

**INVESTMENT DECISION-MAKING:
RISKS AND RETURNS BETWEEN THE PROPERTY AND
STOCK MARKETS IN SOUTH AFRICA**

By

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DECLARATION

This research has not been previously accepted for any degree and is not being currently submitted in candidature for any degree.

Signed 

Date 25/07/2003

Dedication

To my late mother and brother

This dissertation is dedicated with love and gratitude to my beautiful mother, Fatima Asmal for a lifetime of love, encouragement, and unflinching faith in me and to the loving memory of my brother, Mohamed Asmal for possessing the greatest kindness of heart I have ever known.

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CHAPTER ONE

1 Introduction

“This time it’s different”

The four most expensive words in investments

(Andrew Bradley)

(Chief executive of ipac South Africa)

1.1 Overview

One’s choice of investment can dramatically affect one’s financial position and hence the overall quality of one’s life. In light of this statement, it is imperative that one makes the proper investment decision to secure their present and future financial state of affairs. Investing to earn an income might not be a priority while one is able to work, but come retirement one might find they have no choice. To invest for income one needs sufficient capital, and this you can only achieve by wisely saving and investing for capital growth during one’s working years.

High inflation, tax laws and the continuous fluctuation of the Rand against the dollar, makes one’s investment decisions especially difficult in South Africa. People are often faced with the choice of “what investment decision to make that would enable them to attain high returns whilst incurring the least possible risks?” One such decision is whether to invest in the property market or to invest in the share market. People’s perceptions regarding both options differ and the question often arises, which is the most beneficial investment to make with their disposable income?

“Risk” too many reflect the degree of uneasiness that is felt when faced with uncertainty. But how are individuals able to take account of this slippery notion of risk in their investment decision making strategy? The answer is the same way as professional portfolio managers do. Most of them buy into the idea that risk can easily be measured, ultimately giving rise to decisions based on quantitative information, rather than the abstract feeling of “uneasiness”.

This dissertation sets out to explore which investment decisions yields more profitable results with the least possible risks and the overall perceptions that small private investors have regarding these choices. The study therefore aims to identify which is the most appropriate investment decision one should make regarding investing in the property market and share market.

1.2 Background

South Africa has come a long way from being an apartheid country, condemned by the world, to a new, free democratic country. The apartheid era had created many inequalities in the social lives of people and vast distortions in the financial and economical position of the county. Laws pertaining to income allocation, education provision and land distribution have left many South African's in a perplexed and vulnerable state. Although great attempts are being made to rectify the wrongs of the past, the behaviour patterns of people and their confidence levels regarding their country will always pose to be the greatest challenge.

The distortions created in the market place and the many different attitudes and beliefs in the minds of the South African people, have made decisions regarding investment choices in South Africa, a very challenging and difficult task to ascertain. People have been left confused and partially ignorant to the type of decisions that need to be made presently and in the future to enable them to attain a good standard of living. Due to the results of fluctuations in the South African currency, increasing corruption and the escalating crime rate in South Africa, people have become very negative in making long term investment decisions and committing themselves to investments in South Africa at all.

However, not everyone has the opportunity or desire to emigrate, thereby leaving one to make investments in South Africa in order to grow and accomplish acceptable returns on their monies. Additional factors such as the introduction of new tax law's, change in interest rates and inflation rates have further compounded the problem leaving many people baffled and ignorant regarding the type of investment decisions to make in order to secure long term financial growth and profitability.

1.3 Motivation

The motivation to conduct a dissertation of this subject comes from the researcher being actively involved in the property and construction industry. The researcher holds a BSc degree in Quantity Surveying and was a lecturer in the Property Development and Construction Economic Department at the University of Natal. Due to the researcher's keen interest and involvement in the property market industry, the researcher found a need to ascertain the favourability and success of property market investments. However, in establishing successful investment choices and options, the stock market was used as a basis of comparison to compare the risks and returns of the property market investments as opposed to stock market investments. Although there are various articles in the newspaper featuring issues of this type, the researcher is yet to find any published works comprising this very important and pertinent issue. The researcher hopes that this dissertation will be most valuable to individuals wishing to craft successful strategies in attaining long term profitability and growth of their financial resources and to make essential investment choices.

1.4 Problem Statement

A comparative study of returns achieved from the property market to returns achieved via the stock market and the overall perceptions of small private investors will be explored in the following dissertation. There are several factors to consider, the most important being that there is no such thing as a completely safe investment. One should always remember the golden rule of investing: higher returns equal higher risks.

The risks that an investor would face are of paramount importance in investment decisions. Of course, there are various factors that come into place, such as age and risk tolerance level. Unstable market conditions and uncertainty regarding the position of the Rand have put pressure on small private investors in formulating an appropriate investment strategy. Following the traditional wisdom that there is a trade-off between the potential risk and return of an investment, it is important that investors understand their risk profile so that they can structure suitable investments to cater for their needs. There are two types of risk relevant to any investor, financial planning risk and investment risk, and both need to be thoroughly explored and researched in order to formulate a successful investment strategy.

1.5 Research Objectives

The objective of the research report is to ascertain which is likely to be the best decision, one can make regarding their future financial investments, and the risks and returns attached to them given the present situation of the South African economy. The following questions will be researched:

- What are the risks and returns associated with property market investment?
- What are the risks and returns associated with stock market investment?
- Which is the more profitable and risk free type of investment: the property market or the stock market?
- What investment strategy should people plan for the future?
- What are peoples perceptions regarding both the above type of investments?
- What are the views of property consultants?
- What are the views of share market consultants?
- What are the views of present investors?
- How does consumer behaviour affect investment choices?
- What strategies should an existing investor or potential investors make in order to craft winning and sustainable financial growth and profitability?

1.6 Literature Review

This section examines selected existing literature with regards to the problem statement:

- "In the long run, a society is likely to be better off placing a larger of its savings into financial investments rather than housing"-Lord William Rees-Mogg, *The Great Reckoning* (Business Times,2001)
- "Where is the best place to invest your savings: in shares, property, fixed deposits, or should you tot up your bond?" (Business Times, 2001)
- "The best places to invest your long-term savings are in your mortgage bond and in equities-history tells us so" (Business Times, 2001)
- "Where should you invest your savings? In the stock market, in the bank, in the Krugerrands, or topping up your mortgage bond?" (Business Times, 2001)
- "How you spread your assets between equities, your bond and property trusts, depends on factors like your age and your risk tolerance level" (Business Times, 2001)

From the above literature review it is evident that there is much controversy and debate on where to make successful investments in South Africa. Hence, this serves as a basis on which the dissertation will be examined on.

1.7 Importance and Benefits of Study

There are numerous benefits from researching the problem statement that can be beneficial to small private investors in South Africa. The cost of making the wrong investment decision can be very harmful to people who are trying to secure themselves and build an adequate nest egg or a lucrative investment portfolio. The study will attempt to identify which investment decision will be beneficial to small private investors and the risks and returns attached to both type of investment. The performance of both these types of investments will be evaluated in the dissertation to follow. Upon the completion of the dissertation, it is hoped that adequate information regarding the various investment decisions will emerge that will be useful to small and private investors.

1.8 Research Design

	<u>Category</u>	<u>Research design</u>
▪	The degree to which the research questions have been crystallized	Formal study
▪	The methods of data collection	Interrogation/communication study
▪	The power of the researcher to produce the effects in the variables under the study	Ex post facto
▪	The purpose of the study	Descriptive and casual
▪	The time dimension	Cross-section studies
▪	The topical scope-breadth and depth-of the study	Statistical studies
▪	The research environment	Field conditions
▪	The subjects perceptions of research activity	Actual routine

Table 1.1 Research Design

- Formal study

The dissertation will be a formal study that involves the precise procedures and data source specifications and its goal is to examine the problem statement and to answer the research questions posed.

- Interrogation/communication study

Various people will be questioned and their responses will be collected by personal or impersonal means. The data collected may be the result from interview or telephone conversations and by using questionnaires.

- Ex post facto

There will be no control over the people to be interviewed, therefore eliminating any form of influence in their decisions hence removing any form of biasness.

- Descriptive and casual study

At the outset, the dissertation will be a descriptive study, although subsequent studies might be casual.

- Cross-section study

The following dissertation will be a snap shot of one point in time. Hence all conclusions will be made at the time the dissertation was conducted.

- Statistical studies

The dissertation will attempt to capture the population's characteristics by making inferences from the sample characteristics. Generalisations about findings will be presented based on the representatives of the sample and the validity of the design.

- Field conditions

The research will be conducted under the actual environment and the conclusions will be made thereof.

- Actual routine

People will be aware of the research to be conducted.

1.9 Research methodology

1.9.1 Data collection methods

A literature search, questionnaires and interviews will be used in the study to examine the problem statement and to achieve the research objectives. While conducting personal interviews the researcher will eliminate any form of bias presented by the respondent. Exploring secondary data (both external and internal) will provide valuable information in understanding the research dilemma. Information needed for the research study will also be analysed from various primary, secondary and tertiary sources available.

1.9.2 Questionnaire design

The questionnaires will be dispensed to MBA students at the University on Natal, private investors, property consultants and stock market consultants. The questions will consist of dichotomous questions (yes or no type) and free response questions (also known as open-ended questions that allow the respondent to state their opinions in their own words). The received responses will be translated and measured using nominal and ratio data scales.

1.9.3 Pilot testing

A pilot test of approximately 50 people will be performed to provide proxy data for selection of a probability sample. A pilot test will be conducted to identify any limitations in sample design, instrumentation or procedures. In the event of the pilot testing displaying any imperfections, pre testing will be performed to improve the questions, procedures or instruments used.

1.9.4 Sampling characteristics

The basic idea behind choosing sampling is that by selecting a group of people in the population, the researcher may be able to draw conclusions about the entire population. Sampling is very advantageous to the dissertation because it reduces the cost of research, displays greater accuracy of results, data collection methods are faster and the availability of population elements. The success of the sample depends on its accuracy (the degree to which little or no bias is present in the sample) and precision (a sample in which sampling error is minimal in the study). A combination of probability (sample elements are drawn randomly for the population) and nonprobability sample

(sample elements is drawn individually from the population) will be used to conduct this research. Probability and nonprobability sampling both have their advantages and disadvantages, but were methods chosen in order to ascertain greater accuracy and precision in this dissertation.

1.9.5 Analysis and interpretation of data

Data will be collected and edited to detect errors and omissions that would otherwise compromise the quality of the dissertation. Coding in the form of assigning numbers and symbols will be utilised to classify the data received from the respondents into categories. Tables, graphs, charts and other statistical tools will be incorporated into the dissertation to present the finding of the research. In order to test the hypothesis and define the problem statement, classical statistics (conclusions regarding the population are drawn based on the evidence from the sample) and the Bayesian approach (additional prior information available) will be used. Data from the survey instruments will be analysed using a parametric tests.

