May we at ShareFinder International wish all our readers everything they wish themselves over this festive season together with prosperity and peace in the New Year!

What South Africans need now

By Richard Cluver

It is hard to remember a time when South Africans were collectively more pessimistic about our future than we are at present and yet we have every reason to be far more hopeful.

I know it is a platitude, but for a start please pause and look out of the window to remind yourselves that we live in one of the most beautiful countries of the world with the most equitable climate imaginable in a land richly endowed with natural resources. Every time I return from one of my many overseas journeys, I am struck by how good it is to be back and how easy the living is here compared with elsewhere.

So, what is the real reason for our gloom? I believe it is because most of us feel powerless in the face of a deep and protracted economic recession and rising taxes that have stripped us of much of our discretionary spending power. But, most of all, we are daily faced with proof that whole legions of people in positions of power in our land are corrupt and, most of all, that nothing seems to be happening to bring them to book. Our systems seem to have broken down and the only answer people can come up with is emigration.

What we are looking for is retribution and a reason to hope for a better future!

I have been accordingly heartened by an interview conducted by Investec's former CEO Stephen Koseff with President Cyril Ramaphosa addressing the burning issues of corruption and land reform and in which he laid out his three key priorities for getting South Africa back on the path to meaningful economic growth.

On the very contentious issue of land reform President Ramaphosa gave assurances that fears of "marauding mobs going around taking people's properties and grabbing land," are completely unfounded.

"That is never going to happen," he told delegates at the biannual congress of the Gauteng chapter of the SA Jewish Board of Deputies. "I will not allow that to happen."

The President went on, however, to highlight the vast inequality in South Africa of which all thinking people must be aware and why we need to demonstrate to everyone that significant progress is being made towards solving it. Ramaphosa accordingly emphasized that he saw his main mandate was to push forward the economic inclusion of all South Africans. He would do so, he said, in the framework of "a broader economic understanding that what we need to do is to grow our economy, to bring investments".

In that light he lauded the parliamentary process on land ownership that is currently underway, noting that it is the first time since the negotiated settlement following the end of apartheid that the entire country has been engaged in a formal national debate of this magnitude. Whatever the solution, he said, it will be one that "enhances the economic situation of our country. It will not harm agricultural production."

Ramaphosa singled out education as his number one priority. Acknowledging that progress had been slow, he reminded the audience "that the Apartheid education system did a lot of damage; more damage than people realise," and that a solution would not happen overnight.

On fixing the state and public institutions, he said that the last nine years had done untold damage to the state structures. "We are now focusing on rebuilding the capability of the state. More importantly, the regulatory process and the bureaucratic process need to be addressed as well."

Acknowledging that corruption over the past nine years has been "horrific," the president also said that discovering the true extent of the graft was a "cathartic moment," that has galvanised the leadership of the ANC, Parliament and civil society to stop the rot. "I have no doubt whatsoever that we will succeed in this task. South Africa will soon be corruption-free".

In conclusion, Ramaphosa said: "This time around, we are not sleeping at the steering wheel. We are wide awake and this plane is flying, and it's got capable people who are going to fly it."

To date we have seen only one previously untouchable ANC big wig go to prison for corruption.; Northern Cape ANC chairperson John Block has been jailed for 15 years. We need to see quite a few more to send out a message to lesser figures that such behavior will no longer be tolerated….and we need to see a lot of the stolen money returned. ·

Meanwhile I have previously written about the magnitude of global pension funds looking for a safe investment home and why so little of it flows to the southern tip of Africa; because of tainted global perceptions that the Rule of Law is not strongly supported here.

Just half of one percent of the 50 odd trillion US dollars available for investment could set the whole of Africa alight if it were poured into productive infrastructure projects.

So we need to change those global perceptions. But it is not going to happen until Mr Ramaphosa and his colleagues can reassure land-owners that their property rights will be protected under their proposed redistribution without compensating policy. Nor will it happen until South Africa can show that money invested here cannot be plundered by rapacious politicians.

What we are all really waiting for is a good reason to hope that old fashioned honesty and integrity are alive and well in this country. Provide that and all the rest will very likely follow.

