

G-TRACK 31 July 2017
AIM FOR THE INDEX AND PREVENT A DISASTER

This month we are going to bust a myth! Some argue that index based funds only outperform during certain periods. While it is impossible to know where our market is going to be one year from now, it is very possible to make sure that you do not deliberately destroy value. Whether it is a bull- or bear market, you can be assured that you won't be the one kicking cash out of your retirement bucket after reading this article.

THE BULL MARKET THAT ENDED THREE YEARS AGO

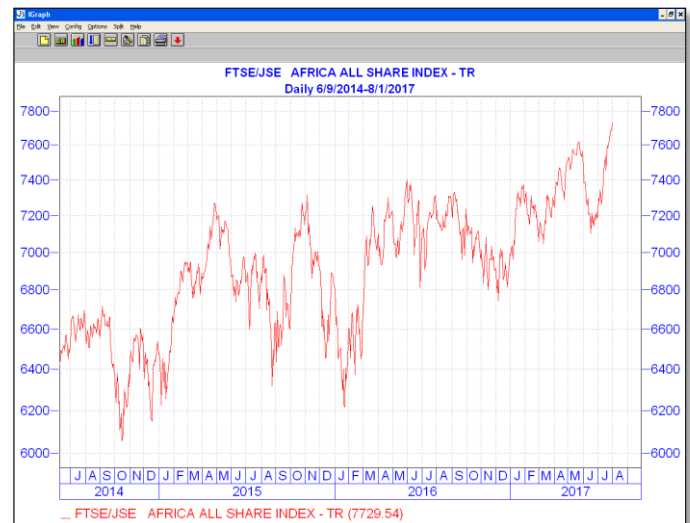
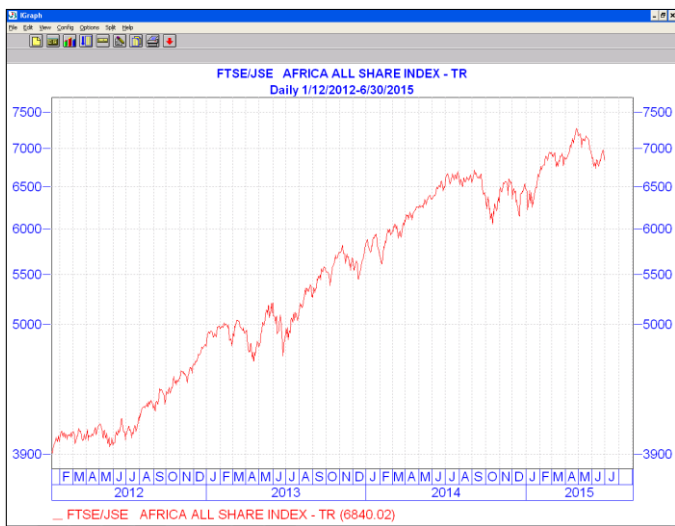
The JSE had stellar returns up until mid 2015. Since then the market have been in a very sideways pattern which exposed some fund managers as swimming naked – excessive fees combined with problematic stock selection. The end result: poor performance! It doesn't matter what kind of market we find ourselves in, low cost index based strategies have proven to outperform the majority of its active peers. For the three years up to 15 April 2015 the JSE All Share Index achieved an average return of 20.3% per annum.

would've earned returns close to the market as indicated by the purple line. The probability of being invested in a fund that eventually earned more than the market was a mere 26%.

