INVESTING WITH PURPOSE

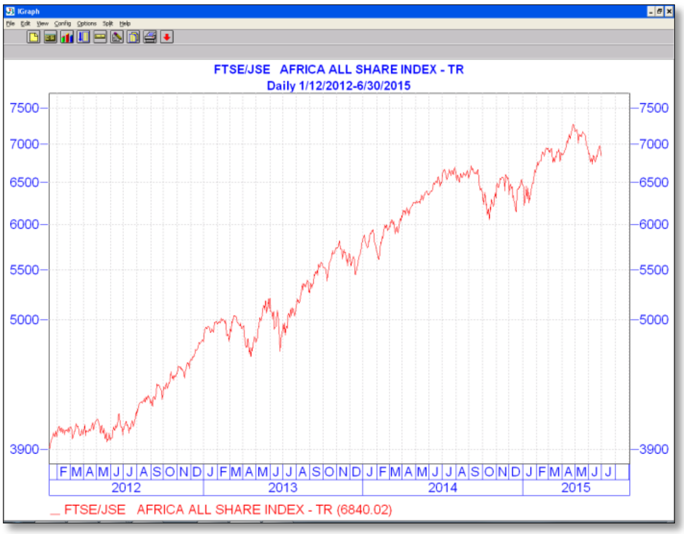
GRYPHON

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

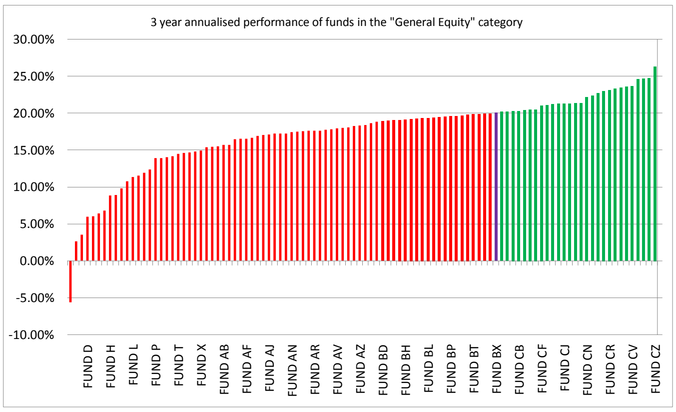
This month we are going to bust a myth! Some argue that index based funds only outperform during certain periods. While it is impossible to know where our market is going to be one year from now, it is very possible to make sure that you do not deliberately destroy value. Whether it is a bull- or bear 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.



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:

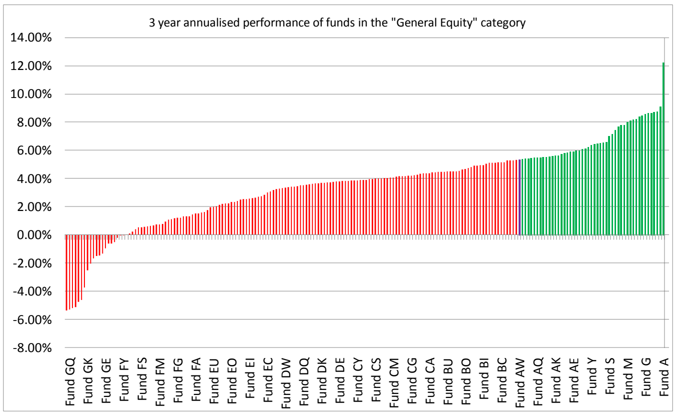


From left to right we have all the funds in this category ranked from lowest performance to highest performance. It is clear that some investors destroyed value simply by choosing an active fund that eventually turned out to be a disaster. Index based funds would've earned returns close to the market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



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%.

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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