What might, in the meantime, unlock trillions of Rands of investor capital which has been frozen in investment portfolios would be for Ramaphosa to announce he intends repealing capital gains taxes.

Every year that passes, most investments increase in capital value by an amount which over time at least corresponds with the inflation rate. Thus, while every investor thus grows richer in capital terms, the buying power of the income they receive off their investments is reduced by a like amount.

The effect of this is that the investor is no better off and is significantly worse off when for whatever reason he is obliged to dispose of an asset when capital gains taxation claims a very large portion of the capital. Faced with this dilemma it is arguable that the majority of investors nowadays will only opt to dispose of a capital asset when forced to do so by economic necessity.

The resultant effect is that trillions of Rands are no longer being invested in the most efficient manner. Meanwhile, successive Ministers of Finance have publicly acknowledged that wealth taxes such as estate duty and CGT generate limited revenue relative to ever increasing administration costs associated with it as well as the perceived double taxation implications when both estate duty and CGT are applied at death.

GDP growth figures released this month make it clear that South Africa has finally grown itself out of economic recession. But if we are to end the scourge of poverty and employment we need to achieve growth figures 10 times better than the current estimate. In the face of the coming elections, fixing our social problems could take longer than Ramaphosa can politically afford. However, ending CGT could well be the quick fix that would achieve that.

The reluctance to end wealth taxes, even though they often yield less than they cost to administer is seen as a political ploy to appease the trades unions since they are seen as a weapon against our grossly skewed Genii coefficient, the vast difference between rich and poor in this country.
I might finally add, however, the very wise quote by the late Sir Winston Churchill that for "a nation to try to tax itself into prosperity is like a man standing in a bucket and trying to lift himself up by the handle".

Global financial markets are reacting to two forces at work in the US.

By Brian Kantor

One concerns what Fed Chairman Jerome Powell might do to the US economy with interest rates and the other concerns what President Donald Trump might do to the Chinese economy with tariffs.

Interest rates set by the Fed might or might not prove helpful for the US economy, given their unknown future path. It is not the President but market forces that are restraining interest rate increases in the US.

It is the US bond market itself that has eliminated any rational basis for the Fed to raise short-term interest rates. Should the Fed pursue any aggressive intent with its own lending and borrowing rates, interest rates in the US marketplace, beyond the very shortest rates, are likely to fall. It is not the President but market forces that are restraining interest rate increases in the US.

Hence the cost of funding US corporations that typically borrow at fixed rates for three or more years and the cost of funding a home that is mostly fixed for 20 years or more, would likely fall (and so make credit cheaper).

The term structure of interest rates in the US has become ever flatter over the past few months. The difference between 10-year and two-year interest rates offered by the US Treasury has narrowed sharply. 10-year loans now yield only fractionally

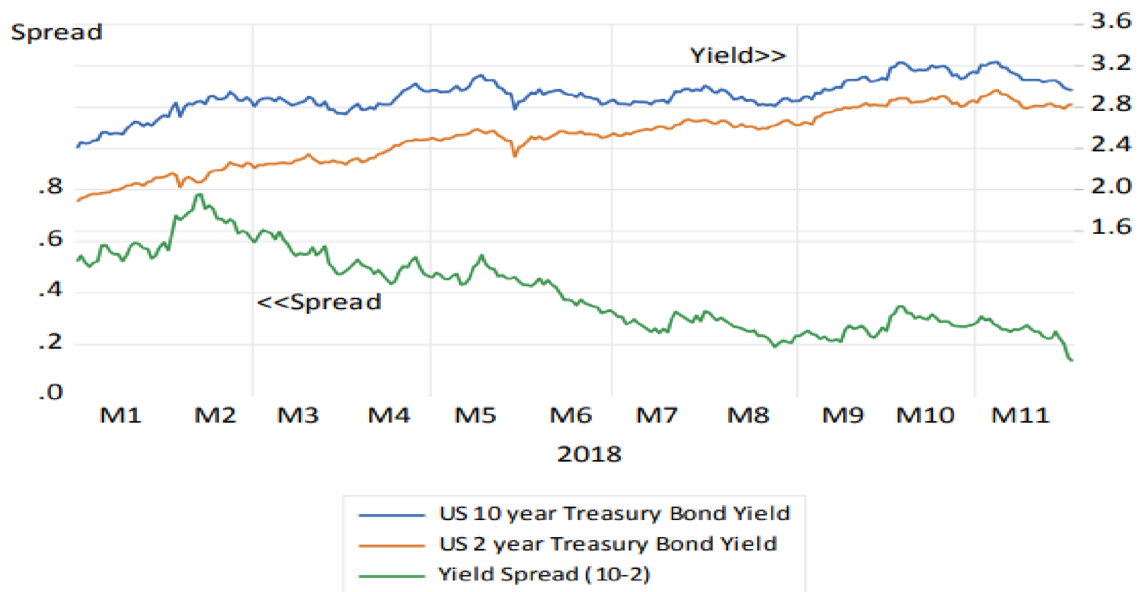
more (0.13 percentage points as at 5 December) than two-year loans *(see figure 1)*

