WEALTH

SPRING 2019

OLD MUTUAL WEALTH JOURNEY

Recently, politics had the biggest impact on the markets in living memory. Politicians are unable to offer policy certainty – both locally, debating issues such as prescribed assets and the NHI; and abroad, where Brexit and trade wars dominate the agenda. Investment markets remained volatile so far in 2019, after 2018 saw more volatility than during the stock market crash of 2008. After the recent Twitter storm by the president of the United States, reigniting trade wars with China, Wall Street has seen an elevated recession risk, according to economists.

However, increased volatility doesn't mean that you can throw your investment principles aside. In fact, in these times it is important to stick to the following investment principles:

1. **Diversify to manage your risk**
   The adage of never having all one's eggs in one basket rings true when investing. To move all of one's assets into luxury goods is not advisable. Always ensure that you have a balanced portfolio including shares, bonds, cash and property – locally and globally.
2. **Have an investment strategy and stick to it**
   We're all different and your strategy should be based on your unique needs to ensure that you achieve your life goals.
3. **Stay invested**
   It's time in the market and not timing the market that counts. The sooner you start investing, the better your chance of good returns – regardless of market volatility.
4. **Don't panic and act by switching or selling**
   The advent of digital instant communication has led to a now common phenomenon known as fake news. The popular view is that fake news is used by politicians and those with a political agenda. However, a Yale study also categorised company "advertorials" in the media, which are not labelled as such, as the biggest fake news driving performance of stocks in the USA. In addition, social media has enabled everyone to be a publisher. The Trump trade wars, for example, wouldn't be so destructive if they were not fought over Twitter.

Increasingly, investors put their money into art in times of economic uncertainty, as a way to avoid putting all your eggs in one basket.

According to the 2018 Wealth Report, the Knight Frank Luxury Investment Index 2017 had grown 7% over the preceding 12-month period and 126% over the 10 years, when measured on a weighted performance basis. This index tracks how luxury investments are performing across the world. Over the longer period, exotic cars recorded the biggest growth of 334%, followed by coins, wine, jewellery and stamps at 192%, 182%, 132% and 103% respectively. However, over the 12 months, art outperformed all other luxury investments, recording a very strong 21%.

High-net-worth clients are diversifying into luxury investments because:

- Luxury investments are a joy to own;
- They are rare or one of a kind and the next person is willing to pay more to own them, ensuring capital appreciation;
- Investments in tangible assets is a haven for capital retention; and
- The ownership of these assets is a sign of caring and being informed. It also enhances relationships and belonging, building one's status among peers.

In this issue, we focus on art as a luxury investment and a form of diversification.

Enjoy!

Kerrin

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ART AS AN INVESTMENT OPTION

ART WAS THE TOP-PERFORMING ASSET IN THE KNIGHT FRANK LUXURY INVESTMENT INDEX DURING 2017, RISING BY 21% TO OVERTAKE RECENT FRONT-RUNNERS, WINE AND CLASSIC CARS.

DIVERSIFYING INTO ART INVESTMENTS

Consider this for a second, a well-recognised and traded asset class that can resist a stock market crash, fake news, trade wars, service delivery protests and junk status. What if that asset class can also help to build pride among communities and countries, telling stories, in vivid colours or not, painting a clear picture of the temperament over the ages and how the artists saw themselves, and the world? The history of art provides an opportunity to discover how previous generations lived. From the Stone Age cave paintings of fertility goddesses to the warrior art of Mesopotamia, Egyptian art of pyramids, Greek idealism of perfect proportions, Roman realism, the Indian/Chinese serenity, all through to modern and post-modern art, it tells us more about our history.

Irma Stern's *Arab* sold for R20 million in 2019.

Source: Strauss&co Fine Art Auctioneers

The most expensive painting ever sold in South Africa was Irma Stern's *Arab Priest* at over R52 million.

Irma Stern's works also take up the first four positions in the most expensive category, as well as numbers seven to ten.

However, one must bear in mind that the prices fetched by those in the top 20 are mostly facilitated through museums, and only an elite few can afford them. However, South Africa offers a more accessible art industry that is well curated and regarded.

