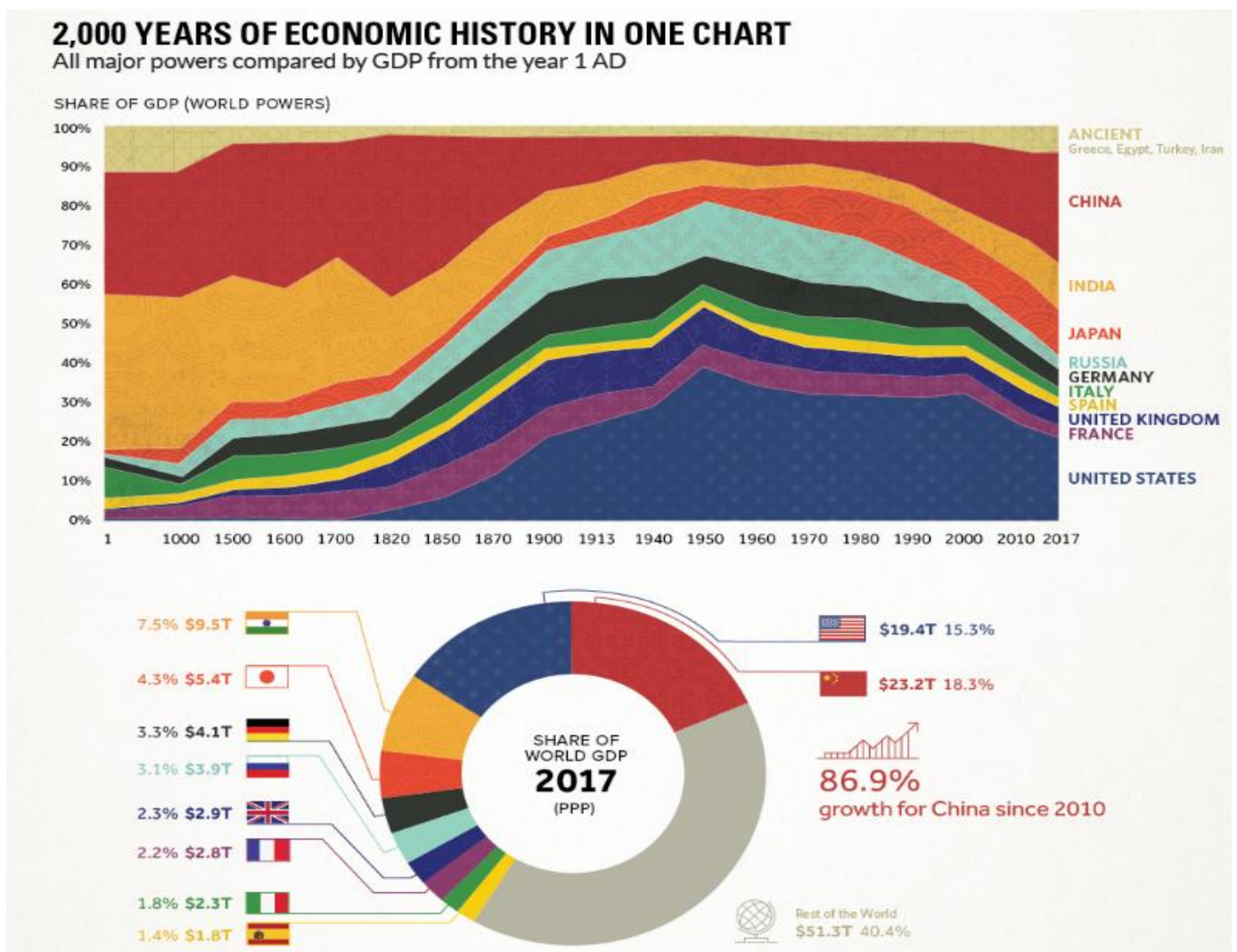


MONTHLY INSIGHTS

October 31, 2017

“Investing should be more like watching paint dry or watching grass grow. If you want excitement, take your money and go to Las Vegas.” ~Warren Buffett

