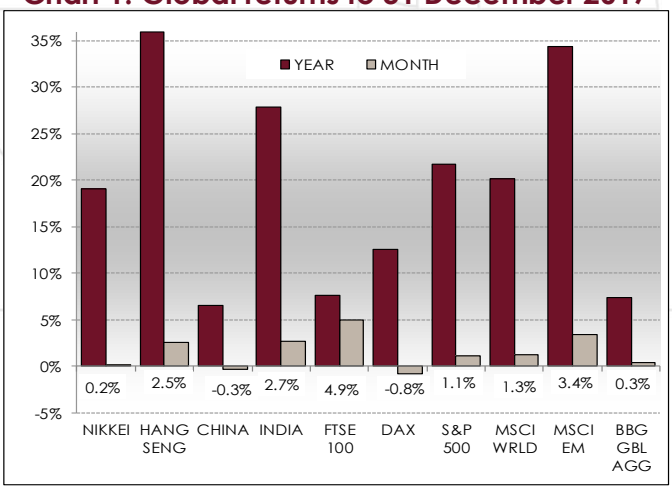
December in perspective – global markets

Before reviewing market behavior during 2017 as a whole, let's look at the December returns. The MSCI World index rose 1.3% driven primarily by emerging markets. The MSCI Emerging Market index rose 3.4%, boosted by a weak dollar. Strong returns were seen in the Hang Seng, which rose 2.5%, and India, which rose 2.7%. Other notable gains were registered by Greece, up 8.4%, Turkey 10.9%, Brazil 6.2% and South Africa, which rose 9.8% in dollar terms, thanks to the 10.2% surge in the rand dollar exchange rate. Of the major global indices, only China (-0.3%) and Germany (-0.8%) declined. In the US, despite the view that the proposed tax changes would benefit mid and small companies more, the S&P Mid cap index rose only 0.1% while the Small Cap index fell 0.7%, compared to the 1.1% gain in the S&P500 (large cap) index.

Chart 1: Global returns to 31 December 2017



The US dollar fell 0.7% against the euro and by more against most emerging market currencies. The weak dollar spurred gains across the commodity complex, with notable increases experienced by nickel, up 15.3%, aluminium 11.5%, copper 7.8%, iron ore 7.3%, and palladium 4.2%. The oil price rose 7.4%, having risen every month since June, and ended the year up 18.3%. Soft commodity prices were mixed but firmer in general. The US dollar ended the year down 9.9% against a trade-weighted basket. The euro rose 13.8% during the year and even the Brexit-handicapped pound rose 9.5% against the dollar in 2017. The global bond market enjoyed a strong year; the Bloomberg Global Aggregate Bond index rose 0.4% in December, bringing its annual gain to 7.4%.

Tree Line

What's on our radar screen?

Here are a few items we are keeping an eye on:

- *The SA Economy:* There was no major economic news to report on, given the time of year, but of course the most notable feature of the SA economy was the 10.2% appreciation of the rand against the (weak) dollar. The rise was driven primarily by a change in sentiment on the part of foreigners following the election of Cyril Ramaphosa as the new ANC president. By way of follow-up to our comments in last month's edition of *Intermezzo*, we do not share the rand's euphoria regarding the outcome of the ANC Elective Conference. There has indeed been a change in leadership, but we will need far more than that to bring about lasting reform. South

Africa's economic woes are so dire it will take years, perhaps even a decade, before we can realistically hope to rise to our full potential and overcome the devastation that has been unleashed on the country and all its citizens by the incompetent and corrupt Zuma Administration. In due course, hard decisions will have to be taken regarding how to solve SA's economic problems. The jury is still out as to whether or not the ANC has the political will, and Cyril Ramaphosa the strength of leadership, to take these decisions. We certainly have our doubts. The future direction of the rand is a material consideration, given the manner in which its movements influence so many important investment variables, such as offshore returns, the All Share index, interest rates, inflation, consumer sentiment, and of course economic growth. 2018 is likely to be a watershed year for South Africa, both politically and economically. Given the depths and substance of the economic challenges the country faces, the odds are stacked against it succeeding.

- *The US economy*: Same old, same old … and I mean that in a good sense. Economic data released during the past month confirmed what we already knew: an economy growing at a steady pace, with little or no sign of inflation. Many economic indicators are close to, or approaching, record levels, meaning that the economy is plodding along nicely, despite higher interest rates, the President's tweets and his dysfunctional behaviour. Although it is too early to place much certainty on the forecasts, fourth quarter (Q4) data released so far indicates that the US grew at an annualized rate of about 3% during the December quarter.
- *Developed economies*: Economic data emanating out of the Eurozone continues to impress, providing evidence of a recovery that is providing more positive than negative surprises. The final readings of December Eurozone Purchasing Manufacturers' index (PMI) proved to be the highest since data started in 1997. Germany's PMI was also the highest ever recorded, the UK's PMI slipped slightly from the previous month's 4-year record, while the Spanish and Italian PMIs were slightly below expectation but still comfortably in expansion territory. The German economy registered growth of 2.2% during 2017, the highest annual rate of growth since 2011.

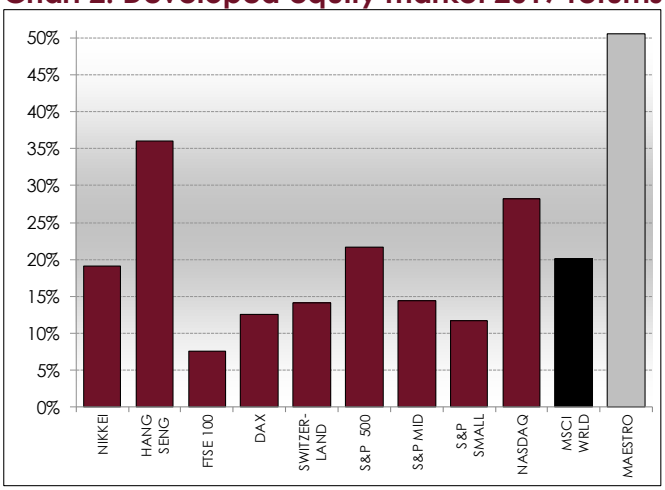
The Farm

2017 in perspective

Much has already been written about 2017 market returns in the media, so I won't dwell to long on it here. However, 2017 will go down as one of the more profitable years all on investment markets – despite the denial of it throughout most of the year. Described, on numerous occasions, as "the most hated bull market ever" and with some justification, global equity markets registered impressive returns during the year – refer to Chart 2 in this regard.