This difference in the cost of a short-term and long-term loan could easily turn negative (longer-term interest rates falling below short rates, should the Fed persist with raising its rates). It is unlikely to do so beyond the 0.25 percentage point increase widely expected in December, for term structure reasons.

The US capital market is not expecting interest rates to rise from current levels in the future. Given the opportunity to borrow or lend for shorter or longer periods at pre-determined fixed rates, the longer term rate will be the average of the short rates expected over the longer period. Lending for two years at a fixed rate must be expected to return as much as would a one year loan (renegotiated for a further year at prevailing rates). Otherwise, money would move from the longer to the shorter end of the yield curve.

By interpolation of the US Treasury yield curve, the interest rate expected to be paid or earned in the US for a one-year loan in five years' time has stabilised at about 3.2% or only about 0.5 percentage points more than the current one-year rate. These modest expectations should be comforting to investors. They are not expectations with which the Fed can easily argue- for fear of sending interest rates lower not higher.

The market believes that interest rates will not move much higher because market forces will not act that way. Increased demand for loans at current interest rates are not expected to materialise. They are considered unlikely because real growth in the US is not expected to gain further momentum and is more likely to slow down from its recent peak rate of growth. Furthermore, given the outlook for real growth, inflation is unlikely to pick up momentum, for which lenders would demand upfront compensation in the form of higher yields.



Source: Bloomberg and Investec Wealth & Investment

The more important known unknown for the market will be Donald Trump and his economic relationship with the rest of the world.

The market, of course, might change its collective mind – redirecting the yield curve steeper or shallower. This, in turn, would give the Fed more or less reason to intervene helpfully. Interest rate settings should not unsettle the marketplace. They are very likely to be pro-cyclical.

But the more important known unknown for the market will be Donald Trump and his economic relationship with the rest of the world. Perhaps Trump himself can also be helpfully constrained by the marketplace. The approval of the marketplace would surely help his re-election prospects. Figure 1: Interest rates in the US and the spread between 10-year and two-year Treasury bond yields

The Importance of Europe

By John Mauldin & Victor Hill

Many of us don't fully grasp how important Europe is to the US and global economy.

We may soon get a lesson on that. I've talked about Italy's ongoing debt crisis, which is not improving, but Europe has other problems, too. Worse, events are coalescing such that several potential crises—all major on their own—could strike at the same time, and not too long from now. As I've been saying for about three years, there is no reason for the US to have a recession on its own. I think events elsewhere will push us into it, and Europe is a really big current risk. I know from my visits to Europe and discussions with friends there, they see all sorts of problems with Trump and particularly his tariffs.

However, another concern is that the various actors in Europe are not playing nice with each other. I tell my European friends the same forces that yielded Trump are coming to a European country near them. In some places, they already have.

Last week my British friend Jim Mellon sent me a fascinating article with an alarming title: "News from Euroland—Recession Imminent.