CHART OF THE MONTH 2000 Years of Economic History

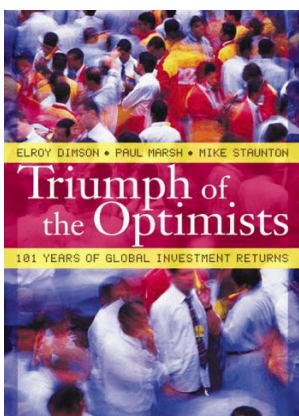


Source: Visual Capitalist

The battle for economic supremacy is not a new phenomenon, in fact, the major powers on the planet have been battling it out with each other since 1 AD for the ultimate crown of economic and geopolitical powerhouse. Glancing over from the left of the chart and quite surprisingly, India was the biggest economy at the dawn of AD. In Year 1, both China and India were host to a third and a quarter of the world’s population respectively and perhaps it is to be expected that they also constituted the a third and a quarter of the world’s population respectively. For thousands of years, GDP growth around the world was approximated with population growth until the industrial revolution changed it all.

This revolution, which happened first in Western Europe and North America, introduced the use of machines, innovations in technology and energy. It was a key enabler which had a massive impact since without machines and technological advances, economic progress would have remained linear with no ways of improving economic productivity. Today, as the revolution occurs in other parts of the world, the playing field is slowly evening out with the likes of the U.S. now commanding about 15.3% of the world GDP, second only to China (18.3%) which has traditionally been one of the largest economies in history. So, as the battle for economic supremacy rages on, which country will be crowned the economic powerhouse of the next decade?

THE BOOKWORM’S CORNER



Written by Elroy Dimson, Paul Marsh and Mike Staunton, this book is an authoritative study on the long-term total investment returns of equities, bonds, treasury bills, currencies and inflation across sixteen countries over the last century. With the recent surge of interest in the stock market by the public, the book highlights the importance of having a global perspective together with a long timeframe to make progress with financial market astuteness.

It goes further beyond just looking at historical volatilities and simple averages and incorporates issues such as industrial structures and seasonality. Extensive evidence of long-term equity risk premium can also be found in this reading. The trio present and analyse the data in a very concise, easy to read and standardized way, the facts are astounding and the lessons are insightful - a definite must read.



IDEA OF THE MONTH

Metrofile Holdings Ltd

A market leader in records and information management, the business is quite defensive, servicing both corporate and public sectors with a client service offering that spans across Africa and the Middle East. The business is highly cash generative with strong margins and this is underpinned by the strong demand for data storage and its enforcement by legislation. Valuations are also not demanding, with a 13x PE, a dividend yield of 7% and a healthy ROE.

Future growth will be powered by digitisation and the launch of digitally-focused products and solutions which is already underway. We view Metrofile as well positioned for growth, with a relatively strong base and in an industry that is fast-growing and evolving which makes it an ideal pick to invest in for the long term.

PORTFOLIO NOTE

In Focus: Cannon Hummingbird Fund

The Cannon Hummingbird Fund is created and designed for the purist investor. The fund is not concerned with beating a benchmark, although it is required to reference a benchmark. Rather, the fund is designed to invest in businesses that are overlooked, unknown or small, but that have the potential for exponential growth.

The fund invests in today's treasures and tomorrow's stars and not yesterday's giants. It is shareholder to companies such as Santova, Combined Motor Holdings, Master Drilling, Indequity, Ansys and Transpaco. As a high-growth vehicle, the Cannon Hummingbird Fund forms the perfect satellite to a conservative portfolio, growth-biased asset or passive investment.

INVESTMENT RESEARCH

"Even God Would Get Fired as an Active Investor"

Dr. Wesley R. Gray, founder of Alpha Architect, uses this study to reinforce a cliché for all active investors - the need to have a long horizon when investing. To set the research in motion Dr. Gray poses an important question, "If God is omnipotent, could he create a long-term active investment strategy fund that was so good he could never get fired?" Interestingly, according to Dr. Gray, God would indeed get fired.

While this God-like perfectly constructed foresight portfolio has an impressive CAGR of around 50%, he would still lose his job as the massive temporary losses experienced on the journey to great returns would've seen investors running for the exits on multiple occasions. And why is this so? The drawdown table of the article portrays this quite well; it ranks the top 10 drawdowns over the investment period and shows that God's portfolio would have suffered gut-wrenching drawdowns of about 75% whilst lagging the passive index on a few occasions.