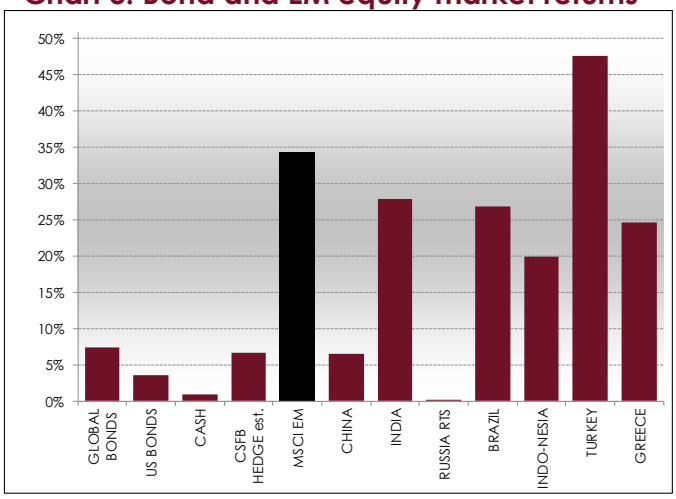
"To achieve great things, two things are needed; a plan, and not quite enough time."
- Leonard Bernstein

Chart 2: Developed equity market 2017 returns



There is sufficient evidence to suggest that many investors doubted the ability of equity markets to deliver reasonable returns, and consequently sat on the sidelines throughout the year – at great opportunity cost. The MSCI World index rose 20.1% and the S&P500 rose 21.7%. A remarkable feature of the latter index is that it posted a positive return during every month of the year – something that has not happened for as long as records have been maintained (they began in 1928). Another less obvious feature is that more records than ever were set by the major US indices throughout the year. But each one was only incrementally higher – a real feature of 2017's "stealth" bull market, and one which left the markets arguably fully valued, but not excessively so. During 2017, the S&P500 set 63 new record highs, second only to the 77 reached in 1995. Sixty two new records were set in 1964. The tech-heavy NASDAQ index recorded 73 new record highs during 2017, and it was one of the best performing indices during the year, rising 28.2%. The Hang Seng index in Hong Kong, which has during the past few years also become a very tech-heavy index, rose 36.0% during the year, capping an extraordinary year for many Asian shares, and tech ones in particular. I have included Maestro's global equity return on Chart 2. This is the return that was achieved by the Central Park Global Balanced Fund equity portfolio. Returns on the discretionary global equity portfolios under our management ranged between 50.6% and 55.8%.

Chart 3: Bond and EM equity market returns



The consensus view, which Maestro shared, was that the US dollar would be firm, thereby depressing Emerging Market returns. We were 100% wrong in this regard: the dollar declined 13.8% against the euro and 9.5% against the Brexit-impaired pound. Its trade-weighted (DXY) index declined 9.9%. Maestro also maintained that the rand would weaken progressively during the year. In this regard we were half right and half wrong: the rand vacillated around the R13.25 mark with a reasonable amount of volatility, but was swept away by the positive response on the part of international investors to the election of Cyril Ramaphosa as the new ANC Chief following the Elective Conference in December.

The weak dollar provided substantial support for other emerging market currencies, in so doing lifting the returns of emerging equity markets, many to record levels - refer to Chart 3 in this regard. China was a notable laggard, with the Shanghai Composite index rising only 5.6%. India,

up 27.9%, Brazil 26.9% and Greece 24.7% fared well too (these returns are all in local currencies), to help the MSCI Emerging Market index to a 34.4% gain in dollar terms.

You can see from Chart 3 that while global bond markets were under pressure they still delivered positive returns. The Bloomberg Global Aggregate Bond index return of 7.4% is more than respectable. US bonds fared less well, rising only 3.5%. Not shown on the charts are the strong commodity price gains; they too were supported to some extent by the weak dollar. Copper rose 31.2% during 2017, oil 18.3%, and nickel 15.3%, although iron ore lost 6.7%. Gains amongst the precious metals were led by palladium, which rose 57.8%, completely eclipsing the 3.0% return from platinum; gold rose 12.7% during 2017.

Chart 4: SA investment market returns (%)

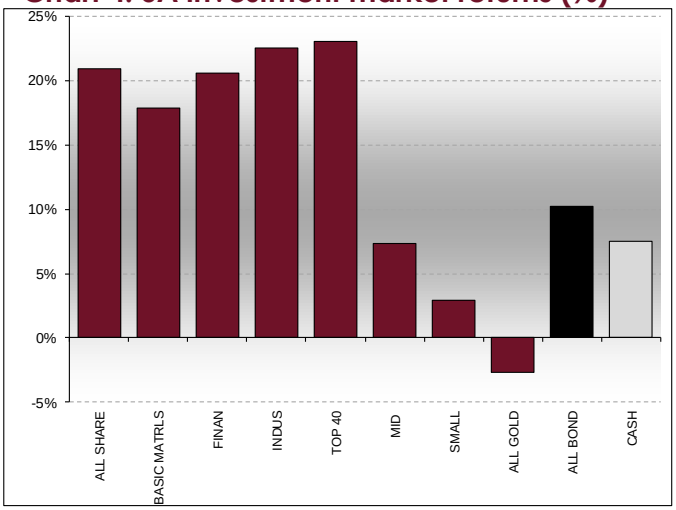
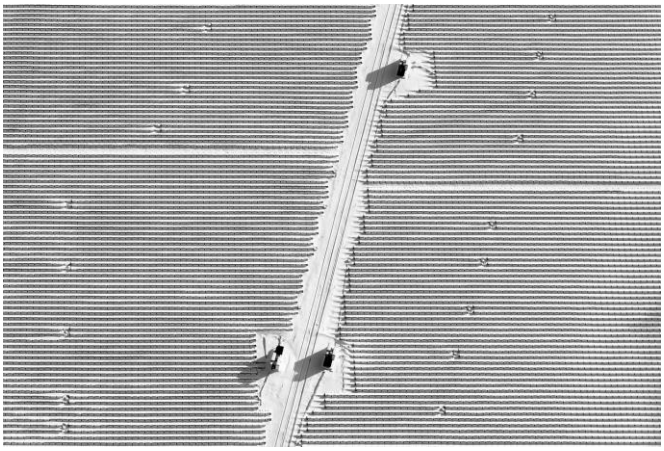


Chart 4 depicts the returns of major SA indices. The strong annual returns are something of a mirage and belie the trauma that was felt by nearly all investors. Naspers, which makes up nearly 20% of the All Share index and a substantial portion of the Top40 (large cap) index, rose 71.3%. Its large gain and heavy weighting pulled many indices higher. Compare the 23.1% Top40 index return, for example, to that of the Mid cap index returns of 7.4% or the Small cap return of only 3.0% and you get a better idea of the 2017 SA equity market returns. It is worth noting that the average 2017 annual return from the SA general equity category of 165 unit trusts was "only" 12.5%, some way off the 21.0% All Share index return. The SA Bond market posted a healthy and surprising return of 10.2%, of which half (5.6%) came in December alone, assisted by the 10.2% surge in the rand during that month.

Solar Farm



So all-in-all, despite fake news, the most hated bull market in history, the Naspers effect, the Steinhoff effect, and all the other factors that played on global markets, 2017 will go down in history as a profitable one, with investors rewarded to putting their capital at risk.

Income and wealth inequality in the US

This month I would like to share some charts that may surprise you. They concern the inequality in the US, a nation often perceived as relatively wealthy, with less poor people than most other countries. The following charts will explode that belief and show how unequal a society it really is. The charts speak for themselves, so I won't offer much comment. All the charts are sourced from a Deutsche Bank report issued in January.