1.10 Limitations

- The recommendations, conclusion and research report is presented from information gathered up to 31 May 2003.
- The recommendations, conclusion and research report may not be applicable or relevant in the future as social, economical and financial factors would change.
- The dissertation is limited to mainly the property and stock market industry.

There are some difficulties with comparing an investment in property and the stock markets, as many a times investments in property is made for personal use only. The main problem is income as unlike other investments, houses don't offer an income, although one derives the benefit from it by living in it, rent free, which equates to an income. Therefore to make the comparisons more equitable, the income earned from equities may be ignored and the capital value changes have been compared with the average change in house prices.

1.11 Ethical considerations

The dissertation was conducted with the researcher exercising the highest ethical standards required by an MBA student. The anonymity of the respondents was preserved and credits were given by way of references to parts of the dissertation that was not the researchers own work. The interviews and questionnaires were carried out to ensure that no one was harmed or suffered adverse effects from the research activities. The researcher has not in any way compromised the standard or quality of the given dissertation.

1.12 Structure of the dissertation

- Chapter 1: Introduction

Chapter one is the introduction to the entire dissertation and introduces the reader to the problem statement and research objectives of the study. It also provides a brief overview to the background, motivation and benefit of the study and briefly states the research methodology to be adopted. The limitations and ethical consideration of the study will also be stated.

- Chapter 2: Consumer Behaviour and Investment Strategy

Chapter two is generally a literature search of relevant consumer behaviour studies, market segmentation realities and valuable investment strategies that affect an individuals investment decisions. A section on the South African consumer has also been covered to provide a background to the various factors that can influence consumer behaviour patterns and decision making processes to individuals in South Africa.

- Chapter 3: Property and Stock Market Analysis

Chapter three deals with the core of the dissertation and provides significant information regarding the property and stock markets in South Africa. Information regarding the history and future of the property and stock market will be discussed. The risks and returns of both types of investment options will be explored to provide important insight for potential investors.

- Chapter 4: Research Methodology and analysis of findings

Chapter four covers the aspect of the research methodology adopted and will discuss and analyse the results of the findings. This dissertation is largely a descriptive study; therefore the perceptions and opinions from various property and stock market consultants and present investors will be stated.

- Chapter 5: Investment decision-making

Chapter five encompasses important decision making information that potential investors should consider before committing to an investment. Issues such as inflation and exchange rates, the South African Rand and most importantly Investment Risk will be covered.

- Chapter 6: Recommendations and Conclusion

Chapter six entails drawing conclusions from the study and making valuable recommendations regarding the problem statement and research objectives

1.13 Summary

South Africa has entered into a new millennium with better opportunities available to investors to enable them to increase their wealth as compared to the past. The key factors in the improved performance of the South African markets have been the cuts in interest rates, the downward movement in inflation rate, the comparative stability of the rand and the reduction in government borrowing. Combined with the results of various political, social, and economical restructuring, there is a plethora of investment opportunities present to small investors. Deregulation of various domestic and financial markets, and more specifically privatisation and listing of various large corporations such as, Sanlam, Iscor, Old Mutual, SAA, and Telkom, to name a few, has provided many South Africans the opportunity to make investments in the stock exchange. However, many have not jumped on to this opportunity for the simple reason of fear, fear on entering the unknown.

As stated earlier, there are many articles published pertaining to this subject and a few companies have also attempted some research, however to the best knowledge of the researcher there are no published works relating to this topic. The researcher hopes that

this dissertation will not only be used as a medium to obtain an **MBA Degree**, but will also present good reading and provide useful information to all people interested in making successful investment choices.

CHAPTER TWO

2 Consumer Behaviour and Investment Strategy

2.1 Introduction

When dealing with people, remember that you are not dealing with creatures of logic but with creatures of emotion

Dale Carnegie

“The field of consumer behaviour studies how individuals, groups, and organisations select, buy, use, and dispose of goods and services, ideas, or experiences to satisfy their needs and desires. Understanding consumer behaviour and “knowing customers” are never simple” (Kotler, 2000, p160).

The main aim of this dissertation is to compare the risks and returns of the property market to the stock market and the impact consumer behaviour has on their decision making. However, this cannot solely be explained using economical and financial data and tools only, but rather encompasses the entire personality of the purchaser. The ultimate decision stems from the person which in this case will be the “consumer”. People may be people, but when they embark on any purchase they automatically become consumers. Consumers are individuals that have their own sets of personalities, attitudes, values, traditions, ideas etc that guide and impact on their decision-making processes. In this dissertation, the focus will be regarding property and stock market decisions. Consumer behaviour theory is a study that many have embarked on to explain and understand after realising the importance of this subject on purchase decisions.

The goal of Chapter two is to demonstrate the crucial elements of consumer behaviour that is pertinent to the decisions that people face and make in purchasing property or stock market investments. The world today has become a strongly competitive and volatile environment, hence making it a very tedious task for investors to gain financial success and to secure a comfortable nest egg for the future. The main objective of any investor is to attain and secure acceptable and high returns on their investments. Due to the ever-changing conditions existing in the world today, people have to develop insight

into the future and plan accordingly. This means developing sustainable financial strategies in order to achieve long-term financial growth and success.

“People who understand consumer behaviour make more money in the stock market than professional stock pickers who rely on financial numbers” (Blythe, 1997). Studies of consumer behaviour is important in understanding buying decisions and the choices individuals make. Understanding the consumer poses various problems since consumers are all different, often act emotionally rather than rationally, can act differently at different times to the same stimulus and can be persuaded and influenced to act in a certain manner.

Before analysing the property and share market in South Africa, it is imperative to do a research on consumer behaviour in the South African market. Consumer behaviour shows how individuals select, buy or make purchase decisions to satisfy their needs, desires or wants. Consumers are very sensitive to various factors and can respond positively or negatively to changes in their personal lives, market place and various other factors. There are numerous market and other stimuli that can affect and alter the buyer's characteristics and hence change the buyer's final decision.

2.2 Importance of marketing in consumer behaviour

The consumer's cultural, social and environmental exposure plays a pivotal role in how consumers decide upon their purchase decisions. In marketing, it is imperative to ascertain how the product or offering is perceived by different market segments in order for marketers to formulate appropriate marketing strategies. The consumer's values, needs and expectations form the basis of such marketing strategies, and hence impact on the marketing tools implemented by the marketer. The cultural and social variables affecting consumer behaviour will be explained in the present chapter; however, environmental factors cannot be ignored as these factors form a major contribution in the consumer decision making process. Environmental factors such as change and fluctuations in interest rates, inflation, the Rand and government legislation should all be incorporated in the marketer's strategy.

Marketing is about meeting people's needs and expectations, and therefore the study of consumer behaviour and their needs is crucial to the study of marketing. Marketing strategy is about determining, identifying and selecting a target market for product

offerings and services that will satisfy the needs, wants and expectations of the consumer. The marketing strategy implemented by the marketer will incorporate the following marketing mixes depending upon the product or service offering:

- **Product**

The product is of course the key reason as to why any consumer will embark on a purchase. Marketers need to ascertain what the consumer's "want and needs" are, and what the prime benefits the consumer will perceive from the purchase of this product or service.

- **Price**

The importance of price is relevant to any consumer and can be regarded as the most important "P" from the marketing mix. The issue of price is significant to any target market and any changes in price will affect and alter consumer purchase behaviour. It is important to know how many consumers are willing to pay for a product, what their competitors prices are, and what substitute products are available to the consumers.

- **Place**

Product offerings must be made accessible and distributed to the target market at locations which are favourable to them.

- **Promotion**

The profile of the target market and the product offerings will decide how the marketing communication strategy will be implemented and the most important promotion strategy to utilise. Marketers need to determine which promotion strategy to use that would influence consumers to purchase and use the products.

2.3 The major factors concerning consumer behaviour

2.3.1 Stimuli influencing the decision-making variables

The important factor in study consumer behaviour is acknowledging the importance of the various influences on the decision-making processes. Essentially, a consumer is interested in satisfying his needs or wants. "Needs", can be classified as something that an individual perceives as lacking and a "want" can be classified as something an

individual perceives as a specific satisfier for a need. Needs tend to be general and wants are more specific in nature. A consumer's buying behaviour is fundamentally determined by his needs and wants and is predominantly influenced by cultural, social, personal, and psychological factors. The consumer decision making process consists of two sets of influencing factors (Rousseau 1983):

- the internal or individual, and
- the external or environmental

	Individual-influencing variables that control internal thought processes
Needs	Needs, can be defined as any physical and emotional requirements that are directed to specific goals that can be achieved by purchase behaviour.
Motives	<p>Motives make a consumer aware of his needs and provide him with a reason to satisfy such needs.</p> <p>Some needs are:</p> <ul style="list-style-type: none"> -biogenic: physiological factors such as hunger, thirst, discomfort -psychogenic: psychological such as the need for recognition, esteem or belonging
Personality	<p>Each individual has a distinct personality that influences buying behaviour.</p> <p>Personality is an alliance between unique individual characteristics, which displays a constant pattern of buying behaviour.</p> <p>Motives cause consumers to act on their needs and personality causes consumers to act in an individualistic manner.</p>
Perception	<p>Perception is a process in which an individual chooses, organises and translates sensory stimuli into a significant picture.</p> <p>The manner in which a motivated person acts is influenced by his perception of a given situation.</p>

Learning	Learning depicts changes in consumer behaviour as a result of any past experiences. The law of effect (reward for successful responses and punishment for unsuccessful ones) forms the basis of learning experiences.
Beliefs and attitudes	<p>Due to the learning process, people acquire beliefs and attitudes which in turn can influence buying behaviour.</p> <p>Attitudes means taking a position, either positive or negative towards a product or service, thus moving them towards or away from it.</p> <p>People have attitudes toward everything e.g. Issues concerning religion, politics, food etc which may be very difficult to change.</p> <p>Beliefs are generally the consumer's opinions and can inhibit purchases a consumer makes.</p>
Age and stage in life cycle	<p>People purchase different goods and services during different stages in their lifetime. What may be regarded as important to an individual in their twenties may not necessarily be important to them in their thirties and forties.</p> <p>As people grow older their financial philosophies change from wealth creation in the former part of their life to wealth preservation to the latter part of their life.</p>
Lifestyles	<p>Although people may come from the same culture or share the same occupation, their lifestyles may in fact be very different.</p> <p>Certain people's lifestyles may display more liberal patterns of consumer spending whilst other's may be more conservative in their approach to spending their fortunes.</p>

Table 2.2 Individual-influencing Variables

Source: Adapted from Behaviour in organisations: South African perspective, McGraw Hill, 1983

Individual motivations can come from many sources and therefore it may be impossible to satisfy all ones emotional and physical needs at once, therefore it is imperative to classify and prioritise those needs. Needs may represent different priorities to different people depending on their age, income, lifestyles, religious beliefs etc. There are many theories concerning the issue of motivations and needs, individuals encounter and therefore, will be explained briefly.