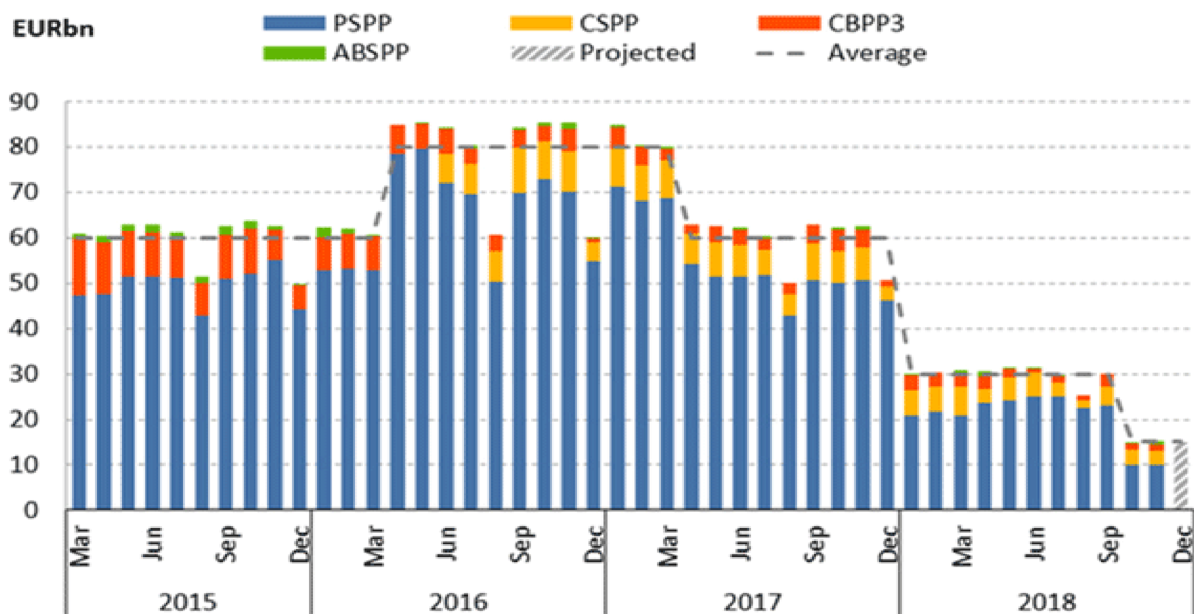
Now, I am not one who falls prey to click-bait headlines and I'm also well aware Europe's economy is weakening. I would not have said recession was ***imminent*** but reading this article left me more than a little concerned. The author, economist Victor Hill, ties events together in ways many haven't considered.

Hill begins the piece this way.

> ***Across Europe, and particularly in the 18-member Eurozone, the economic news is sobering. It's now clear that the credit crunch in emerging markets which has played out over most of this year, plus the slowdown in China, are having negative consequences in Europe. Yet, despite the ongoing trauma of Brexit, the UK is cruising along relatively smoothly—for now. A number of critical events are about to coincide…***

The first such event is the impending end of the European Central Bank's quantitative easing "Asset Purchasing Programme," which has been propping up asset prices with wholesale purchases of bonds, stocks, and anything else that isn't nailed down.

Mario Draghi and his crew borrowed our Federal Reserve's plan and, if possible, made it even crazier. You can see in the chart they have been stepping down purchases. The pace should reach zero in early 2019. But this doesn't account for assorted other loan programs, which some would like to see continue or even expand. Germany opposes all such policies and I think will get its way, especially since Draghi will be leaving next year.



This means the Eurozone is about to lose a monetary drug on which it has grown highly dependent. But those 18 nations will not be the only ones affected. The larger EU needs a thriving core to stimulate growth for the whole continent.

Note that Draghi will finish his term as ECB president in October 2019. Economists (what do they know?) project he will make his first interest rate increase just one

month before he leaves, in September. That means taking rates from -0.40 bps to -0.20, still below zero.

In all likelihood, his replacement will have to be approved by Germany. What will be the new president's appetite for negative rates even in the face of recession? Will he listen to the Bundesbank? Will the ECB once again expand its balance sheet? What is left to buy? All good questions with no answers yet but potential market dangers.

And if Europe falls into recession earlier in 2019, will Draghi reverse himself and resume expanding the balance sheet, buying yet more assets that are not nailed down? The Italians would certainly like that.

