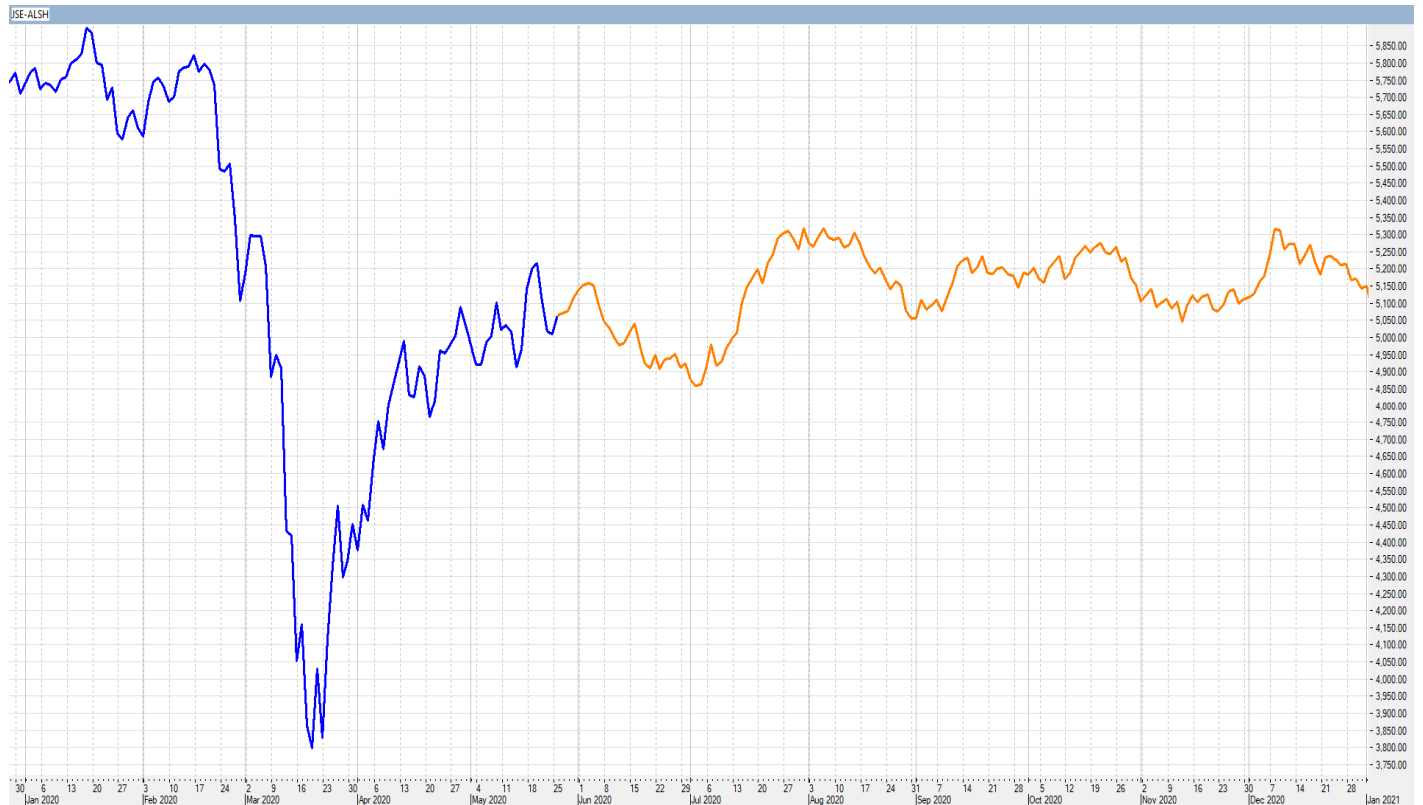




Some of the most interesting market guidance one can obtain is from watching how individual shares perform following a general market turning point; which shares are the winners and which are the losers whenever a bear market has bottomed out and, the reverse, which of them lead the pack down once a market has topped out.