Abraham Maslow's (1954) theory sought to explain why people are driven by particular needs at particular times, and stated that people would meet these needs in a specific order of importance. Maslow's theory attempts to explain and rationalise how various products fit into the individual's goals and plans. Maslow theory states that human needs are arranged in a hierarchy, and the lower needs of an individual will have to be met before the higher needs assume any importance. Maslow's hierarchy of needs does not necessarily indicate that each need must be met before the higher needs are addressed, but rather that the individual will view certain needs as important before the other. Maslow's hierarchy of needs theory is intended to show the relative importance of each need at any given point, rather than to show life's progression.

The diagram below shows the human needs in order of their importance. Individuals will attempt to satisfy their most important needs first, and once it has been successfully satisfied, then only will an individual satisfy the next most important need.

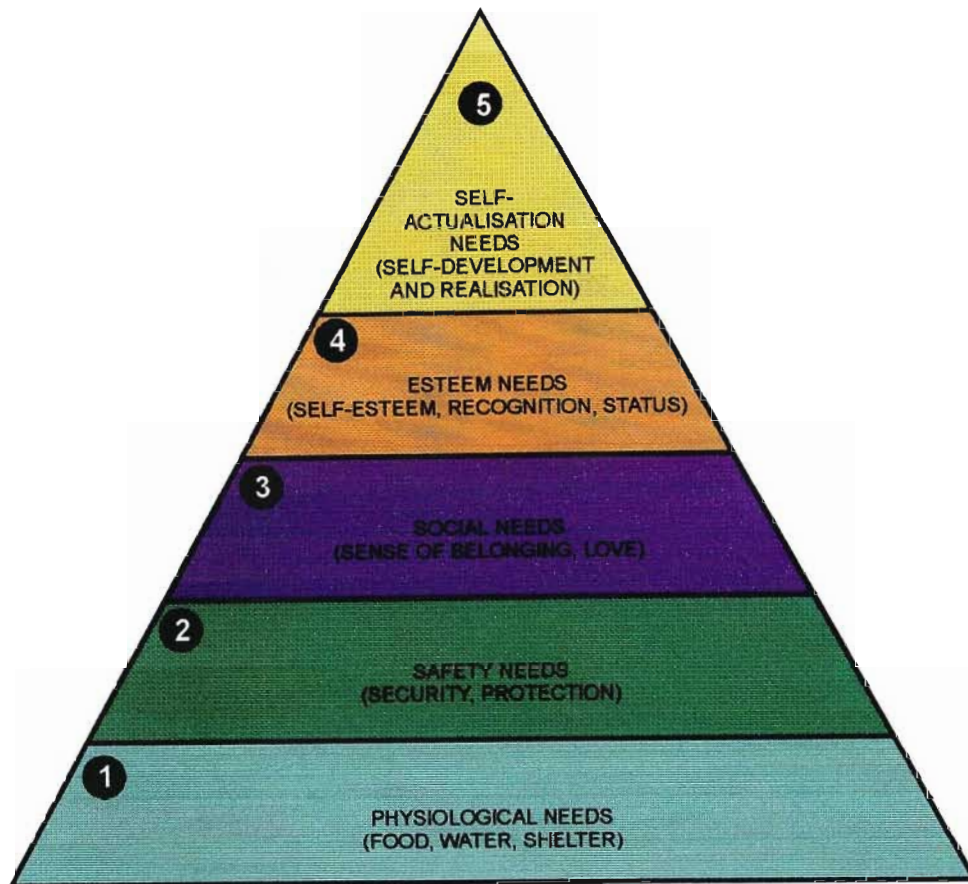


Figure 2.1 Maslow's Hierarchy of Needs

Source: Adapted from Abraham Maslow, *Motivation and Personality*, New York, Harper and Row, 1954

Frederick Herzberg's (1966) developed a two-factor theory that differentiates between satisfiers (factors that result in satisfaction) and dissatisfiers (factors that result in dissatisfaction). Herzberg's theory suggests that satisfiers should be present, in order to motivate a purchase. Example: A television that does not come with a warranty would be a dissatisfier, yet the presence of a warranty would not act as a satisfier and induce a purchase. This is because the warranty does not satisfy the consumer but rather the use of the television set.

Sigmund Freud's (1955) theory states that the psychological factors shaping peoples behaviour is largely unconscious, and that an individual may not fully understand his motivations. Freud's theory states that when an individual examines a specific product, the individual will not only react to the obvious features but will also have to various

unconscious factors. The shape, size, colour etc. of the product can all have the power to trigger different meanings and sets of emotions from one's unconscious state.

	Environmental-influencing variables that control internal thought processes
Cultural influences	<p>These refer to the beliefs, norms, values and customs that form the basis of how a society operates and are learnt by individuals and therefore lead to common patterns of behaviour.</p> <p>Culture is the most important element deciding a person's wants and needs.</p> <p>An individual acquires a set of values, perceptions, preferences, and behaviour patterns through one's family and other key institutions.</p> <p>Culture is further subdivided into subcultures and social class.</p>
Social influences	<p>These refer to how the opinions of friends, neighbours, and ones peer or family influence an individual.</p>
Reference groups	<p>Reference groups are groups that the individual identifies with and have a direct or indirect influence on an individual's attitudes and behaviour, and hence use them as a medium to compare themselves with. E.g. religious groups.</p> <p>Individuals are influenced by reference groups in 3 ways:</p> <ul style="list-style-type: none"> -they may expose individuals to new behaviours and lifestyles -they may influence peoples attitudes and self-concept -they may create pressures for people to conform to what they believe in
Family	<p>Family is the most influential element that an individual is faced with, since it is from within ones parents a person acquires an orientation towards religion, politics, and a sense of personal ambition, self-worth and love.</p> <p>Families have a tendency to influence other family member's decisions, and hence could result in joint decision-making.</p>

Economic demand factors	These refer to the economic and financial position that an individual is in that could affect the individual buying behaviour. E.g. a surplus or a deficit in income.
Business and marketing influences	This represents a powerful influencing variable and is a result of the individual interacting with sellers. This can be in the form of interaction with advertising campaigns or as a result of past experiences with a product or service.

Table 2.2 Environmental-influencing variables

Source: Adapted from Behaviour in organisations: South African perspective, McGraw Hill, 1983

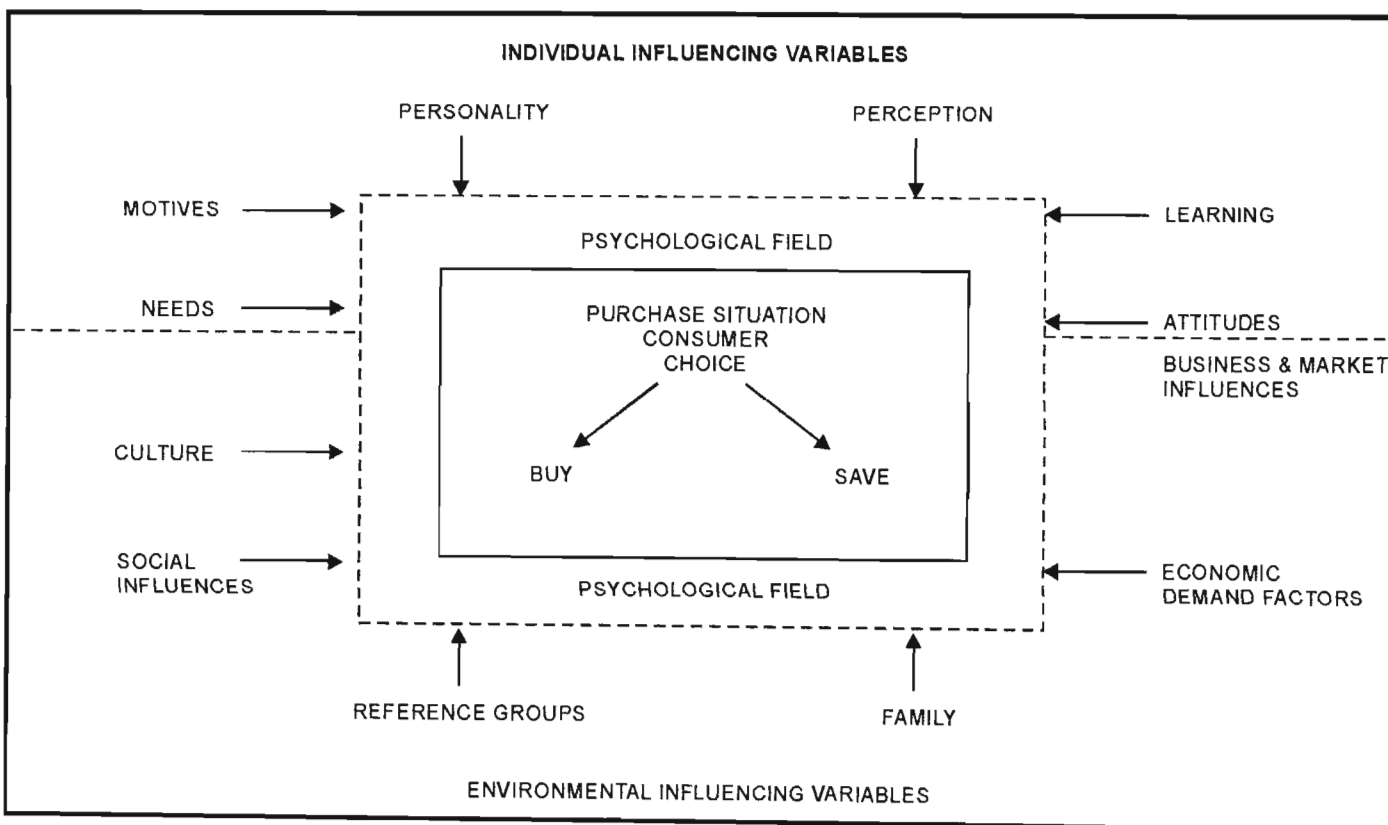


Figure 2.2 Individual and Environmental Influencing Variables

Source: Consumer Behaviour: A South African Perspective, P.J. du Plessis, Southern Book Publishers, 1990

The consumer's influencing variables, both individual and environmental, together play a pivotal role in the final choice made by the consumer. In any given buying situation the consumer searches for information from his individual needs, motives, perceptions, personality and attitudes and simultaneously integrates it with the external environment to make a choice of purchase. Past experiences and future expectations may also influence the choice the consumers will make. Individual and environmental influences have been discussed in the tables above, but a more detailed analysis will be conducted in chapter two as well.

