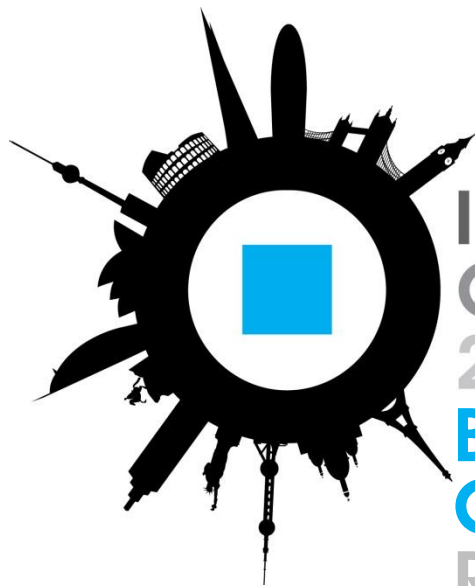


# INTERNATIONAL CONFERENCE 2015



INTERNATIONAL  
CONFERENCE  
2015  
**BUSINESS  
OVERVIEW**  
ROY ETLINGER

16 years



# Our new offices



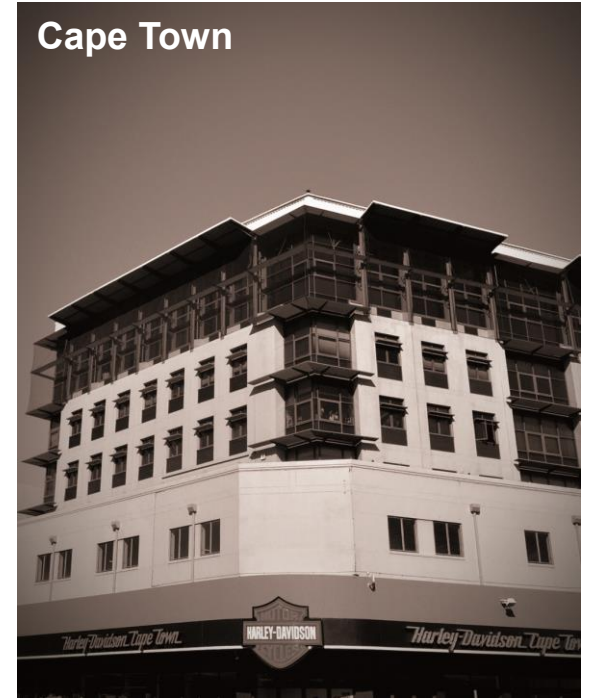
London



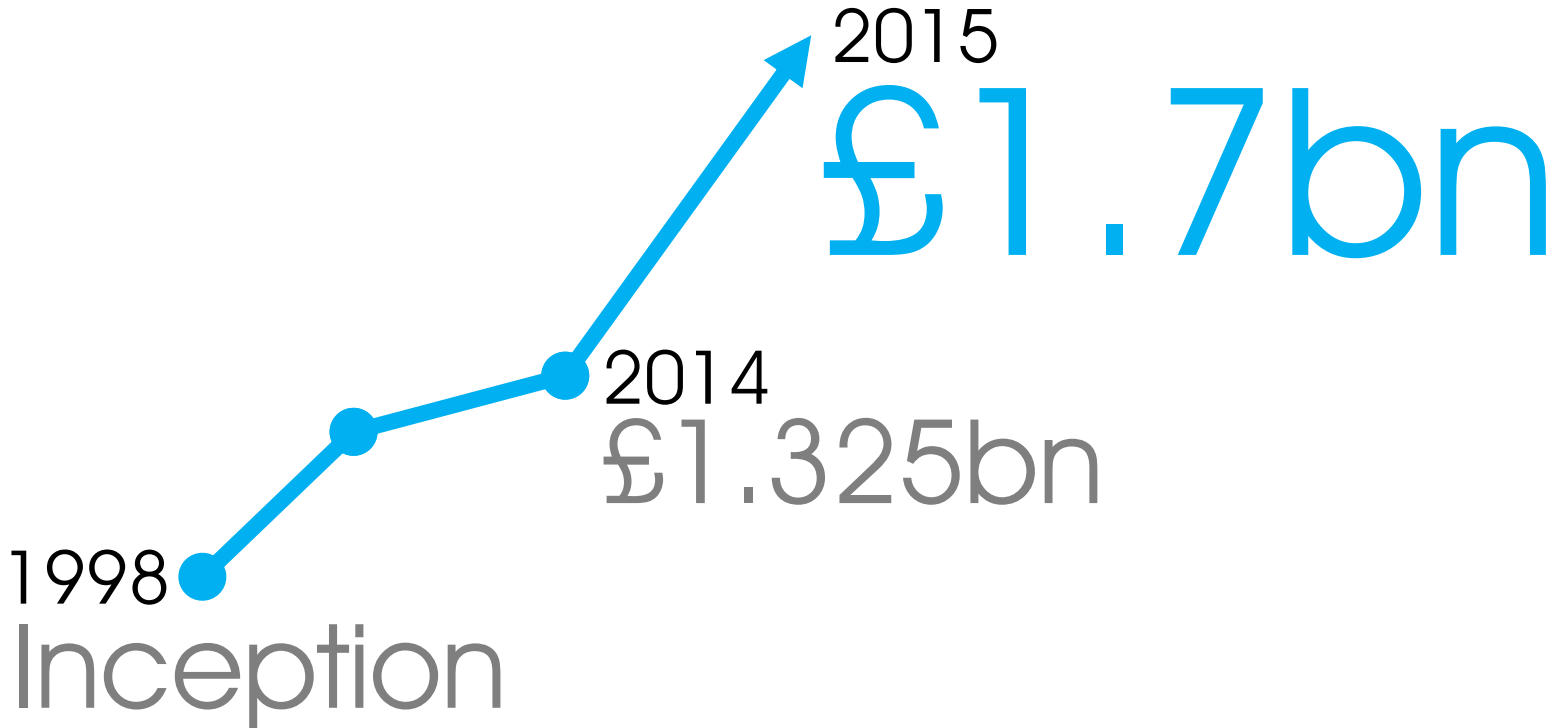
Johannesburg



Cape Town



# Assets under administration



# Outsourcing solutions growth



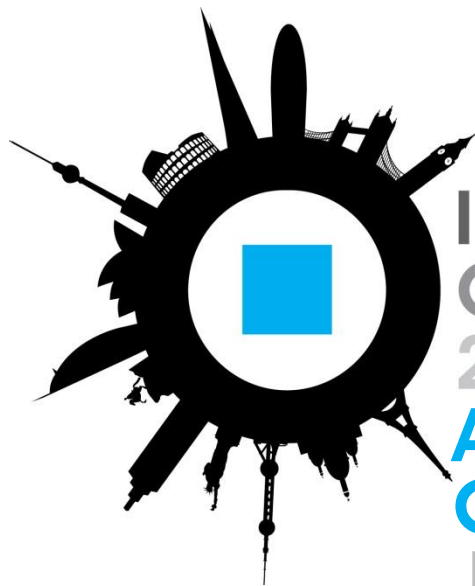
# Compliance and regulations



The best substitute  
for experience  
is being

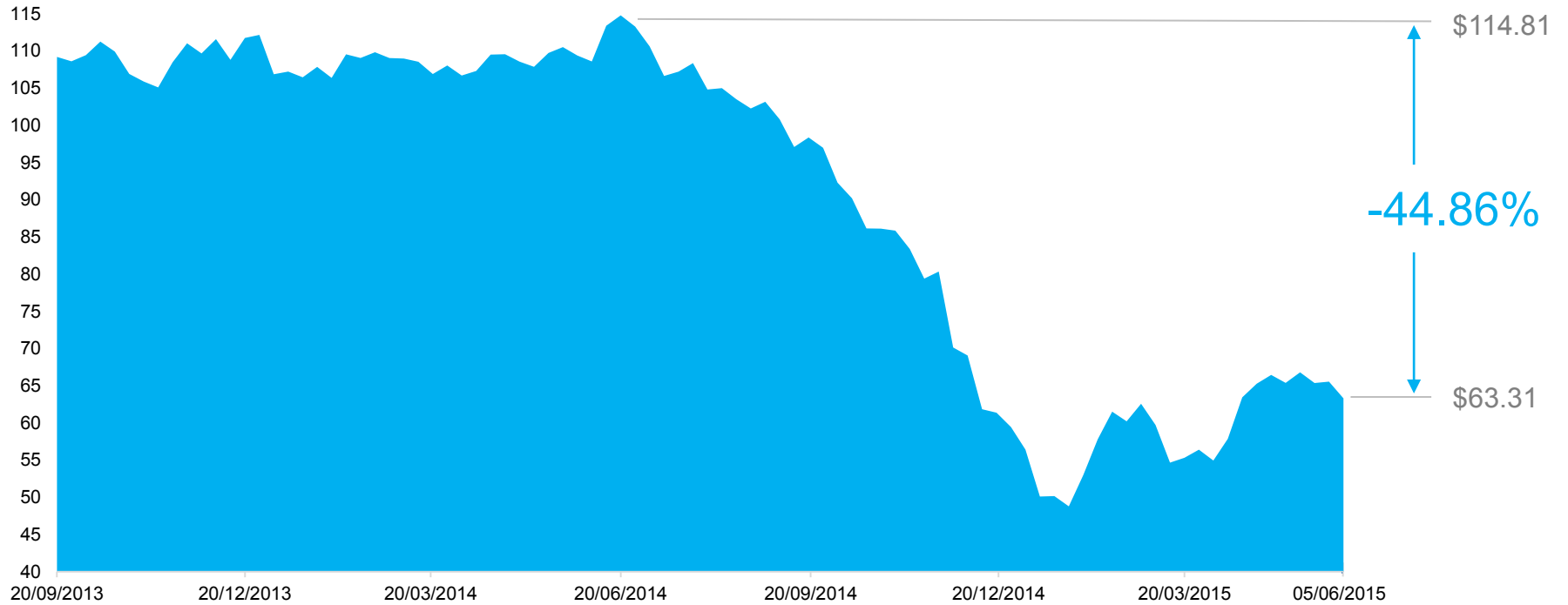
16





INTERNATIONAL  
CONFERENCE  
2015  
**A PERSPECTIVE  
ON OIL**  
JARROD CAHN

# Brent crude oil price as at 05 June 2015



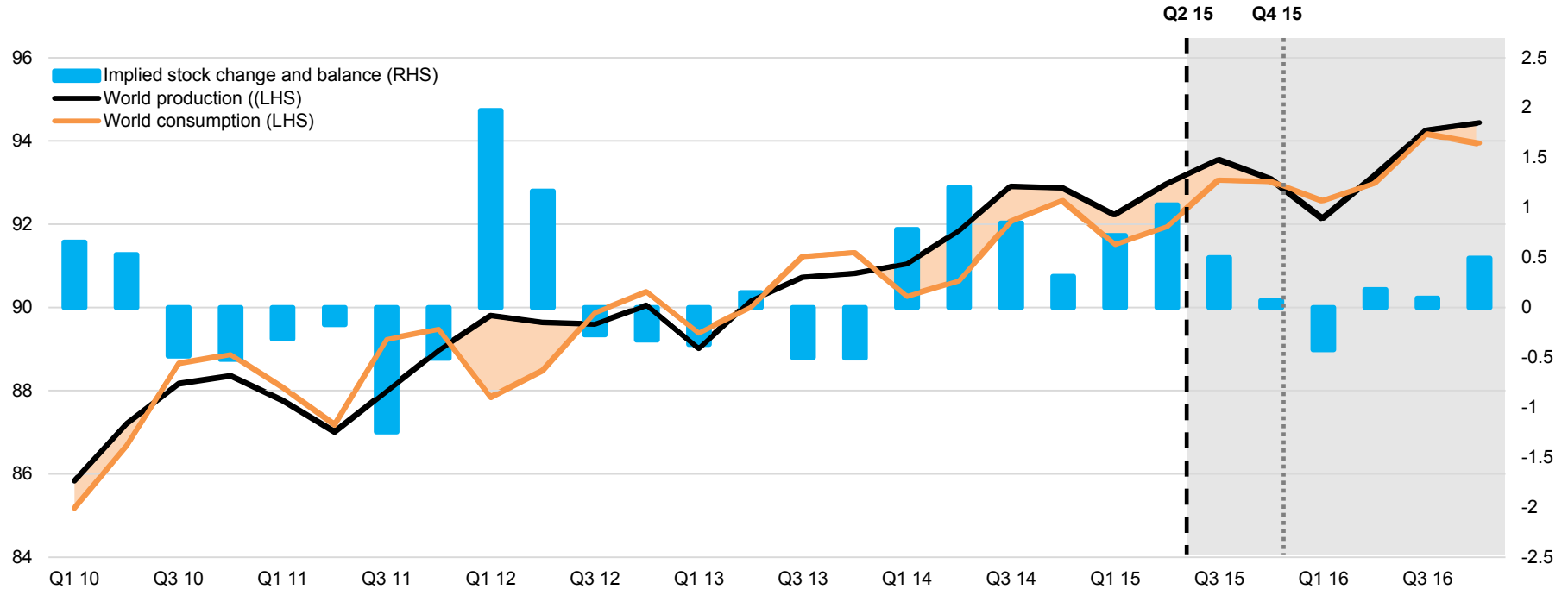
Source: Bloomberg, Credo Capital plc.



Source: dabsandjabs.

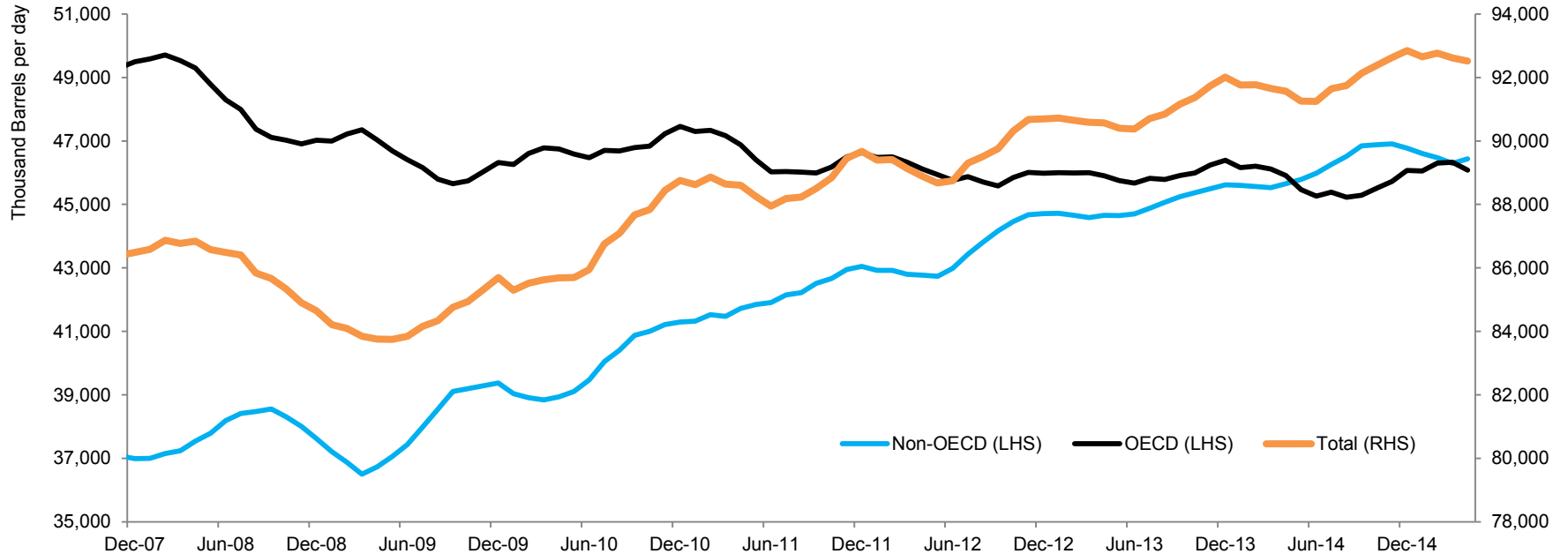
# World liquid fuels production and consumption balance

(millions barrels per day)



Source: EIA, Credo Capital plc.

# Global oil consumption 2008 - 2015

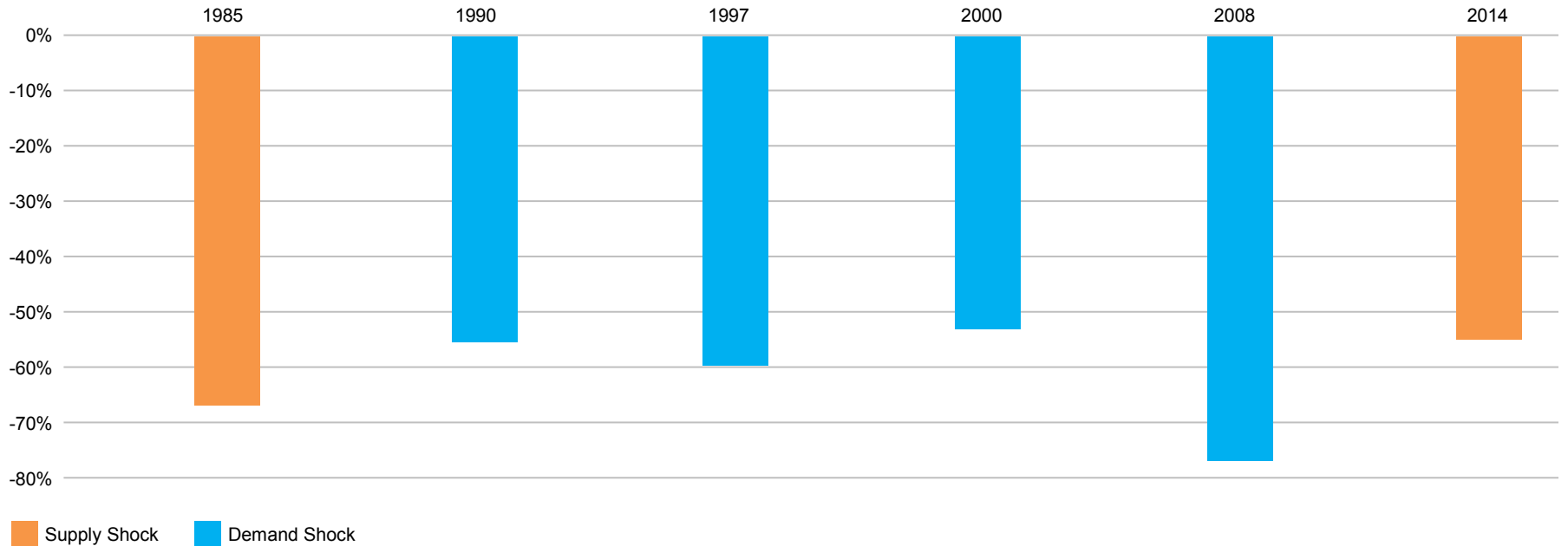


Source: Credo, Datastream, Energy Information Administration (EIA).