Buying art should be considered in the same way as stock trading, by considering the environment factors. However, the most important thing is investing for the long term. Also, one should seek out an art adviser, in the same way as looking for a financial planner, who is close to developments and the art market.

Art travels very well. And we're delighted that the advent of democracy has improved the governance, protection and security around it. What this means is that art will now tell a more accurate history, being as close to the source as possible, or being owned by someone whose agenda is not to rewrite history, but to conserve it.

In the past, the wealthy used to commission art pieces for their homes. When these became huge collections, they even built homes for them. These homes turned out to be art conservatories, and we have a lot to thank them for. Today, this practice continues across the world, with architecture and art still intertwined as in the time of Michelangelo. The best art becomes more valuable over time. However, even King Louis XII of France could not have imagined that Leonardo da Vinci's masterpiece Salvator Mundi, a painting he commissioned in 1605, would one day be the most expensive in the world, fetching US$450 million!

LOCAL ART

South Africa boasts the 4 000-year-old rock art by the San (Bushmen) hunter-gatherers, which is the richest collection of rock art in Africa. Due to this collection, UNESCO inscribed the Drakensberg as a mixed natural and cultural world heritage site in the year 2000. In the early colonial era, the amazing visuals of abundant flowers and plants, people and landscapes were captured to send back to families overseas. A more engaging form of art came to life at the end of the 19th century. The rise of the apartheid era brought with it new story-telling and this was the time that South African art was at its most diverse, though segregated, which gave rise to underground resistance art. Democracy brought with it an openminded view that started to look at crafts as art. This movement is still growing and is hopeful in its inclusion of all forms of art.

African art makes up only about one-hundredth (R12 billion) of the global art market value, with South Africa holding R5.5 billion of that.

According to the 2018 South Africa Wealth Report, in South Africa, art has moved from being a hobby to an alternative investment class which is growing fast. Over the past 10 years, fine art prices have increased 28% outstripping global prices, which have recorded "only" 12%. This is because of rising interest in this type of investment as well as the growing number of high-net-worth individuals at a steady pace of 8% in 2017.

ART AS A RESILIENT INVESTMENT

The attractive returns on art over the last few years have outperformed many other investments and the art market has become an independent, efficient and a liquid market on all continents. Along the way, art has proved its resilience, resisting the fallout from global political and economic crises, such as 9/11 and the financial crash of 2007/8.

There has been a rapid increase in the art-buying population and a significant reduction in the average age of market players, including buyers. The emerging markets have caught the theme, as art has expanded into Asia, the Pacific Rim, India, Africa, the Middle East and South America.

PERFECT FOR A LEGACY

Considering that leaving a legacy is one of the key objectives for most wealth clients, an art collection is a perfect fit.

FUTURE-FIT

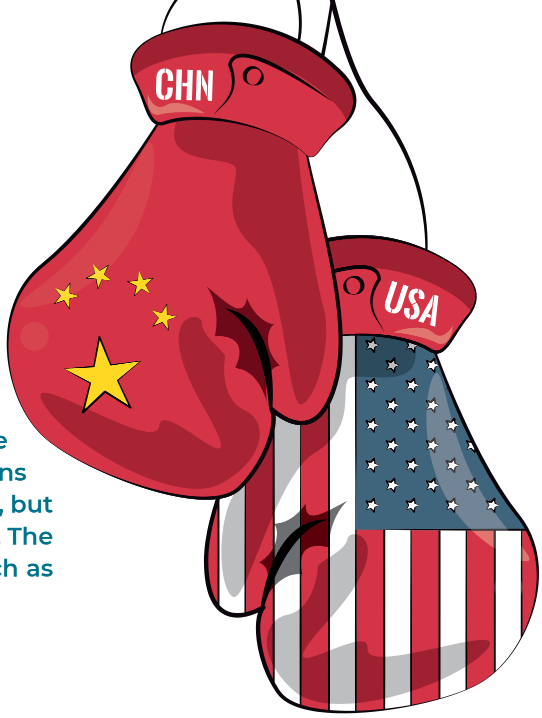
As with everything else, social media has a huge influence in terms of what art is currently growing among the youth. Instagram, with almost a billion followers around the world and the younger generation sharing their art including food, music and fashion design, has become the next frontier for wall art. Even though graffiti art advertising is mostly seen in the United States and Europe, the rate of sharing on Instagram and other social media platforms means that the East and emerging markets are catching up. In addition, the fact that the average age of current buyers is decreasing signals sustainability for this investment form.