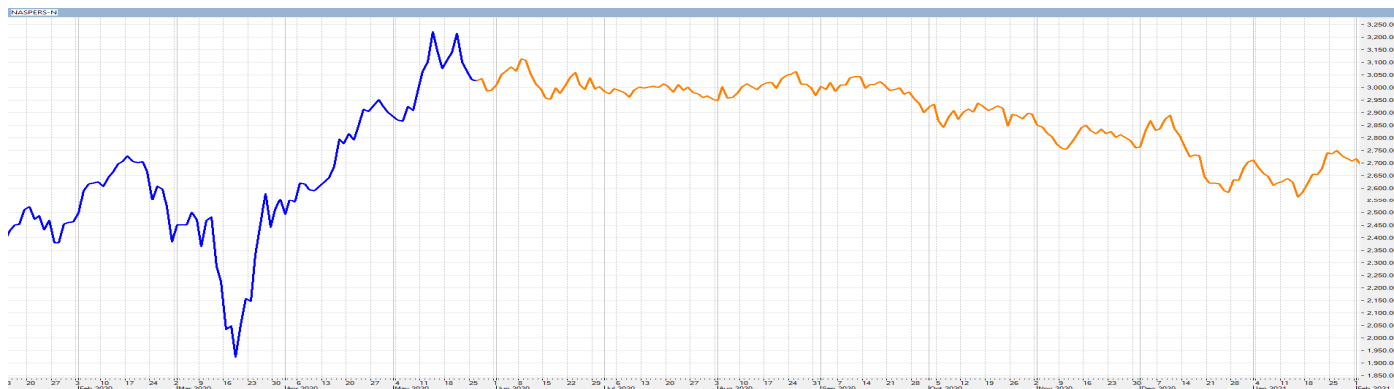
Such an opportunity occurred recently after markets bottomed in the wake of the Covid-19 crisis which saw the JSE All Share Index lose 35.7 percent of its value between February 17 and March 19 this year. Two thirds of that decline had been restored by this week.

To put that into perspective, I have reproduced ShareFinder's graph of the year so far together with its prediction that the overall market will probably peak at the end of July before moving into a reasonably volatile sideways trend for the rest of the year.



Overall, of course, the winners have been shares like Naspers which have scored massively having surpassed their February peak by mid-April and gone on to new peaks this month...

And as ShareFinder projects below, that is likely to be the high point of the year:



As I have several times detailed in this column, I sold two loss-makers in my personal portfolio during February because ShareFinder was warning that a market dip lay ahead and because I needed to neutralize the capital gains consequences of the Prosus share issue. I was consequently sitting with a satisfactory cash pile when the market tanked. And subsequently fell to what I considered to be ridiculously low levels.

Since the essence of good investment planning is to distribute your money more or less equally over all your assets, the crash provided me with a good opportunity to top-up on shares which had strong fundamentals but were under-represented in my portfolio. These included Aspen and Famous Brands while Zeder appeared to be a missing opportunity to add a new ingredient. And then there were two shares that had been so massively discounted that I could not resist taking big positions: Sasol and Hyprop.

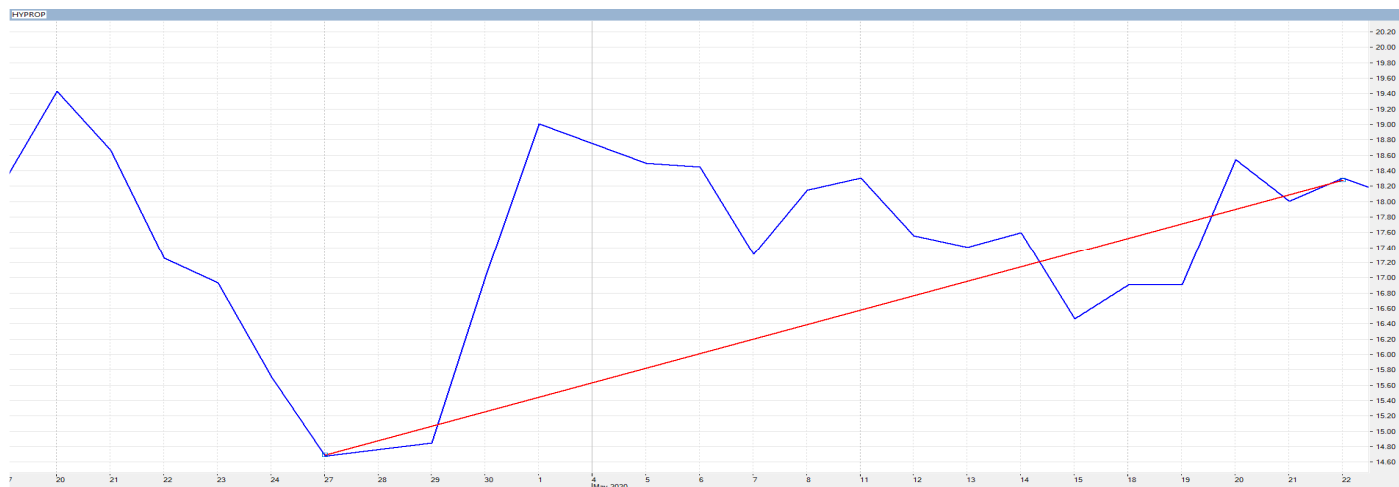
I have scored handsomely on all of them with the exception of Hyprop which until recently appeared to be trapped in a time warp of concerns that South Africa's shopping malls will never again open and that debt servicing and maintenance costs will swallow up this company and others like it before Covid-19 eventually releases its deadly grip upon the country. Worse, pensioners and others who saw the Property Reits sector as a blue chip source of better than average retirement income, have in many cases felt obliged to sell out, either because they believed they needed to protect what remaining investment capital they possessed or simply to create some cash to live on. And those sales further battered the sector.