OECD - Organization for Economic Cooperation and Development.

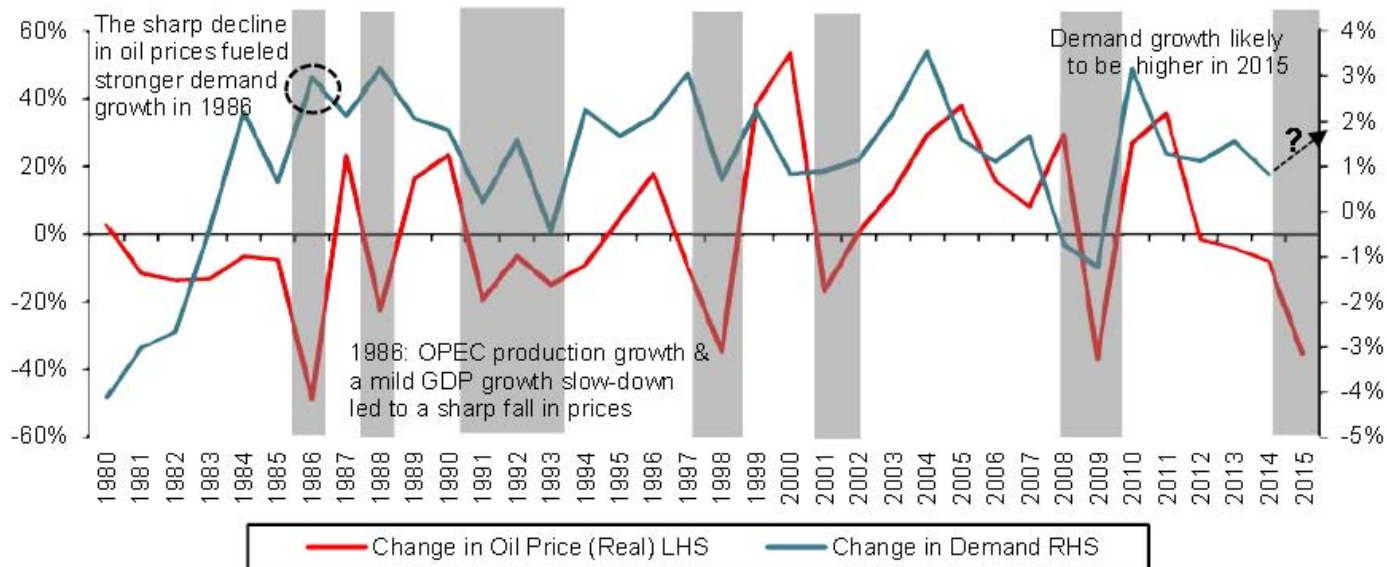
The World Bank lowered 2015 global growth forecast to **3%** versus previous **3.4%** and regarding commodities, continued demand weakness in **China** is cited as key.

# Will the oil plunge mirror the mid-80s' supply shock?



Source: Haver, Bloomberg, Guggenheim Investments. Data as of 08/01/2015.

**Current oil price drop is very similar to 1986's, which was driven by over-supply instead of economy recession; oil demand growth is likely to be higher in 2015 driven by lower oil price**



Source: BP statistical review, IMF, Bernstein analysis and estimates.



## Demand growth



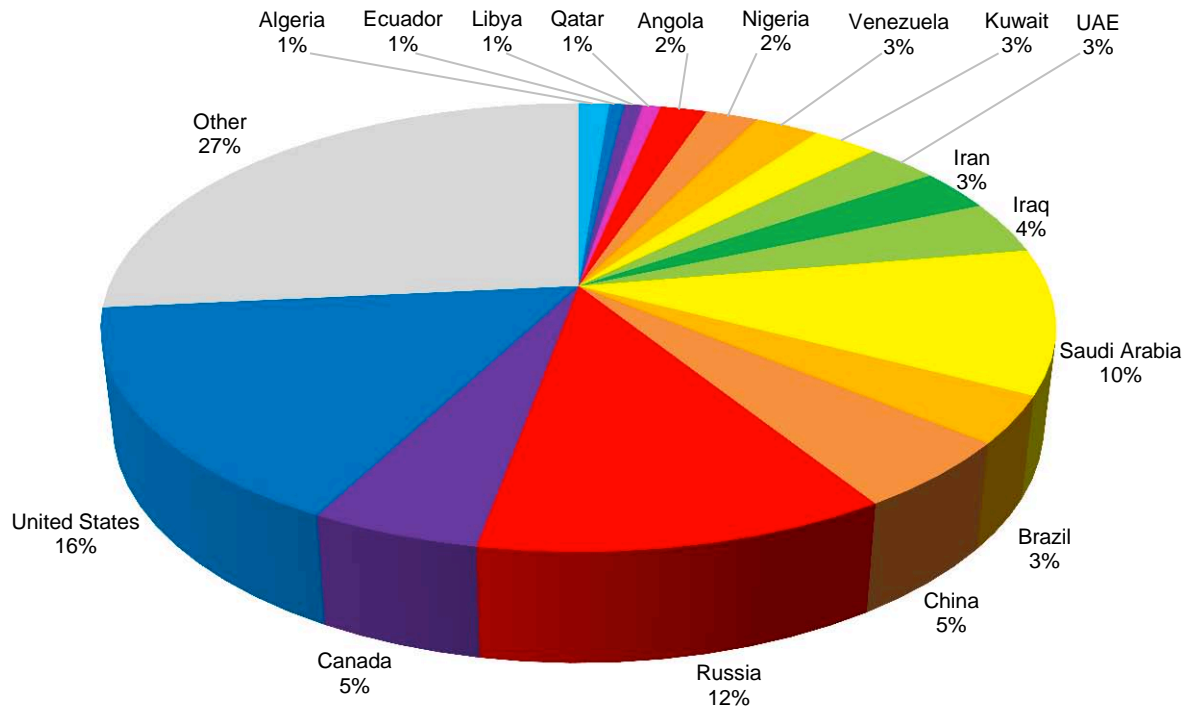
Autotrader.com said interest in Hummer H1s on its site rose 11 percent last month (November), making it the fastest-growing older model among all vehicles.

“SUVs and trucks powered U.S. auto sales to a 4.6% gain last month (April), with several automakers reporting their strongest April sales ever.” (*autonews.com*)



# The supply side of the equation

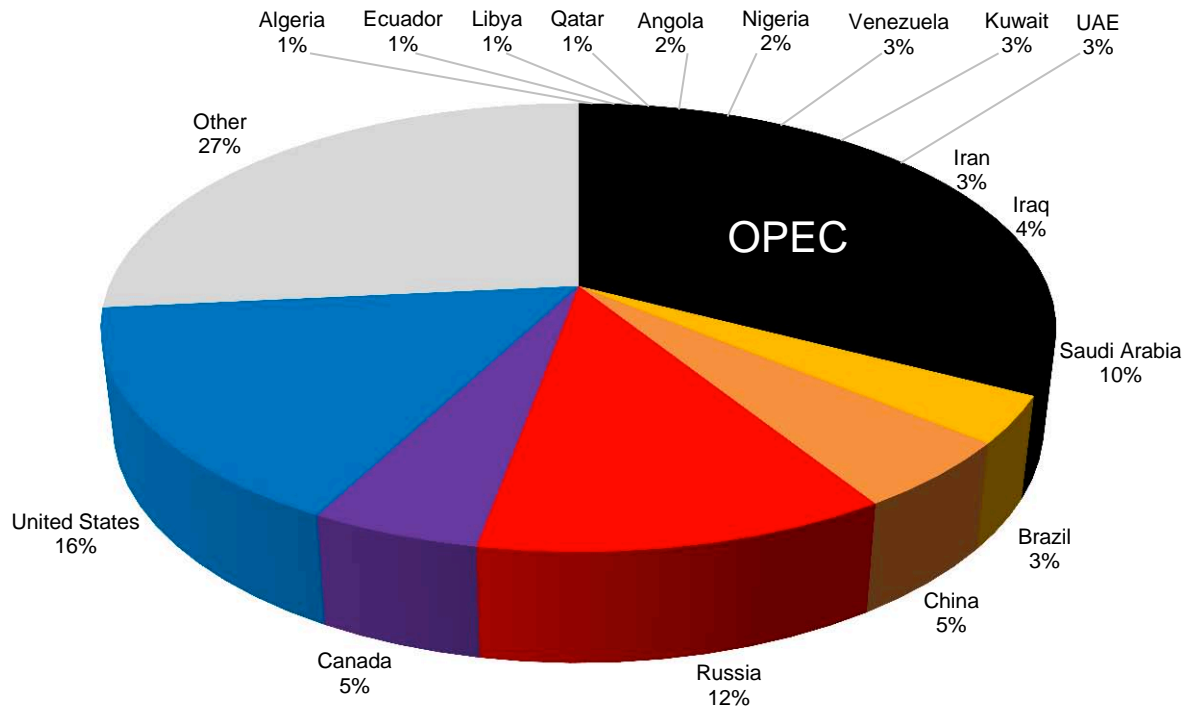
Global oil supply as at Q4 14



Source: EIA, Credo Capital plc.

# The supply side of the equation

Global oil supply as at Q4 14



Source: EIA, Credo Capital plc.

## OPEC meeting - 27 Nov 2014



Saudi Arabia - No longer turning off the taps.



*“It is not in the interest of OPEC producers to cut their production, whatever the price is”*

**Saudi Oil Minister Ali Al-Naimi**

Reiterated at OPEC meeting on 5 June 2015

# Why did OPEC not cut?



## Official Line

To protect market share.

## What we think

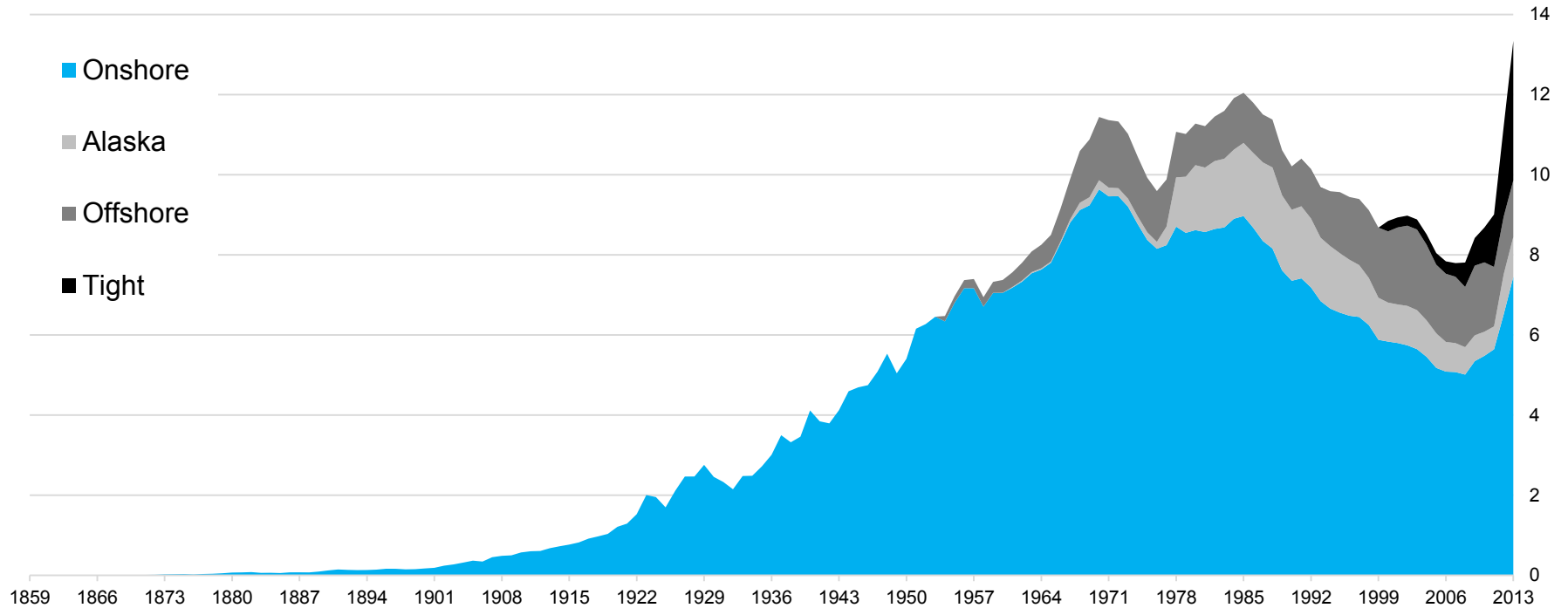
**Knock out** the biggest threat to their global oil supply domination - **shale gas industry** of the USA.

# A duel in the oil patch



# U.S. oil production by source

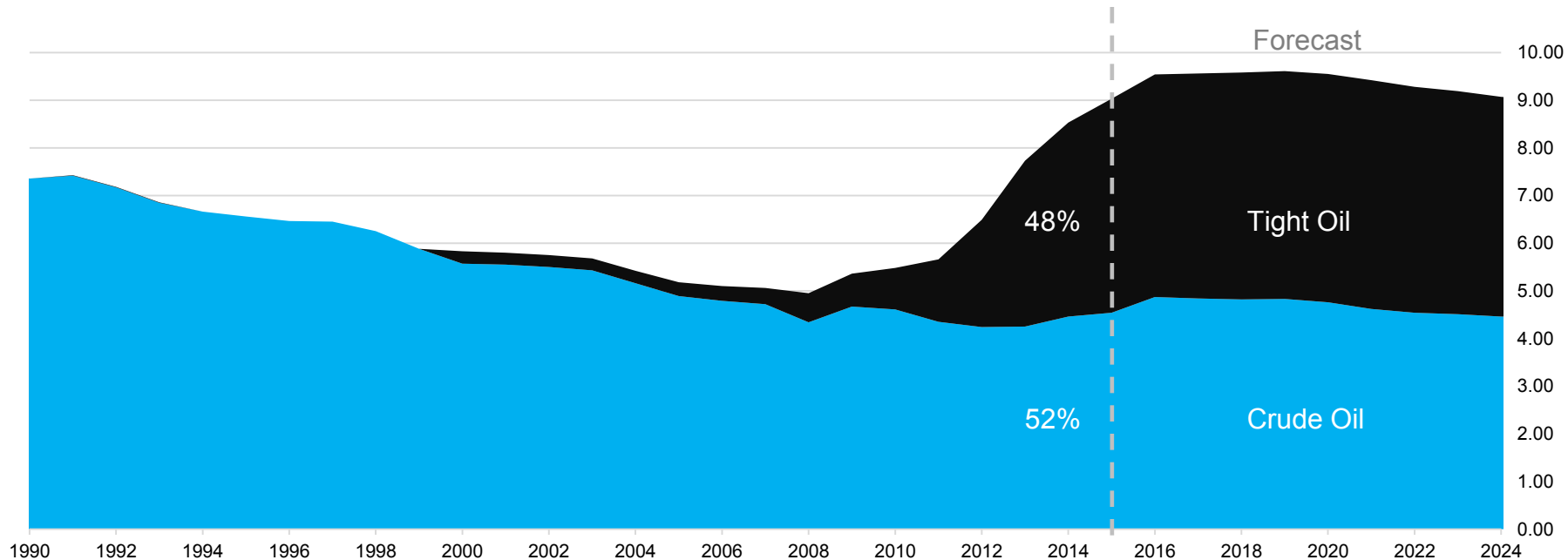
Million barrels per day



Source: EIA, Credo Capital plc.