The Road ends here

Chart 5: Households with zero wealth (%)

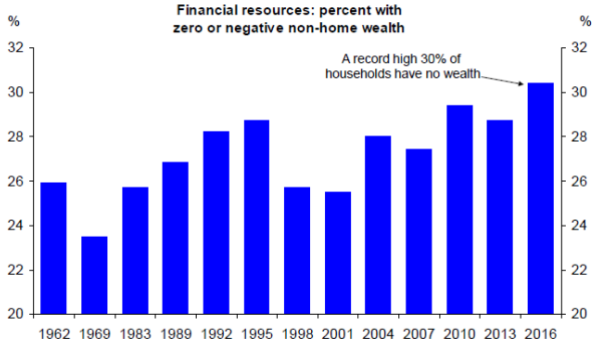
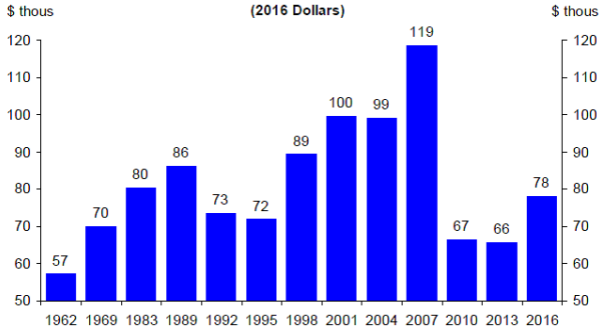


Chart 5 shows that more US families than ever – just more than 30% - now have zero or negative wealth. The median net worth of households is only $78 000 (R975 000), below 2007's $119 000 despite the S&P500 and home prices being at all-time highs (Chart 6).

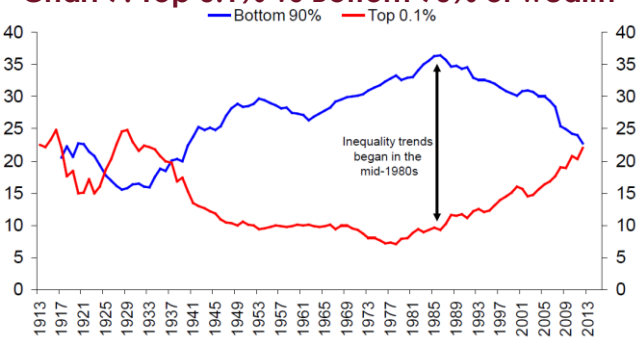
Chart 6: Median wealth of US households



By way of definition, the median measures the central or middle value e.g. if there are 11 samples it measures the 6th one. It is preferable to an average, as averages can be distorted by extreme, outlying values in the sample.

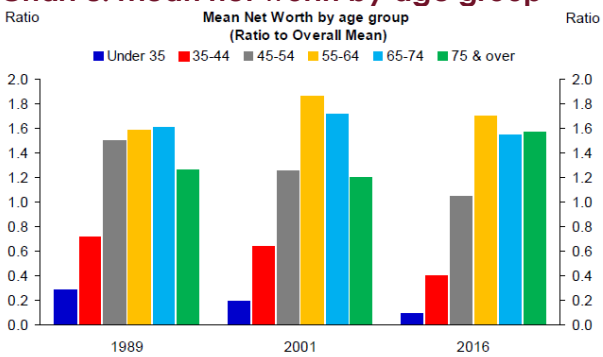
The wealthiest 0.1% of US households own as many assets as the bottom 90% (Chart 7). This is not a new trend, increasing inequality has been developing since the mid-1970s.

Chart 7: Top 0.1% vs Bottom 90% of wealth



It is disconcerting to see younger generations' net worth diminishing over the years. The 55 – 64 age cohort net worth improved around 2000 (the tech boom, perhaps?), but that has fallen back again while the over-75s net worth has been improving.

Chart 8: Mean net worth by age group



All of this has led to the US being a rather unequal society, as shown in Chart 9. A Gini coefficient is a statistical measure used to quantify dispersion; it is frequently used to measure economic

inequalities. To put the countries depicted in Chart 9 in perspective, South Africa's Gini coefficient, as measured in the Poverty Trends in SA Report released by Statistics SA in August 2017, is 0.68 i.e. literally "off the chart".

Chart 9: Gini coefficients across countries

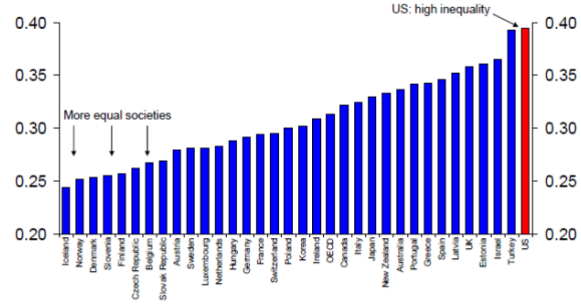


Chart 10 depicts 2014 average US income. The average annual pre-tax income of the top 0.1% of US earners is $6m (R75.0m) while the top 10% earn $1.3m (R16.3m) on average. The bottom 50% of earners, some 117m people, have an annual pre-tax income of $16 000 (R200 000).

Chart 10: Average pre-tax income in the US

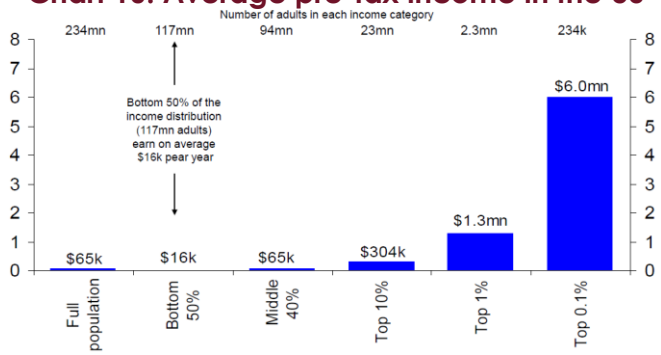


Chart 11 depicts income concentration over the years. Top earners have been increasing their share of income since the 1970s, so it is not a new trend. The Top 10% currently earn around 50% of total income, while the Top 0.1% take about 22%.