European Disunion

Hill's second "critical event" is Brexit, the latest plan for which is set for a December 11 vote in the UK's Parliament. As of now its prospects look dim, at least without changes that the EU side ***says*** it won't accept. That may not be true because, as we have learned, European officials are masters at vowing inflexibility and then bending when forced.

But let's have some sympathy for Prime Minister Theresa May. She is dealing with a rebellion in her own party, has lost numerous votes and it is not clear she can force her (let's call it) Brexit-lite proposal through Parliament.

This deal has monster implications for economics and investments and you really need to pay attention. I think I would vote against, not that anyone in Great Britain will care, as it seems to me that her compromise leaves Europe with more control over what a "final" agreement would look like. It's not exactly what the "leave" crowd originally wanted. But in reality there are no good choices. If this is voted down, I see real chances for problems everywhere.

Another national vote might seem sensible, except that would look like the elites keep taking votes until they get the outcome they want. It would make a large part of the country upset no matter what. As I said, no good choices…

Regardless, it is highly uncertain what happens next. The UK gave formal notice it would leave the EU on March 29, 2019, whether terms of separation are reached by then or not. A "hard Brexit" would be chaotic, to say the least, as it would leave businesses trying to operate in a legal vacuum. World Trade Organization rules might serve as a backstop in some matters but the massive trade volume between the UK and EU would certainly slow. Can they walk that notice back? Fudge a little bit on the date? This is the EU. They can do anything they bloody well like. Damn the rules and full speed ahead…

Books to guide your investment

The Philosophy of Wealth
How to identify the long-term share market winners
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Footsteps To Fortune
How to identify medium-term investment shares and effectively time the market
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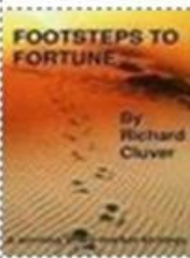
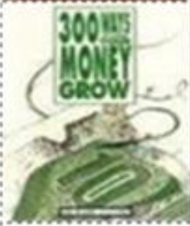


Investment Without Tears
Richard Cluver's original best-seller: how to get started on the share market R130

How To Make A Million
A step-by-step guide to the creation of investment wealth R130

300 Ways To Make Your Money Grow
300 Investment growth solutions R130



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On the other hand, remaining in the EU would enrage the millions who voted to leave and probably bring down the May government. Where it would go from there is anyone's guess. It is hard to even imagine "democratic socialist" Jeremy Corbin as Prime Minister. So, both economies are probably in for a shock unless some miracle produces orderly separation terms in the next three months, which seems unlikely.

