



When the Covid-19 induced share market crash was at its worst point in mid-March I went on a planned-for buying spree because the ShareFinder programme had warned me of the impending drop and predicted that it would be short and sharp.

As I told readers at the time, my buying list included Sasol, Hyprop, Zeder, Aspen and Famous Brands and all, with the exception so far of Hyprop, have made a lot of money for me. But the real winner was Zeder which I bought for R3.90 and which this week paid me a special dividend of R2.30 a share as a consequence of the sale of its holdings in the Pioneer Food Group.

Following the dividend, the shares fell overnight from a high last week of R4.33 to a low the following day of R1.66 and have now settled at R1.90. So, if you do the maths by subtracting the R2.30 dividend from my purchase price, I am left with a cost price of R1.60 for shares that today stand at R1.90.

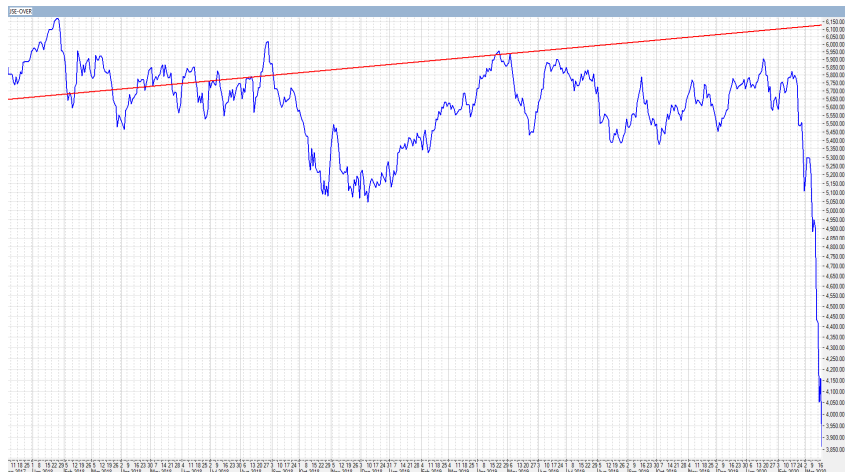
Then on Wednesday the company issued a “sum of the parts” statement which noted that, “Zeder's SOTP value per share is calculated using the quoted market prices for all JSE-listed investments and internal valuations for unlisted investments.” And the statement added that the SOTP, “amounted to R3.67 per share, taking into account the last traded closing share prices of Zeder's JSE-listed investments.”

So, if you have worked with me on this calculation, you will note that for a cost price of R1.60 I have bought assets worth, in this still very depressed share market, R3.67. So, I bought my shares at a discount of 56.4 percent and if you cared to buy them this week you could obtain them at a discount of 48.23 percent.

So, what could Zeder really be worth in a normal market? To try and answer that question a good starting point is to ask how much is the average JSE discounted at present and that is an easy calculation assuming you accept the consensus of multiple market sages who have long argued that the true value of any market over time is its arithmetic mean which is automatically calculated for any market by my ShareFinder programme as illustrated by the red line in the graph on the right of the JSE All Share Index:



The lesson to take to heart about market mean lines is that when the price is above the line it is expensive and below it cheap; it in other words represents an outstanding guide for long-term investors who I have always urged to save a tenth of their income on a regular basis but to ONLY invest when shares are cheap...ie when they are below their mean line. Provided you always invest in Blue Chips which, by my own definition are companies which have paid constantly-rising dividends for a minimum of ten years, you will NEVER go wrong is you employ this market mean buying guide.



So, referring to the graph above, I have now drawn it again in an expanded view so that you can see what the current average share discount is to the red line mean. If you examine the red line it is currently at level 6125 while the market is standing currently at 5003 from which you might conclude that the average share is at a discount of 18.3 percent of fair value.

Mean value lines are MOST ACCURATE when applied to overall market averages such as the JSE All Share Index and so I prefer to work with such indices. I could apply such a test to Zeder itself but would need to remove the value of the special dividend. Thus, I might conclude from my next graph mean line that, before the special dividend distribution, the shares should today be worth around R6.00. So, deduct R2.30 and you get a value today of R3.70 which is almost precisely the valuation the company this week set upon its current assets which is represented by the green line on my next graph.



