FUNDS ON FRIDAY
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Invest like you're Denmark

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In a world often characterised by hustle, stress, and the relentless pursuit of triumph, Denmark stands out as a beacon of contentment and well-being. Year after year, this small Scandinavian nation consistently ranks among the happiest countries on earth—a fact that continues to captivate the curiosity of researchers, travelers, and seekers of a better way of life. But what is it about Denmark that earns it this prestigious title?

In his book "A Million Miles in a Thousand Years," Don Miller explores the concept of storytelling and how crafting a meaningful narrative for our lives can lead to fulfilment and purpose. In one section, he delves into the idea of happiness and contrasts the mindsets of people in Denmark with those in other countries.

Miller interviews a Dane who shares his insights into why he believes Denmark ranks among the happiest countries in the world. One of the key points made is that Danes tend to have lower expectations compared to people in other cultures. This idea of having low expectations should not imply that Danes are pessimistic or lack ambition. Instead, it reflects a cultural tendency to prioritise contentment and satisfaction with what one has rather than constantly striving for more. The interviewer suggested to the Dane that a number of Americans were likely to move to Denmark to find this peace, to which the Dane wryly replied that they would probably be disappointed.

Denmark's reputation for happiness can be viewed through the lenses of simplicity, stability, long-term well-being, and efficiency. In the realm of investing, the same can be said for indexation.

Let's break down how indexation embodies these same qualities:

1. **Simplicity**: Denmark's happiness is related to a simple lifestyle; indexation simplifies investing by tracking market indexes instead of active management. This means investors avoid constant stock monitoring and complex strategies, opting for index funds or ETFs to gain broad market exposure effortlessly.

2. **Stability**: Denmark's robust social support system and high living standards bolster its stability. Likewise, indexation provides stability in investing through diversification. By investing in an index fund, investors spread their money across numerous companies or assets, lessening the impact of individual performance on their portfolio. This diversification mitigates risk, laying a stable groundwork for sustained growth.

3. **Long-term well-being**: Denmark's emphasis on work-life balance and social connection fosters a sense of well-being and fulfilment over the longer term. Similarly, indexation promotes long-term investing principles. By avoiding frequent fund trading, investors can benefit from the compounding effect of returns and weather short-term market fluctuations.

4. **Efficiency**: Denmark's effective social and economic structures bolster its well-being. Similarly, indexation exemplifies cost-effectiveness. Indexation typically offers lower fees compared to actively managed funds, allowing investors to retain a greater portion of their returns over time. This efficiency supports the notion of optimising returns while curbing costs, thereby improving investors' financial well-being.

Well, hvordan kan du lide dem æbler, as we say in Danish.

Why indexation? Why shouldn't I experience the same level of contentment and bliss by investing in an active manager…how might my expectations of active managers result in disappointment?

In our experience, these are three expectations that even seasoned investors have, which often lead to disappointment:

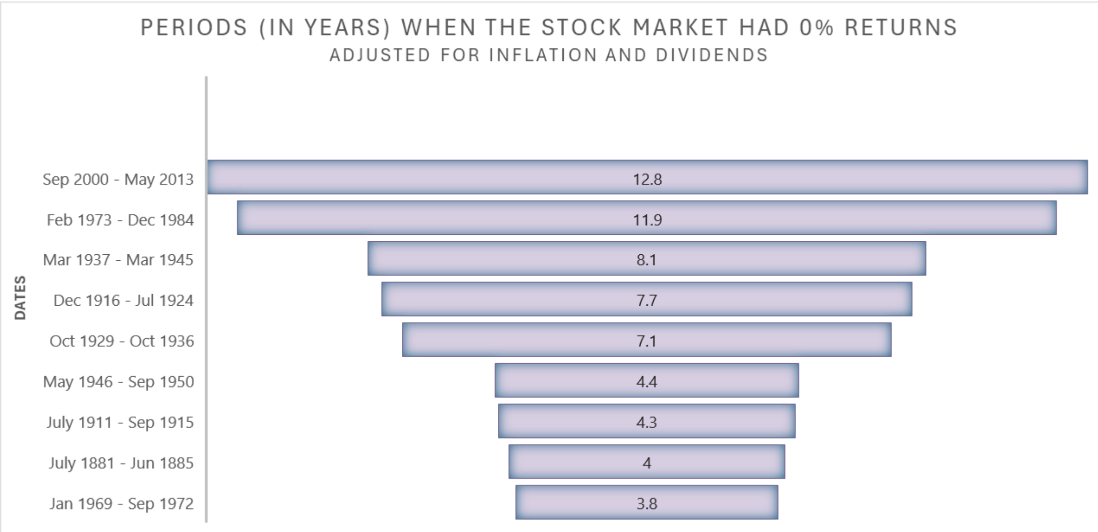
1 "If I just get into equities and stay in equities, I'm bound to do well. It's all about time in the market!"