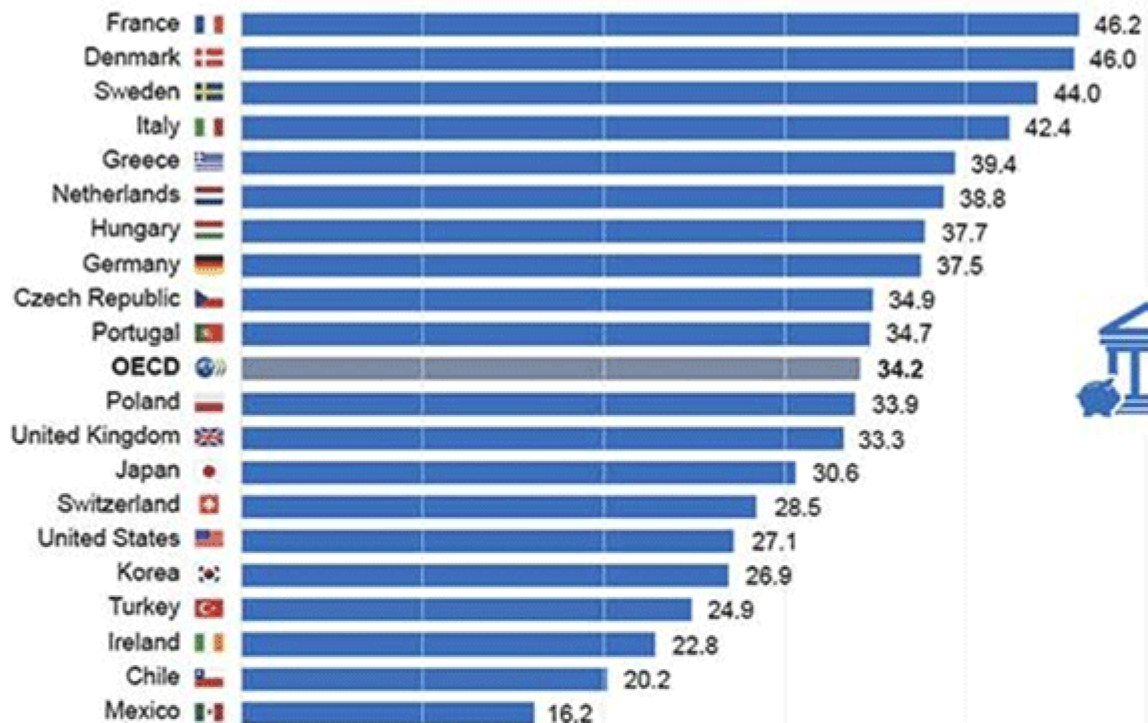
The third critical event, says Hill, is the growing Italian crisis, which I've been warning about for quite some time. That kettle is getting ready to boil over. Now banks in Italy are having trouble refinancing their bond issues, which is forcing them to curtail lending to an already-weak private sector. Rising mortgage rates are cutting into consumer spending. Italy is arguably already in recession but the situation looks likely to get worse—which is a big problem for its creditors, mainly Germany, which we will discuss in a bit.

But Hill says, I think correctly, that the Italian crisis is no longer just economic, if it ever "just" was. It is emblematic of a culture war that is pitting anti-immigration populist movements against "elites" they believe are hostile to their interests. As happened elsewhere, unemployed and working-class people are losing faith in the system. We see this most recently in the violent gas-tax protests in France.

This protest movement has an altogether different feel when you pay close attention. It is not just about higher fuel taxes. It is about almost half the country being angry at the educated city-dwelling elite while the brunt of increased taxes falls on an increasingly burdened rural middle class. The French government now consumes 46.2% of GDP, making it the most-taxed OECD nation. Even a slight tax increase affects the working class disproportionately. And when it increases taxes on something like diesel fuel, which is critical in rural areas, it is particularly hard.

Tax revenues continue to increase in the OECD

Tax as a percentage of GDP for selected OECD countries (preliminary 2017 data)



Note: Data for Japan refer to 2016 as preliminary data for 2017 were not available.

Source: OECD (2018), Revenue Statistics 1965-2017

In Europe and around the world, we see this pushback against what is seen as an elite group at the top (the "Protected") which pays no attention to the problems of their less successful "Unprotected" brethren. And those brethren are demanding attention.

This "morality play" is spreading through Europe. We now see German political patriarch Wolfgang Schauble backing a candidate to replace Merkel as head of the CDU (Christian Democratic Union), who is openly courting the same voters that have left their party and gone to the anti-immigration and populist Alternative for Germany (AfD). That means a conservative push for Germany and a more populist approach for mainstream parties.

The common thread running through these events is the idea of a united Europe. This idea was a driving force in the foundation of the European Union and is common in the establishment and/or "elite." Up until a few years ago, the idea was popular across the political spectrum but support has weakened as economic times changed. It was never particularly feasible, but the effort made sense for a continent so damaged by centuries of repeated wars. The problem is that the EU can't achieve its goals unless it gets stronger and much of the public has had its fill of centralization. I don't know how they can solve this. Brexit, if it happens, may turn out to have been the test case for a full dissolution.

How that will unfold is hard to predict. For now, there are more immediate problems. Victor Hill thinks "a disorderly Brexit will be the spark that sets the Eurozone

tinderbox aflame in the first half of 2019." The tinderbox is already full in Italy and France. It won't take much heat for that kettle to boil over.

But that's not all.