It is imperative that one looks beyond the various influences impacting on consumer behaviour and develops a proper understanding of how consumers actually make their buying decisions. It is important to identify who makes the decisions to purchase, the types of buying decisions and the decision making process. The consumer decision making process varies with different types of buying decision. It is obvious that the decision making process to buy a cool drink will be simpler than the decision to buy an immovable property. Complex, expensive or risky purchases will be regarded as high involvement decision making and may require a greater information search to be conducted as opposes to low involvement decision making.

2.3.2 The decision-making process

“Consumer behaviour comprises the behaviour patterns of decision units (individuals as well as families) which precede, determine and follow on the decision process for the acquisition of need satisfying products, ideas and services” (P.J. du Plessis, 1990). In the case of simple decision making, the individual and environmental influences are sufficient to make an easy choice. However, in many instances consumers are faced with more complex situations and a more detailed analysis is required. Complex decision making can take the form of purchases requiring high involvement such as immovable property, shares on the stock exchange, jewellery, motor vehicles, etc. In this case consumers will evaluate the products and alternatives available in greater detail.

The six stages in the process of complex decision-making are problem recognition, blocking mechanisms, information search and processing, expected outcomes and intentions, response and post-purchase responses.

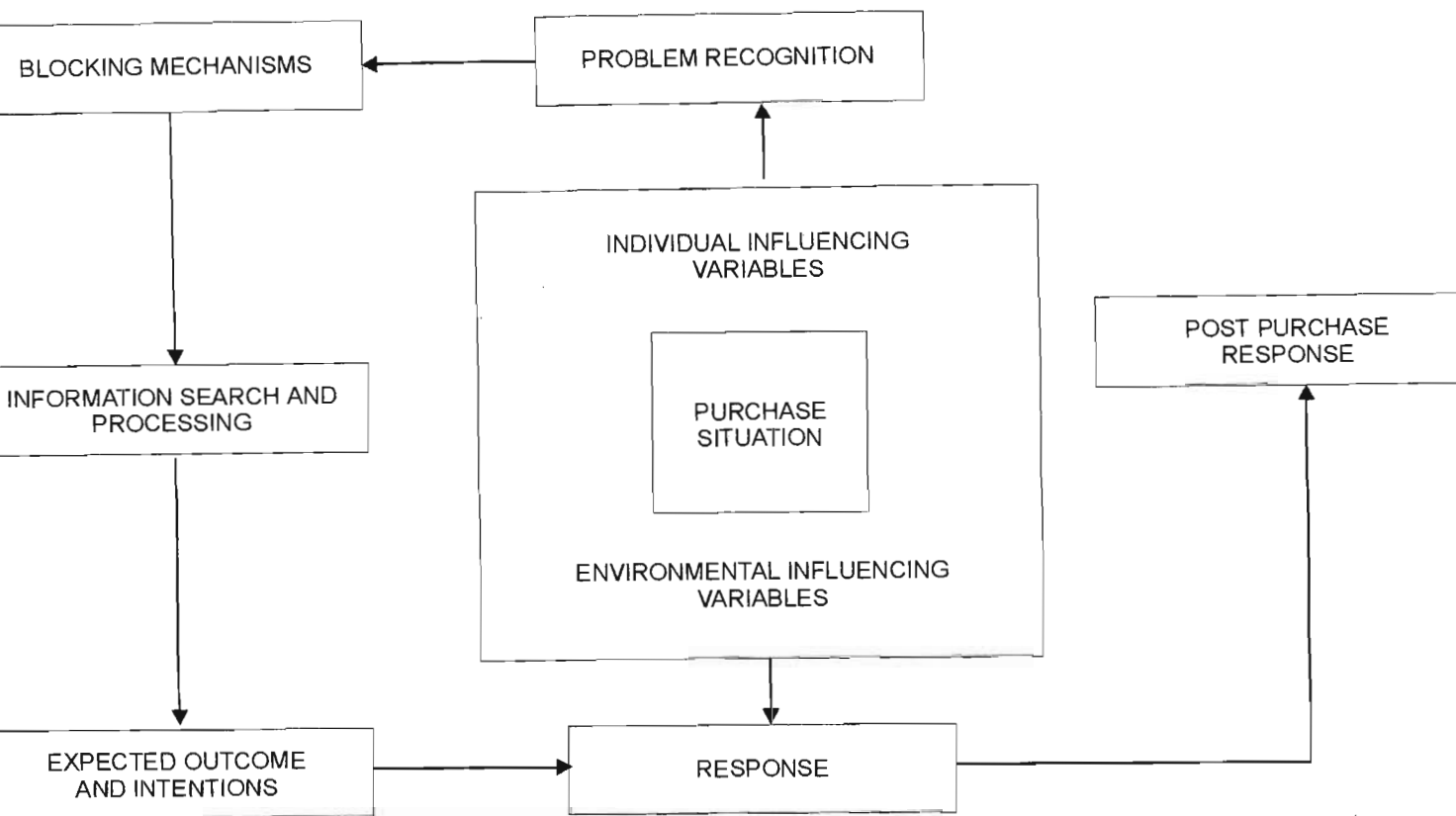


Figure 2.3 The Decision-making process

Source: Consumer Behaviour: A South African Perspective, P.J. du Plessis, Southern Book Publishers, 1990

According to du Plessis (1990), the analysis of the above diagram is as follows:

- *Problem recognition*
 - ◆ A problem arises when a consumer has a purchasing need and is uncertain about how to satisfy that need
 - ◆ Problem recognition can be related to all six stages in the complex decision making process e.g.
 - Problem recognition-whether a product is needed
 - Blocking mechanism-where to raise the finances from
 - Information search and processing-what to buy
 - Expected search and processing-when to buy

- Response-how to buy
- Post-purchase response-whether to be satisfied or dissatisfied with purchase
- ◆ Individual and environmental influences may also impact on problem recognition. e.g.
 - For an individual the problem may be to solely satisfy his needs, attitudes or belief
 - In a family circumstance, the problem may be to conform to the families needs and goals
 - Economic factors e.g. Inflation rates may require the problem to be solved in a specific way
 - Strong marketing propaganda may also cause the consumer to be influenced in solving his problem
- *Blocking mechanisms*
 - ◆ Blocking mechanisms are obstacles that the consumer will encounter.
 - ◆ They may be either
 - Internal barriers-the individual's perceptions and attitudes
 - External-lack of funds or credit facilities
 - ◆ Blocking mechanisms may also occur at other stages in the complex decision making process
 - ◆ Individual and environmental influences may also impact in the blocking mechanism e.g.
 - Clashes with culturally and socially accepted norms may be too great to consider a consumer making a purchase
 - Family or peer pressure may be stumbling blocks in the decision process
 - Economic factors e.g. Inflation rates and interest rates may require the problem to be solved in a specific way
- *Information search and processing*
 - ◆ An individual wishing to make a purchase will have a tendency to actively search for more information

- ◆ The consumers search for and process information from various sources and choose the information that they believe are most relevant to their needs and conform to their individual beliefs and attitudes
- ◆ Through gathering information the consumer also learns about the alternative and competitive choices
- ◆ Consumer search may either be:
 - Internal sources -the individuals past experience, using the product
 - Personal sources-family, friends, acquaintances, etc
 - Commercial sources-advertising, salespersons, etc
 - Public sources-banks, libraries, etc

- *Expected outcomes and intentions (evaluation of alternatives)*
 - ◆ The consumer identifies the various alternatives to a problem and now considers the advantages and disadvantages of each option
 - ◆ No final decision has been attained in the mind of the consumer and the consumer is merely weighing up the various alternative and possibilities
 - ◆ This is the most critical stage as many consumers have difficulty in making a rational decision after considering their alternatives
 - ◆ Individual variables play an influential role in ascertaining the final choice, as consumers may choose options that are consistent with their attitudes and personalities,
 - ◆ Family or group decisions may be reached as each lays out their advantages and disadvantages of choosing a particular product. The individual and the group may reach a general strategy or decisions.

- *Response (purchase decision)*
 - ◆ This is the mental activity of making a choice-either to buy or not to buy.
 - ◆ The consumers response may involve two activities:
 - Verbal response-the consumer commits himself to the purchase or gives reason against his choice to purchase
 - Behavioural response-the consumer may sign the contract or postpone the decision to purchase

- ◆ Two factors can intervene between the purchase intention and the purchase decision:
 - Attitudes of others-a consumers decision to purchase could change depending on how influential the opinions of others are
 - Unanticipated situational factors-these are factors that could change the purchase decision e.g. Changes in individuals incomes or taxes
 - ◆ The consumer's belief of perceived risk can also alter the decision to purchase.
- *Post-purchase responses*
- ◆ This stage involves the consumer's evaluation of the product once it has been bought.
 - ◆ The consumer can respond in three ways:
 - positive-it will result in post purchase satisfaction
 - negative-it will result in post purchase dissatisfaction
 - neutral-it will result in post purchase indifference
 - ◆ Consumers can respond both verbal and behaviourally
 - Positive verbal response-may result in cognitive reinforcement of purchase decision
 - Negative verbal response-may result in rumours
 - Indifferent verbal response-may result in suspicion among other consumers
 - ◆ Post purchase responses are very important to business firms and marketers as they give them an idea and inclination as to how consumers feel about the product offerings.

It is important to understand the buyer's behaviour at each stage in the above model and the various influences that a consumer faces. Attitudes of others, unforeseen factors and perceived risks may all alter the decision to purchase. It is also imperative to ensure customer satisfaction at all levels of the buying process, as dissatisfied customers will stop making purchases and spread negative words regarding the product offering. One should always remember that the best advertising is a satisfied customer.

2.3.3 High-involvement purchases

For the purpose of this dissertation, a discussion of high involvement purchases is relevant since both property and stock market investments fall under the banner of high involvement purchases. High involvement purchases carry the highest levels of emotion and commitment and arise when a consumer believes that the chosen product is strongly linked to their end goals and values. According to Blythe, high involvement purchases are also those products that are of great importance in an individual's lifestyle and involves decisions which are important to get right, preferably the first time round. Although high involvement customers may be very vulnerable and constantly seeking new information regarding the product, they are also very hard to persuade since they view their purchases as being risky. Consumers will therefore always engage in extended problem solving behaviour before embarking on any purchase they view as being risky and requiring a high involvement from them.

Consumer purchases of property, shares, computer etc. are generally high involvement purchases. The various factors in the decision making process might include the following:

- *Self –image considerations*-Does the purchase of a particular property fit into the image the buyer has of him or the type of image to be projected to others?
- *Situational sources of involvement*-Does this particular property satisfy the buyer's immediate need?
- *Product related considerations*-Will the purchase of the property be a good investment in the future?
- *Information considerations*-Consumers will constantly be seeking new information regarding the property investment since the frequency of purchase is low.
- *Financial risk*-Financial risk increases since property investments are expensive.
- *Social risk*-Since people tend to make socially accepted choices, they may be concerned with how the purchase of this property will be viewed by others?