2. "There will be active managers that outperform the index/market – I'll just invest with them!"

3. “I don’t have time for average returns…who wants to be average?”

1. TIME IN THE MARKET

Investors often expect that investing in equities will most assuredly lead to growth in their investments and markets generally deliver inflation-beating returns over the longer term. But it’s not the slam dunk that might be expected; looking at the S&P 500 specifically, there have been instances in history where the market delivered relatively flat returns over extended periods, typically due to economic recessions or other significant market downturns.



While the South African stock market, represented by the FTSE/JSE All Share Index, has generally shown positive long-term returns, there have been periods of relatively flat or negative performance. These are periods when the South African stock market delivered flat or negative returns for two years or longer:

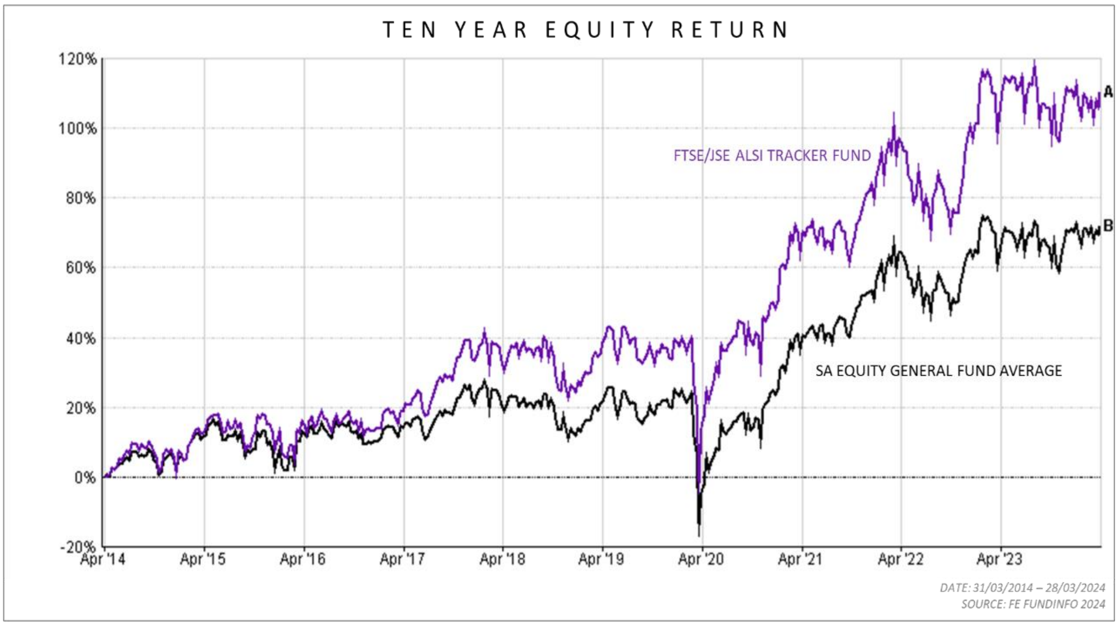
- **Global Financial Crisis (2007-2009)**: as with the S&P 500, the South African stock market experienced a significant downturn during the global financial crisis. From its peak in late 2007 to its low point in early 2009, the FTSE/JSE All Share Index saw a substantial decline, resulting in flat or negative returns over a multi-year period.