So, did I make a terrible mistake by taking a large punt on Hyprop? The gamble I took was an observation that Hyprop shares had probably bottomed at R14.67 having lost three quarters of their 2020 value from a January peak of R56.89 but, applying a long-term growth mean to the shares I had determined that once South Africa had put the 2017 to 2020 bear market behind it a realistic value for these shares would be north of R150. Since I averaged my way into my Hyprop position at around R30, my thinking was that in the medium-term I might approximately double my capital value and, over time see around a five-fold increase.

Well, was I wrong? Let's start with the graph on the right starting with the price bottom on April 24. Those volume bar graphs along the bottom might not look like much but that upward spike on April 30 was the result of 12-million shares changing hands at between R14.67 and R19. And there has been steady buying ever since.

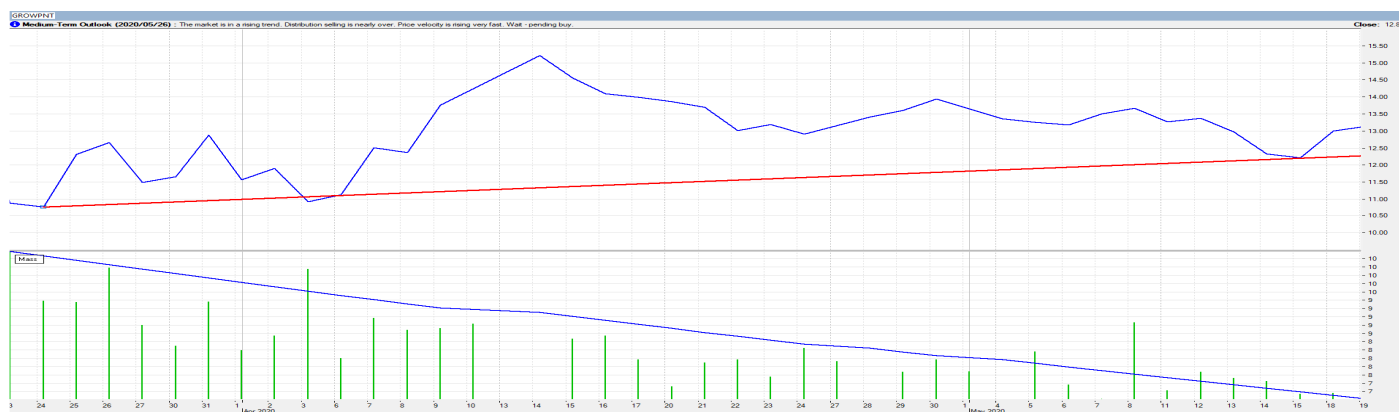


Below I have reproduced a short-term graph which suggests that Hyprop bottomed on April 25 and concerted opportunistic buying has since been pushing up the price of these shares over the past 27 days at a remarkable annual rate of 1 827 percent compound. That is the rate of climb of the red trend line I have drawn onto the graph.



Someone, or some people with the courage of their convictions, is buying Hyprop at an average rate of around three million shares a day. It is a classic case of bottom fishing which is taking out all the desperate souls who, to put it bluntly, are locking in their losses.