# Crude oil production vs. tight oil production

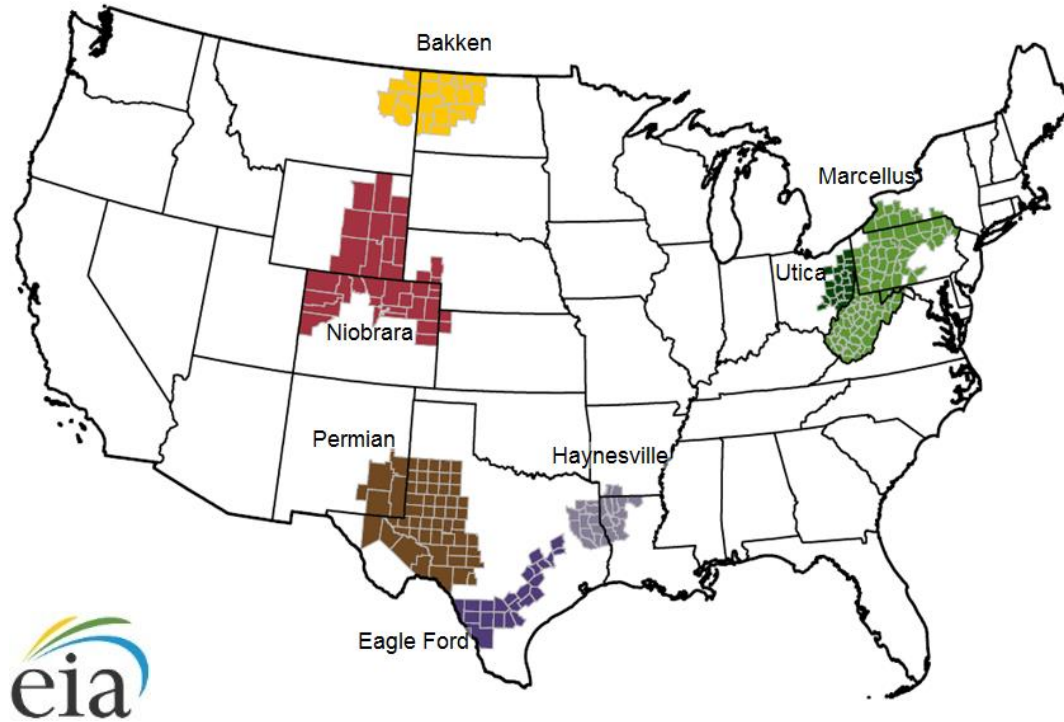
Millions barrels per day



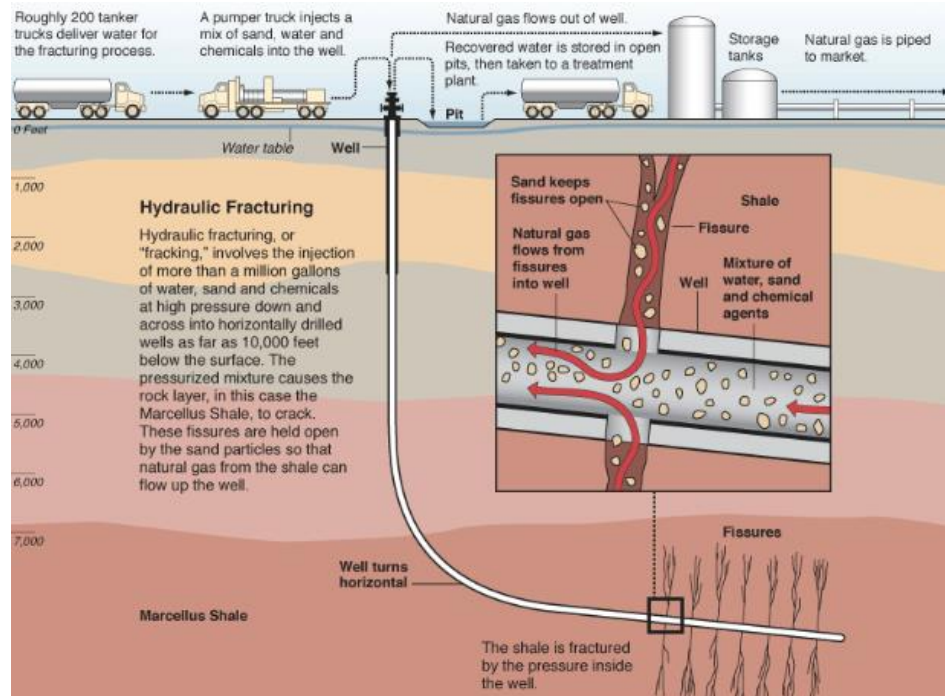
Source: EIA, Credo Capital plc.



# Largest US shale formations



# How does it work?



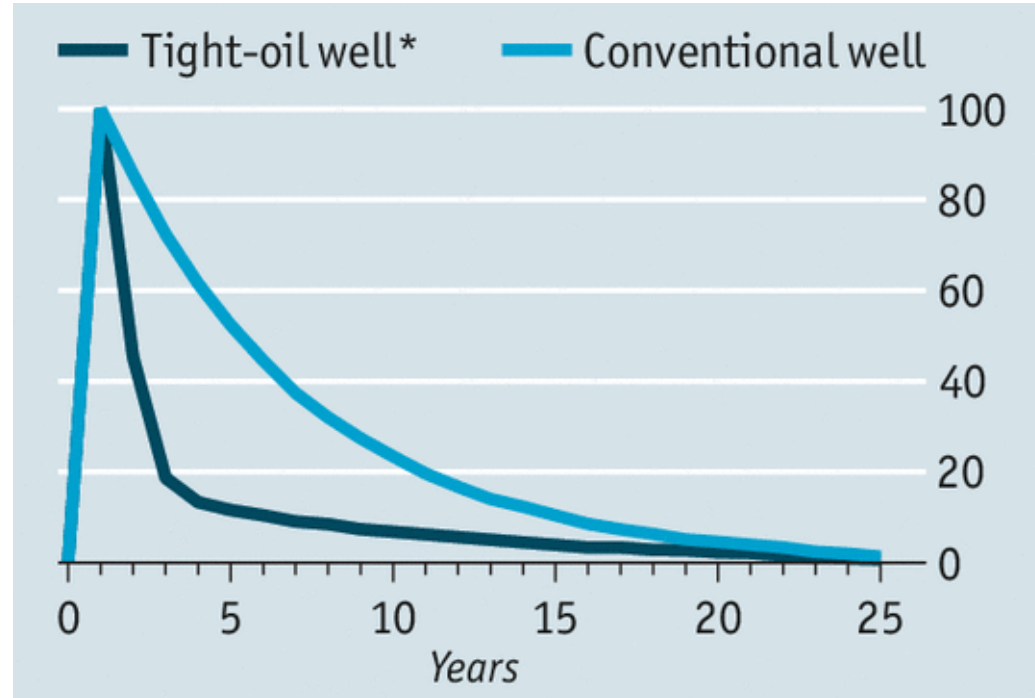
Source: ProPublica.

# The shale model



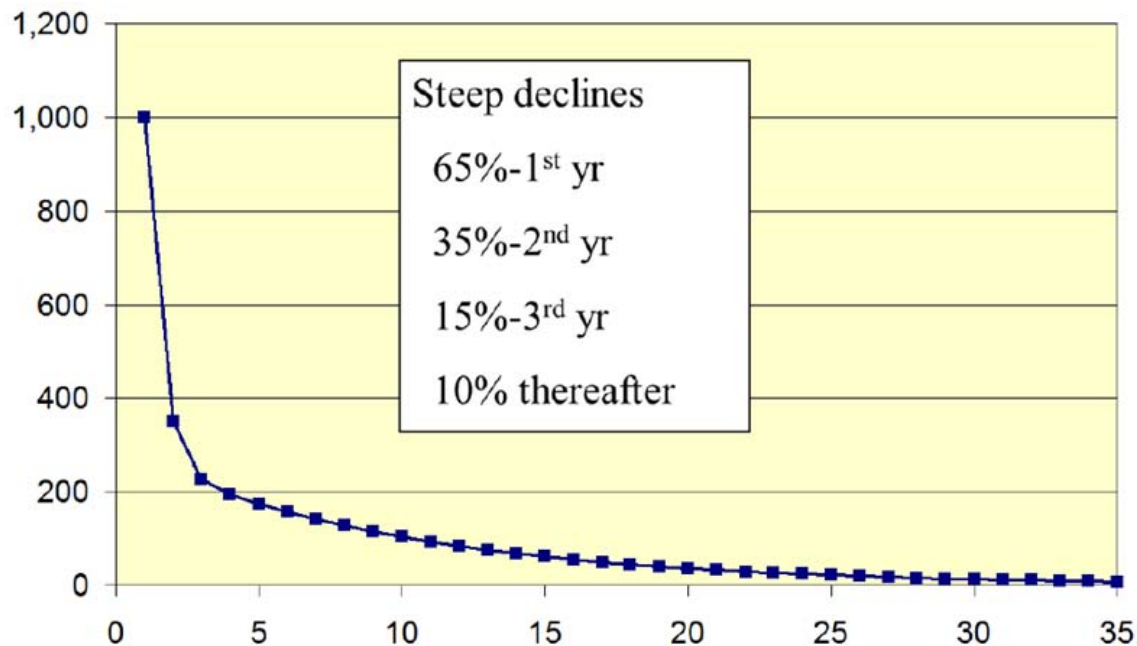
## Quick hit v slow burn

Typical production curves



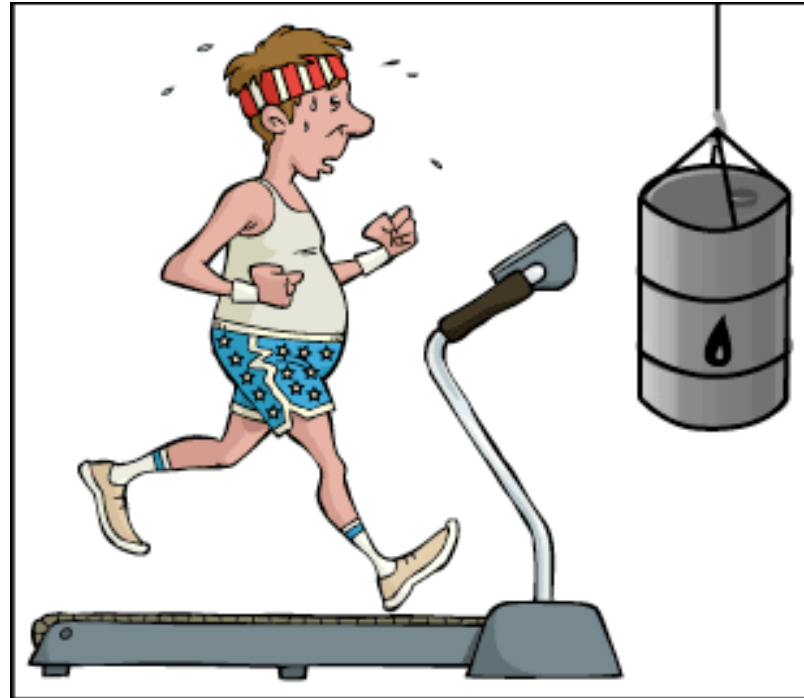
Source: International Energy Agency. (\*) Including shale.

## Typical Bakken/Three Forks Performance



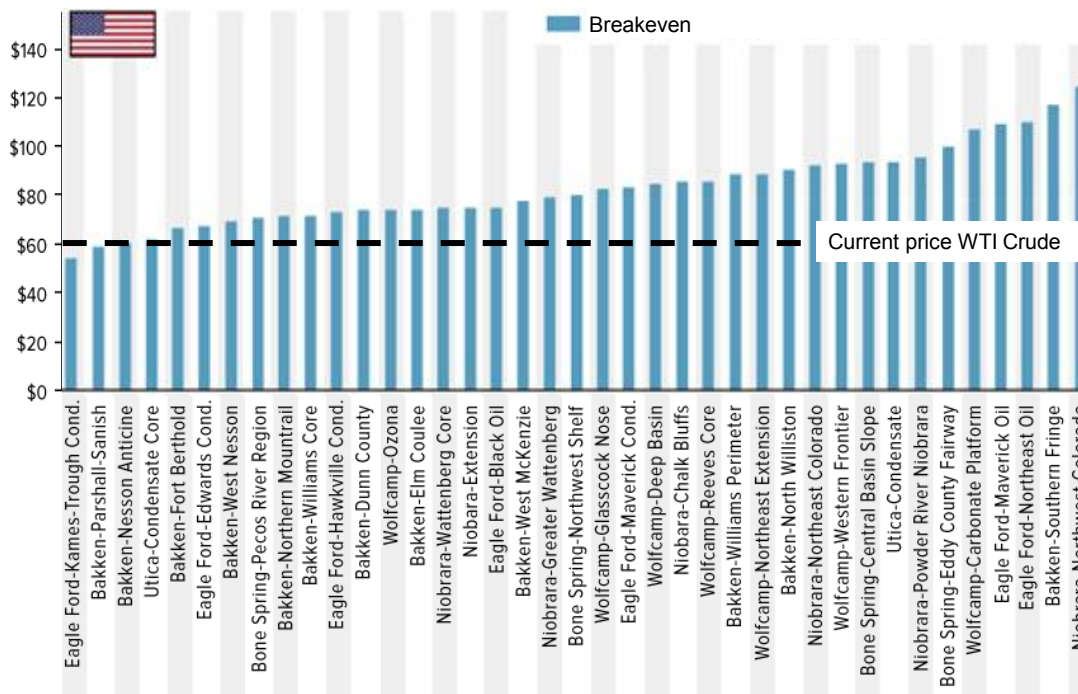
Source: North Dakota Oil and Gas Division.

# The shale oil drilling treadmill



Source: [usfunds.com](http://usfunds.com).

# Estimate of breakeven points for keys U.S. shale plays



Source: Wood Mackenzie, Business Insider, U.S. Global Investors.

*"OPEC is a toothless tiger"* - Harold Hamm



# Hedging - Even the smartest can get it wrong



## November 2014

- Continental cashed in financial hedges running through 2015 and 2016
- Realized \$433m, WTI \$70 at the time

## December 2014

- Company cuts capital budget from \$5.2bn to \$2.7bn (almost 50%)
- Lowered production growth from 23% - 29% to 16% - 20%



# Shale industry funding sources

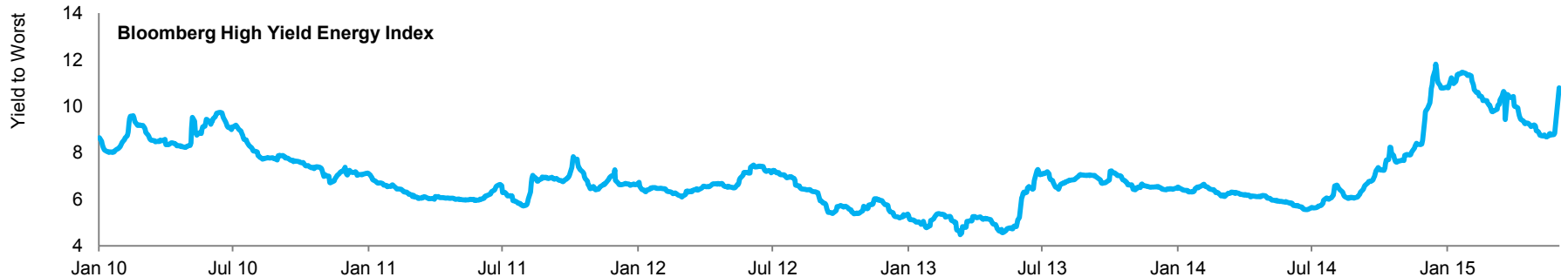


- Internally generated **cash-flows**
- **Equity** - most stocks are down over 40%, highly dilutive, rock bottom valuations
- **Asset Sales** - bid/offer spread very wide, likely to only be distressed sales
- **External debt** - the cheap money

# The cheap money is gone



- **\$650bn** of high yield debt issued since 2011
- **Oil and Gas** the single largest sector for high yield origination in the past four years ~**11%** of all global HY issuances
- Almost **45% of new issuances in 2014**
- Q2/Q3 2015, first bout of significant refinancing. Casualties so far: Saratoga Resources, Samson Resources, WHB Energy, Dune Energy and Quicksilver Resources.



Source: Bloomberg, Credo Capital plc.

## What next?



- **Consolidation and M&A activity**

opportunistic buying from larger players, with strong balance sheets and strong economies of scale

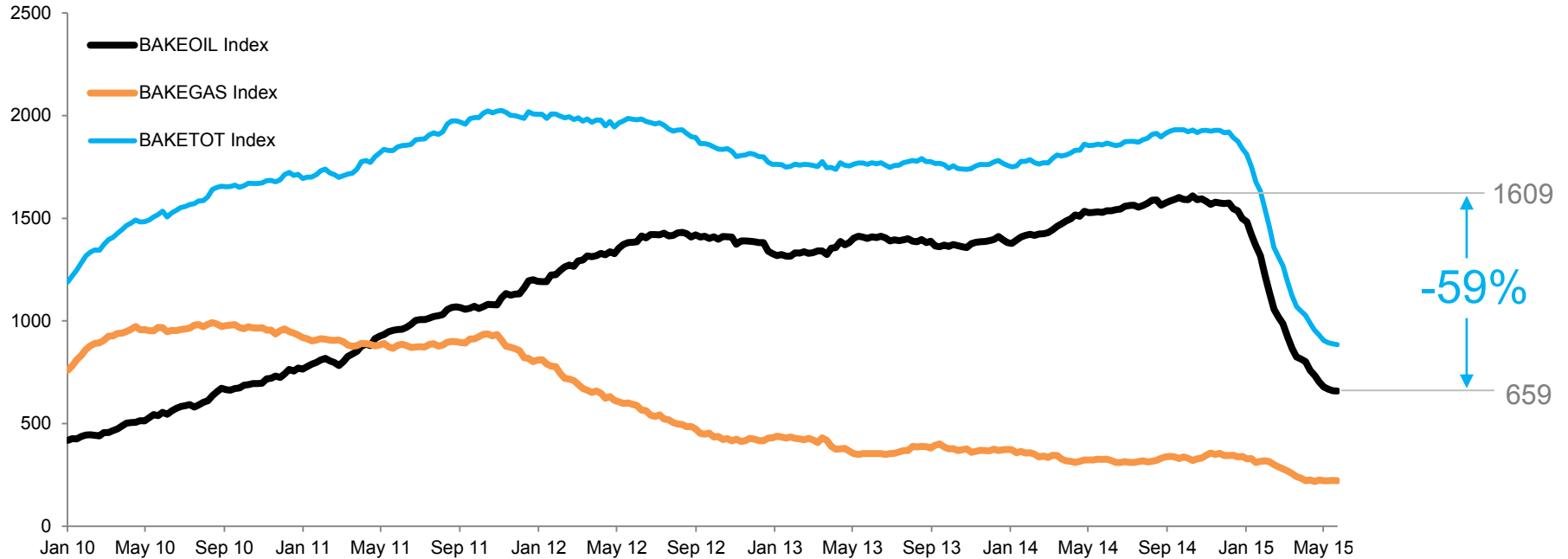
- **Capex reductions of between 20% - 50%**

capital preservation mode, maximize debt coverage and ensure debt covenants remain intact

- **Further technical efficiencies**

multi-well pad drilling, reduced drilling times

# Baker Hughes US total rig count



Source: Bloomberg, Credo Capital plc.