Chart 11: Income concentration

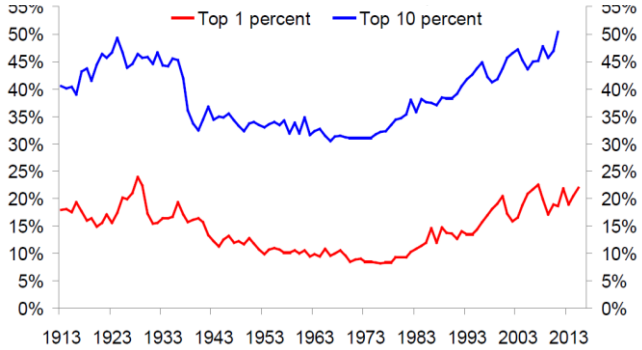
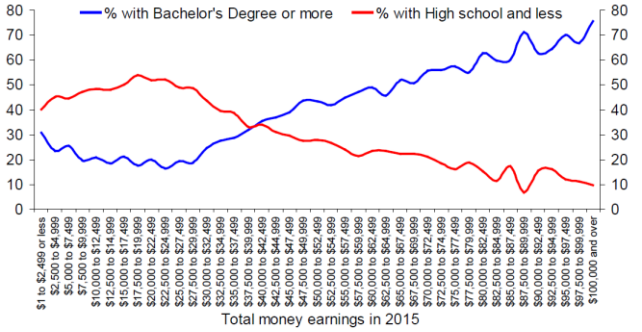


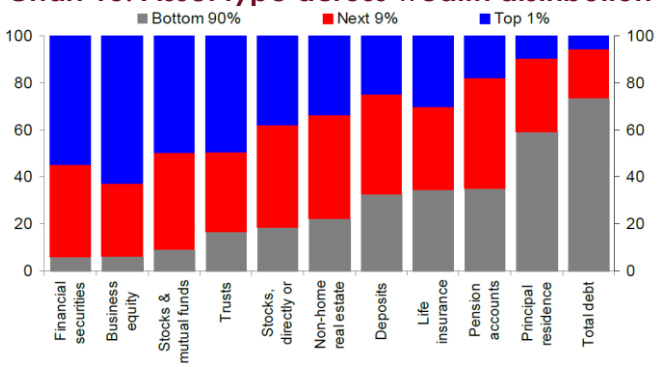
Chart 12 confirms a trend evident in all countries: the higher your education, the greater your chances of earning more. Those who are better educated earn significantly more than those with no or little education.

Chart 12: Education is still worth something



It is interesting to note where this wealth is held. Chart 13 shows that the Top 1% of the wealthiest US households hold the bulk of their wealth in businesses and shares. Not surprisingly, they have little debt. The reverse is true for the bottom 90%.

Chart 13: Asset type across wealth distribution



"To achieve great things, two things are needed; a plan, and not quite enough time."
- Leonard Bernstein

As for the distribution of US wealth, Chart 14 shows that the Top 1% hold about 40% and the next 4% another 25%. Together the Top 5% of wealthiest US households own about 65% of the wealth. The remaining 95% own about 35%.

Chart 14: Distribution of US net wealth (%)

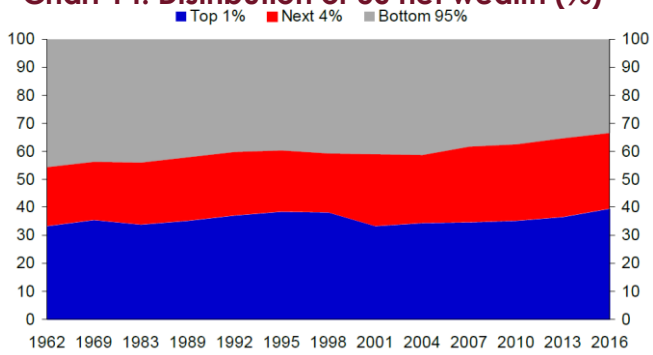
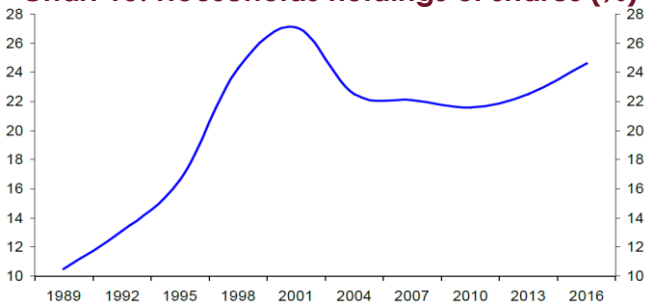


Chart 15 depicts the percentage of US households holding more than $25 000 (R306 250) of shares. Think of the implications of this chart for a moment: only about a quarter of households in the US hold more than R306 250 in shares. Remember this is households i.e. a typical family, which would usually include both parents. It would obviously be very skewed to the very wealthy – see Chart 16 in this regard - which makes it even more frightening to realize just how few US families firstly invest in the share market (in arguably the most capitalist society on earth), and secondly how little the average US household has invested in the market. Remember, this "wealth" would include savings mechanisms like retirement funds. Wow!

It is also interesting to note that, after having just ended another year of one of the longest US equity bull markets in history, households' holdings of shares remains well below the 2000 peak. Implicitly it is not difficult to see or understand why, on average, so many US citizens are getting poorer and poorer. Dare I say it? "Enter the Trump era".

Chart 15: Households holdings of shares (%)



Having noted the concentration of equity ownership amongst the very wealthy, Chart 16 shows that 80% (the bottom four quintiles) of US households hold only 6.8% of the total value of shares held. The wealthiest 1% own 40.3%.

Chart 16: Concentration of stock ownership (%)

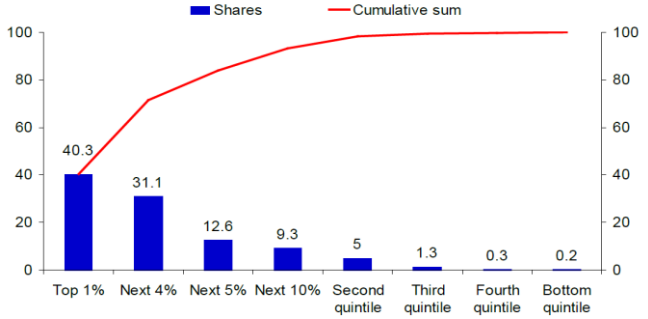
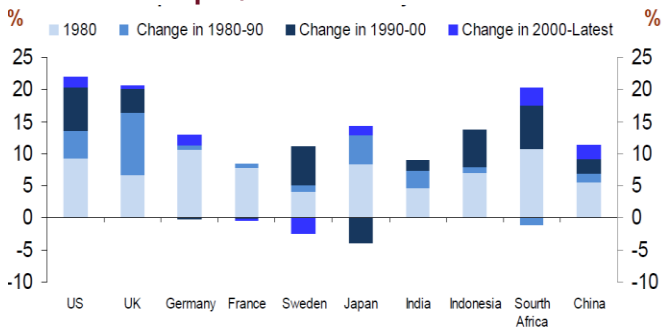


Chart 17 is complicated but worth considering: it depicts selected countries and the extent to which the wealthiest 1% of citizens has changed since 1980. South Africa is included on the chart. Income in this case is defined as the total income reported to government on tax returns, before any deductions. The first aspect of the chart to note is that in virtually all countries the rich have increased their wealth over time. Starting with the US for example, the top 1% earn about 23% of the total income earned in the economy. That compares to the 9% of total income they earned in 1980. Moving up the US histogram, about 5% of the change occurred between 1980 and 1990 and another 7% of the increase (from 14% to 21%) occurred in the nineties. That increased further by about 2% to its current portion of about 23%.