In contrast, I offer a graph of probably the bluest of the Blue Chip Reits, Growthpoint where buying is also taking place. Here the red trend line is rising on a far more modest rate of 135 percent compound though the daily volumes are considerably higher at around 14-million shares a day. Overall, as the falling Mass Indicator graph forming the lower part of the composite indicates, distribution selling is still taking place in respect of Growthpoint.



Time to delve into the fundamentals of these two shares to note as a starting point that Hyprop is standing at an unprecedented historic dividend yield of 20.4 compared with a Blue Chip average of 5.8 percent which is the consequence of a five-year compound average dividend growth rate of 10 percent which, when allied to its 20-year average price growth rate which, up until the bear market began in 2017, averaged 15.4 percent a year, suggests a total return capability of nearly 26 percent which resoundingly made it a Blue Chip worthy of inclusion in most portfolios.

By contrast, the marketplace has traditionally favoured Growthpoint at the ultimate Property Reit Blue Chip resulting in a higher rate of historic price growth, but here a 6.56 percent historic five-year compound average dividend growth rate underscored a pre-bear market compound share

price growth average of 17.8 percent resulting in a total return of 24.36 percent. So, on a total return basis there existed a reasonably hefty 4.3 percent edge in favour of Hyprop; more so if one notes the dividend growth differential.

Considering the return on capital employed, Hyprop's latest annual report for the year ended June 2019 suggests a return on capital employed of 5.03 percent while Growthpoint achieved 3.63 percent... another plus!

Critical to consider however is the debt ratio. In Hyprop's case against total consolidated assets of R33 653.572-million, Hyprop's total borrowings amount to R7 328.801-million, which leaves the company with an unutilized R12.86-billion of its 60 percent listing covenant.

Of some concern though was the fact that in February last year ratings agency Moody's lowered Hyprop's credit rating to Aa3.za from Aa1.za because the debt ratio of one of its major subsidiaries, Hystead, had increased from 33.4 percent in the previous year to 41 percent in order to fund acquisitions in Eastern Europe. To address this, Hyprop has proposed selling its sub-Saharan African interests in order to settle its US\$-denominated debt and accordingly reduce its LTV ratio by five percent. To date, however, there has been no further notice regarding these proposed sales.

Furthermore, investors should note that Hyprop is exposed to currency differential risk inasmuch as the group has extended loans to its foreign subsidiaries and these in turn report in Euro and US dollars while functioning in Dinar, Kuna, Denar and Lev and, while it would be wrong to necessarily infer anything sinister, it was a similar process of recording such items as financial assets rather than consolidating them into the accounts of Hyprop that allowed Steinhoff to artificially inflate both its assets and its revenue.

Next, the Hyprop group net asset value at financial year end was R95.78 per share which implies that at the current share price of R17.50 investors are getting the assets at neatly a sixth of their value, arguably the biggest bargain basement ratio in the company's history. Headline earnings per share at the previous year end amounted to 223.4 cents per share which suggests a PE ratio of 7.83 relative to the current Blue-Chip average of 10.8 which suggests the shares are by that measure 28 percent underpriced.

In conclusion; I don't think I made a mistake in buying the shares and current accumulative buying suggests that others agree. Certainly, the current stockbrokers' consensus rates the shares as a "Buy."

Have a good weekend!

The month ahead:

New York's SP500: I correctly predicted volatile gains which I still expect until June 2 when a brief down-turn is likely until the 8th and then another up phase until the 12th ahead of a decline until the first week of August.

London's Footsie: I correctly predicted the recovery which I still see lasting until June 2 and then it is down hill until the end of June or the first week of July before a final up-phase until mid-October.

Hong Kong's Hangsen: I correctly predicted the start of a long but volatile recovery until the end of December when the next down-turn is likely. Now I see some interim weakness until early-July.

Japan's Nikkei: I correctly predicted modest gains which I saw lasting until the first week of June and then it will be downhill until August before the next short up-surge until mid-September and then down-hill again until December.

Australia's All Ordinaries: I correctly predicted the end of the recovery. Now I see declines until the end of June followed by a brief two week up-surge in early July and then downhill again until the second week of August before the last up-surge until mid-September.

JSE Industrial Index: I correctly predicted declines which I expect to last until mid-June followed by a recovery until late July and then declining until the end of August followed by another gain until late October when a major down-hill phase is likely.

Top 40 Index: I correctly predicted a decline which I see lasting until the end of June followed by a recovery until the first week of August when a decline is due until the end of the month before the next recovery until late October.