High involvement purchases may also include unsought goods. Namely: Goods which consumers will recognise as a need but tend to avoid buying e.g. Insurance policies. There are various reasons that inhibit people from seeking certain products:

- To avoid the risks
- Consumers are in no hurry to commit themselves, therefore delay in purchasing

- Consumers do not see an immediate benefit, therefore may postpone committing themselves

The diagram below shows the relationships between the consumer, product and environmental characteristics, and the level of involvement that ultimately leads to a purchase or non-purchase decision.

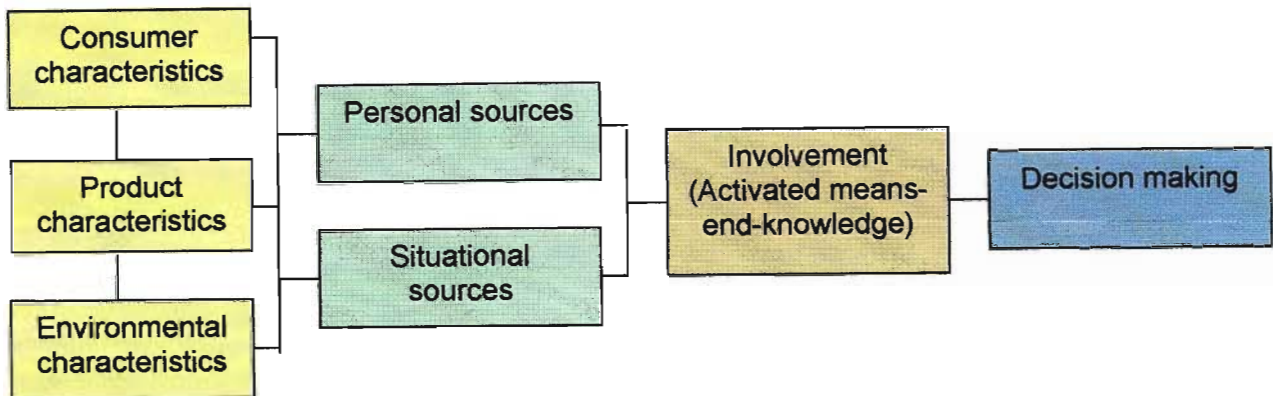


Figure 2.4 Relationship between consumer, product and environmental characteristics

Source: Adapted from Richard L. Celsi and Jerry C. Olson, *Journal of Consumer Research*, 1988

2.3.4 Risk and uncertainty in the consumer

People belong to the category of either experienced or inexperienced consumers. Problem solving and decision making processes are greatly affected by the amount of knowledge individuals acquired through past experiences and by the amount of involvement the individual has with the product. Experienced buyers generally have knowledge and insight regarding the purchase of a product and hence make purchasing decisions with greater confidence. However, when it comes to investment decisions, namely, investing in the property and share market, most people can be considered inexperienced buyers. Inexperienced buyers have less knowledge of the product and hence feel a greater risk attached to the purchase of the product, and hence will look at all possibilities to try and minimise the risk. Consumers will thus try minimising risk by increasing their knowledge and conducting research regarding the product. The amount of perceived risk a consumer feels depends on how serious the repercussions of buying the product are and the probability that the negative consequence will occur. In order to

minimise risk, and to make the decision-making process simpler, consumers will generally have a set of heuristics. Heuristics can be used by the consumer to assist the decision making process and generally consists of “if...then” scenarios.

2.4 Consumer market segmentation

Customers are unique and diverse in their buying requirements, needs and wants; therefore it is imperative to segment the markets. Since no single product appeals to all consumers, segmentation is concerned with grouping consumers who have similar needs and wants.

According to Blythe and Kotler (1997 and 2000), a segment to be viable and useful, must have the following characteristics:

- *Measurability*-it must be possible to find out how many people there are in the segment and the purchasing power of consumers and the characteristics of the segment must be able to be measurable
- *Accessibility*-it must be possible to approach and serve them in some identifiable way
- *Substantiality*-the segment must be large enough to serve and should be economically worthwhile and profitable
- *Actionable*- effective programs must be prepared to entice and serve the segments
- *Congruity*-the need of the target group must be similar

Kotler, p261 states that there are three different patterns of market segmentation:

- *Homogenous preferences*-a market where all consumers have more or less the same preferences
- *Diffused preferences*- a market where consumer preferences may be scattered
- *Clustered preferences*- a market where consumers reveal distinctive patterns of preferences

There are two methods for segmenting markets, namely by consumer characteristics and consumer responses. There also are four main segments that consumers markets are divided into, namely geographically, demographically, psychographically and behaviourally and these variables can be used singly or in combination:

<p>Geographic segmentation</p>	<p>Markets are divided into different geographical unit's e.g. by regions, cities, etc.</p> <p>Geographic segmentations are important because the nature of the product may be such that it is relevant and important to certain areas only.</p> <p>It can be assumed that people living in the same areas would have similar needs and wants.</p>
<p>Demographic segmentation</p>	<p>Markets are divided according to age, family size, gender, income, education, religion etc</p> <p>It is the most popular base for segmenting markets because they are easier to measure and that wants preferences and usage rates are mainly associated with demographic variables.</p> <ul style="list-style-type: none"> ▪ Age-is indicative of what people feel are important since people's wants and needs change during their lifecycle. ▪ Family size-shows that the demand for certain goods will increase as family size increases, and vice versa ▪ Gender-men and women have different opinions as to what they might consider as being important to them ▪ Income-is closely linked to education and occupation. <p>Variations in income will reveal variations in buying and spending power that a consumer has. High-income earners will have more disposable income and therefore spend more money on property and share market investments.</p>
<p>Psychographic segmentation</p>	<p>Markets are divided according to their lifestyles, personalities and values</p> <p>May be difficult to measure because people within the same geographic and demographic groups may exhibit different psychographic profiles</p> <ul style="list-style-type: none"> ▪ Lifestyle-goods people consume and purchase they make is suggestive of the lifestyles they lead

	<ul style="list-style-type: none"> ▪ Personality-consumer personalities show that certain consumers are more inclined to buy certain products over others ▪ Values-individuals also make purchases on their inherent core values, attitudes and beliefs
Behavioural segmentation	<p>Markets are divided into groups depending on their knowledge and attitudes towards the product. I.e. occasions, benefits, user status, usage rates, loyalty status, buyer readiness stage and attitude.</p> <ul style="list-style-type: none"> ▪ Benefits-consumers may view certain products as being more beneficial than others e.g. People may view property investments as being more beneficial than stock market investments ▪ Buyer readiness stage-people are in different stages of readiness to buy products depending on a whole host of individual and external circumstances ▪ Attitudes-people's attitudes varies at times and positive attitudes regarding a product could result in a possible purchase

Table 2.3 Consumer market segmentation

Source: Adapted from Kotler P, Marketing Management, Prentice-Hall, 2000

2.5 Models of consumer behaviour

"Micro-economic models were developed by economists, who saw consumers as rational beings who individually and collectively determine the demand for goods. Their models held that consumers would tend to want more and more goods as long as the sacrifice they had to make would decrease accordingly. Other characteristics attributed to the consumer by the economists were through reasoning and an inclination to avoiding risks" (du Plessis, p17). Walters (1978, p26) sees a model of buying behaviour as "anything used to represent all or a part of the variables of buying behaviour".

Models of consumer behaviour are important because they serve as a framework to better understand the relationships between the various factors that affect and influence

consumer buying behaviour. Consumer buying behaviour embraces the decision-making processes and provides a background within which various variables of buying behaviour can be illustrated logically and visually. Although consumer behaviour models may have certain restrictions, they overall do provide the researcher with a useful framework and a starting point regarding the various variables in the consumer decision making process:

Models of consumer buying behaviour are important to consider in any consumer behaviour study for the following reasons:

- *Framework*: They provide a framework and skeleton for which research findings can be incorporated
- *Logical*: They provide a logical sequence in understanding consumer behaviour
- *Guide*: They serve as a guide to marketers in establishing their marketing strategies
- *Explanations*: They provide explanations on consumer behaviour and may make it possible to understand present and forecast future consumer behaviour patterns
- *Decisions*: They provide invaluable information on which company consumer and marketing decisions can be made
- *Establishment of theory*: They play a significant role in establishing theory of consumer behaviour and aid in the development of new consumer behaviour models.

For the purpose of this dissertation the following buying behaviour models will be examined and explained in greater detail:

- The Nicosia Model
- The Howard-Sheth Model
- The Engel-Kollat-Blackwell (EKB) Model

2.5.1 The Nicosia Model

Nicosia (1966) identifies the various variables and their interdependence to summarise the structure of buying behaviour, the starting point being when an organisation introduces a new product onto the market and the feedback received from consumer reactions. Figure 1 illustrates the sequence of successive buying decision-making stages. Consumer personality, experience and motives represent the cognitive and psychological attributes that make up the consumers decision-making process.