In this fast-rising market, internationally renowned South African artist Sonny is the best example of a wall artist. He creates large-scale paintings of endangered wild animals to raise awareness and funds for the environment and sustainability. Sonny has painted murals in New York, London, Canada, Russia, Miami, Ireland, Amsterdam and South Africa. He donated R215 000 – a percentage of his sale price of *To the Bone* artwork from his sold-out solo exhibition in New York.

Sources: Knight Frank Wealth Report 2018, Business Insider, www.art.co.za, @sonnysundancer (Instagram)

Banksy is an anonymous England-based street artist and political activist active since the 1990s. In October 2018, he used technology to both create and comment on art. When his 2006 painting *Girl With Red Balloon* was sold at auction for US$1.4 million, the painting largely destroyed itself by a hidden remote-controlled shredder.

TRADE WARS AND CURRENCY WARS



Things got wild very quickly. In July, US equities were at record highs, supported by the prospect of an interest rate cutting cycle and progress in the US-China trade talks. These two assumptions proved wrong. The US Federal Reserve (Fed) cut rates as expected, but was reluctant to confirm the further easing markets had priced in. The Fed will probably still reduce rates, but not necessarily by as much as investors want.

Donald J. Trump @realDonaldTrump **Aug 5**

China dropped the price of their currency to an almost a historic low. It's called "currency manipulation." Are you listening Federal Reserve? This is a major violation which will greatly weaken China over time!

A BIT LATE TO MANIPULATE

Trump accused China of currency manipulation, first on Twitter, and then through an official statement from the US Treasury. During all the years that China did manipulate its currency, the Treasury avoided labelling it as such. (The last time was in 1994.) Calling it currency manipulation now is years too late and inaccurate. Since Trump launched the trade battle early last year, the yuan has lost some 12% against the US dollar, somewhat offsetting the impact of tariffs. This is hardly dramatic though. If anything, Beijing has been trying to prevent the currency from falling too much.

Four years ago, in August 2015, a small devaluation in the yuan caused great alarm on global markets and fear inside China that capital flight would accelerate. (When people think a currency might weaken, they often try to sell out before it happens, setting off a self-fulfilling prophecy.) Many Chinese firms, especially property developers, also borrowed heavily in US dollars, and a weaker currency will make servicing their debt more expensive. Back then, the fear was that Beijing was losing control of its currency; now it is using the currency tactically, and will want to avoid a disorderly decline.

CURRENCY WARS COME HOME

The rand breaking the R15 to the US dollar level needs to be seen against this backdrop of severe market volatility. Where there is risk aversion, traders sell the rand. August is also summer holiday time in the northern hemisphere, with market liquidity thinner than usual, exacerbating any swings. The overall narrative around Eskom and South Africa's fiscal challenges also don't help.

For rand-based investors, the weaker currency does offset some of the declines of global markets and supports rand-hedge shares. On the other hand, a weak rand tends to be negative for interest rate-sensitive shares and bonds. The Reserve Bank views rand weakness ominously, but in the current climate its response might be different.

For one thing, the global backdrop is deflationary, while the oil price has fallen below US$60 per barrel. This means upward pressure on inflation is likely to be largely insignificant. If other central banks are cutting left, right and centre, including the all-important Fed, it creates room for the Reserve Bank to follow suit, or risk standing out like a sore thumb. After all, they are cutting for fear of an economic slump; we should do the same.

Things are uncertain and choppy now. The global flight to safety means that US$14.5 trillion of bonds trade at negative yields, mainly in Europe and Japan. No major economy has long bond yields above 2.5%. As unpopular as they are now, high-yielding South African assets will appear attractive when the dust finally settles.

RAND TO THE US DOLLAR

Source: Refinitiv Datastream