ShareFinder Blue Chip Index: I correctly predicted a volatile recovery that is likely to end around between June 2 and 5 with declines until the first week of July and then gains until nearly the end of July following which it is likely to be down-hill until mid-January.

Gold shares: I correctly predicted declines. Now I see a month-long consolidation within an overall down-trend well into the new year.

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

The Rand/US Dollar: I correctly predicted gains until the third week of May. Now I see a modest further gains during June followed by a volatile weakening trend until late February.

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 since January 2002 has been 85.76%. For the past 12 months it has been 96.54%.

Richard Cluver

Abolish LRA and SA will become a mini-China – Anthony Levine on the God of Economics

Re-printed from Business News

Prefaced by Linda van Tilburg

When the ANC government introduced a suit of changes to labour laws in 2010 aimed at saving jobs; the business sector in South Africa warned that it would lead to job losses. If you speak to the owners of large factories or any business that employs a number of people in the country; they often tell you how much of their time is taken up in dealing with rigid labour issues and that the laws serve as a disincentive to employ a large workforce. They say the laws have had the opposite effect of what the Government set out to achieve; it does protect jobs but it does not lead to the creation of jobs. In this article by South African-born Anthony Levine, who lived in California, but has now settled in Israel, takes a look at how labour effects the economic principle of supply and demand and comes up with the idea of the God of Economics, which dictates that the demand for labour goes down, if the cost of labour goes up. “It doesn’t care about the people involved, whether they are good or bad, rich or poor, whether they are black or white, whether they are handicapped, old or young.” Levine says attacks on employers that provide jobs is “insanity” and suggests that South Africa could become a mini-China if the holy cow of worker’s rights could be abolished. “Keep it and the 75% (unofficial) unemployment rate will take down the country.” Levine also says South Africa should not fixate on the large gap between rich and poor; “it has no negative impact on the poor.” – Linda van Tilburg

Labour and the God of Economics By Anthony Levine*

One of the conclusions that I have come to in life is that there exists a god that is all-powerful and that enforces the basic law of economics. By basic law of economics, I am referring to the law that price or cost, supply and demand for any product, must balance. If you increase price; demand will go down, if you increase supply; price will go down, etc. The basic idea is that if you decrease the price of a product more people will be willing to buy it, and vice versa. A product whose demand increases or decreases substantially with price is known as a product with “elastic” demand. Demand for food, for example, remains about the same irrespective of price and therefore has “inelastic” demand.

This law acts on society like a god, by any definition of a god: You can’t touch it, you can’t smell it, you can’t see it, you can’t feel it – but it is everywhere at the same time, acting on everything. It acts on all products however small (like the price of an apple at the grocery store) up to the largest commercial enterprise. It is the same in all societies everywhere.

The God of Economics wants its law to balance, no matter what, and it does not care about anything else. It doesn’t care about the people involved, whether they are good or bad, rich or poor, whether they are black or white, whether they are handicapped, old or young. It just wants its law obeyed and it will punish those who don’t obey it and reward those who do obey it.

The difference between the Left and the Right, between Socialism and Capitalism, is mainly about how much they are prepared to obey this law. There is a range of how well this law is obeyed. It is not an all or nothing thing. The more this law is obeyed, the more the God of Economics will reward the person or society. Conversely the more this law is disobeyed, the more the God of Economics will punish and destroy.

You may wonder under the circumstances, why anyone would not want to obey this law fully, given the rewards and the punishments? The reason is labour. The god of economics regards human labour as just another cost of production, no different to steel or screws or any other of the inputs of production. It does not regard labour as people that deserve special treatment.

The law simply says if the cost of labour goes up, or even the hassles associated with dealing with labour (after all this is a cost of management time), the demand for labour will go down.

It becomes an issue of “workers’ rights”: Workers’ rights falls into the general category of what most governments perceive as their duty to “protect and help the poor and the vulnerable members of society”. It seems like a noble goal, but the God of Economics wants you to first create value (goods and services) before it will give you anything back. The God of Economics says that there is no way you can uplift the poor through social services and workers rights, no matter how much money you throw at it. You cannot make the poor richer this way, you can only make the rich poorer. The only way to help a poor person is to give him or her a job. Having or not having a job for a working age person is the difference between life and death. A person with a job has pride, money, social contacts and a social environment – a place to go to every day, and is gaining experience for his or her next job. A person without a job just tries to get through the day – does not have a life.