Trade Threats

Speaking of unity, the Buenos Aires G20 summit was a chance for world leaders to forge common ground on important global issues. That's not exactly what happened but President Trump's trade discussion with Chinese president Xi Jinping looked initially like a bright spot. They agreed to stop making things worse for a few months, at least. Markets were more sceptical after digesting the news—rightly so, at least from my standpoint.

As I've said, there are real issues with China on intellectual property and more. It is not unreasonable to ask for an open and fair playing field. China is no longer an emerging market nation. It has emerged, at least the eastern half has. Beijing should play by the same rules as the rest of the developed world. But getting agreement with China is going to be a hard slog.

One encouraging but little-reported G20 event: US Secretary of State Mike Pompeo and Treasury Secretary Steven Mnuchin gathered their peers from the smaller G7 group for an unscheduled dinner. According to Ian Bremmer, they made significant progress on working together to solve the China issues. This should be positive if it continues.

Meanwhile, however, Louis Gave explains why problems with China may be bad news for Europe at a time when Europe doesn't need any more challenges (bold is mine).

> ***It is no secret that Trump is surrounded by men who want to "take China down," who have argued at length that China is a house of cards built on unsustainable credit, and that all the US needs to do is give a gentle nudge for the whole edifice to come crashing down. So far, this talk of China's vulnerability has proved way off-target. For all of the dire predictions of an imminent debt crisis and financial meltdown, China is still standing very much upright.***
>
> ***So, if Trump wants a win, where should he look? If a long cold war of attrition with China doesn't look promising, perhaps bashing Europe—specifically Europe's auto industry and lack of defence spending—could prove more attractive, especially as Europe is now politically rudderless and economically slowing. My bet would be that in the coming weeks, Trump stops speaking about China, and instead starts bashing Europe. And doubtless his favourite targets will be France and Germany, perhaps as payback for the slights he endured at last month's commemoration of the World War I armistice. If nothing else, Trump has shown that he is a firm believer in the old adage that revenge is a dish best served cold.***

I pay attention when Louis speaks. He often sees events that happen "around the curve." His premise is simple: The automotive industry drives the German economy. Germany, in turn, drives the European economy. So, if Trump decides to follow through on the car tariffs he's threatened, it could be a serious blow. German auto executives met with him in Washington this week but the threat is still alive.

Oh, and one more thing. Deutsche Bank, Germany's financial crown jewel, seems to be in deep trouble. Its shares, which never recovered from the 2007–2008 ugliness, dropped to all-time lows this week after German police raided the bank's offices in a money-laundering probe. We don't know exactly what the fire is but there sure is a lot of smoke. Other European banks are not exactly thriving but DB seems to be in particular trouble.

It is hard for us in the US to realize how important European banks are. European businesses, particularly small ones, get almost all their financing from banks. When Italian banks have trouble funding their bonds, that means Italian businesses will suffer.

So, add all this up. We could see Europe faced with monetary tightening, hard Brexit, an Italian breakdown, popular unrest not just in France but all over, a trade war and a German/Italian bank crisis ***all at the same time***. Again, this is not a far-off possibility. It could all be happening in the next three or four months.

If some combination of these crises develops into a perfect storm, the pain won't stay in Europe. US, Canadian, Latin American, and Asian companies that do business with Europe will lose sales and have to lay off workers. Lenders everywhere who own Euro debt will face losses. Highly leveraged derivatives could blow up, forcing bailouts and currency interventions. We don't know where it would lead but certainly nowhere good.

And it will end up being played out in the equity markets all over the world. Stay tuned…

The markets have been quite volatile for the past few weeks. My preferred ETF trading strategy, called Mauldin Smart Core, has performed well in this environment. Full disclosure, I have recently closed my own personal investment advisory firm down and moved my registration to my longtime friend Steve Blumenthal of CMG. As a personal business strategy, he has all the infrastructure and team to support me, and it really does allow me to spend more time researching and reading and writing. I am co-portfolio manager for the Mauldin Smart Core strategies which is available as a mutual fund or managed accounts.

We have done a report called "Investing During the Great Reset," which explains our strategy and rationale. If nothing else, it will show you how I want to deal with the risk of a coming potential bear market and give you ideas for doing it yourself or in your own firm. Of course, I hope that some of you will become clients. But I am perfectly willing to help you whether you do or not. I want as many people as possible to get from where we are today to the other side of The Great Reset.