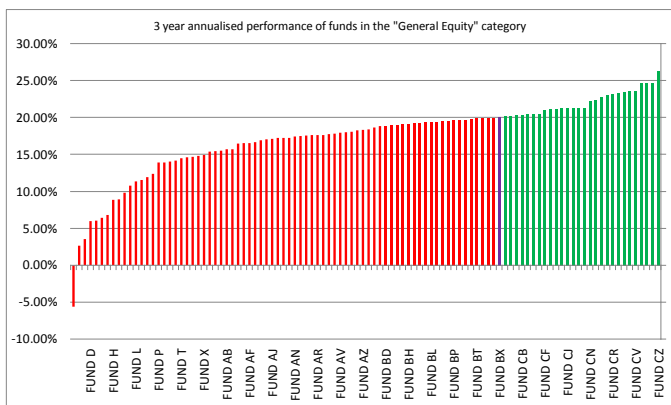
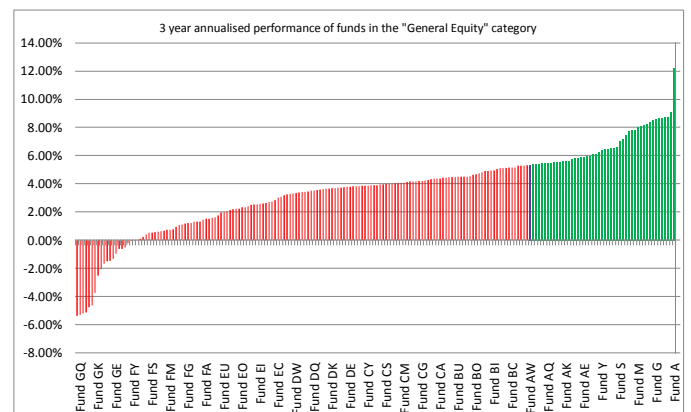
The Gryphon All Share Tracker Fund is an index based fund that promise returns close to the index. It did not achieve 10%, 0% or -5%. It achieved 20.1%. Beware of capped and equally weighted index tracking products – they tilt index constituents the same way active funds do.

THE MARKET AS IT STANDS

For the three years up to 31 July 2017 the market returned 5.5% per annum. This is almost 15% less than our previous scenario. Some of our competitors were convinced that index trackers would be at a disadvantaged position during flatter markets. However, evidence is still in favor of index based funds.



This does not necessarily mean that you got those returns if you invested in a fund that made use of the stock market (General equity funds). To see how funds performed during this period consider the following graph:



The market returned 5.5% per annum and the odds of doing better by choosing a better performing fund was only one out of four. The Gryphon All Share Tracker Fund did not achieve 0% or a negative return of -5.5%. It returned 5.32%. My earlier warning that an equally weighted index fund should be treated with caution proved to be valid – one such fund only achieved 0.77%.

From left to right we have all the funds in this category ranked from lowest performance to highest performance. It is clear that some investors destroyed value simply by choosing an active fund that eventually turned out to be a disaster. Index based funds

The probability of actively destroying value is considerably higher than outperforming the market. When thinking of investing in the stock market we encourage **all investors** to allocate a major portion of their wealth to an index based fund for obvious reasons. Make contact with us at invest@gryphon.co.za

Best Regards
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Collective Investment Schemes (CIS) or Unit Trusts are generally medium to long term investments. The value of participatory interests (units) may go down as well as up and past performance is not necessarily a guide to the future. Fluctuations or movements in exchange rates may cause the value of the underlying international investments to go up or down. CIS unit prices are calculated on a net asset value (NAV) basis, which is the total value of all assets in the portfolio including income accruals and less any permissible deductions from the portfolio. All instructions for transactions received on or before 14h00 (11h30 for Money Market & Dividend Income) will be traded at same day ruling prices. Fund valuations take place at approximately 15h00 each business day and forward pricing is used. A schedule of fees, charges and maximum commissions is available on request from Gryphon Collective Investments. A Fund-of-Funds is a portfolio that invests in other portfolios of CIS (Unit Trusts), which levy their own charges, which could result in a higher fee structure for the Fund-of-Funds. Gryphon Collective Investments reserves the right to close and reopen certain funds from time to time in order to manage them more efficiently and in accordance with mandates. The fund manager may borrow up to 10% of the market value of a portfolio to bridge insufficient liquidity. The scheme may engage in securities borrowing and scrip lending. Portfolio performance is based on a lump sum investment, calculated on a NAV to NAV basis and does not take any initial fees into account. Income is reinvested on ex-distribution date. Total return performances are published. Actual investment performance will differ based on the initial fees applicable, the actual investment date and the date of reinvestment of income. The Total Expense Ratio (TER) is calculated as a percentage of average NAV of the Portfolio incurred as charges, levies and fees in the management of the Portfolio for a rolling 12 month period to the end of each calendar quarter-end. The ratio does not include transaction costs. A higher TER does not necessarily imply a poor return, nor does a low TER imply a good return. The current TER cannot be regarded as an indication of future TERs.