Ok, so how does the God of Economics allow a poor person to earn the right to be rich enough to have a life of comfort, with a house or apartment and a happy, optimistic safe family?

It works like this: Take the model of the immigrant family coming to America with very little. The husband gets a job as a street sweeper and the wife takes in washing or works in some sweat-shop. But they make enough money together to buy a small house and provide a stable family environment to launch the next generation. Maybe even a bit of extra cash to help the kids get a better education.

Skeptical? I am an engineer working at one of the world’s top high-tech companies in Israel. Two of my engineering colleagues at this company are senior electronics engineering leaders. The one’s father is a bus driver and the other’s father is a taxi driver. Their father’s father was probably also a street sweeper. So in just a few generations we have people who arrived with nothing (they were Jews kicked out of Iraq and all their possessions confiscated), see their sons in the top jobs of Israeli industry.

You start with a job, any job, no matter how menial and use this to improve the lives of the next generation. There is no other way to build a successful person, family, or country.

Ok, so where do jobs come from? Well, from employers. This simple fact seems to escape many people. Employers are often demonised as the “fat-cat bad guys that just exploit their workers”. “These people (the employers) must be cut down to size, their Ferrari’s confiscated and their evil practices of out-of-control greed stopped.”

To attack the one segment of society that provides the all-important jobs, is insanity. Governments can generously give workers “rights”, but it is the employer that actually has to provide the rights. To make it more difficult for him or her to employ by increasing the cost and hassles of employees, is just insanity if you need to increase the supply of jobs.

The common misconception is that demand for labour is inelastic. The assumption made by many governments is that employers have to employ to run their businesses. So, they just have to take it on the chin – do what the law requires. This assumption is wrong. Employers have wide discretion on their employment level. They can automate, manufacture overseas, discontinue labour-intensive products, downsize ...

Case study 1: South Africa

South Africa in particular went bananas with workers rights in the Labour Relations Act of 1996, in order to correct the historical wrongs done to the Blacks during the years of Apartheid. It seemed like the right thing to do, but “the road to hell is paved with good intentions”. We are now witnessing a titanic struggle between the SA government and the God of Economics, that is busy laying waste to the entire country.

I was a factory manager at a large electronics company in South Africa. I was also the company’s technical director and therefore part of the inner circle of top management. Our factory staff went from 200 workers before the Labour Relations Act (LRA), to 80 afterwards. Like employers everywhere in South Africa, after the LRA we initiated a program of extensive automation, discontinuing marginally profitable products, did not develop new products that would require extra workers, moved manufacturing to China and lastly, importing instead of local manufacture where ever we could. Everybody lost; the workers, the company and the country, and these were the poorest of the poor workers I am talking about.

Before the LRA there was just the Basic Conditions of Employment Act. This law said you had to pay your employees on time and give some minimum vacation and sick leave. That was it. You could hire and fire willy-nilly and sometimes we did.

Read also: ANC embraces Chinese ideology, ignores its development economics – Hagedorn

Pay was low. I was told to “push” the workers to get good production. However, that sounded too much like hard work to me and so I introduced a bonus system. I set a reasonable target level and then paid the team the labour unit cost of each additional product built, so it didn’t cost the company any more. Production doubled and their pay doubled. By the way; these were all uneducated men and women. I doubt any even had a Matric. Yet they had no problem quickly learning the work of building and testing what was quite sophisticated RF electronics. And they wanted to work. Each new job brought hundreds of applicants to our doors.

Then came the LRA. It brought super first-world labour laws to South Africa: Complex requirements for disciplinary procedures, unions, industrial councils, a whole tier of labour courts. Everything you did became tricky. If a worker was caught stealing and you fired him without the proper procedures, he would be reinstated by the labour court, sometimes a year later, with full back-pay. The company hired an expensive labour lawyer. Instead of managing the factory, I was now spending a lot of time dealing with worker reps, unions and the expensive labour lawyer.

To cut a long story short, employers stopped employing, even going negative. The economic equation did not balance. With a huge supply of labour, labour costs should have become low, otherwise demand would not increase to absorb the increased supply.

Workers salaries did increase dramatically, but now each working worker (aka the worker elite) was feeding 10 unemployed family members at home. The God of Economics would not let the worker earn more than his or her true economic value!