What this implies is that until now investors have put little expectation of any growth taking place in the value of the shares as a consequence of the normally rising dividends whereas the truth about Zeder is that for the past five years dividends have risen annually by a compound average rate of 20.1 percent and, furthermore, over the past decade Zeder offered a compound average growth rate of 13.4 percent. Thus, it is not unreasonable to expect the company to increase its dividends in the long term by at least the average of these two numbers, i.e. by around 16.75 percent. And, of course, over time dividend growth is ALWAYS reflected in the share price mean which, if you look at the red trend line on the graph was only growing at 9.8 percent.

Could it be that the Pioneer investment was actually holding Zeder's growth back? Well most probably because Pioneer Foods has not done well in recent years. The table on the right gives you a quick snapshot. Over the past five years Pioneer shares lost 55 percent of their value.

Period	Close	Move	%move	High	Low	Volume
Month-to-date	8401	0	0.00	8401	8401	0
Quarter-to-date	8401	0	0.00	8401	8401	0
Year-to-date	10985	-2,584	-23.52	11110	8401	18,437,700
7 Days	8401	0	0.00	8401	8401	0
14 Days	8401	0	0.00	8401	8401	0
21 Days	8401	0	0.00	8401	8401	0
1 Month	8401	0	0.00	8401	8401	0
2 Months	10897	-2,496	-22.91	11000	8401	5,746,699
3 Months	10900	-2,499	-22.93	11000	8401	14,273,596
6 Months	10771	-2,370	-22.00	11110	8401	31,537,400
1 Year	8622	-221	-2.56	11110	6800	132,209,093
2 Years	11800	-3,399	-28.81	12194	6800	240,055,054
3 Years	16486	-8,085	-49.04	16570	6800	337,179,016
5 Years	18615	-10,214	-54.87	21164	6800	552,053,172
10 Years	3950	4,451	112.68	21164	3850	722,145,686

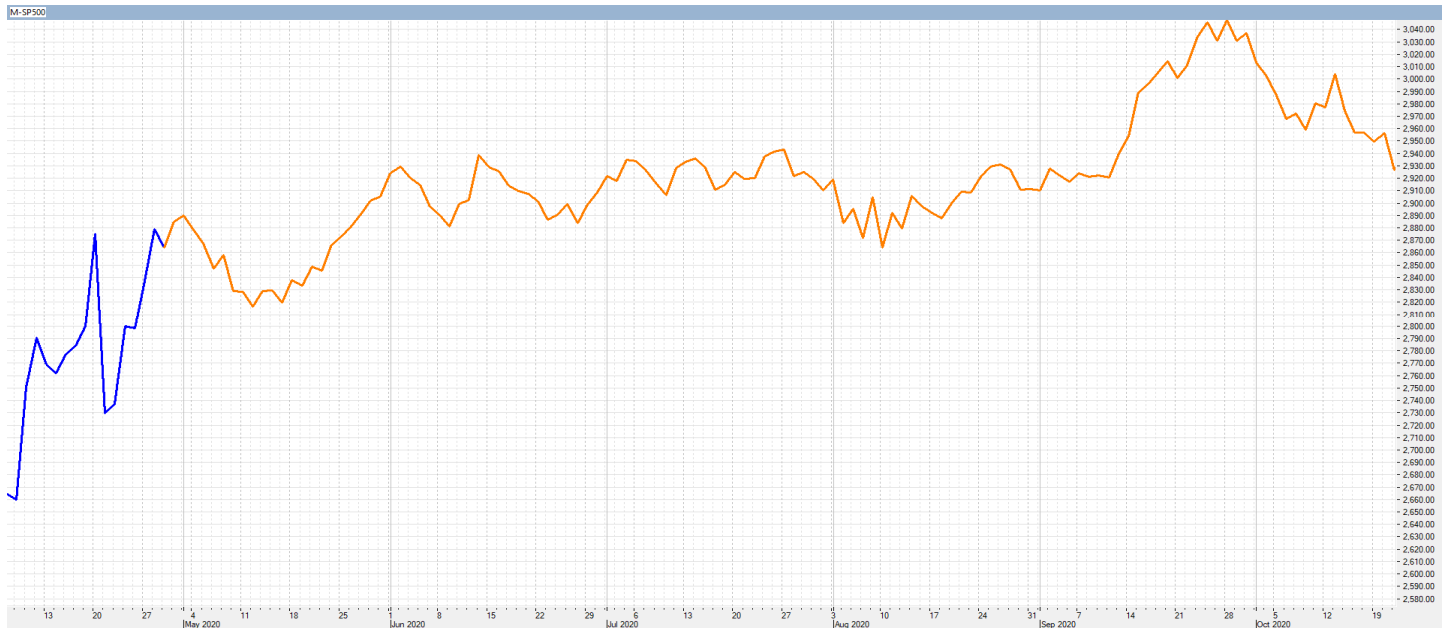
It is accordingly not unreasonable to conclude that the new Zeder, shed of this encumbrance, might move on to relatively stratospheric performance in the post pandemic period? I would like to think so. But regardless, the shares are clearly a bargain and I am very glad I bought them when I did!