# Reduction in capex will not effect 2015 production



Robust Growth Guidance From U.S. E&Ps Despite Reduced Spending Plans



Source: Company reports.

Morningstar Research

# Is the sun setting on the shale boom?

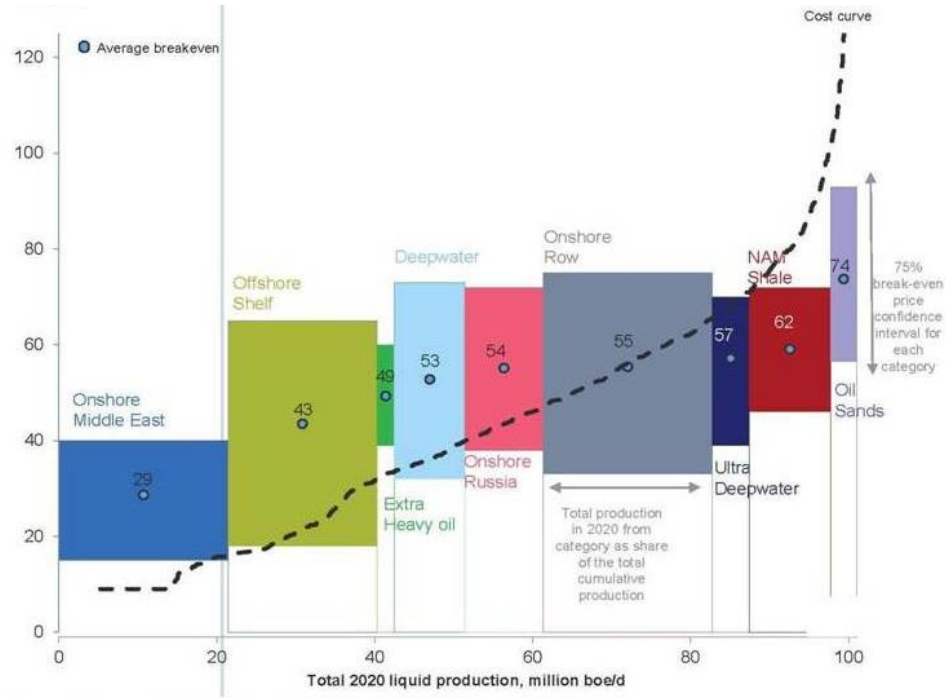


**A business that burns cash  
and doesn't grow  
isn't worth anything."**

*David Einhorn ( Greenlight Capital)  
Sohn Investment Conference May 2015*

# But... Shale will not be the only casualty

Global liquid supply cost curve (USD/bbl)



Source: Rystad Energy research and analysis.

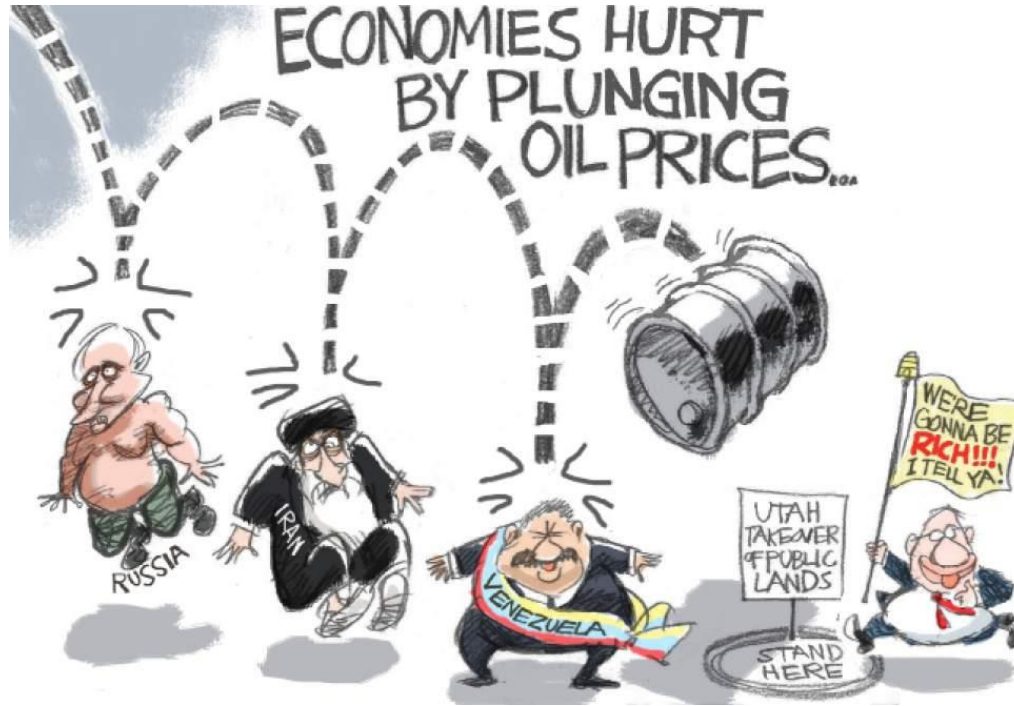
# Significant rationalisation and M&A activity in the oil Industry



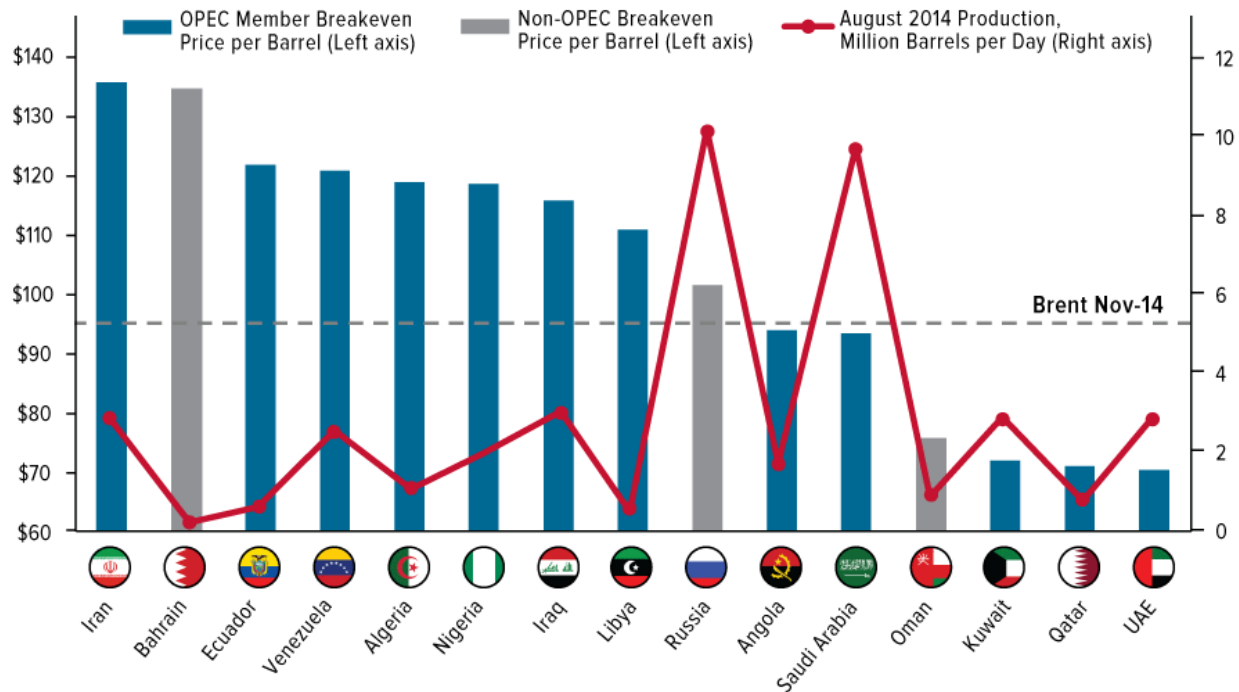
- ConocoPhillips to cut capital spending by 20% to \$13.5bn
- BP - \$1bn in restructuring charges over the coming year and the loss of several thousand jobs
- Schlumberger to cut 9,000 jobs
- BHP - to cut oil exploration by 20% to US\$600m in 2015, reduce rigs in the onshore US business by approximately 40% (16 from 26)
- Lukoil - \$2bn capex cut, and jobs to go

**Great opportunity for large players to restructure their portfolios and buy cheap quality assets**





# Producer country budget breakeven prices



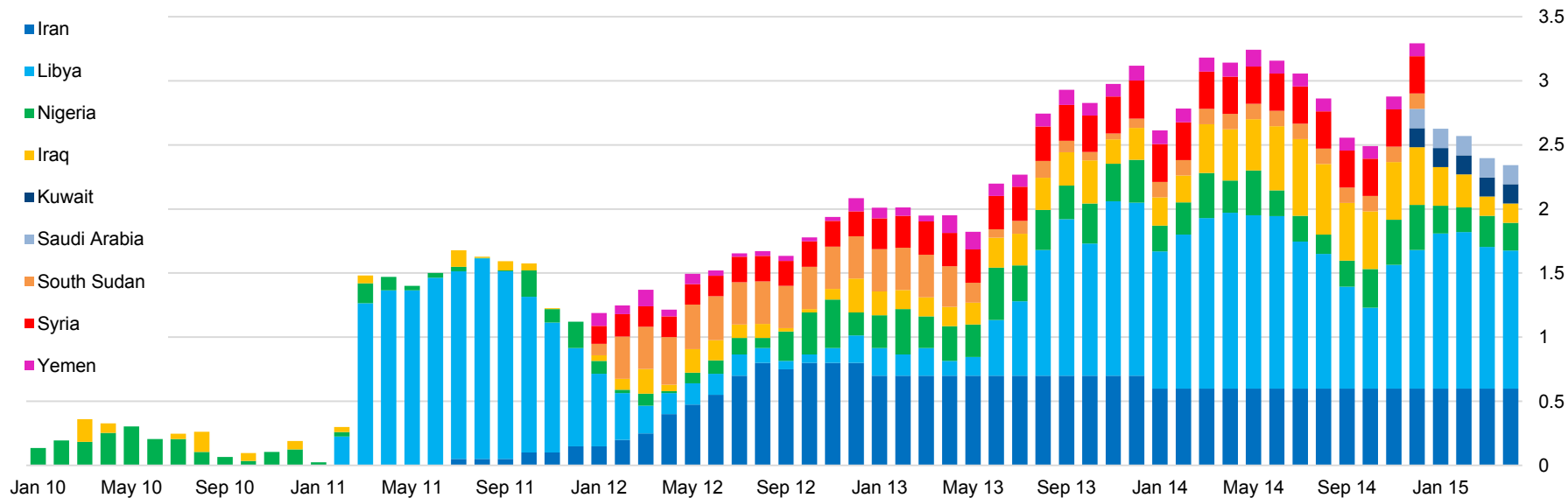
Source: DB Emerging Markets Research, Reuters, IEA, Deutsche Bank, U.S. Global Investors.

# Potential OPEC supply disruptions



# Estimated historical unplanned OPEC and Non-OPEC crude oil production outages

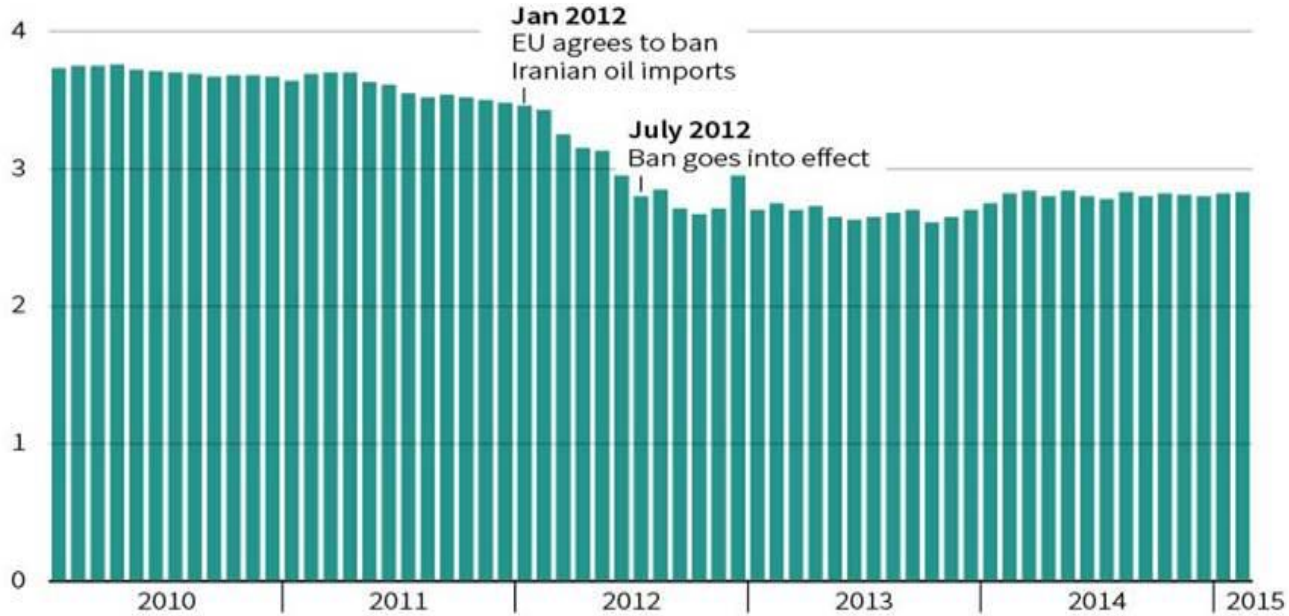
Millions barrels per day



Source: Short-term Energy Outlook, December 2014.

# Iran's crude oil production

Millions barrels per day

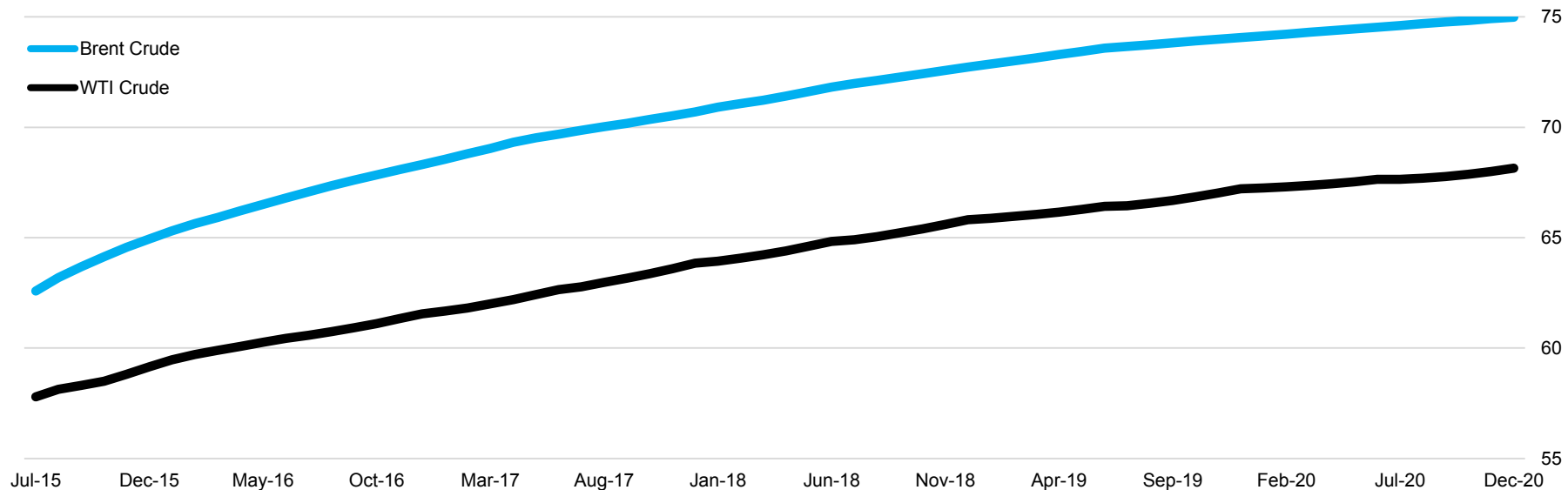


Source: Reuters OPEC Survey.

# Predicting future oil prices is a mugs game



## 5 year forward futures curve



Source: Bloomberg, Credo Capital plc.

## Here is what we do know



- This is **not a demand** led shock
- **Non-conventional supply is unsustainable** at these prices, and **production will decline**, but will only be seen in **Q4 2015** and beyond
- Significant portions of **conventional supply is unsustainable** at these prices, and **production output will decline** as capex is cut
- Most OPEC and major **oil export driven economies** (Russia, Norway) **are unable to balance** their **fiscal budgets** at current pricing
- Incentives to **invest in alternative energy** projects **will slow**



## Here is what we don't know



- Will **global demand strengthen** or **weaken**?
- If this turns into a demand led shock, then all bets are off!
- Will **Non-OPEC supply increase** by **less** than expected?
- Will **OPEC cut production**?
- Will there be **supply disruptions** triggered by **geopolitical instability**?
- Will **capex reductions today** lead to a **longer term supply shortage**?