So, abolish the LRA and South Africa will be a mini-China within a few years. Keep it and the 75% (unofficial) unemployment rate will take down the country. The country is awash in guns. Low employment means low taxes for the government – so no money to fund a large police force. Unfortunately, workers’ rights have become a holy cow in SA. “We will not build the economy on the backs of slave labour,” to quote a previous Labour minister, now the Finance minister.

Case study 2: Japan

Japan began its high-tech modernisation effort in the mid 1960’s. It started slowly with cheap toys and other gimmicks. Then came cheap cameras and cars. We would laugh and call them “Jap crap” then. But Japan had a strategy. They constantly improved their products and their production facilities.

Every month a new model appeared – still “Jap crap” but slightly better. Suddenly, you looked around and Canons and Nikons had replaced Kodak and Polaroid. Toyota was the worlds biggest carmaker, not General Motors. More electronic parts were being made by Hitachi than by Texas Instruments.

I was living in San Diego, California, in the early 1980's when Japan's burst into twentieth century business was at its peak. Americans were in a state of shock. Everything they bought was Made in Japan. What happened to American economic dominance in the world? The transistor was invented at bell Labs in America, but it was the Japanese who commercialised it with transistor radios and audio equipment. The Yen skyrocketed in value and Japanese began buying expensive American real estate. It was Pearl Harbor 2 and this time the Japanese were winning. Worse, Japanese managers were long-term planners. They had five-year plans. American managers had three-month plans; determined by their quarterly results and how it would affect their stock price. The Japanese business juggernaut seemed unstoppable.

By 1990 Japan had the highest GDP per person in the world and the world's third largest economy. Then something strange happened. Japan's phenomenal growth faltered and stopped. It wasn't just a temporary pause. Japan's industry stagnated and no financial stimulus package or government intervention could revive it. Japan watched as the high-tech wonders of the 21st century passed it by. Cellphones, AI, big data, medical breakthroughs, the internet and even cars were now dominated by Europe, America and South Korea. By 2013 Japan's public debt was the highest in the world per capita and equal to twice its annual GDP. Add in an ageing population and you had a country in trouble.

What happened to this nation of clever people with a disciplined and hard-working workforce? The God of Economics had looked at Japan and had seen something that it did not like.

Japanese industry had brought to modern company life a feudal relic of the Samurai known as Shūshin koyō; company patrimony in exchange for worker loyalty. Companies promised to provide employment for life and other social benefits, in exchange for absolute worker loyalty. It was a mutual pledge for life. Labour was not based on supply and demand verses salary.

The system worked well at first, but when the world economy changed to the fast moving internet information age, many factories became obsolete overnight. Companies could not shed workers, neither could workers move to the more promising new industries.

The system's built-in time bomb of labour inflexibility killed any future growth of the country.

The gap between the rich and the poor

I want to tell you a story: There was an island in the pacific of poor fisherman. They eked out a living on the few fish that they caught in their old boats and the few vegetables and corn they could grow in the dry climate, with their few agricultural instruments. But they were a very happy and contented bunch – their gap between the rich and the poor was virtually nothing.

Then one day Bill Gates (the founder of Microsoft) moved to the island. The people were devastated. The gap between the rich and the poor was now astronomical.

Bill Gates decided to make even more money for himself and so he built a factory to process the fish. The people now had jobs and a steady income. Roads appeared and hospitals. Now that the people had money they could improve their boats and agricultural techniques. The people prospered and child death rates plummeted, but still the gap between the rich and the poor remained stubbornly high.

They called a meeting of their top economists, but they could not find a solution. Then one old man (who still remembered the good old days) stood up and said:

“I have two things to say: One; the gap between the rich and the poor is a lot of bullshit. It exists, but has no negative impact on the poor.

And, two, economic theory tells you that a large gap between the rich and the poor is a requirement to lift the poor out of poverty. Only the rich have money left over to invest and create jobs.”

Anthony Levine obtained his degree in Electrical Engineering from Wits in 1974. He then went on to do his Masters in EE at UCLA in Los Angeles. After this, he returned briefly to Johannesburg where he married his wife Jenny. They returned to California with the plan to get some work experience and ended up living in San Diego for 11 years. He also started an MBA at San Diego State University, did the core courses (economics, finance, marketing) but did not complete the degree. In 1988, they returned to South Africa with three kids where he worked for Ellies Electronics for 12 years as Technical Director. Finally, in 2002, they immigrated to Israel (with four kids now) and have lived there ever since. In Israel, Anthony works for Apple as an embedded firmware engineer in their R&D centre in Hertzlia.