- **Commodity Slump (2011-2015)**: South Africa's economy, heavily reliant on commodities, was affected by a slump in commodity prices during this period. As a result, the FTSE/JSE All Share Index experienced relatively flat returns from around 2011 to 2015, reflecting the challenges faced by the country's resource-dependent sectors.

- **Recession and Political Uncertainty (2018-2019)**: South Africa entered a technical recession in 2018, exacerbated by political uncertainty and concerns about government policies. During this time, the FTSE/JSE All Share Index struggled to gain traction, leading to flat or negative returns over an extended period.

- **COVID-19 Pandemic (2020-2021)**: The outbreak of the COVID-19 pandemic in 2020 led to widespread market volatility and economic uncertainty globally, including in South Africa. The FTSE/JSE All Share Index experienced sharp declines in early 2020, followed by a period of recovery and volatility, resulting in relatively flat returns over the course of the pandemic and its aftermath.

It is important that investors have realistic expectations when it comes to investing in stock markets. If your preference, passion and capacity for volatility prescribe 'time in the market', substantial advantages can be gained by investing in a broad market index, as illustrated in the chart below. Besides the combination of cost-effectiveness, diversification, and tax efficiency, a broad tracker will ensure that your investment is positioned to benefit from any rising stocks in a growing market, thereby minimising unexpected outcomes.



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2. INVESTING IN THE OUTPERFORMERS

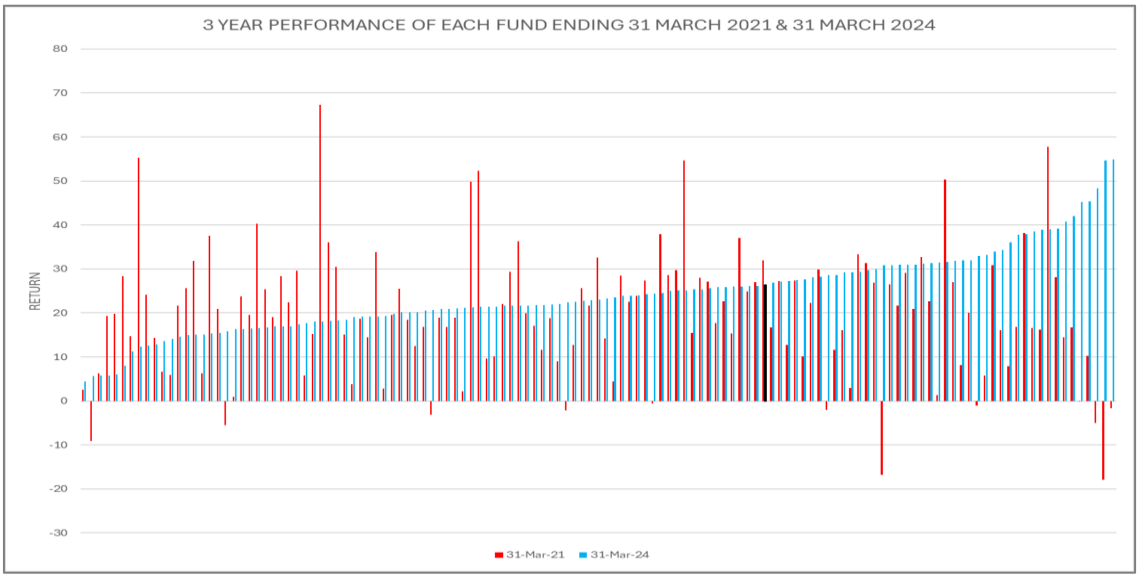
How would you classify an 'outperformer'? A fund manager that beats their benchmark? Sure, that's fair. But the data should include over what period…and some measure of consistency? This is where it gets tricky. There will always be funds that outperform the index; the hard part is knowing which ones, when, and for how long.