## In conclusion



- **Oil prices will remain volatile for most of this year**
- During 2016, the combination of **firming demand and an erosion in U.S. shale** output should stabilize the market, allowing **prices to continue to recover**
- And the **rebound** will come sooner if **OPEC supply is reduced**

# How do we take advantage of this



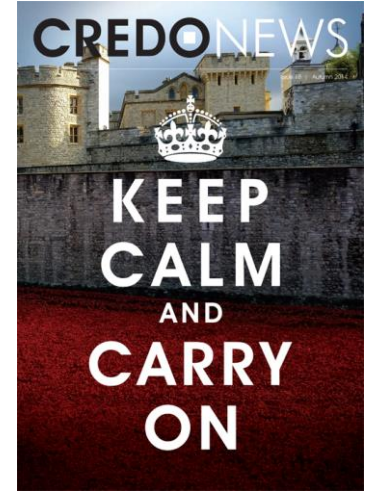
- Take a **long term view**
- Take a **diversified approach**, buy a basket of stocks
- **Scale in** your investments
- Buy **market leaders**
- Stocks to consider: **BP, Statoil, Halliburton, TGS Nopec, Core Labs, Tullow Oil**

The end





INTERNATIONAL  
CONFERENCE  
2015  
**KEEP CALM  
& CARRY ON**  
DEON GOUWS






# The folly of forecasting - 1



Tweet

 **Tom Orlik**  
@TomOrlik

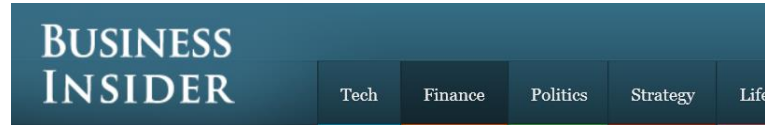
So pretty much everything then MT @Reddy: What economic forecasters got wrong in 2014: oil, interest rates, inflation and unemployment

2014/12/31, 11:50 PM

---

8 RETWEETS 3 FAVORITES



## Here Are 5 Things Wall Street Doesn't Expect To Happen That Really Could Happen

 JEFF KLEINTOP, CHARLES SCHWAB  
JAN. 8, 2015, 8:47 AM |  2,070 |  1

Below are the top five potential outcomes that could surprise investors in 2015.

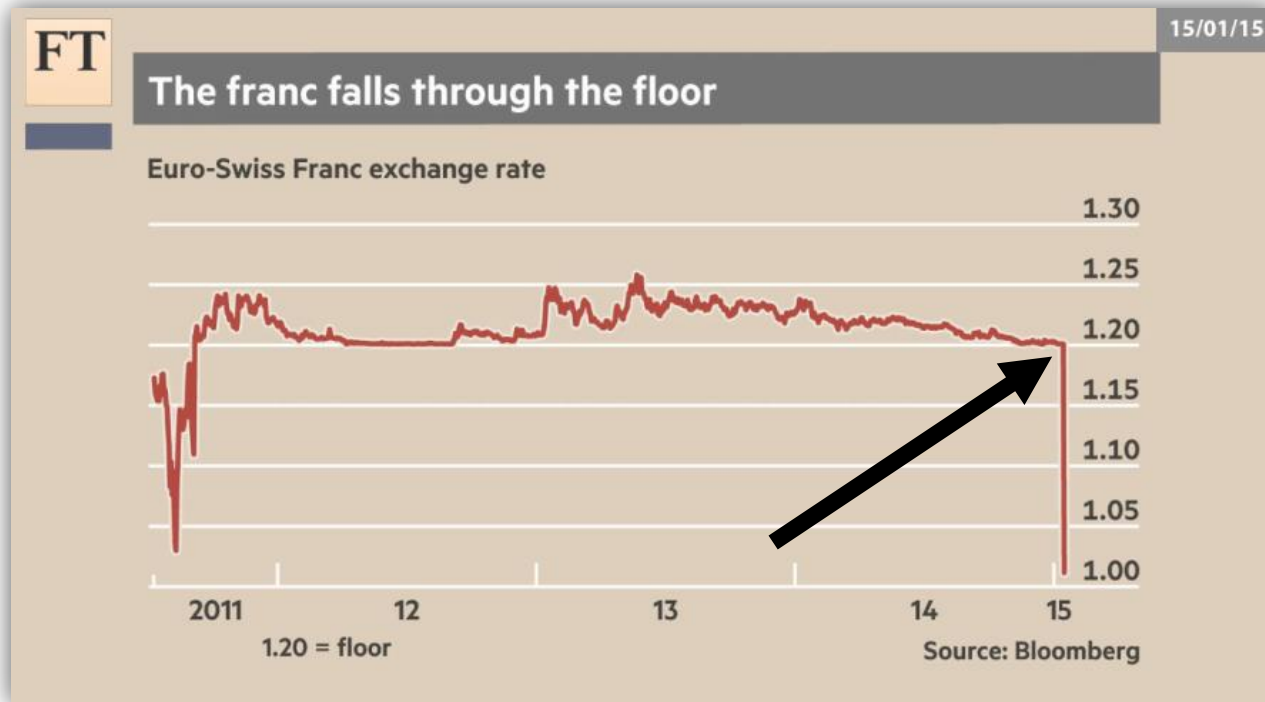
### Top five surprises for 2015:

1. China's growth accelerates
2. The Federal Reserve doesn't raise interest rates
3. Europe implements aggressive stimulus
4. The dollar falls
5. Stock market volatility surges

These are not necessarily surprises we expect to happen in 2015, but ones we want to be mindful of given that market participants in general seem unprepared for them and that such situations could prompt a dramatic reaction if they occur.



ONE week later...



### ***Market pundits:***

*People who profess to have knowledge about things that can't be known.*

*Combines the skill of an actor, the ridiculousness of a comedian, the believability of priests & the credibility of politicians.*

Motley Fool

# Speaking of the ridiculousness of a comedian...



 **Joseph Weisenthal**  
@TheStalwart ⚙️ Follow

Yesterday's Swiss Franc move was a once-in-a-billion year vent.  
[bloombergview.com/articles/2015-...](http://bloombergview.com/articles/2015-...)

⏪ ↻ ⭐ ⋮

**BV Bloomberg View**

**No One Was Supposed to Lose This Much Money on Swiss Francs**  
By Bloomberg View @BV

It's kind of cheap to make fun of VaR and margins after a 20-sigma move, but here we are.



[View on web](#)

RETWEETS 29 FAVORITES 28



8:45 PM - 16 Jan 2015

So we should be “safe” until approximately 1000002015 then?

# An eventful year

Last 12 months: key headlines



US Federal Reserve ends QE stimulus programme

BBC, 29 Oct 2014

Japan's central bank shocks markets with more easing as inflation slows

Reuters, 31 Oct 2014

ECB unleashes €400bn lending programme and negative interest rates

The Guardian, 05 Jun 2014

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Reuters, 21 Nov 2014

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Euro heads for longest losing streak after ECB's move

Reuters, September 5

S&P closes at 46th new high for this year

CitiAM, November 25

Euro bond yields fall to new record lows

FinFacts, November 24

Ukraine: Putin approves draft bill for Russia to annex Crimea

The Guardian, 18 Mar 2014

WORLD ECONOMIC OUTLOOK  
Global Growth Disappoints, Pace of Recovery Uneven and Country-Specific

IMF, 7 Oct 2014

MH17 Malaysia plane crash in Ukraine

BBC, 17 Jul 2014

India's pro-business Modi storms to historic election win

Reuters, 16 May 2014

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Source: Deutsche Bank

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Source: Deutsche Bank.

# Noise: A perfect example?



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Source: Deutsche Bank.



# MailOnline



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14 October 2014

## Ebola is a greater clear and present threat to America than any terror group - so why is Obama spending billions bombing ISIS but only millions blitzing the virus?

By PIERS MORGAN FOR MAILONLINE

I'm always sceptical when I hear scare-mongering claims about diseases.

From bird flu to SARS, we're repeatedly told it's going to be the new Plague that will wipe everyone out and then...it doesn't. Probably because the scare-mongering itself makes people take it seriously enough to prevent it spreading.

But there is something very sinister and frightening about this Ebola outbreak, which has so far infected 7,100 and killed 3,300.



The Ebola outbreak has currently killed at least 3,300 people, and infected 7,100

# Ebola

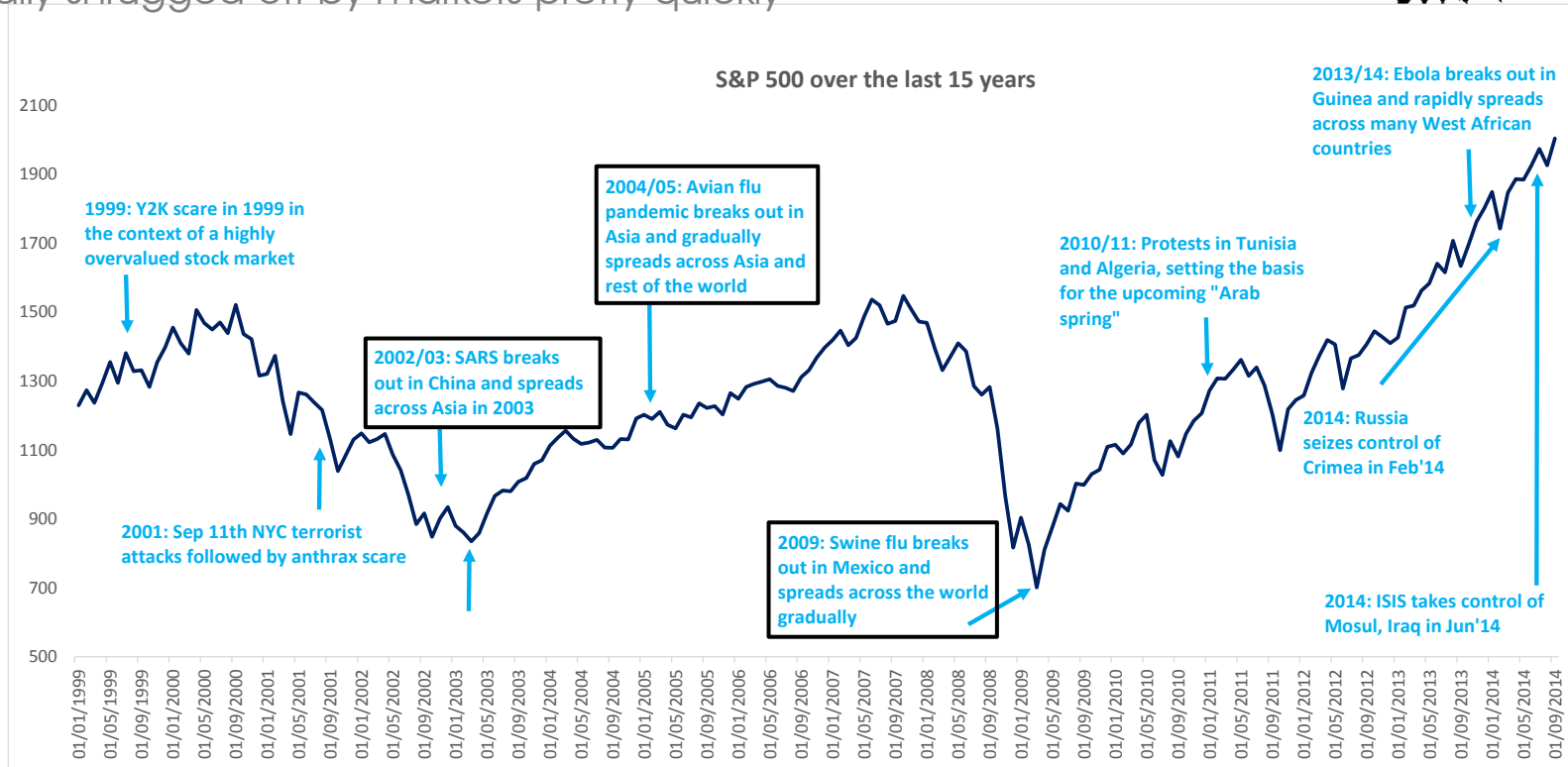
another case of “misplaced” perception of risk?





# Pandemics in the past

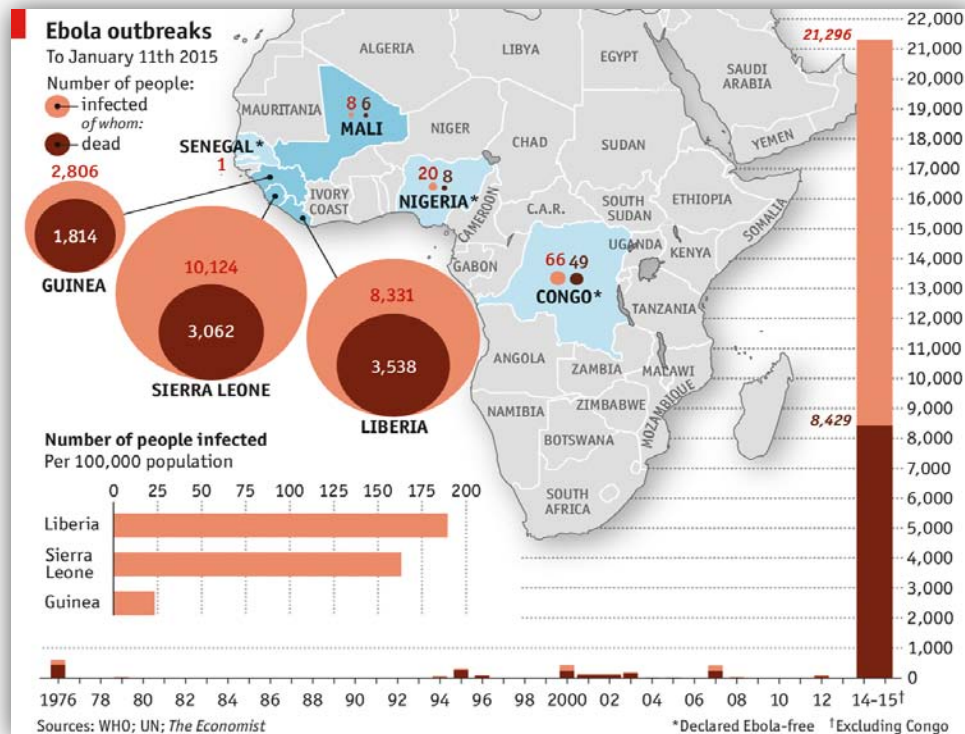
typically shrugged off by markets pretty quickly



Source: Credo Group, Datastream.

# Ebola update

the human aspect is not noise...



Generally best to ignore the noise...



***"The market is fond of making mountains out of molehills & exaggerating ordinary vicissitudes into major setbacks."***

Benjamin Graham

Generally best to ignore the noise...



*“Going back to 1957, the S&P 500’s average daily gain is 0.0255%. Roughly speaking, that means for every \$39 you have in the stock market, you make an average of one penny in capital gains each trading day.*

*Yet the average daily swing is about 40 cents. This means that you’re seeing 40 times the volatility of the value that’s actually being created, each day.*

***That’s more than 97% noise.”***

Eddy Elfenbein, Oct. 2014

# What about the end of QE?



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BBC, 29 Oct 2014

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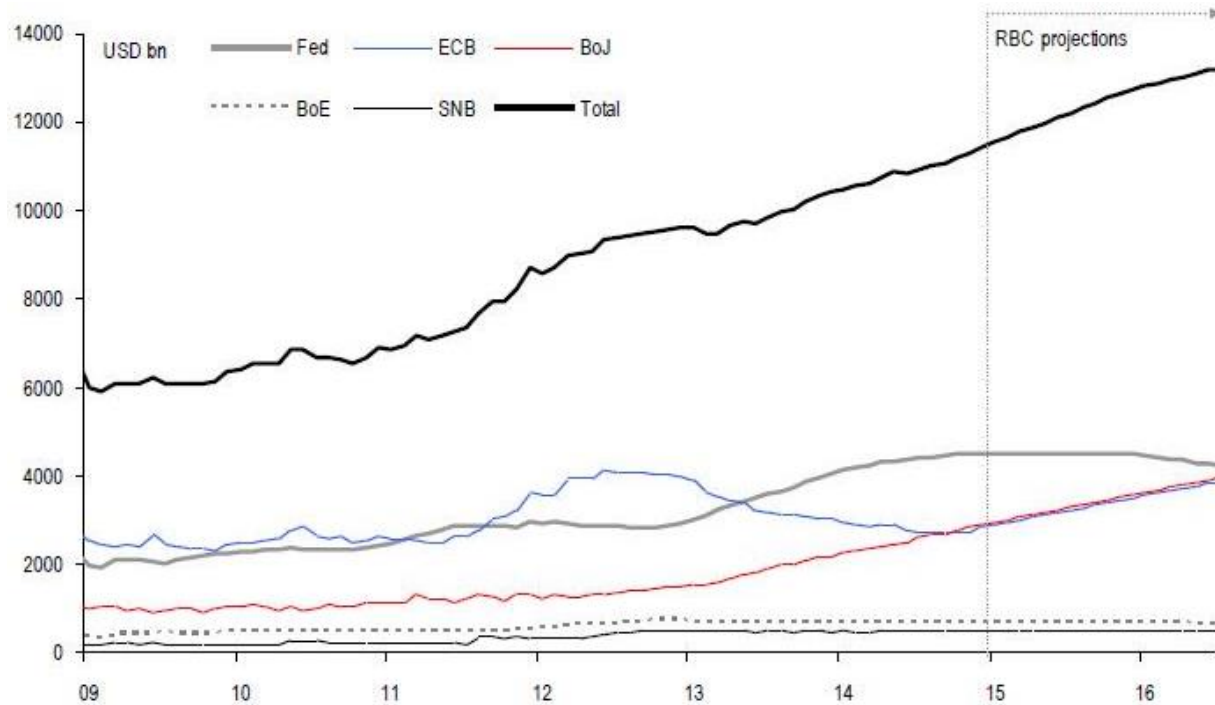
NY Times, 04 Aug 2014

**Scottish independence: 'No' leads referendum vote**

BBC, 19 Sep 2014

Source: Deutsche Bank.