FIELD ONE: FROM THE SOURCE OF A MESSAGE TO THE CONSUMER'S ATTITUDE

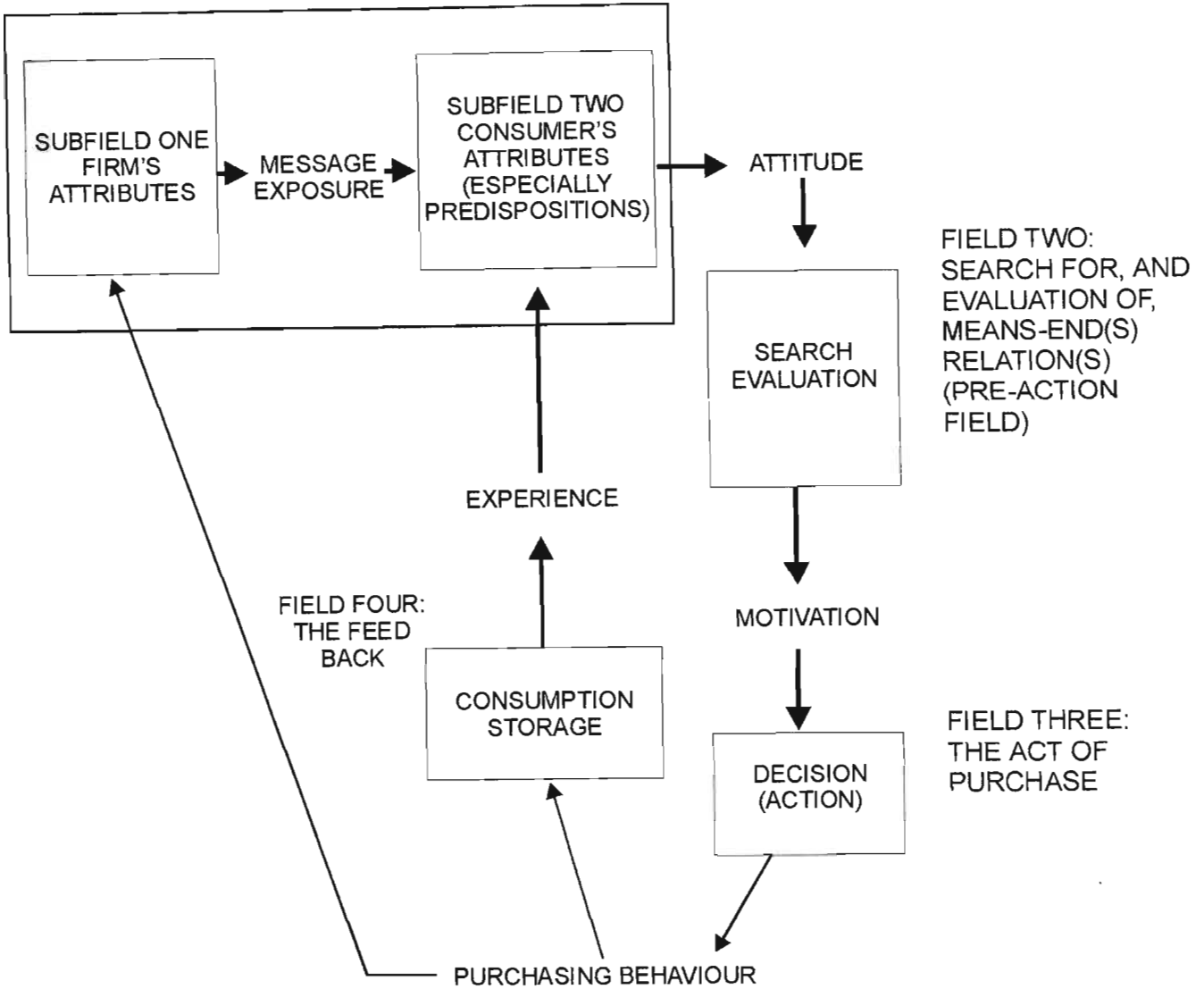


Figure 2.5 The Nicosia Model: Consumer Decision processes

Source: Nicosia, F. Consumer decision processes, Prentice-Hall, 1966

The interpretation of the model is as follows:

Field one	Field one is divided into the firm's attributes and the customer's attributes. Together these two attributes proceed to form the customer's attitude. Only if the attitude of the consumer is positive, will the consumer proceed to field two to evaluate the product and possible alternatives.
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Field two	The consumers will then conduct a search evaluation of the relevant factors and includes the consumer's previous buying experience, attributes of the product, communication with others and the personal situation of the consumer.
Field three	After a proper investigation being conducted in field two, the consumer will then make the purchase.
Field four	After the purchase has been made, new opinions will now form in the minds of the consumer. The consumer's satisfaction or dissatisfaction of the actual purchase will influence any future buying of that product. New attitudes formed after the consumption of the product may alter opinions of the consumer in field two or influence activities in field one.

Table 2.4 The Nicosia Model

Source: Adapted from Nicosia, F. Consumer decision processes, Prentice-Hall, 1966

2.5.2 The Howard-Sheth Model

The Howard-Sheth Model was developed to include more variables with greater explanations and detail. In this model, Howard and Sheth (1969) use the term buying behaviour as opposed to consumer behaviour as they felt that industrial buyers and consumers are identical. This model is established upon the stimulus-response theory i.e. Decision making is initially started by stimuli and repeated decision making in turn leads the consumer to attain increased knowledge and experience.

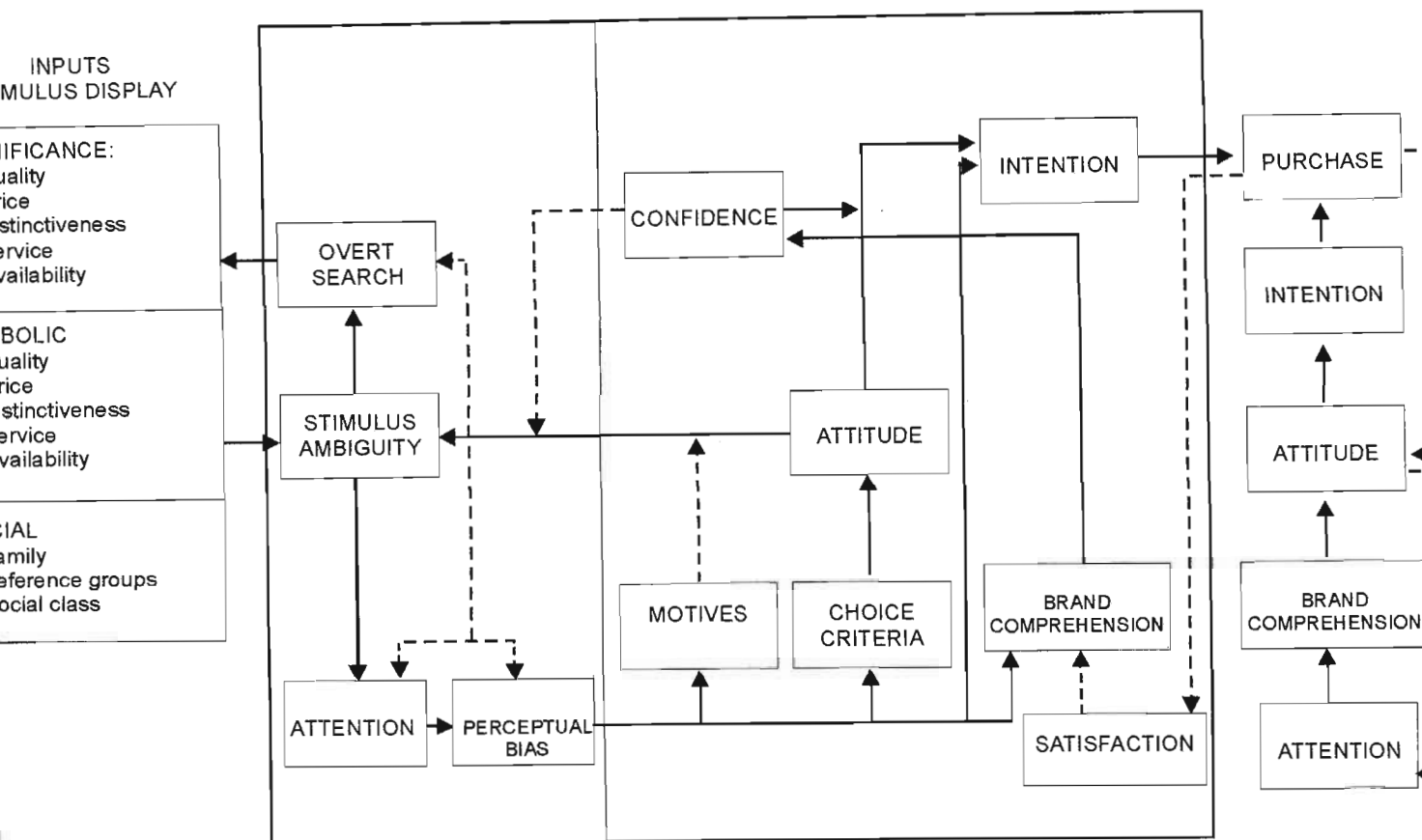


Figure 2.6 The Howard-Sheth Model: Consumer Behaviour

Source: Adapted from Howard, J.A and Sheth, J.N. The Theory of buying behaviour, Wiley NY, 1977

The Howard-Sheth model identifies three stages in buying behaviour:

Extended problem-solving behaviour	Occurs in the decision-making process when consumers have limited information for evaluating products. In this level consumers require a substantial amount of information to develop a set of criteria for evaluating products.
Limited problem-solving behaviour	In this stage the basic criteria for evaluating a product have already been developed and the search for information begins in order to develop preferences and to distinguish between various offerings.

Routinised response behaviour	This stage is characterised by the fact that the consumer has already experienced the product and minimal research is undertaken for additional information.
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Table 2.5 The Howard-Sheth Model: Consumer Behaviour

Source: Adapted from Howard, J.A and Sheth, J.N. The Theory of buying behaviour, Wiley NY, 1977

According to Howard-Sheth, these 3 stages do not occur independently but rather with 4 other variables in the model. They are inputs, outputs, perceptual constructs and learning constructs.

Inputs	Inputs can be derived from three stimuli in the consumer's environment: <ul style="list-style-type: none"> ➤ Indicative stimuli ➤ Symbolic stimuli ➤ Social stimuli
Outputs	These are various responses which the buyer will display, beginning with attention to a stimulus and ending with the buying action
Perceptual constructs	Perceptual and learning constructs form the basis of this model. Perceptual constructs consist of the psychological variables that consumers endure in trying to make a decision. These variables are concerned with how the consumer receives and process the information from the input stimuli and other parts of the model; however they cannot be directly measured.
Learning constructs	Learning constructs consists of the wants and needs of the buyer in addition to alternative options available, confidence in the product offering, the buyer's preferences and the buyers intentions.

Table 2.6 The Howard-Sheth Model: Consumer Behaviour

Source: Adapted from Howard, J.A and Sheth, J.N. The Theory of buying behaviour, Wiley NY, 1977

2.5.3 The Engel-Kollat-Blackwell Model

The main idea behind this model is the decision-making process and how various variables influence this process. In order to properly understand this model, one has to firstly understand that consumers either have low involvement or high involvement in a product before they embark on a purchase. The various factors that distinguish between low and high involvement are:

Low involvement	High involvement
<p>Many daily purchases involve low involvement e.g. Food, paper, sweets etc. Decisions to purchase do not require extensive research, and data regarding these types of products are readily available.</p> <p>The decision making process decreases as information regarding the product are available.</p>	<p>These are products that consumers do not purchase everyday and thus will search for new product information and evaluate product alternatives cautiously e.g. property, jewellery, motor vehicles, shares etc.</p> <p>The decision making process increases in the search of more product information before the purchase is made.</p>

Table 2.7 The Engel-Blackwell Model: low and involvement decisions

Source: Adapted from Engel, J.F., Blackwell, R.D. and Kollat, D.T. Consumer Behaviour, 5th edition, The Dryden Press, 1986

The existing model primarily consists of five components i.e. input stimuli, Information processing, the decision making process, the decision making process variables and external influences. There are also five stages in the decision making process which will be explained in the following table.