According to the data supplied by SPIVA, the numbers look like this at the end of December 2023:

SA EQUITY FUNDS THAT UNDERPERFORMED THE S & P SOUTH AFRICA 50	
Over 1 year	65%
Over 3 years	77%
Over 5 years	85%
Over 10 years	95%

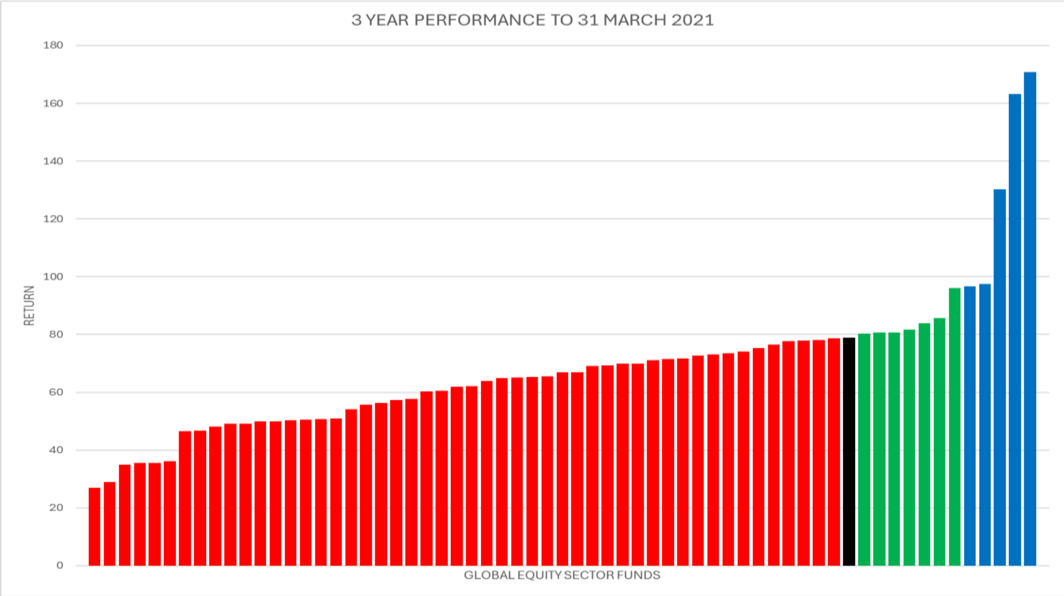
[An irreverent question: would you continue to fly with an airline that got you to where they undertook to get you 60% of the time?]

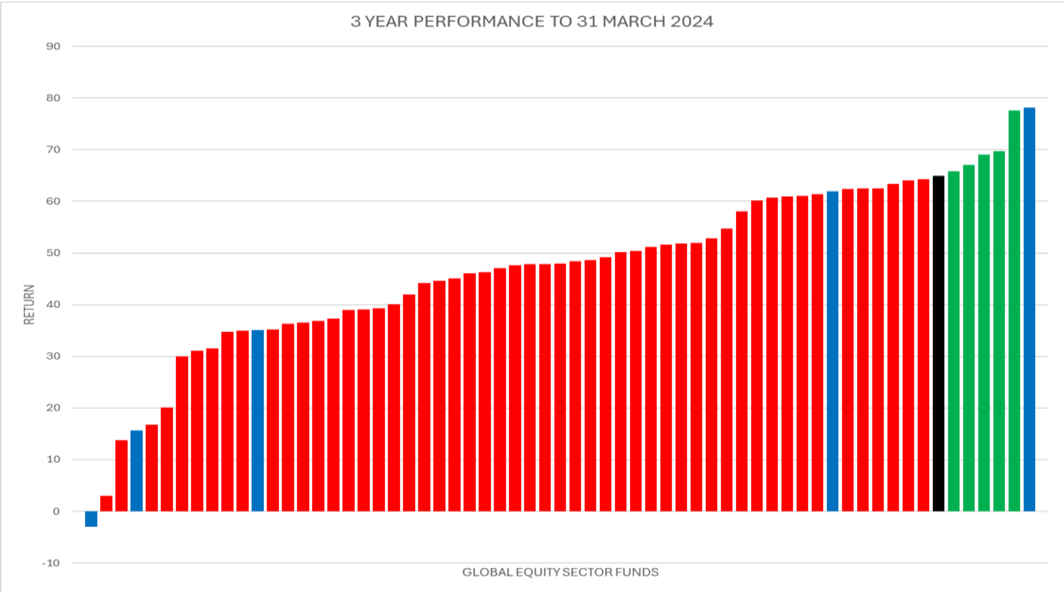
So, having established that there will indeed be fund managers who will outperform the index, selecting the ones that will, when they will do it and for how long is the conundrum.