Or perhaps not...  
(not yet, anyway)



Source: RBC Capital Markets.



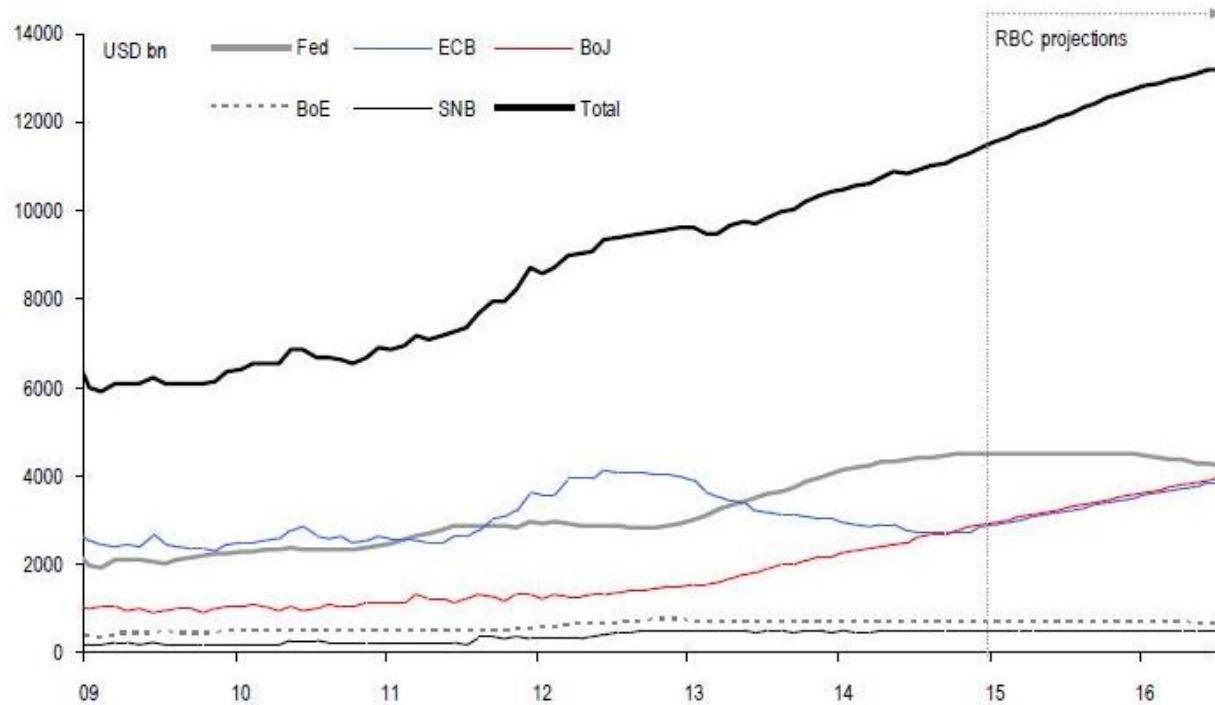
**Eddy Elfenbein**  
@EddyElfenbein

ECJ OK'd the ECB's QE and  
OMT

15/01/2015 04:24

WTF? (Whaddabout The Fed?)  
LOL! (Lower Oil for Longer!)

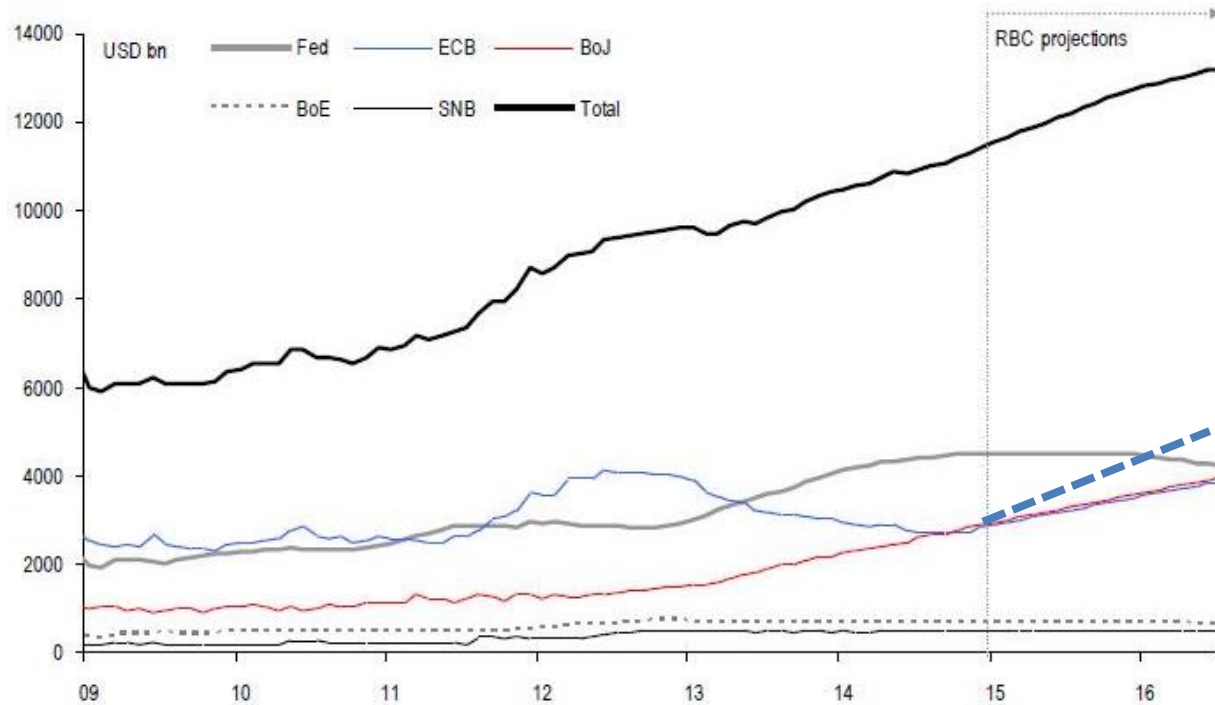
# More alphabet soup



Source: RBC Capital Markets.

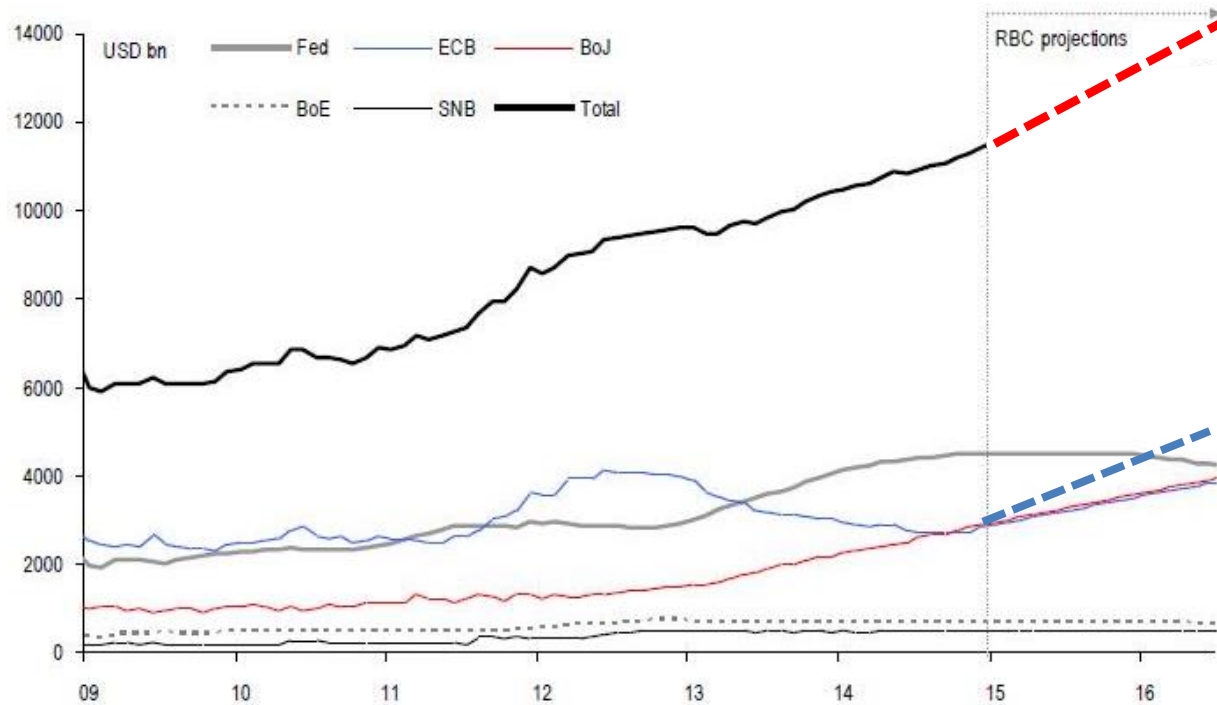


# More alphabet soup



Source: RBC Capital Markets.

# More alphabet soup



Source: RBC Capital Markets.

# The elephant in the room

European deflation...



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Source: Deutsche Bank.

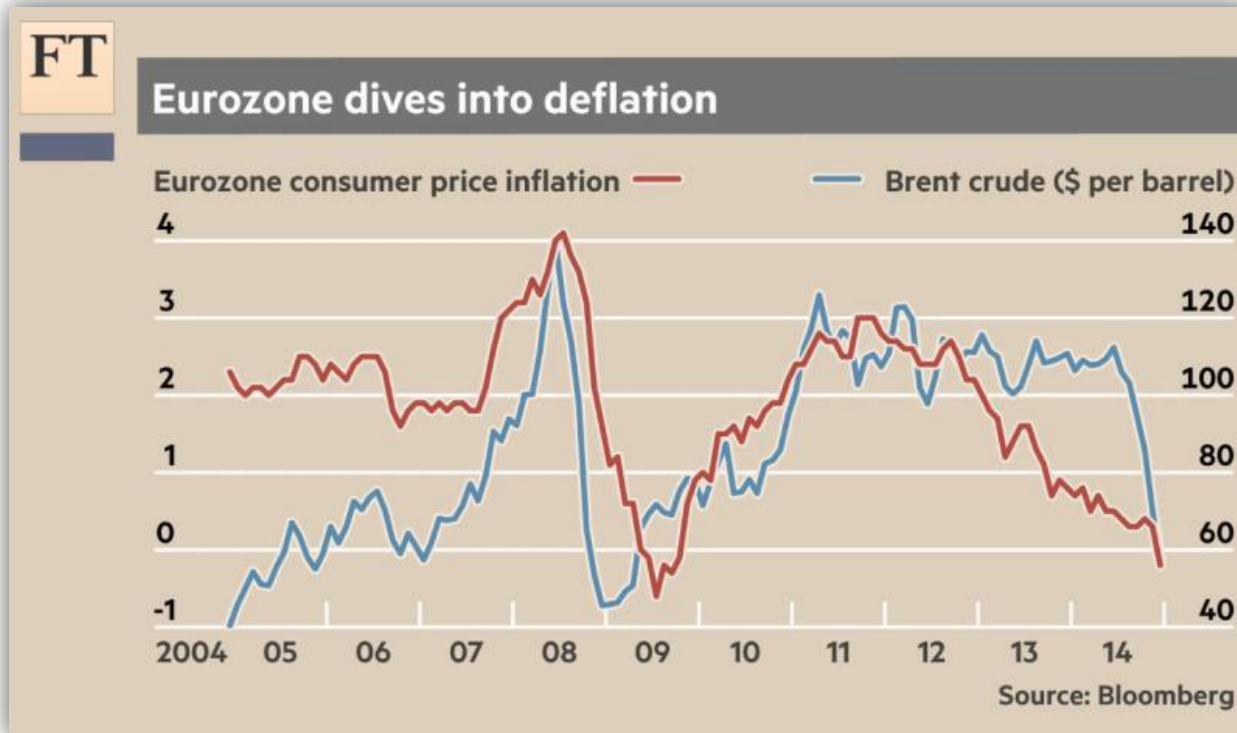
# A year in a word 2014

Financial Times



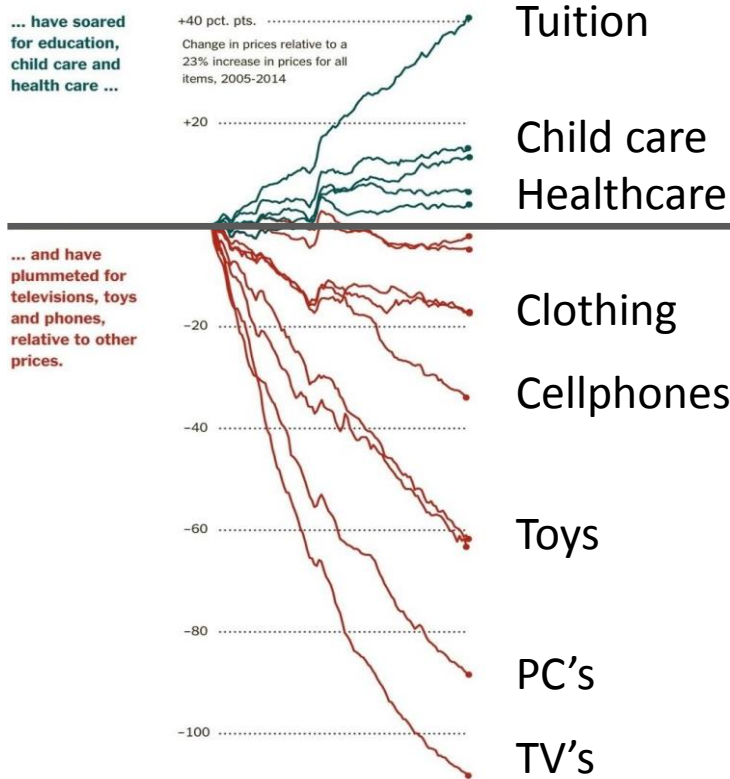
# Deflationary effect of oil price (Europe)

but note: the trend was already in place before...



# Costs for Americans

relative to overall 23% increase, 2005-2014



... have soared for education, child care and health care ...

... and have plummeted for televisions, toys and phones, relative to other prices.

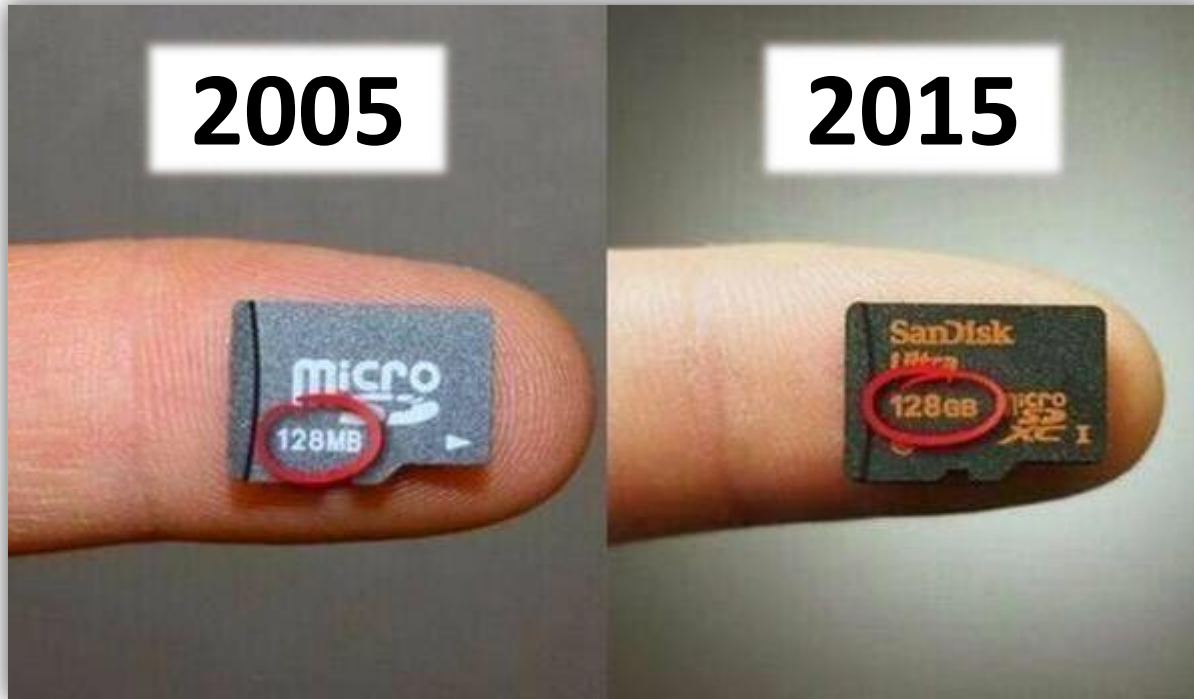
**Services:**  
*inflationary pressures*

**Tech, China effect:**  
*deflationary pressures*

Source: L Buchanan, A. Parlapiano, Bureau of Labor Statistics.

# Moore's law

"good" deflation!



# More good deflation

some “reality check” questions



## Situation

## Response?

Food prices drop

Will people stop eating?

Petrol price drops

Will people stop driving?

Handle on frying pan falls off

Purchase later as it might get cheaper?

Computers / electronic devices getting cheaper

Delay purchasing as long as prices decline?

Medical expenses drop

How long can you delay treatment?

Child's birthday next week

Delay present as toys are getting cheaper?

Lease is up, you have to move

Can you wait 6 mths for a better rent?