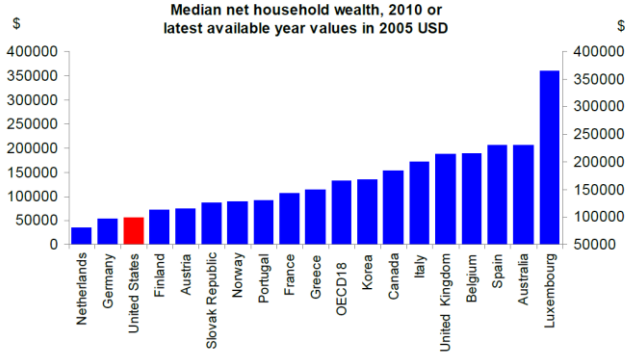
Chart 17: Top 1% share of total income



You can do the numbers on the other countries yourself, but let's consider South Africa. It is particularly informative given the political change that occurred in the country since 1980. In 1980 the top 1% of wealthy SA citizens earned about 10% of the income generated in SA. The eighties saw that actually decline to about 9%, which makes sense if you remember how the SA economy struggled through that period – think of the Groot Krokodil, the Rubicon speech, the dual currency (remember the financial rand? Argh!), etc. Not surprisingly then, when you consider the "New SA" changes during the nineties, the top 1% increased their take of total income by about 9% to 18%. It was a period of great wealth generation for most South Africans, but also the very wealthy. Since 2000 that rate of growth has slowed, to the extent that the wealthiest have increased their portion of the total income by about 4% only, to 21%, which interestingly is only slightly behind the US and UK. Of course the advent of "black economic empowerment" has created a few African oligarchs of note (and the increase in corruption has no doubt fueled this trend), including the likes of the Motsepes, the Guptas, and the Ramaphosas, for example.

Finally, Chart 18 shows the median net household wealth in 2010 or the latest available year. It places the US into perspective – I am sure it is not what you would have expected. No wonder we are seeing such social upheaval and a backlash in the US, and other countries too, of the poor and middle classes who are becoming "poorer" at a rapid rate.

Chart 18: The median net household wealth



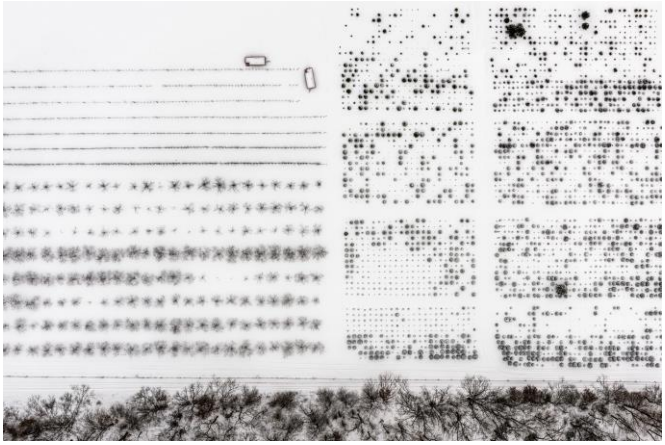
In conclusion and perhaps a bit mischievously, I have presented a lot of data here in the form of charts, but the bigger issue, and one which talks to the current global political narrative, is whether or not this "rich get richer" phenomenon is a good or bad thing. In what I have presented, I have refrained from adding a value judgement or view on it. The facts are what they are, one cannot dispute them. Whether or not society is better or worse off as a result is a fascinating debate and one worth having, one which raises a great of passion and conviction amongst any who are prepared to tackle it. We all have our own views, but this phenomenon will continue to fashion and inform the political future in virtually every country, and shape policy implementation in all countries. It stands to reason that in the countries where income inequality is the greatest, the wealthiest have the most to fear and lose. Add to that any resemblance of political history or inequality across the racial divide, and you have an explosive policy agenda. The next few years are going to be momentous in South Africa for this very reason, even more so with a new leader at the head of the ruling party and hopefully soon also as the head of government. Watch this space!

Solitude

December in perspective – local markets

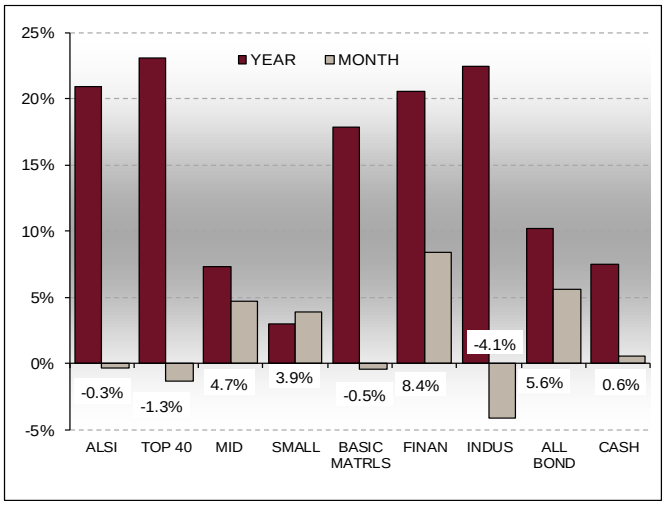
Turning to the local markets, December was dominated by the spectacular and sudden collapse of the Steinhoff Group. Fear and panic spread like wildfire through the markets, taking shares like EOH and Echo Polska with it, for seemingly irrational reasons. To say that December was a terrible month on SA markets would be a gross understatement, yet the All Share index will officially reflect a loss of only 0.3%. This, despite the fact that so many of the index constituents are driven by the rand exchange rate, which rose 10.2% and should thus have acted as a brake on the market performance. Such were the contradictions of 2017!

Tree Farm with Carts



The Basic Material index lost only 0.5%, despite the firm rand and a 10.2% collapse in the Gold index. The rampant rand boosted the Financial index, which ended the month up 8.4% while the Industrial index lost 4.1%. The latter is in itself a contradiction, as many large cap, SA-focused shares such as Barloworld surged on the back of the firm rand. However, market gorilla Naspers, which dominates the index (it comprises nearly 20% of the All Share index alone) was negatively affected by the rand and pulled the Industrial index lower. Driven by the rand and its impact on the consumer in the form of lower inflation and interest rates, the retail sector was in fine form, rising 15.9%, pulling the Mid cap index 4.7% higher. The Small cap index rose 3.9% in sympathy while the (large cap) Top40 index fell 1.3%.

