

## A fee or fine

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During the 1960's economist [Milton Friedman](#) made a statement that “*inflation is always, and everywhere, a monetary phenomenon*”. Since then, history has proven him to be correct. Growth in companies' earnings, the long-term driver of the value of shareholders, is determined in part by economic growth as well as inflation. Along the same vein volatility, that is the ups and downs of economic cycles, is always and everywhere a phenomenon. Each year we hear pundits tout all kinds of macro risks, some of them real and scary:

- During October 2023 the Middle East saw the start of its biggest war involving Israel since the 1970's;
- The Russia-Ukraine war broke out February 2022, after which oil and gas prices rose sharply higher, causing an inflation spike in Europe (oil and gas are now lower than at the start of the war);
- In July 2024 there was an attempted assassination on former US president Trump while campaigning to win another term. What does it imply?
- Russia has threatened to annihilate Western cities with nuclear armed hyper sonic missiles;
- For a while China has threatened the invasion of Taiwan, where the bulk of global computer chip manufacturing is located. China frequently violated Taiwanese airspace and fired missiles into the ocean nearby;
- A shortage of Ukrainian wheat and Russian fertiliser destabilised global food supplies;
- Across the globe the political left (often opposed to the interests of stock market investors) claim that democracy must be protected from right-wing movements – often viewed as the radical “far right”. Ironically, despite those parties on the right being preferred democratically by the majority of eligible voters.

Fortunately, humans have the ability to adapt. Good company management always address risks and often turn them around into success stories. However, the abovementioned creates uncertainty and financial markets generally don't like that. This is but a fraction of a long list that translate into investment volatility.

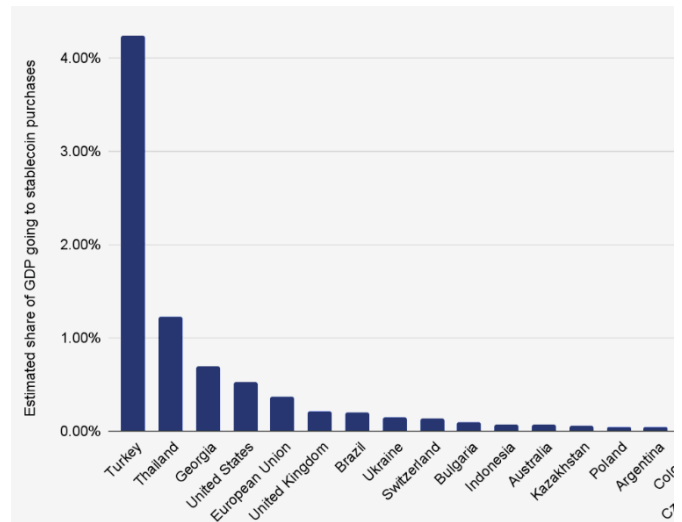
### A fee, or a fine?

We need to be mentally and emotionally prepared for sudden market corrections (inherent and unavoidable volatility) – sometime severe, as we have witnessed during COVID. Our temperament needs to weather these periodic storms. For example, **an investor can either view such volatility as a fee, or as a fine.** Think about it. A fee, or subscription gives you access to something for your own enjoyment (typically, something with a marginal benefit, or value) i.e., to watch a game of cricket or to play a round of golf. A fine on the other hand is for something you have done wrong. In other words, you are being penalised. Psychologically we need to [view volatility as a fee](#) and not a fine. Having this perspective might frame our dilemma somewhat differently. It is uncomfortable, but if one does not accept volatility, the investor will be poorer for it. Yes, volatility should be managed as part of an integrated financial plan, especially short-term cash flow needs and the permanent loss of capital. However, with a longer investment horizon, volatility presents a great opportunity.

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### Crypto currencies are volatile

The SEC (Securities and Exchange Commission) in the United States approved Bitcoin (BTC) exchange traded funds, which attracted significant investments inflows, even from [pension funds](#). The number of active [crypto wallets worldwide also continue to rise](#). For those still worried that digital assets have no use, consider the following chart (Source: [Coingeek](#)).



The two most popular types of crypto currencies are ‘stable coins’ and Bitcoin. Stable coins are crypto equivalents of [fiat \(paper\) money](#). BTC is a digitally scarce crypto currency. The maximum number in issue has a pre-programmed limit that can never be breached. Apart from being used in payment systems, the efficiency of which continues to improve, they both serve to protect users against inflation.

In the case of USD stable coins, they are used extensively in countries where local currencies are being abused by governments. For example, Turkey, where annual inflation has soared to 60%, has a 19.3% stable coin ownership rate, third on the overall list of crypto ownership. Argentina (with annual inflation at 250%) is further on the overall list of crypto ownership adoption (18.9%). Venezuela (annual inflation 100%) is 17<sup>th</sup>, with a 10.3% adoption rate. Appetite for crypto currency in South Africa appears strong and SA is 14<sup>th</sup> on the global list with a 12.4% penetration rate. BTC is more popular in, for example, the US, where [currency debasement](#) is far slower.

Milton Friedman also added that “*too much money, or a more rapid increase in the quantity of money than output*” inevitably causes inflation. In a world where [real](#) growth (after the effects of inflation) is becoming scarcer, investment portfolios should be appropriately positioned in order to protect us against a weaker purchasing power over time. We encourage an investment in new technology to achieve this goal, while not being shy to embrace an appropriate degree of volatility.

### In conclusion

At Afrafin we are mindful of the long-term strategic themes **while staying focused on a personal financial plan and income needs**. As part of this plan, clients should understand what lifestyle their available financial resources can support sustainably.