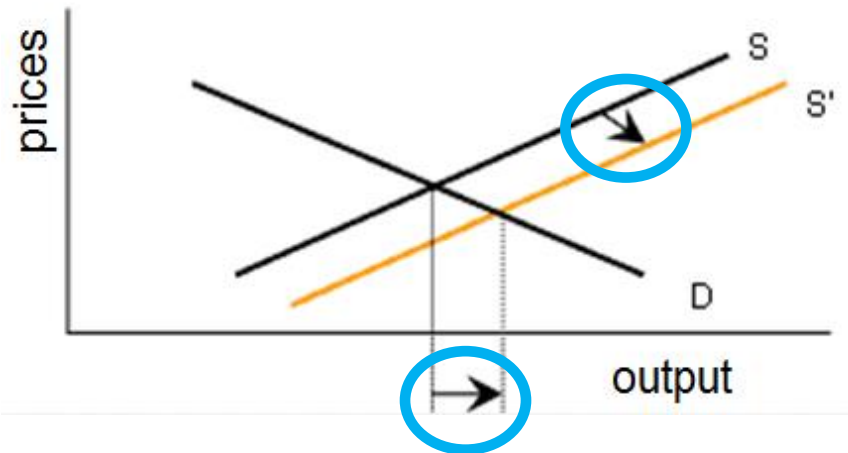


# Good deflation vs bad deflation

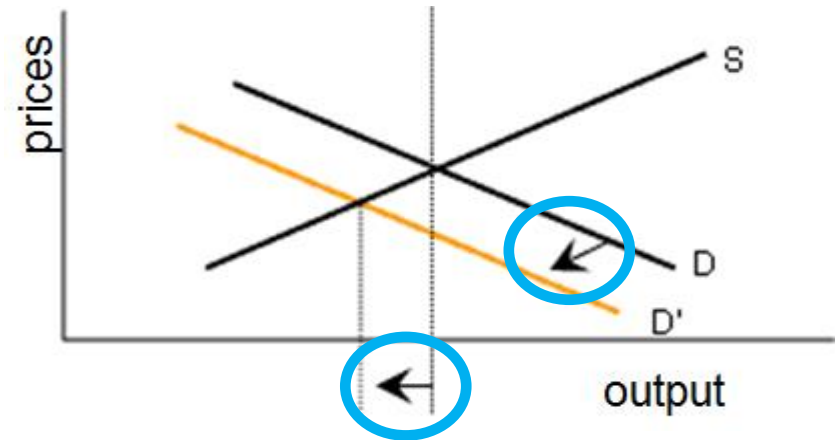
utilising the wonders of Economics 101



## Good deflation: fall in prices



## Bad deflation: fall in demand



# Good deflation vs bad deflation summarised



A collage of newspaper articles and a chart. At the top left is the headline "Investors should not ignore the deflation threat" by Peter Elston. To its right is a line chart titled "Eurozone inflation rate" showing a fluctuating line between 1.5% and 2.5% from Jan 2013 to Jul 2014. Below the chart is a "Retireadv" logo. The main article is "There's really nothing to fear from deflation" by Anthony Hilton, with a "CITY COMMENT" sub-header. The article text discusses the difference between good and bad deflation, mentioning Japan and Europe. A large letter 'I' is visible at the start of a paragraph in the lower right section of the clipping.

# Rumours of Europe's demise overstated?



# Various forms of QE in response to deflation risk

driving bond yields lower

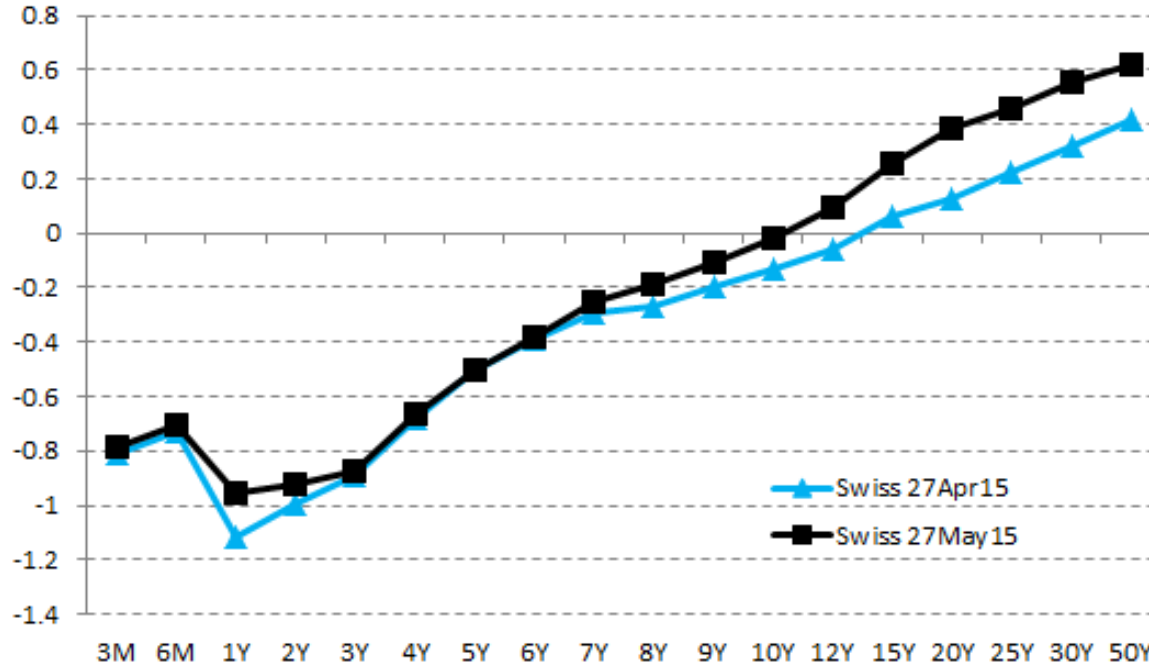


Followed by Bund sell-off...



# Switzerland: an extreme example of low rates

all bond yields to 10 years (still) negative



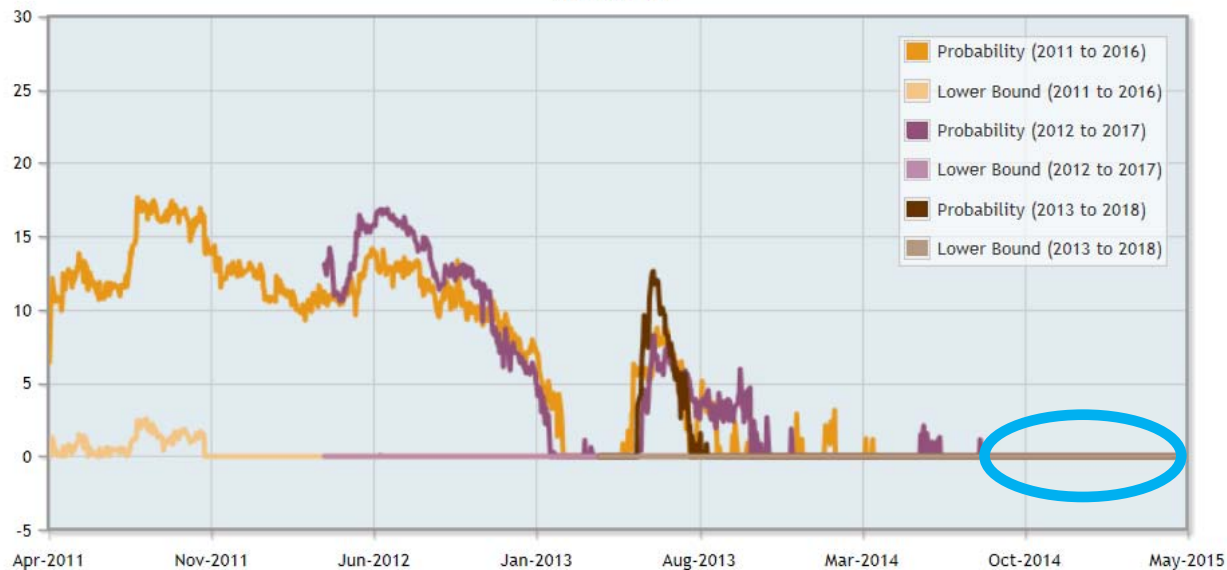
Source: Credo, Bloomberg

## Longer term view

high inflation ultimately more likely than any sustained deflation?



**TIPS-based Five-Year Deflation Probabilities**  
(percent)



Source: Federal Reserve Bank of Atlanta.

## Longer term view

**high** inflation is ultimately more likely than any sustained deflation



***“Each success only buys an admission ticket to a more difficult problem...”***

Henry Kissinger, 1979



Grexit?



Member states	GDP 2014 millions of euro	Population in millions <sup>[4]</sup>
 <b>European Union</b>	13,920,541	507.4
 Germany	2,903,790	80.8
 France	2,132,449	65.9
 Italy	1,616,048	60.8
 Spain	1,058,469	46.5
 Netherlands	653,476	16.8
 Sweden	430,258	9.6
 Poland	413,133	38.5
 Belgium	402,027	11.2
 Austria	328,886	8.5
 Finland	204,015	5.5
 Ireland	185,412	4.6
 Greece	179,081	11.0
 Portugal	174,384	10.4

## To put it in perspective:

German foreign trade (monthly, EUR bn)



Source: Statistisches Bundesamt

# What does this mean for markets?

given that assets are not particularly cheap to start with...



**US Federal Reserve ends QE stimulus programme**

BBC, 29 Oct 2014

**Japan's central bank shocks markets with more easing as inflation slows**

Reuters, 31 Oct 2014

**ECB unleashes €400bn lending programme and negative interest rates**

The Guardian, 05 Jun 2014

**China cuts interest rates to spur growth**

Reuters, 21 Nov 2014

**Oil Falls to 5-Year Low as Supply Glut Seen Linger**

Bloomberg, 30 Dec 2014

**Frigid winter takes toll as US GDP contracts for first time in 3 years**

Reuters, 29 May 2014

**Falling inflation a worry for Europe but also the world**

Reuters, 23 Nov 2014

**Euro heads for longest losing streak after ECB's move**

Reuters, September 5

**S&P closes at 46th new high for this year**

**Euro bond yields fall to new record lows**

FinFacts, November 24

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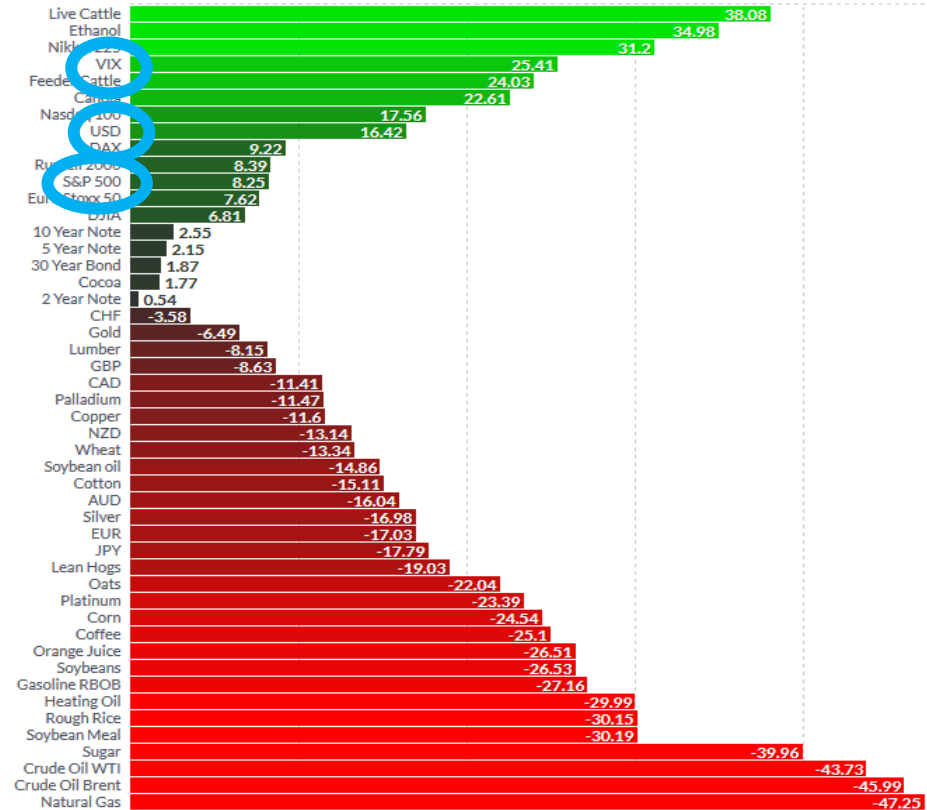
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BBC, 19 Sep 2014

Source: Deutsche Bank.

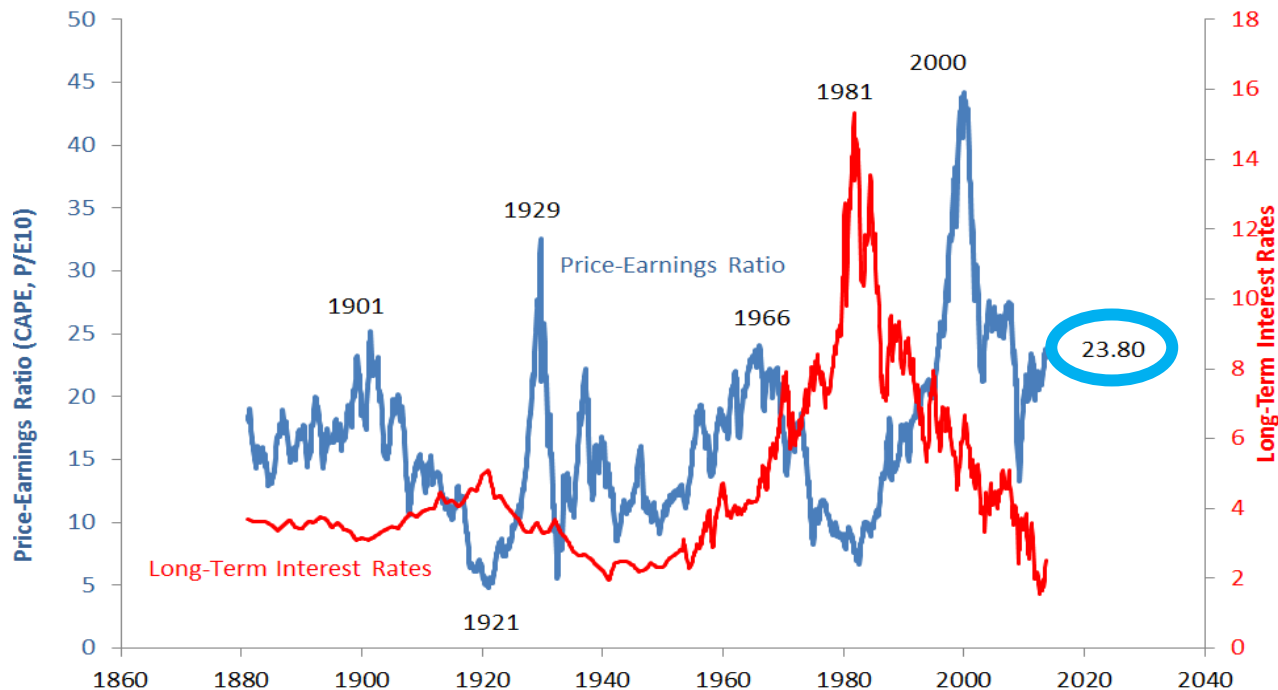
# Market returns (12 months to 9 June 2015)



Source: FinViz.com

# Remember CAPE?

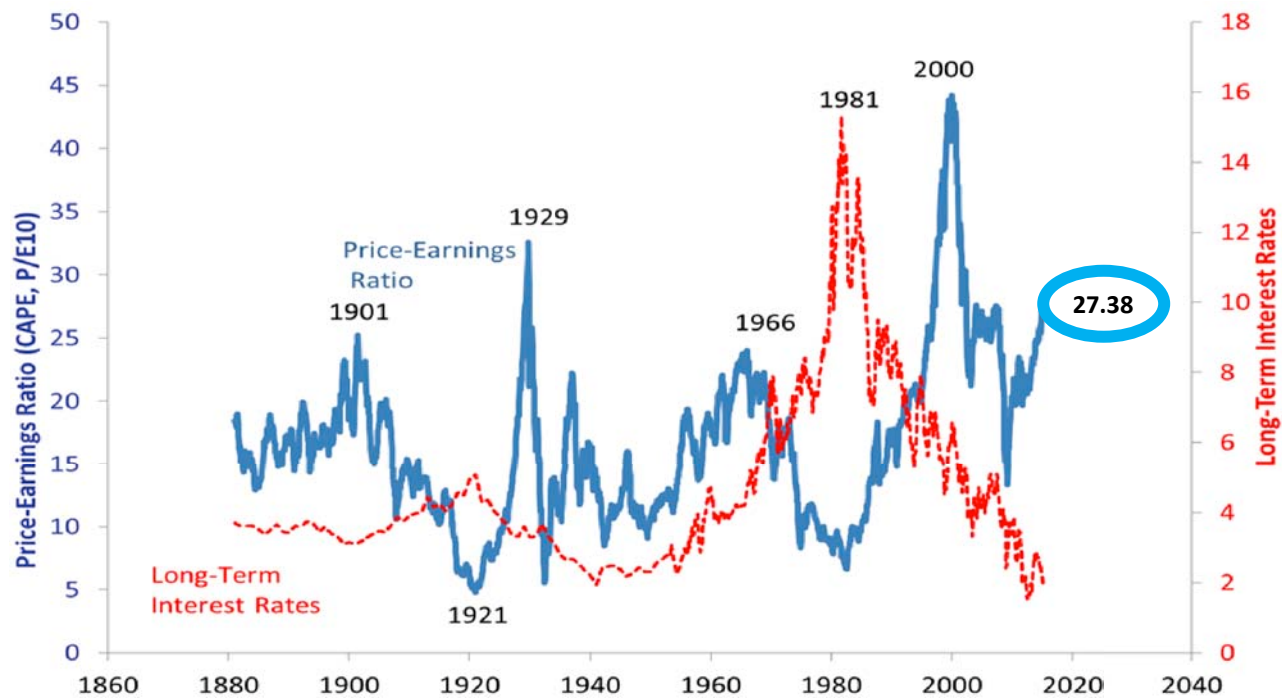
as shown at previous Credo Conference



Source: Robert J Shiller.