<p>Problem awareness</p>	<p>The consumer becomes aware of a difference between his present situation and his concept of an ideal situation. This stage can be provoked by either a motive (e.g. the desire to own a property) or may be initiated by an external stimulus (e.g. Advertisement of a property). If the consumer reacts positively as a result of this stimulus, the information search stage will then follow.</p>
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Information search	The consumer will search within himself (memory) for his opinions and ideas, which will either impact positively or negatively on his purchase choice. If his internal search proves fruitless then an external search will be conducted. Newly acquired information from the consumer's search will now be stored in his memory for further processing.
Alternative evaluation	In the alternate evaluation stage, the information from the information stage will now be compared with the product standards, and the product will either be rejected or accepted.
Choice	If no external obstacles exist (e.g. Lowering of income), then the final choice of the product to purchase will take place.
The result of the purchase	The result of the purchase will either lead to dissonance or satisfaction. I.e. The consumer will either doubt the choice he made or be satisfied with his purchase.

Table 2.8 The Engel-Blackwell Model of high involvement decision process

Source: Adapted from Engel, J.F., Blackwell, R.D. and Kollat, D.T. Consumer Behaviour, 5th edition, The Dryden Press, 1986

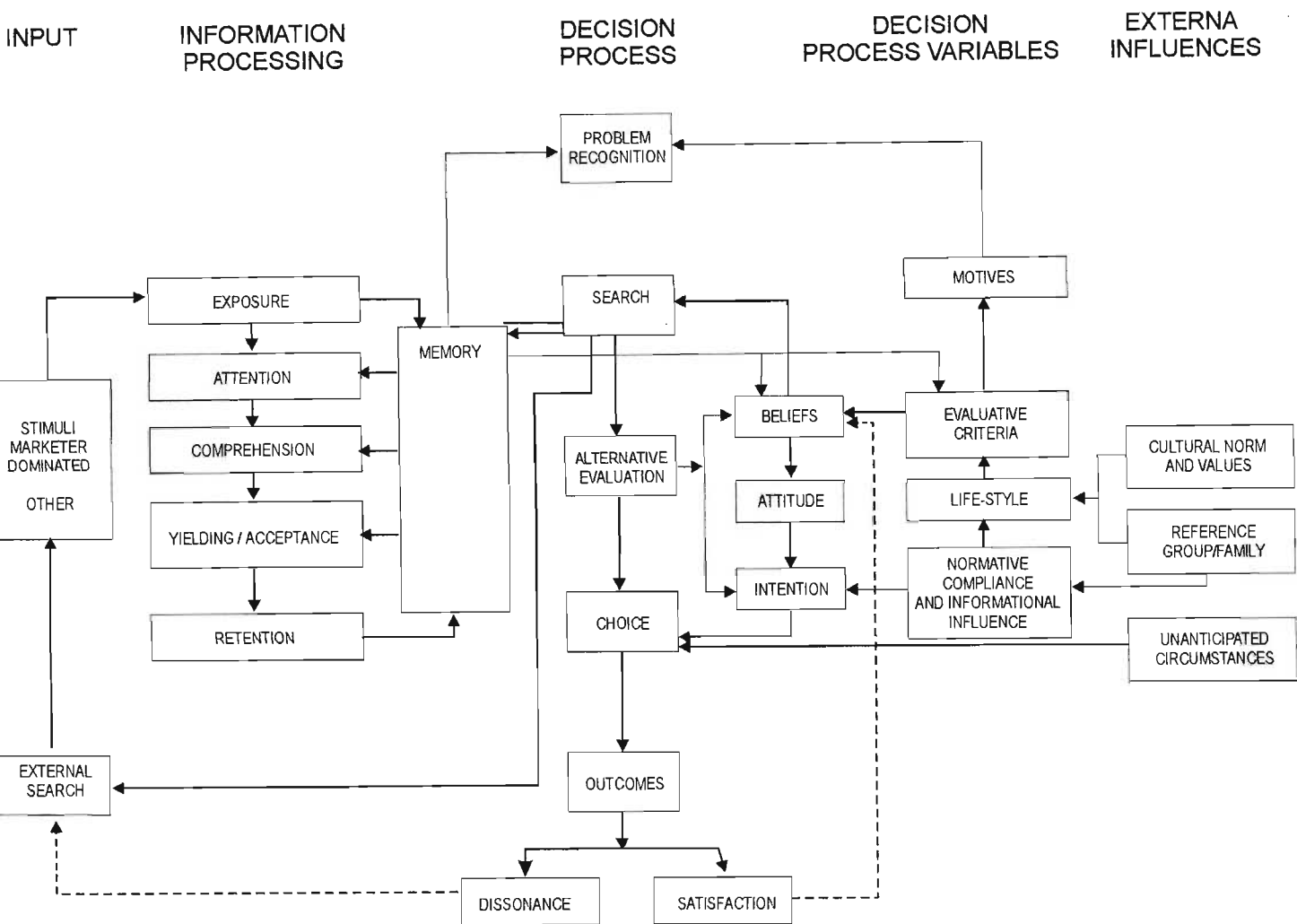


Figure 2.7 The Engel-Blackwell Model of high involvement decision process

Source: Adapted from Engel, J.F., Blackwell, R.D. and Kollat, D.T. Consumer Behaviour, 5th edition, The Dryden Press, 1986

Engel and Blackwell (1982) also indicate in their model the presence of various external influences, which may greatly influence the consumer's decisions making process e.g. cultural norms and values, reference group/family and unanticipated circumstances. In conclusion, the above model is a framework, which a consumer may use when purchasing high involvement products.

2.6 The South African Consumer

2.6.1 Overview

There are various sects in South Africa and their multiplicity and diversity make it difficult to ascertain and comment on generalised consumer behaviour patterns and hence poses an enormous challenge for marketers. Like in any country people are diverse, coming from different backgrounds having their own tastes and preferences. Their respective race, family size, cultural backgrounds, social circles, religious beliefs, education, income differences and of course their own individuality create in them their own needs and wants for products. Although it is impossible to make generalised comments on consumer behaviour in South Africa; the researcher will attempt to provide some information regarding consumer behaviour by analysing key factors concerning the people in South Africa.

2.6.2 South Africa and Apartheid

The South African consumer market is especially sensitive and very complex to analyse due to the influences of having been an apartheid country. There are various factors that have been inculcated for years in the minds of people and certain negative sentiments will take many more years to correct themselves.

The "South African Apartheid" was a very dark and black era for South Africa and the Government policy of Apartheid was one of the most discussed issues of the twentieth century. Apartheid in South Africa was an example of political and people injustice, which has greatly affected consumer behaviour. With the enactment of apartheid laws in 1948, racial discrimination was institutionalised. Race laws touched every aspect of social life and the sanctioning of "white-only" jobs. In 1950, the Population Registration Act required that all South Africans be racially classified into one of three categories: white, black (African), or coloured (of mixed decent). The coloured category included major subgroups of Indians and Asians. Classification into these categories was based on appearance, social acceptance, and descent.

In the Afrikaans language, the word Apartheid is translated into separateness. This word is appropriate because Apartheid was a form of government that caused racial segregation within South Africa. Apartheid separated whites from the nonwhites and

even caused social injustice between nonwhites groups. This form of government lasted from 1948 until 1991. The government's belief was that this was the best way of life for all citizens when in fact it was the worst way of life. Apartheid consisted of numerous laws that allowed the ruling white minority in South Africa to separate and manipulate the vast majority: Africans, mostly, but also Asians and Coloureds - people of mixed race. In white-ruled South Africa, black people were denied basic human rights and political rights. Their labour was exploited, their lives segregated.

In 1990, Nelson Mandela, who had devoted his life to democracy, equality and learning for all South Africans, was released from prison after serving almost 30 years for those philosophies. He was elected president of the African National Congress the following year and on May 10, 1994; Nelson Mandela was elected South Africa's first black President, in the country's first truly democratic election.

Today, racial inequality is still evident in South Africa, but the government is working to create a free and fair country. Laws are being mandated and the government has enacted many new laws to reverse many injustices of the apartheid history. The end of Apartheid has signalled new hope for the people of South Africa. All races have come together under the new democratic country, to try to improve present conditions and rectify the inequality of the past but it will be a long time, if ever, before the injustice and destruction caused by Apartheid can be repaired.

The pre-apartheid South Africa has impacted differently of the various nationalities and races, hence making it difficult to make generalise comments on the consumers as a whole. The pre-apartheid era has caused many distortions in the market place and many different types of attitudes and values in the minds of the consumer.

2.6.3 Background statistical information on South Africans

- The South African population

South Africa census of October 1996 showed an estimated population of 40,583,611, residing in 9 provinces; Eastern Cape, Free State, Gauteng, KwaZulu-Natal, Mpumalanga, North-West, Northern Cape, Northern Province, Western Cape. The estimates for this country explicitly take into account the effects of excess mortality due

to AIDS; this can result in lower life expectancy, higher infant mortality and death rates, lower population and growth rates, and changes in the distribution of population by age and sex than would otherwise be expected. There are 11 official languages, namely English, Afrikaans, Ndebele, Pedi, Sotho, Swazi, Tsonga, Tswana, Venda, and Zulu, Xhosa and various unofficial languages and dialects often used in the South Africa. Demography is used to illustrate a population in terms of size, structure and distribution. Size refers to the number of individuals in a population, while structure expresses the population in terms of racial groups, age, religion, income, occupation and education. Therefore the size and structure of the population influence the behavior of consumers and contribute to the overall demand of goods and services.

- Structure of the South African population
 - ◆ Racial groups and subcultures

South Africa has a multiplicity of cultural groups; divided as a result of the past political ideologies, into white, black, coloured and Asian and therefore resulting in many different lifestyles and each tend to have their own distinctive needs and wants. Cultural values are a determining variable in consumer decision making therefore affecting consumer behaviour patterns. To further compound the issue of race, many people are further divided into subcultures. A subculture is essentially a segment of a culture that share-distinguishing patterns of behaviour and in South Africa ethnic subcultures are based on nationality, religion and race. E.g. in South Africa the Asian community is divided into the Chinese and the Indians. The Indians are further divided into Muslims, Hindus and Tamil. The Muslims are then further divided into the Surtees, Memons, Urdu speaking, etc depending on which place in India their forefathers were born in. Therefore although the Indian community may share the same race they are most definitely different when it comes to religion, language spoken or behavioural patterns. Hence marketers need to be sensitive to both the different races and their subcultures.