Chart 19: Local returns to 31 December 2017

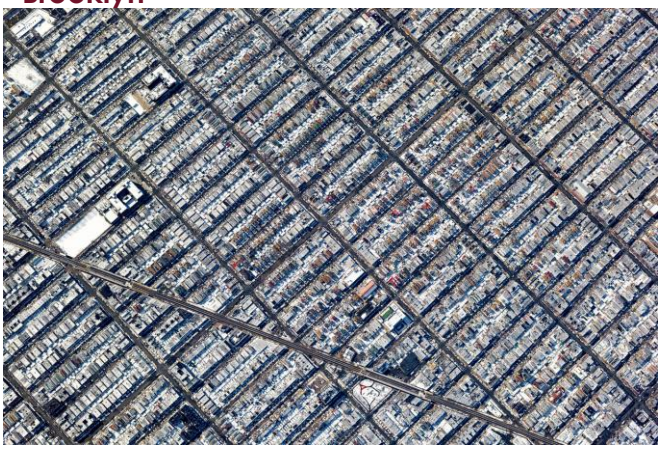


The best-performing sector during December was the General Retail sector. Fueled by the strong rand, it rose 15.9%. Similarly, the Banks index rose 15.2% and the Industrials Metals index 12.9%. The worst performing sectors were Household Goods, which declined 91.7% (Steinhoff comprised just about the entire index). The Gold Mining index lost 10.2%, and Software Services 8.3%. If ever there was a month of absolute market turmoil, it was December 2017.

"To achieve great things, two things are needed; a plan, and not quite enough time."
- Leonard Bernstein

While the headline indices look benign and uneventful, the reality for nearly all investors was that December was a very unprofitable month – certainly one to forget.

Brooklyn



For the record

Table 1 lists the latest returns of the mutual and retirement funds under Maestro's care. Returns include income and are presented *after* fees have been charged. Fund Summaries for each respective fund listed in the table, as well as all the historic returns, are available on our website.

Table 1: The returns of funds in Maestro's care

	Period ended	Month	Year to date	Year
Maestro Equity Prescient Fund	**Dec**	**-6.0%**	**-0.4%**	**-0.4%**
JSE All Share Index	*Dec*	*-0.3%*	*21.0%*	*21.0%*
Maestro Growth Fund	**Dec**	**-4.8%**	**6.2%**	**6.2%**
Fund Benchmark	*Dec*	*0.1%*	*15.8%*	*15.8%*
Maestro Balanced Fund	**Dec**	**-4.1%**	**6.6%**	**6.6%**
Fund Benchmark	*Dec*	*0.2%*	*14.5%*	*14.5%*
Maestro Cautious Fund	**Dec**	**-0.9%**	**5.9%**	**5.9%**
Fund Benchmark	*Dec*	*1.8%*	*12.4%*	*12.4%*
Central Park Global Balanced Fund ($)	**Nov**	**1.7%**	**32.0%**	**30.9%**
*Benchmark**	*Nov*	*1.6%*	*13.9%*	*15.0%*
*Sector average **	*Nov*	*0.7%*	*10.3%*	*11.7%*

* 60% MSCI World Index and 40% Bloomberg Global Aggregate Bond Index
** Morningstar USD Moderate Allocation ($)

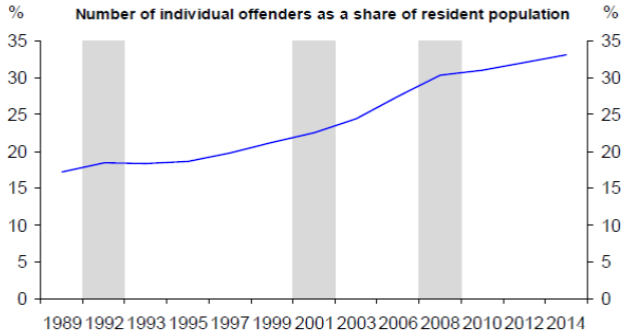
Charts of the month

How "bad" is the US?

Not entirely unrelated to the earlier charts of income inequality in the US, next month I will share few more shocking charts about the US and its opioid crisis in particular. But for now I share Chart 20, which shows that nearly 34% of all US citizens have a criminal record - far higher than one would imagine in one of the most developed countries in the world. Perhaps the time has come to redefine the word "developed"?

Chart 20: Number of US offenders

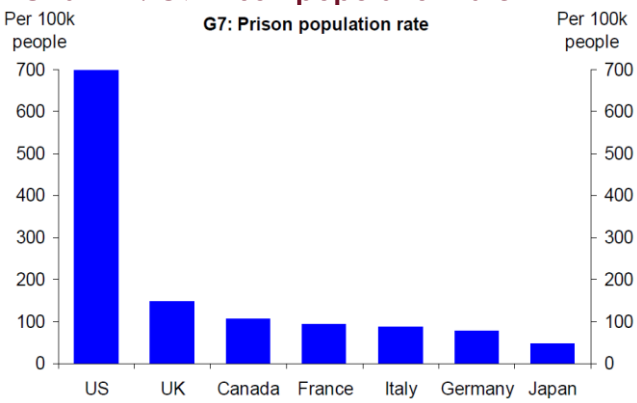
As a percentage of the population



Source: Deutsche Bank

And in a similar vein, Chart 21 shows that of all the G7 countries, the US has by far the highest prison population rate.

Chart 21: G7 Prison population rate



Source: Deutsche Bank

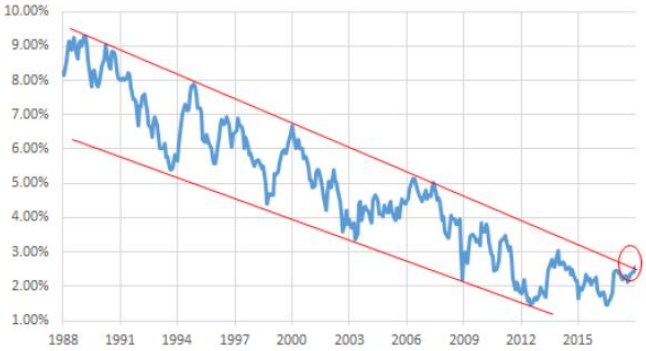
"To achieve great things, two things are needed; a plan, and not quite enough time."
- Leonard Bernstein

The end of the global bond bull market?

The retail investor might not be that aware of it but within the global investment community much debate has raged as to whether or not the multi-year bull market in bonds in general, and US bonds in particular, has come to an end. It is not a new debate; it has been raging for more than a year, and is also seen in our own view of a very low (0.9%) bond exposure in our global balanced fund, Central Park Global Balanced Fund. With the US and global economies now growing strongly, and early signs of a firm undertone in inflation, the debate has again raised its head.

The purpose of this short explanation is to provide the background to Chart 22, which depicts the yield (interest rate) on the 10-year US Treasury bond since the late eighties. One doesn't have to be a genius to appreciate that the bond market in the US, and indeed in most global developed countries, has reached a critical point. Any move higher in bond yields will be a sure sign that the 30-year bond bull market has come to an end. Maestro retains its view that the best returns from global bond markets are a thing of the past, and equity markets will provide the best returns for at least the next year or so.