My thumb nail estimate is that Seder will at least recover by the 19 odd percent represented by the overall market current discount, to which I would also add the likely dividend gain of at least 20 percent...and hopefully more as I have explained. Thus, I might hope that in a year or so my Zeder investment might be worth better than R5 a share.

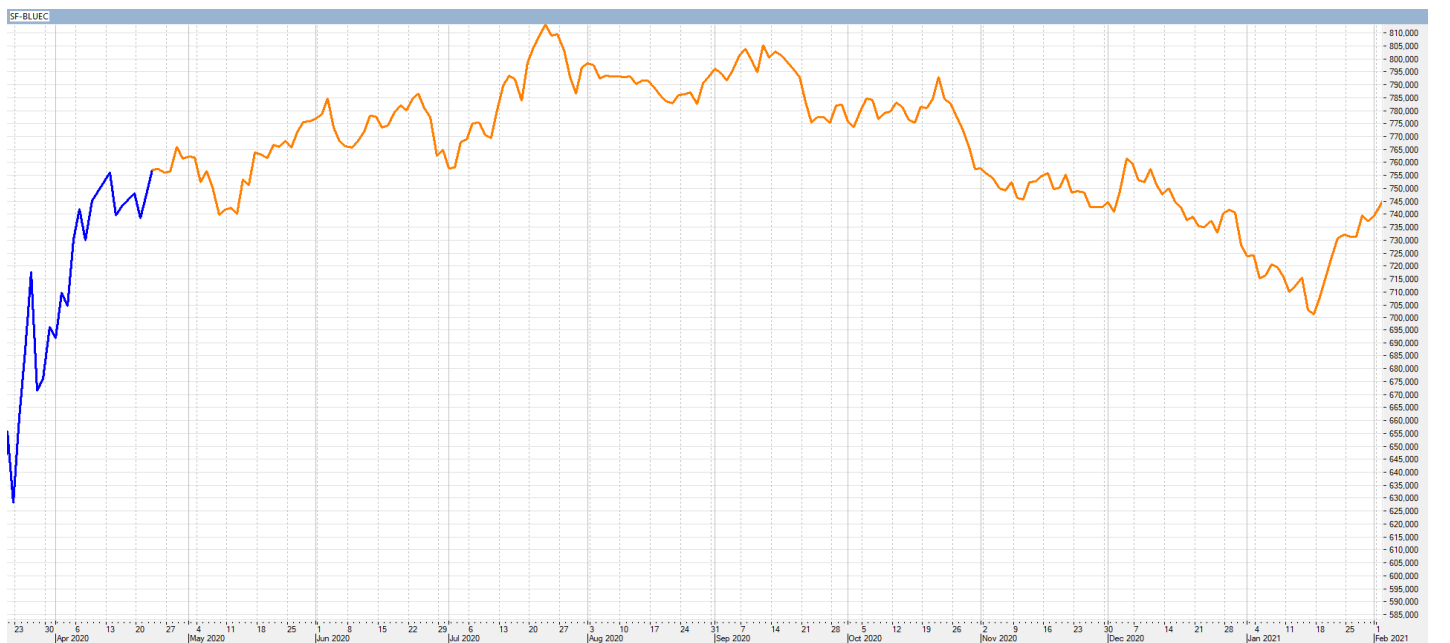
Meanwhile, Zeder circulated its shareholders this week, as JSE rules require it to do to advise them that fund manager Coronation had sold Zeder shares such that: *“Coronation Asset Management Proprietary Limited, on behalf of its clients has, in aggregate, disposed of a beneficial interest in the ordinary shares of the Company, such that the total beneficial interest in the ordinary shares of the Company held by it now amounts to 4.58% of the total issued ordinary shares of the Company.”*