Letters to the editor

SIR: RSA's Govt debt is say 60% of GDP and other places are "worse", meaning the Govt debt is even higher relative to GDP, as pointed out in your very interesting review.

It seems from the figures you presented that a large number of countries have HUGE debts. My first comment is where did they "borrow" the money from? The IMF and World Bank don't possess enough funds to have loaned these vast sums of money to the majority of countries on earth e.g. USA has

'borrowed" more than its total GDP per annum. If all and sundry are heavily indebted (to whom?) it seems the financial world MUST, overall, be bankrupt. There is no source to "borrow" from. Or is there some issue I have missed?

But the world continues to function using borrowed money.... so, what is this borrowed money... whose money is it? It seems the lenders will never get their money back. OR, is this just a fallacy in that countries worldwide have simply been printing money (QE) by the trillions of US$'s. This includes USA, all of Europe, Japan... who else prints? Since paper money can be printed what is the real store of wealth? The cash in e.g. USA is in fact over 100% borrowed, or is "owed" to some mythical lender? It seems these debts are in fact just book entries, since money can be created on a printing press, provided the goods and services produced give the country concerned a big enough reputation to maintain the value of its currency. e.g. Japan can print money and survive financially, but Zimbabwe cannot print and survive. This leads to asking what does "reputation" mean? Is it size of GDP?

My second comment is:- So it now seems to me that another factor must be added, since the average person in USA is far better off than in RSA, even though our debt is 60% of GDP and, for example USA's is more than double that %.

What one needs to look at is **GDP per capita** AND the actual value of the GDP should be measured in, say, Swiss Francs (not in US$ since USA can just print more.). Surely this will give a better indication of which country's citizens are better off. RSA's biggest problem is too many people relative to GDP.

Simply having a debt of "only" 60% of GDP as in RSA compared to say 120% somewhere else does not make clear that we are in fact worse off than those with 120% debt. Only GDP per capita measured in say Swiss Francs would show this. i.e. all GDP's need to be converted to stable Swiss Francs and only then can comparisons be made. But the problem is how does one then include the actual buying power of 1 Franc in say USA compared to 1 Franc in Mozambique, etc?

And so on. So, China having a bigger economy than USA i.e. a larger GDP is not a useful comparison since it has 5 times the population, so making it a much poorer country than USA. Yes, China has huge reserves of $US but this is just a book entry, and if their dollar pile is spent rapidly the $ must lose value, just as rapidly. What are your views on this issue? And those of your expert commentators?

It seems my thesis is that comparisons of National Debt as a % of GDP are probably misleading. Our own so-called GDP is unknown since our so-called 3rd world economy cannot be valued here. Some other measure of wealth is needed, and how does one value QE printed "book entry" wealth (as in EU), and unrecorded hidden economy wealth (as in Greece)? And so on.

Getting down to RSA, one wants to ask just how bankrupt is our Government as opposed to just how bankrupt are the people i.e. how does one distinguish Govt debt from personal debt (of all the population and businesses etc)?

Hugh Brooks

The quick answer to your thoughtful letter is that the debt is owned by the world's pension fund members. The US 320% number is a bit more complicated because it takes into account the actuarial provisions of unfunded pension funds, i.e. those which have been guaranteed by government, province and municipalities but lack capital to back them. Such funds have never bothered to try and build up capital amounts in respect of their "annuitants"

Bottom line is that when there are insufficient working people from whom pension fund contributions are being collected in the unfunded case, to meet the costs of paying pensions to retired people, the tax-payer has to step in. And when the total income of governments from taxes is less than the total interest requirement of lenders (the funded pension funds) then in the absence of further borrowing (which is becoming increasingly impossible) the system collapses.

When governments become obliged to renege on paying the interest on their sovereign bonds which form the backbone of private pension funds, they will in turn collapse.

So, we face a domino effect which is likely to operate like a financial avalanche that will destroy the world's monetary system. Like most avalanches, we will likely never know how or when it will be triggered but none of us will escape the impact.