Chart 22: US 10-year Treasury Bond yield

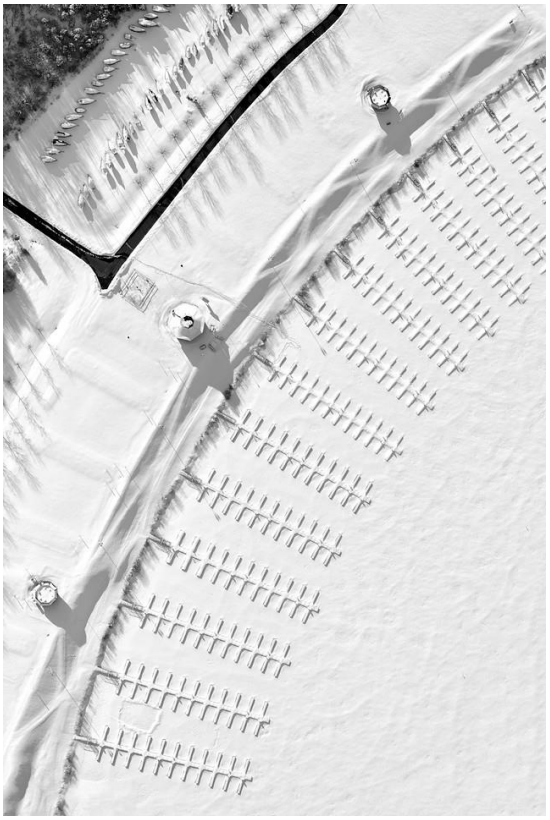


Source: Deutsche Bank

The most expensive painting on the planet

I had wanted to include the news in last month's *Intermezzo*, but ran out of space, so have to include this item here. If you are a follower of the art world, you will no doubt have heard of what must be termed the "deal of the year", if not the decade or even century. I am referring to the sale of what is reported to be the last Leonardo Da Vinci painting in a private collection, known as Salvator Mundi, on 15 November, for a record-breaking $400m, which with fees comes to a mind-boggling total cost of $450 312 500 (that's R5.6bn). The initial estimate for the sale was $100m.

Frozen Lake



You can read the official announcement by auction house Christie's by clicking here, and watch the actual auction (it really is worth watching how an investor parts with $450m in the

face of determined competition) by clicking here, but let me summarize the intrigue surrounding the work, of which there is a great deal. Before I list the work's history, let us take time to appreciate that the attribution of this work to Da Vinci brings to only 15, the number of known paintings by the Italian master. Nothing like a bit of scarcity to push up the price.

The work's provenance seems sufficiently robust. However, therein lies part of the intrigue. The work was commissioned by King Louis XII of France in the early 1500s as a celebration of the conquest of Milan in 1499. It then made its way through various monarchies, landing up in the UK where it was sold in 1763 by Sir Charles Robinson for £2.10s. Its whereabouts then become unclear, until it re-emerged in in 1900s in the estate of Sir Francis Cooke. His heirs sold it at Sotheby's in 1958, where it was attributed to one of Da Vinci's pupils, Giovanni Antonio Boltraffio. It was sold for £45. During the "missing years" the work was inexpertly restored and heavily overpainted. Therein lies one of the problems: many critics argue that there so little of Da Vinci left in the painting that it cannot genuinely be attributed to him anymore. But why let the facts get in the way of a good story?!

The American buyer of the work in 1958 took it into his private collection, but it re-emerged in 2005, when it was sold to a consortium and taken into the care of a Manhattan art restorer, Robert Simon, who oversaw a 5-year restoration project. During this process, the work's originality was restored as best possible and it's attribution to Da Vince restored beyond doubt. In 2011 the work was hung in the UK's National Gallery and the public was able to view the work for the first time.

In 2013 ownership of the work passed from Swiss art dealer Yves Bouvier, who bought it from the consortium for $80m, to Russian billionaire Dmitry Rybolovlev, who paid $127.5m for it.

Rybolovlev was the seller of the work at the November auction but a great deal of mystery surrounded the identity of the buyer. Logic pointed to the buyer being Asian or Arabian. After all, they are the only buyers who possess that size cheque book. As a matter of interest, the final bid that sealed the deal was a full $30m above the previous one, which in itself is simply astonishing. Given the curiosity surrounding the work and the buyer, it was only a matter of time before the full details of the buyer emerged.

Central Park at 10 000 feet

When a social media post conveyed the news that the Salvator Mundi was going on show at the Louvre Abu Dhabi, it was swiftly followed by a real surprise: the buyer was a little-known Saudi prince, Bader bin Abdullah bin Mohammed bin Farhan al-Saud. It later emerged that he had been acting as a proxy for Crown Prince Mohammed bin Salman.

Leonardo da Vinci (1452-1519): *Salvator Mundi*

Painted circa 1500. 65.7cm x 45.7cm

Source: Christie's

More intriguing, perhaps, is the identity of the under-bidder. The best guess would be Qatar, which is itself opening a competing gleaming new Jean Nouvel-designed national museum next year. More intriguing, it is in the middle of a spat with Saudi Arabia and United Arab Emirates. That only adds to the intrigue behind the sale, without the rivalry between these two, one wonders if the price would ever have reached such a dizzy height. It had to be a trophy buy: it was impossible to see how it could have been bought for purposes of investment. At that price level, the costs of buying and selling are enormous (the fees in this deal alone exceeded $50m) and even for exceptional works the art market is notoriously volatile.

Yet the price is now a matter of public record and the sale stands. Who would ever have thought that a buyer would have paid $450m for one single art work? I guess pride and egos come at great expense!

File 13. Things almost worth remembering

So much for the land of "The American Dream"

During the Festive Season I had the opportunity to catch up on some reading. I read a number of interesting articles, including a survey on retirement savings, undertaken by the Schwartz Centre for Economic Policy Analysis, and entitled "Inadequate Retirement Savings for Workers nearing Retirement."

Its findings were nothing short of alarming. The following represents a summary, but if you are interested in reviewing the actual article, you can find it by clicking here:

- 35% of all workers aged between 55 and 64 have neither retirement savings in defined contribution (DC) or Individual Retirement Accounts (IRA), nor defined benefit (DB) pension coverage from a current or past job.
- Because a third of older workers have no retirement savings, the median account balance of workers approaching retirement is just $15 000. To put that into perspective, that equates to about R185 000, which in South Africa would generate about R13 000 per annum or just over R1 000 per month.

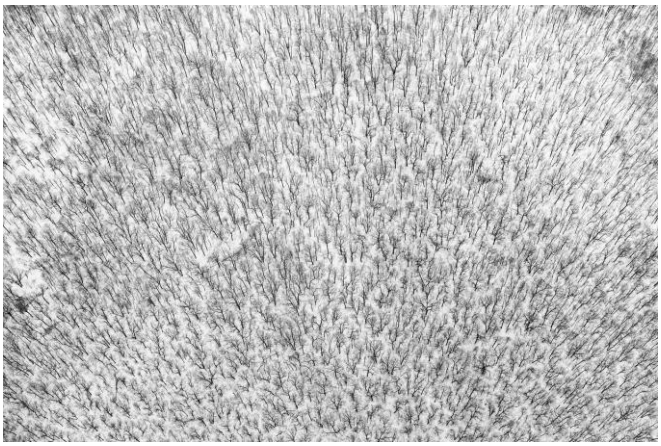
- 50% of low income older workers (earning less than $40 000 annually), 20% of the middle class (between $40 000 and $115 000), and 15% of high income workers ($115 000 plus) have neither retirement savings nor a DB pension.
- The median account balance of those with retirement savings is $92 000. Among account holders in the top 10% of earners, the median balance is just $250 000.
- Income from retirement savings will replace a median 14% of pre-retirement income of workers with accounts, which is insufficient to maintain pre-retirement living standards. The small minority that also has DB pension coverage is better prepared, with a median 20% replacement rate from their retirement savings, plus DB income.