Well. It will be interesting to see who took the right decision!

Meanwhile, the latest from SF6 projecting New York’s S&P500 index:



And JSE Blue Chips:



The month ahead:

New York's SP500: I correctly predicted the recovery with this week's weakness likely to be over by the middle of May followed by volatile gains until the end of September when the next sharp phase of weakness is likely. That view remains unchanged.

London's Footsie: I correctly predicted the recovery which I still see lasting until the end of May, downhill from then until early July and then another recovery until early October ahead of the next big down-turn. In the fortnight ahead, however, I see some weakness.

Hong Kong's Hangsen: I correctly predicted the start of a long recovery until January when the next down-turn is likely. In the short-term I still see declines until mid-May.

Japan's Nikkei: I correctly predicted the short-lived recovery and it is likely to be downhill until around May 11 before the next up-surge until the first week of June and then down-hill again until August before a recovery until late September.

Australia's All Ordinaries: I correctly predicted a worsening situation with the down-trend continuing until mid-August before it briefly recovers with further down-hill trending thereafter until year end. I failed, however, to predict this week's brief recovery which at most is likely to last until May 8.

JSE Industrial Index: I correctly predicted a modest recovery which has lasted longer than I expected and at most should be over by May 5.. Now it is most likely to be down-hill until the end of June followed by a brief July-long recovery and then a volatile decline thereafter.

Top 40 Index: I correctly predicted a brief recovery followed by a decline which I still see lasting until the end of June followed by a recovery until the first week of August.

ShareFinder Blue Chip Index: I correctly predicted the beginning of a more modest phase of recovery which I now see lasting until late July though interim volatility must be expected. From July 23 it is likely to be downhill again.

Gold shares: I correctly predicted declines from now well into 2021 and I continue to expect them.

Gold Bullion: I correctly predicted see weakness lasting until mid-June before a long recovery begins and that is likely to continue well into 2021.

The Rand/US Dollar: I correctly predicted modest gains until the third week of May and I still hold that view.

The Rand/Euro: I correctly predicted a volatile recovery which I still see lasting until mid-June followed by weakness until mid-July followed by gains until late October.

The Predicts accuracy rate on a running average basis over the past 743 weeks has been 85.69%. For the past 12 months it has been 96.54%.

Richard Cluver

The New York Times
Opinion
David Leonhardt

April 29, 2020



By [David Leonhardt](#)

Opinion Columnist

The historian Walter Scheidel wrote an eye-opening book a couple of years ago, called “[The Great Leveler](#),” about how economic inequality has typically declined in the past.

Scheidel’s argument was that disasters — natural and man-made — have been the driving force, ultimately reordering society in ways that rebalanced power and wealth between the rich and everyone else. He describes the “Four Horsemen” of inequality reduction as being war, revolution, state collapse and plague.

We are now living through our own modern plague, and yet the evidence so far suggests that it is worsening inequality, not reducing it. Consider:

- African-Americans, who already suffer from [lower life expectancy](#) than other racial groups, appear to be dying from the coronavirus [in greater numbers](#).
- Many white-collar workers are able to continue working from home. Many blue-collar workers have either lost their jobs — or [may soon face a choice](#) between returning to work and protecting their health at home. Already, some of the worst outbreaks have happened at [meat-processing plants](#) and in [lower-income communities](#).
- The stocks of the very largest companies — like Amazon, Walmart, Procter & Gamble and Microsoft — are faring better than the market as a whole, as [a recent Goldman Sachs analysis pointed out](#). That’s a sign that the virus may become yet another force that allows big businesses to increase their market share, because they are better able to withstand a crisis.