To read the original article, click on this link: <https://alphaarchitect.com/2016/02/02/even-god-would-get-fired-as-an-active-investor/>

ECONOMIC AND FINANCIAL UPDATE

Economic Indicator	Actual	Previous	Mean
Japanese Consumer Confidence	43.9	43.3	43.5
German Balance of Trade	€20.0B	€19.6B	-
Chinese GDP Growth Rate	6.8%	6.9%	6.8%
Canadian Inflation Rate	1.6%	1.4%	1.6%
Indian Interest Rate	6.0%	6.0%	6.0%
South Africa Manufacturing PMI	44.9	44.0	-
United States Retail Sales (MoM)	1.6%	-0.1%	1.7%
Australian Unemployment Rate	5.5%	5.6%	5.6%

JSE Indices	1 Mo	3 Mo	YTD	1 Yr	5 Yr	10 Yr
JALSH	6.12%	6.83%	15.60%	16.58%	58.74%	88.22%
JASIN	3.51%	5.06%	0.42%	5.53%	37.28%	56.12%
TOP40	6.47%	7.56%	18.77%	19.43%	59.26%	84.61%
FINDI30	5.87%	6.17%	16.01%	16.00%	-81.03%	-72.66%
INDI25	8.08%	9.37%	26.69%	23.83%	118.39%	281.94%
FINI25	2.09%	1.12%	1.50%	6.68%	51.70%	58.36%
RESI20	6.37%	8.15%	14.27%	19.33%	-26.80%	-38.63%
MIDCAP	4.00%	2.32%	-3.35%	-1.49%	45.75%	106.44%
JSMLC	2.23%	3.88%	-0.53%	0.11%	59.82%	64.14%
JALTX	1.18%	-3.47%	-14.08%	-17.55%	9.81%	-75.43%
JSAPY	1.96%	1.79%	4.05%	4.37%	41.76%	76.11%
R186	6.37%	5.63%	1.51%	4.54%	17.81%	16.53%
STEFI	-0.07%	1.13%	5.48%	6.86%	35.59%	98.76%
SA CPI	5.10%	4.60%	-	6.40%	5.70%	7.90%

World Indices	1 Mo	3 Mo	YTD	1 Yr	5 Yr	10 Yr
BOVESPA	0.93%	13.75%	21.31%	15.50%	31.40%	637.48%
STOXX 50	2.20%	6.51%	10.83%	20.25%	46.74%	45.85%
ASX 200	4.00%	3.29%	3.07%	11.12%	1166.56%	-91.25%
EPRA/NAREIT	0.76%	0.27%	-7.25%	-2.88%	-54.92%	4.78%
MSCI MID CAP	0.91%	2.86%	15.71%	19.44%	63.22%	244.86%
NIKKEI 225	8.13%	10.47%	15.16%	26.32%	1331.95%	-
S&P 500	2.12%	4.15%	13.95%	21.01%	-71.18%	66.06%
WGBI	-1.19%	-1.23%	6.29%	-0.44%	-2.67%	85.99%

Currencies	Oct 17	1 Yr	5 Yr	10 Yr	1 Yr % Chg	5 Yr % Chg
Rand/US Dollar	14.14	13.47	8.67	6.49	4.97%	63.09%
Rand/Pound	18.77	16.49	13.99	13.49	13.83%	34.17%
Rand/Euro	16.48	14.78	11.24	9.39	11.50%	46.62%
Rand/Aus Dollar	10.82	10.25	8.99	6.05	5.56%	20.36%
Euro/US Dollar	1.16	1.09	1.29	1.44	6.42%	-10.08%
US Dollar/Yen	113.69	104.82	79.85	115.39	8.46%	42.38%

Commodities	1 Mo	3 Mo	YTD	1 Yr	5 Yr	10 Yr
Brent (\$/barrel)	8.45%	15.53%	6.62%	15.66%	-43.57%	-32.29%
Gold (\$/oz)	-0.82%	-0.01%	9.53%	-0.62%	-26.23%	299.46%
Bitcoin	43.43%	110.15%	492.20%	763.95%	54063.93%	-
Platinum (\$/oz)	0.60%	-2.46%	-2.03%	-6.56%	-41.50%	59.21%

Source: Inet BFA, Cannon Asset Managers

CANNON IN THE MEDIA

Dr. Adrian Saville, Chief Executive at Cannon Asset Managers looks at the Medium-term budget with Andile Khumalo on the POWER FM business show.

[CLICK HERE FOR CANNON'S LATEST MEDIA EXPOSURE](#)

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