In the graph above, all funds in the SA General Equity Sector are ranked from lowest to highest performance as of the end of March 2024, shown in blue. The red lines show the performance of those same funds as of March 2021. It is clear that there is no way to tell if yesterday's winners will continue to do well tomorrow; in fact, it may almost seem as if yesterday's winner will be tomorrow's loser.

Looking through a different lens, the two charts below illustrate the performance of the funds in the Global Equity Sector. The top chart shows the three-year performance to the end of March 2021. The blue indicates the top five performing funds. The second chart shows the performance as of the end of March 2024, with the March '21 blue funds now spread across the landscape.





As you can see, there is a wide and unpredictable dispersion of the delivery of top funds from one year to the next. Choosing the fund that will deliver the performance you expect in the time you want it to may not be as simple as expected.

3. BEING AVERAGE

Have you heard of Victor Haghani? With over three decades of experience in finance, Haghani began his career at Salomon Brothers. In 1993, he co-founded Long-Term Capital Management…remember them? His participation in the failure of LTCM was a life-changing experience that led him to question and revise much of the way he thought about the economy, markets and investing.

In the early 1900s, there were 4,000 millionaires in the US. If each of those families had followed the average childbirth rates of that era, there would now be 30 families for every one of the original 4,000 millionaire families. If each of those families had been able to match the passive return of the US stock market, this would have translated into 120,000 billionaires in 2012 (when this talk was delivered). $1m invested passively in the US stock market in 1900 would have grown to $30bn in 2012.

However, according to Forbes magazine, there were only 400 billionaires in the US at that time, and virtually none of them derived their billions from their ancestors' millions in the 1900s.

In his TEDx talk titled "The Puzzle of the Missing Billionaires," Haghani considers why so many investors failed to achieve even just the average returns of the market. Through the enigma of the "missing billionaires," he delves into the disparities between expected market returns and the actual outcomes experienced by investors. By examining this puzzle, Haghani uncovers behavioural biases, systemic issues, and investment pitfalls that contribute to investors falling short of their potential.

In essence, Haghani's exploration in "The Puzzle of the Missing Billionaires" underscores a crucial point: achieving average returns over time can indeed yield significant benefits. By dissecting the disparities between expected and actual market outcomes, Haghani reveals how embracing the average can mitigate the impact of behavioural biases, systemic issues, and investment pitfalls, potentially leading to a vastly different and more favourable outcome for investors.

IN CONCLUSION

While the temptation to chase after outliers and outperformers is understandable, it may serve investors to remember the wisdom in managing expectations and allowing for average. In simplicity lies stability, in consistency lies resilience, and in reliability lies the path to financial well-being.

Når man går planken ud. Make like you're Denmark and moderate your expectations; indexation could be the secret ingredient to your financial hygge and may 'Ingen Ko På Isen'.

Glacier Research would like to thank Kurt van der Walt and Micheal-John Dippenaar for contributing to this week's *Funds on Friday.*

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Megan has been involved in establishing business development networks in financial services for nearly 40 years. Having worked for Norwich, Investec IMS, Coronation, STANLIB, Fraters, Sanlam Investments, and Aylett & Co, she has a acquired a breadth of experience as well as valuable insights in this time. Her current role with Gryphon provides the opportunity to create awareness and appreciation for the unique, innovative investment approach delivered by this wellestablished, rules-based investment house. Beyond the office, her passions include reading, travel, holistic health, and trying to get the whole world to embrace meditation.

Casparus Treurnicht Portfolio Manager and Research Analyst Gryphon Asset Management

Cassie has been in the industry since January 2007 and joined Gryphon in 2011, bringing a strong quantitative background which made him a natural fit for maintaining and developing Gryphon's proprietary valuation models and conducting equity research. He is an integral member of the Gryphon team, fulfilling a number of roles but primarily responsible for managing the Gryphon ALSI Tracker Fund. Cassie is considered a campsite connoisseur and applies the same passion and analytic skills to the campsite fire as he does to his funds.