So why is this crisis exacerbating inequality? Scheidel’s work provides an answer to that question, too:

It isn’t the crisis itself that tends to reduce economic inequality. It’s society’s response to the crisis.

The Great Depression and World War II didn’t, by themselves, lay the groundwork for the American middle class. But the policy responses did: Social Security, labor union rights, worker protections, the Security and Exchange Commission, the G.I. Bill and much more.

In [a recent Op-Ed](#) — part of The Times Opinion series “The America We Need,” about life after the virus — Scheidel began by explaining how the bubonic plague led to higher wages for unskilled workers. As he explained:

But these outcomes were not a given. For centuries and indeed millenniums, great plagues and other severe shocks have shaped political preferences and decision-making by those in charge. The policy choices that result determine whether inequality rises or falls in response to such calamities. And history teaches us that these choices can change societies in very different ways.

If you are in the top 10% income group you need to understand what the Left is thinking now!

By Aroop Chatterjee, Amory Gethin and Léo Czajka*

The consequences of the Covid-19 lockdown are yet to be fully determined and understood. But one thing we can be fairly certain of – in South Africa its impact will be shaped by the country's inequalities.

Our study reveals that half of the adult population survives with near-zero savings, while 3,500 individuals own 15% of the country's wealth. The response to the crisis must take this into account to help the most vulnerable while still safeguarding fiscal sustainability.

Based on our new study on wealth inequality in South Africa, we propose a progressive solidarity wealth tax. This would allocate the fiscal burden of current interventions on those most capable of paying. It is in line with the recommendations recently made by the International Monetary Fund to equitably attain fiscal sustainability and better position the economy for post-COVID recovery.

We show that a wealth tax on the richest 354,000 individuals could raise at least R143 billion. That equates to 29% of the announced R500bn fiscal cost of the relief package.

Unequal distribution

A lot of studies show how extreme income inequality is in South Africa, but little has been documented about wealth. Net wealth is the sum of all assets less any debts. Assets include cash, bank deposits, pensions, life insurance, property, bonds and stocks. Debt includes mortgages and other loans such as retail store credit accounts or loans from friends, family and money lenders.

In our new paper, we combine national accounts statistics, household surveys and exhaustive tax microdata to assess the reliability of available data sources. We also provide the most comprehensive possible picture of the distribution of wealth. This is the first time this has been done in South Africa.

Better data is needed – about direct ownership, capital income and assets held through trusts. Nevertheless, our results give a good sense of the magnitude of the disparities. Three key results are worth mentioning.

Firstly, in 2017, the 10% richest South Africans (all adults with a net worth over R496,000) owned 86% of wealth, with an average of R2.8 million per adult. In contrast, about 18 million (the poorest 50%) were either in debt or had near-zero savings. With an average net worth of R486 million, the richest 3,500 owned 15% of wealth. This was more than the 32 million poorest altogether.

Secondly, these extreme inequalities extended to all forms of assets. The richest 10% owned 99.8% of bonds and stock – which accounted for 35% of wealth. The top decile also owned 60% of housing wealth and 64% of pension assets. Housing wealth amounted to 29% of wealth and pension assets to 33%.

Thirdly, we show that wealth concentration has remained broadly stable since 1993, and may even have increased within top wealth groups. Wealth inequality remains significantly higher than what could be estimated in Russia, China, India, the US or France.

Why wealth inequality matters now more than ever

Our findings are particularly relevant to the current crisis. South Africans are unequally armed to survive the contraction of the economy produced by the lockdown. Our paper helps get a sense of the size of the population likely to be under intense stress in the very short term.

Before the lockdown, about half of the population was already in debt, or had near-zero net wealth. Therefore, this crisis will at best sink millions of people further into indebtedness or force them to beg, loot or starve. Conversely, our paper shows that a minority of individuals are in a much less vulnerable situation.