Longer-dated bond yields show investor concern over SA's long-term funding prospects

Reserve Bank governor Lesetja Kganyago has noted the yield curve remains 'exceptionally steep'

BL PREMIUM

The decline in SA's bond yields from record highs in the lead-up to the country's ratings downgrade and the imposition of a lockdown that's now in its ninth week does not tell the full story.

Relative calm has returned to SA markets, with 10-year yields, which move inversely to the price, back at levels seen before Moody's Investors Service downgraded the country to junk in March, the longer end of the curve is still under some pressure, with investors concerned by SA's long-term fiscal prospects.

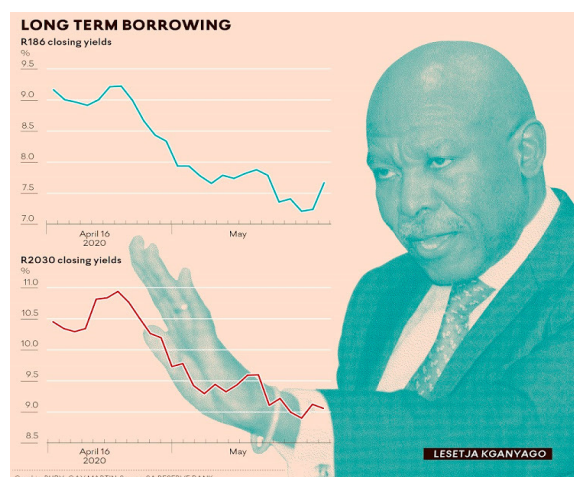
Reserve Bank governor Lesetja Kganyago noted last week that the yield curve remains "exceptionally steep", reflecting unease about the country's long-term borrowing needs.

Lower yields would normally be read to indicate investors — or lenders to government — have renewed confidence in the state's ability to manage its finances. The yield curve plots rates on bonds across different maturity dates and gives an idea of market expectations of future changes in interest rates. Investors usually demand higher rates to compensate for the inflation and repayment risk of longer-dated debt.

While the spread between two and 10-year bond yields has narrowed to 362 basis points, compared with 479 at the height of the sell-off in March, it's still about 191 basis points wider than it was six months ago. SA's R2048 bond yielded 11.08% at 5pm on Monday, a gap of 3.4 percentage points compared to the 7.66% on the R186 note that matures in 2026. On March 24, the spread was at 2.03 percentage points.

By Monday's close, the yield on the R186 was six basis points lower at 7.6%. It peaked at 11.15% on March 24, according to Infront data.

Bond yields on the longer end are falling slower as investors await a new budget from the government to detail how it will fund a budget deficit that may be double what it unveiled in February.



Already under pressure before the Covid-19 outbreak, SA's finances are set to suffer further from an economy that's expected to contract the most in more than a century. The SA Revenue Service has already said it expect a "catastrophic" shortfall of about R285bn in tax collection.

"Without sight of the revised budget and the resultant overall funding strategy it's difficult to say if the longer-dated bonds have priced in the majority or some of the risks," said Sasfin fixed-income trader Alvin Chawasema. "However, what we do know is that revenues will certainly underwhelm and the longer-dated bonds are expressing this concern."

Bank deputy governor Fundi Tshazibana said last week that the central bank, which has been buying government bonds in the secondary market as part of its efforts to ease liquidity conditions in the wake of the March sell-off, was not "really concerned about the steepness of the curve" which reflected the "the price that has been set in the market".

She also said after the latest monetary policy committee meeting that the steepness of the curve could be a reflection of the market's assessment of credit risk and increased supply.

The Bank said last week it expected inflation to average 3.4% in 2020 and 4.4% in 2021, below the midpoint of its 3% to 6% target band. That benign outlook and 2.75 percentage points of cuts in the repo rate have helped push down shorter-dated yields, while bonds with longer maturities have been held back by increased government issuance to fund its R500bn plan to support the economy.

Ashburton Investments head of fixed income Albert Botha said SA bonds, among the highest yielding in established markets, would continue benefiting as quantitative easing and zero rates elsewhere support demand for alternatives.