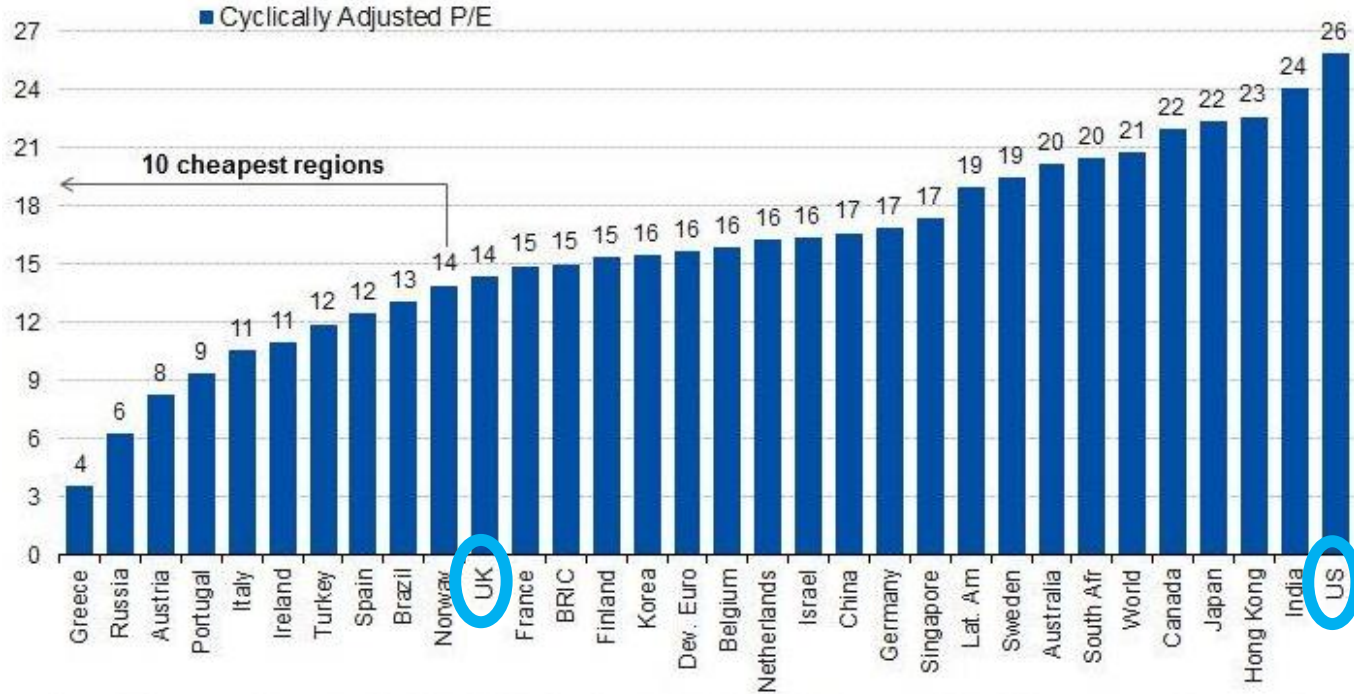
# Cyclically adjusted PE ratio

updated



Source: Robert J Shiller.

# Global equity valuations



Source: Credit Lyonnais Securities Asia, FactSet Franklin Templeton Investments.



# Starting CAPE vs REAL returns of 15 following years (p.a.)



	CAPE			0 - 8			8 - 12			12 - 16			16 - 20			20 - 24			24 - 28			28 - 32			
	Ø	#	Start	min 25%	Med	max 75%	min 25%	Med	max 75%	min 25%	Med	max 75%	min 25%	Med	max 75%	min 25%	Med	max 75%	min 25%	Med	max 75%	min 25%	Med	max 75%	
Australia	16,5	225	1979	11% 12%	11,9%	12% 12%	8% 10%	10,1%	12% 11%	6% 11%	8,2%	12% 9%	4% 5%	5,7%	8% 7%	4% 5%	5,4%	6% 6%	3% 3%	3,2%	3% 3%				
Belgium	14,7	225	1979	15% 16%	16,9%	18% 17%	13% 14%	17,1%	18% 18%	0% 3%	9,4%	17% 11%	0% 2%	7,9%	13% 10%	0% 1%	5,5%	9% 6%	0% 0%	0,0%	0% 0%	-1% -1%	-1,0%	-1% -1%	
Canada	19,6	225	1979	9% 9%	9,4%	11% 10%	5% 7%	8,0%	11% 9%	2% 6%	7,0%	11% 9%	4% 7%	8,9%	11% 11%	6% 8%	8,1%	9% 8%	6% 6%	6,4%	8% 7%	4% 5%	5,1%	6% 5%	
France	19,9	204	1981	13% 13%	14,0%	16% 15%	13% 14%	14,1%	16% 15%	6% 14%	15,2%	16% 16%	3% 6%	7,3%	15% 9%	2% 5%	6,3%	13% 7%	2% 3%	6,6%	11% 9%	2% 3%	6,1%	9% 8%	
Germany	18,2	225	1979	13% 13%	13,1%	14% 14%	6% 9%	11,2%	13% 12%	4% 6%	8,6%	14% 12%	2% 5%	5,9%	11% 7%	3% 4%	5,6%	10% 6%	3% 4%	3,7%	7% 4%	2% 3%	3,1%	3% 3%	
Hong Kong	18,6	95	1990				9% 9%	9,9%	11% 10%	7% 8%	9,1%	10% 10%	4% 6%	7,0%	10% 9%	3% 5%	5,9%	10% 7%	1% 2%	2,0%	4% 1%	1% 1%	0,7%	1% 1%	
Italy	23,0	53	1994										1% 3%	3,1%	4% 4%	0% 0%	1,0%	3% 2%	-1% -1%	-0,5%	0% 0%	-1% -1%	-1,1%	-1% -1%	
Japan	39,2	225	1979						7% 7%	6,8%	7% 7%	6% 7%	7,2%	8% 8%	5% 5%	5,7%	7% 6%	3% 3%	3,6%	5% 4%	-2% 2%	2,9%	4% 4%		
Netherlands	12,4	225	1979	14% 15%	16,4%	21% 18%	7% 8%	10,0%	16% 15%	2% 5%	5,6%	10% 7%	2% 3%	4,2%	5% 5%	2% 2%	1,7%	2% 2%	0% 1%	0,8%	1% 1%	0% 0%	0,4%	1% 1%	
Norway	14,4	225	1979	12% 13%	13,4%	14% 14%	3% 6%	9,4%	14% 11%	3% 6%	6,8%	12% 8%	1% 4%	5,4%	8% 7%	5% 6%	6,3%	7% 7%	4% 5%	5,0%	6% 5%	4% 4%	4,4%	4% 4%	
Singapore	22,4	189	1982				7% 8%	7,7%	6% 8%	7% 7%	7,4%	8% 8%	3% 5%	5,2%	8% 7%	2% 3%	4,1%	8% 7%	2% 3%	4,5%	8% 6%	-1% 2%	2,7%	4% 3%	
Spain	16,9	104	1990				10% 12%	12,5%	15% 14%	6% 8%	9,9%	13% 11%	4% 5%	7,6%	9% 9%	1% 2%	2,6%	3% 3%	2% 2%	2,1%	3% 2%	1% 1%	1,5%	2% 2%	
Switzerland	18,8	225	1979	8% 11%	12,2%	16% 14%	8% 10%	14,3%	16% 15%	9% 10%	11,9%	14% 13%	7% 9%	9,6%	13% 11%	4% 6%	6,7%	8% 7%	4% 5%	5,1%	6% 6%	4% 4%	4,0%	4% 4%	
UK	15,3	225	1979	11% 12%	12,3%	14% 13%	11% 12%	12,6%	14% 13%	4% 6%	7,2%	1% 3%	2% 3%	4,2%	7% 5%	2% 2%	2,3%	3% 2%	2% 2%	1,8%	2% 2%				
S&P 500	16,5	1.413	1881	6% 8%	10,1%	15% 13%	1% 8%	10,2%	16% 13%	1% 4%	6,8%	13% 9%	-2% 3%	5,4%	11% 7%	-2% 0%	2,0%	8% 4%	0% 1%	3,0%	0% 0%	0% 0%	2,3%	3% 3%	
All Countries	17,5	4.083	1881	6% 11%	13,1%	21% 15%	1% 8%	10,6%	18% 13%	0% 6%	7,5%	17% 10%	-2% 4%	5,9%	15% 8%	-2% 2%	4,2%	13% 6%	-1% 3%	4,2%	11% 6%	-2% 1%	2,8%	9% 4%	

Source: Norbert Keimling.

## The bottom line

investment portfolios & deflation risk



- *Consider equities/markets in terms of underlying deflationary impact : good/bad?*
- *Look for value, don't overpay (same as ever)*
  
- *Bonds < 5 years (+/-): credit risk the most important*
- *Bonds > 5 years: (+/-): perhaps better to focus on **inflation** risk?*

The secret of a happy marriage?  
as shown at last year's Credo Conference



*"It's not looks, nor intelligence, nor money...*



***it's low expectations."***

## Some sound strategic advice



*With the Fed exiting & the mess in Europe & collapsing commodities & the surging dollar & Ebola & Russian sanctions, things are pretty scary out there.*

***But the truth of the matter is, for your portfolio, none of these are the canary in the coal mine, YOU are.***

*Having a **plan** is the only thing we can control:*

- *If you are a trader, trade,*
- *if you are a buyer & holder, hold,*
- *if you have a diversified portfolio, rebalance.*

Michael Batnick, Ritholtz Wealth Management, 14 Oct. 2014

Lots of pessimists out there...



# We remain optimistic about the long term



"Optimistic people play a disproportionate role in shaping our lives. Their decisions make a difference; they are inventors, entrepreneurs, political and military leaders - not average people. They got to where they are by seeking challenges and taking risks."  
*Daniel Kahneman*

# We remain optimistic about the long term



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Their decisions **make a difference**;  
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They got to where they are **by** seeking challenges and **taking risks**.”  
*Daniel Kahneman*



## Look to the long term

quoting Warren Buffett (again)



*Over the long term, the stock market news will be good.*

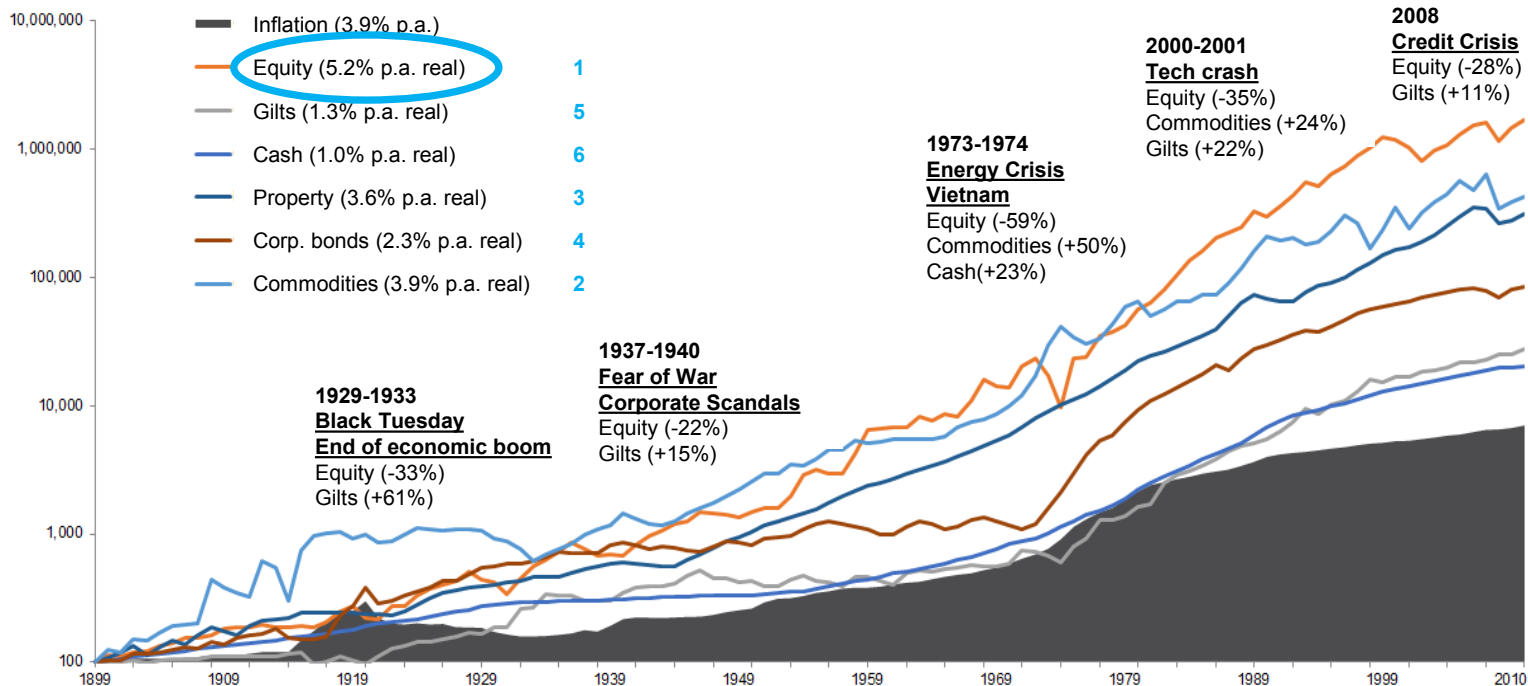
*In the 20th century, the United States endured **two world wars** and other traumatic and expensive **military conflicts**; the **Depression**; a dozen or so **recessions** and **financial panics**; **oil shocks**; a flu **epidemic** & the resignation of a **disgraced president**.*

***Yet the Dow rose from 66 to 11,497.***



# Keeping calm, carrying on...

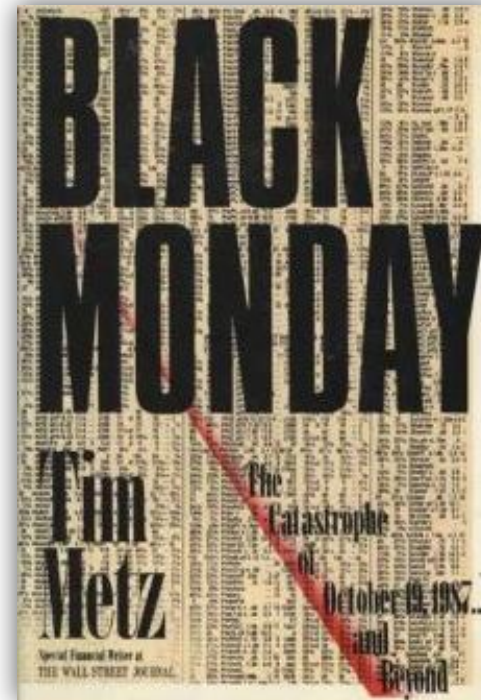
...in the real world



Source: AIM, Barclays Capital, Deutsche Bank, Case Shiller.

# Remember October 1987?

1	19 Oct. 1987	-22.6%
2	28 Oct. 1929	-12.8%
3	18 Dec. 1899	-12.0%
4	29 Oct. 1929	-11.7%
5	6 Nov. 1929	-9.9%
6	12 Aug. 1932	-8.4%
7	14 Mar. 1907	-8.3%
8	26 Oct. 1987	-8.0%
9	15 Oct. 2008	-7.9%
10	21 Jul. 1933	-7.8%
11	18 Oct. 1937	-7.8%
12	1 Dec. 2008	-7.7%
13	9 Oct. 2008	-7.3%
14	1 Feb. 1917	-7.2%
15	27 Oct. 1997	-7.2%
16	5 Oct. 1932	-7.1%



# Remember October 1987?



# S&P long term compound returns

(to 3 June 2015, nominal)



# S&P long term compound returns

(to 3 June 2015, nominal)



10 years	Incl. GFC	7.7%
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Source: Joshua M Brown

# S&P long term compound returns

(to 3 June 2015, nominal)



10 years	Incl. GFC	<b>7.7%</b>
20 years	Incl. GFC, tech bubble bursting	<b>9.9%</b>

Source: Joshua M Brown

# S&P long term compound returns

(to 3 June 2015, nominal)



10 years	Incl. GFC	<b>7.7%</b>
20 years	Incl. GFC, tech bubble bursting	<b>9.9%</b>
30 years	Incl. GFC, tech bubble bursting, Oct. 87	<b>11.3%</b>

Source: Joshua M Brown

By all means follow a cautious approach...





But do not take all risk off the table!



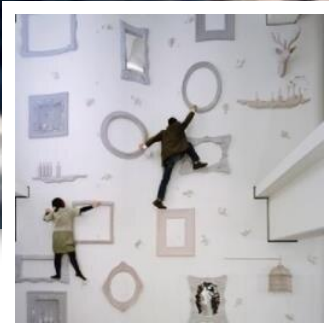
But do not take all risk off the table!

“The best time to **plant a tree** was 20 years ago  
The second best time is **now.**”  
*Ancient African Proverb*



Finally...

# #ThankYou



 @DeonGouws\_Credo



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