The policy solutions needed to absorb the shock and recover fast must be carefully designed to take these factors into account. Principally, they need to reallocate resources to give everybody equal chances to survive the shock.

In this unprecedented crisis, the government announced a relief package with a R500 billion fiscal cost. One key remaining question is how such a plan will be funded.

The possibility of collecting additional tax revenue from those most able to contribute has not yet been brought to the table. We believe it should be considered. Our estimation suggests it would raise significant revenues. And it would allow the country to allocate the cost of the national response on the least vulnerable.

In the spirit of solidarity, a wealth tax could be part of the solution to safeguard long-run fiscal sustainability and inclusive growth.

How much could a wealth tax raise?

We propose a progressive wealth tax, which would apply only to South Africans with a net wealth currently superior to R3.6 million, that is the richest 354,000 (1% of the adult population).

The first bracket – all wealth between R3.6 million and R27 million – would be taxed at a 3% rate, the second bracket (R27 million to R119 million) at 5%, and all wealth above R119 million at 7%. Individuals with less than R3.6 million would be exempt. A billionaire would face a 6.7% tax rate: she would pay 3% on the fraction of her wealth higher than R3.6 million but lower than R27 million; 5% on wealth higher than R27 million but lower than R119 million; and 7% of the R821 million she owns above R119 million. This would leave her with post-tax wealth of R933 million.

Other tax schedules could of course be designed. The objective here is to give an order of magnitude of the expected revenues.

Taking into account the recent Johannesburg Stock Exchange All Share Index drop in value and assuming a 30% evasion rate (as available evidence suggests), we simulate that such tax would raise R143 billion. It would still leave rich individuals with very high levels of wealth: for each of the brackets, post-tax wealth would on average be R9.3 million, R50 million and R376 million respectively.

A realistic policy

Critics of a wealth tax argue that it would be too costly and complex to implement. But South Africa is well positioned to administer this tax cost-effectively.

Firstly, the tax base we consider covers very few individuals, reducing the administration required.

Secondly, South Africa already has in place third-party reporting by financial intermediaries straight into the South African Revenue Service, providing information on capital income and ownership. Existing municipal valuations could be used to value property assets. This would cover the major components of asset holdings, especially stocks and bonds.

Capital flight, through offshoring or migration, is a potential risk. We account for this by making conservative assumptions about avoidance and evasion, and still project sizeable revenues. There is also markedly more cooperation between tax authorities to clamp down on undeclared incomes and assets in foreign jurisdictions, including tax havens. The premise is not a given. Capital flight implies forfeiting opportunities that considerably enriched them for the sake of avoiding a tax that barely makes an impact on their total wealth. Importantly, the wealthy themselves have said now is the time for solidarity.

A wealth tax, contrary to popular opinion, would not necessarily discourage job-creating investments. Maintaining fiscal sustainability while sparing the most vulnerable is more important to ensure a quick recovery and attract investments. Moreover, inherited wealth has a significant role in South Africa: we find high levels of

wealth concentration even among 20-year-olds. Diminishing the importance of inherited capital with a wealth tax may actually be a better collective strategy to improve social welfare, including growth.

In light of the lessons learned from the Zondo commission of inquiry into corruption, taxpayers would need guarantees that this special tax will be properly collected and spent. The national treasury already uses ringfencing mechanisms to make revenue and spending for specific projects accountable. To answer potential criticism, the government could build on such rules to generalise more transparent practices. There may be theoretical implementation challenges of such a wealth tax. But we would argue that South Africa is well placed to overcome these.

When designing the radar for Britain during World War II, Robert Watson-Watt justified his choice of a non-optimal frequency as follows:

Give them the third best to go on with; the second best comes too late, the best never comes.
This radar was pivotal in allowing Britain to overcome a larger, more sophisticated German air force.

In our situation, we cannot let perfection be the enemy of progress, or in this case, survival.

- **Aroop Chatterjee, Research Manager: Wealth Inequality, Southern Centre for Inequality Studies, University of the Witwatersrand; Amory Gethin, Research Fellow – World Inequality Lab – Paris School of Economics, and Léo Czajka, Research fellow – World Inequality Lab – UCLouvain. Read the original article.**