 24th.

I was so busy I did not set the time aside to read the first interim newsletter right away, but when the 2nd one arrived two days later, I somehow suddenly found the time, as this was VERY unusual behavior on John’s part.

Again he, like me, will say to you over and over again that no-one can “call” the top of the market, simply because it is absolutely true. Trying to “call” it is an absolute exercise in futility. What CAN be done however, is to measure relative valuations in the market, say compare the current valuations against past valuations and determine whether the markets are expensive or cheap… certainly in a general sense anyway.

Below is probably the snip from his most recent newsletter that says it all. (Emphasis my own)

“*Well, on Friday, November 19, we* ***hit the motherlode****. Across four decades of work in the financial markets, and over a century of historical data,* ***I’ve never observed as many historical indications of a market peak occurring simultaneously****. Noise reduction is always a process of drawing a common signal from multiple, partially correlated sensors, even if each individual sensor might be imperfect. The reason that we follow boatloads of these syndromes is the same reason we base our gauge of market internals on thousands of securities – uniformity conveys information.*

Emphatically – and this is important – my intent here is not to "call the top" of this bubble. Yes, this is a bubble in my view. Yes, I believe it will end in tears. Yes, the price investors pay for a given stream of future cash flows is inseparable from the long-term returns they can expect. ***Yes, if this bubble is ever to actually have a top, this would be a perfectly reasonable moment to expect one.*** *Still, my present intent is simply to share what we're observing."*

He is even now posting this information to twitter. Just saw it now. Most unusual and out of character. Say no more.

And even so, it is NOT the coming "crash" that concerns me most, but the period of recovery for those investors who have significant exposure to equity. Especially for retirees.

I remain conservatively invested.

Things are looking even less good by the week.

I trust you enjoyed the read.

Until next time then, do take good care of yourselves. Seriously. Please be careful with this 4th wave and new variant!

Kind regards. Nine, Charles and the team at CMEFS.