If you think carefully about these data, it means that US workers who are due to retire within the next few years simply can't afford to do so. And this, in one of the (supposedly) most developed countries in the world which, in theory at least, presented the most opportunities for wealth creation for its citizens. What happened to all the money they earned during their lifetime? Did they really spend it all? Did they not think of saving some for retirement? It beggars belief. Of course, if we follow this to its logical conclusion, all these impecunious retirees will come knocking on government's door, in all likelihood at a time when US debt is already approaching all-time highs. Watch this space … we are in for an interesting next few years!

Steinhoff ripples reach far and wide

While South African Steinhoff shareholders and creditors are still smarting for the cost to the lightning-fast collapse of the Steinhoff Group, they should not underestimate how far the ripples of the largest corporate collapse in recent history (locally and abroad) stretch.

Dense forest



JP Morgan, one of the largest banks in the world, reported its December quarter results on Friday, 12 January. The results were good, better than expected in fact, and the market duly rewarded the company with a 1.7% gain, bringing its gain during the past year to 30.7%, and lifting the company's market capitalization to $391bn (R4.8tn). However, buried deep in the fine print was the "small matter" of a loss that had been realized of $143m, arising from a "margin loan to a single client". That client was soon identified and subsequently confirmed as the "boss of Steinhoff". We know that a syndicated bank loan of €1.6bn was extended to Christo Wiese, and that Steinhoff shares were lodged as collateral.

When the share collapsed within the space of two days that left a big hole in these banks' balance sheets. Admittedly, with 2017 net income of $24.4bn the Wiese "hit" isn't going to dent JP Morgan's balance sheet, but it goes to show just how far the Steinhoff ripples are moving. We also know that JP Morgan's share of the syndicated loan was not the largest one. There is more to come from other banks.

Lake pools

So what's with the pics?

I have often come across the name of Filip Wolak as the winner of photographic competitions. He is also a regular contributor to National Geographic's Photo of the Day series. Wolak was again one of the winners in the latter's 2017 Photographs of the Year competition. I therefore decided to do some homework on him and am pleased to be able to direct you to his website, which you can access by clicking here. His work is amazing and breathtaking.

Frozen River

Fancy Farm

In light of the incredible "snow bomb" storm that has just passed the East coast of the US and also brought record low temperatures across that country, I thought it appropriate to feature excerpts from Filip Wolak's series "Winter from Above" in this month's *Intermezzo*. I hope you enjoy them.

"To achieve great things, two things are needed; a plan, and not quite enough time."
- Leonard Bernstein

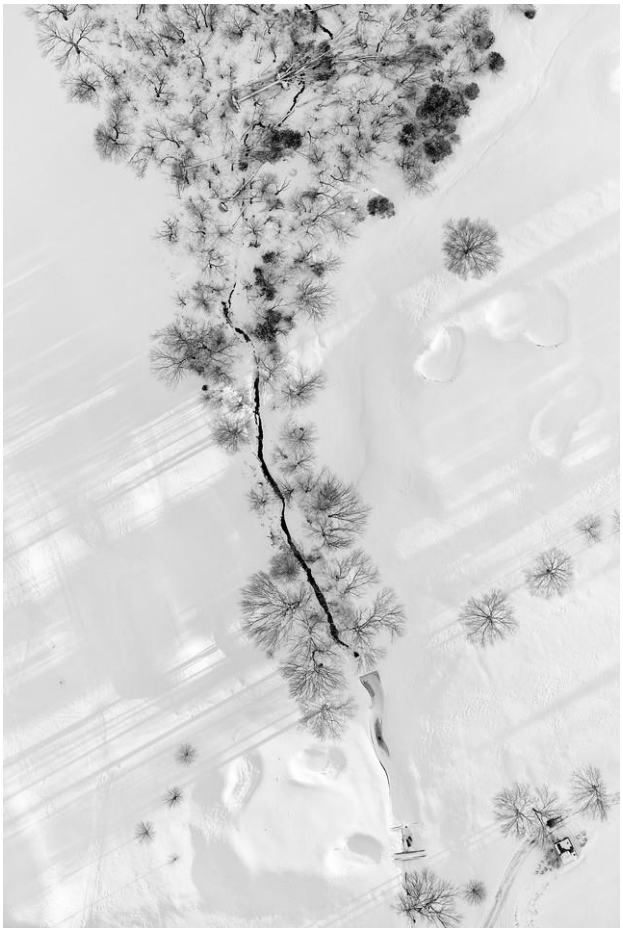
INTERMEZZO
INVESTMENT LETTER

January 2018

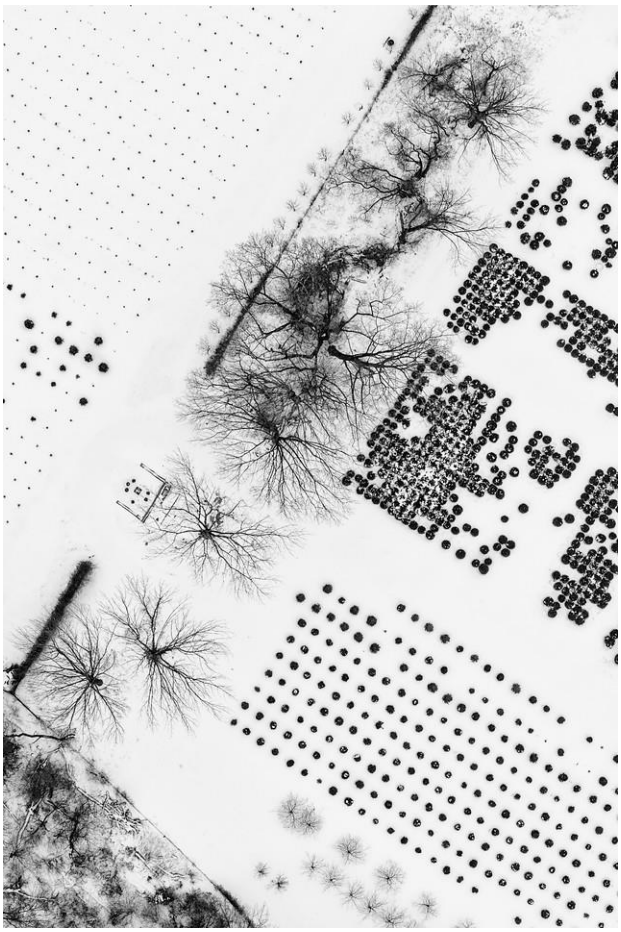
Orchestrating Your Wealth

The Flock

Body Part



Trees and Dots



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