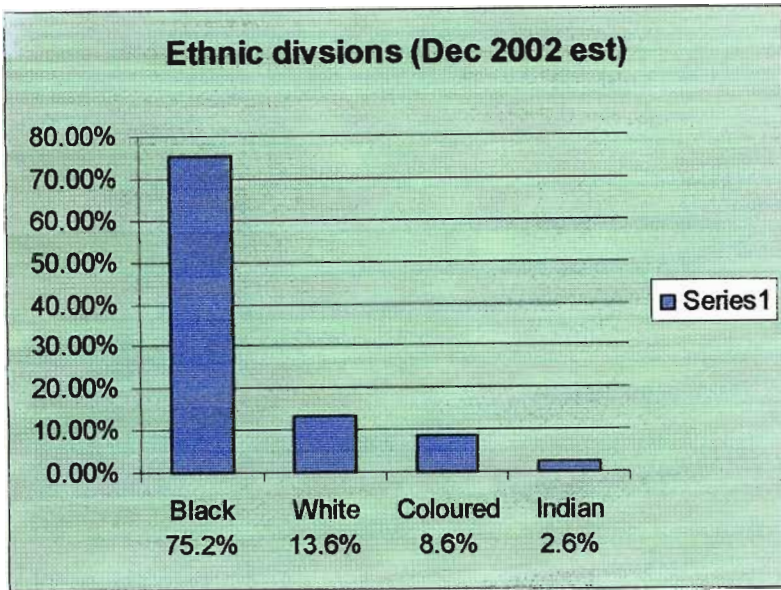


Figure 2.8 Ethnic Divisions

Source: Adapted from Census 1996

◆ Age

Age plays a strong influence on consumer behaviour since a person's age affects his interests, tastes and purchasing abilities, therefore the demand for certain products will change accordingly. The age composition is also vital in determining the consumers that have buying power to sustain the economy i.e. Children and senior citizens buying power will be minimal, and the economically active sector of the population that support the economically inactive segment.

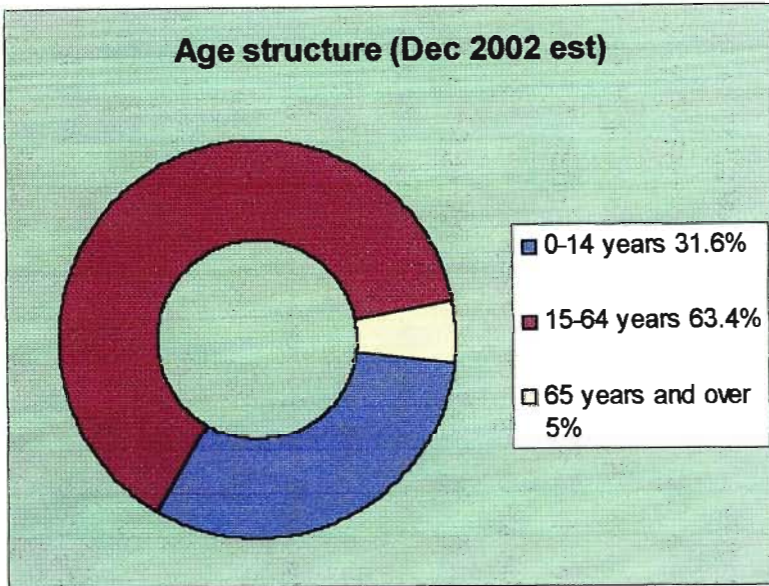


Figure 2.9 Age Structure

Source: Adapted from Census 1996

◆ Religion

The issue of religion is vital to marketers since companies can gather important information that could affect their sales. E.g. Muslim people are forbidden by their religion to consume alcohol therefore this information would be significant to South African Breweries in ascertaining their target markets.

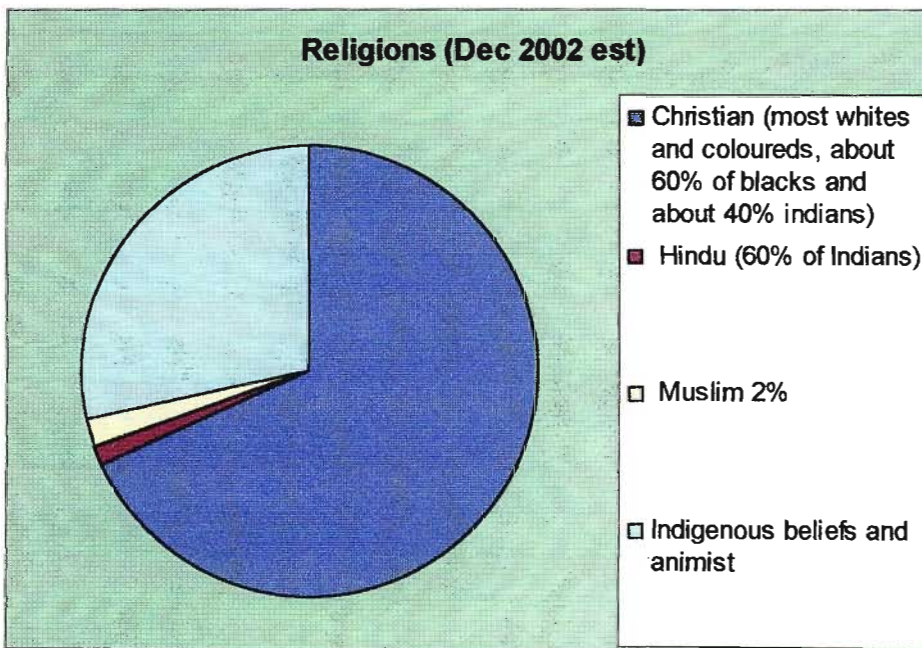


Figure 2.10 Religious structure

Source: Adapted from Census 1996

◆ Income

Income plays a pivotal role in the demand of goods and services and hence impacts in the economic welfare of a country. Any changes in disposable income will either have positive or negative effects in consumers buying power. E.g. Sales in property, share market investments or motor vehicles purchases will decrease if people's disposable income decreases, irrespective of any population growth.

Individual monthly income among the employed by population group, aged 15 - 65 years

	African/ Black	White	Indian/ Asian	Colored	Unspecified /Other
None	66%	21%	3%	9%	1%
R1 - R200	87%	4%	1%	8%	1%
R201 - R500	82%	3%	1%	14%	1%
R501 - R1 000	79%	5%	2%	13%	1%
R1 001 - R1 500	71%	9%	5%	15%	1%
R1 501 - R2 500	56%	21%	6%	15%	1%
R2 501 - R3 500	43%	37%	7%	12%	1%
R3 501 - R4 500	33%	49%	7%	10%	1%
R4 501 - R6 000	23%	61%	7%	8%	1%
R6 001 - R8 000	16%	72%	6%	6%	1%
R8 001 - R11 000	13%	78%	5%	4%	1%
R11 001 - R16 000	10%	82%	4%	3%	1%
R16 001 - R30 000	9%	84%	4%	2%	1%
R30 001 or more	10%	83%	4%	2%	1%
Unspecified	35%	44%	4%	13%	3%

Table 2.9 Individual monthly Income

Source: Adapted from Census 1996

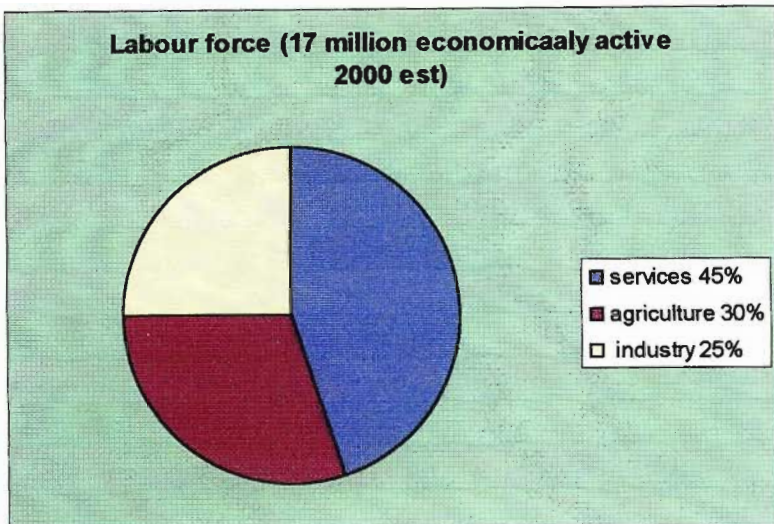


Figure 2.11 Labour force structure

Source: Adapted from Census 1996

◆ Occupation

Naturally, people's occupations affect their income, and therefore affect their purchasing power. People that have occupations that command a higher salary will obviously have more disposable income to spend in the economy. However, income should not be judged solely by education, because many people operating businesses in the private sector can most definitely earn a higher income than well educated people.

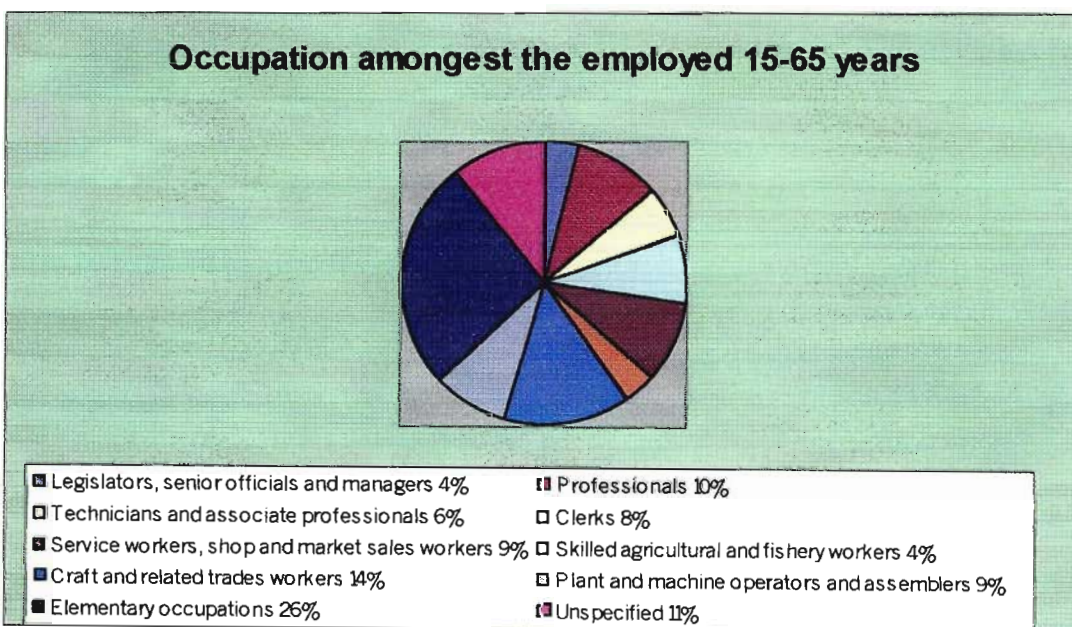


Figure 2.12 Occupation amongst the employed 15-65 years

Source: Adapted from Census 1996

◆ Education

There is a correlation between education and income. On a broader spectrum of people, it can be generalised that people whom are better educated can earn higher incomes since the odds in their favour increases.

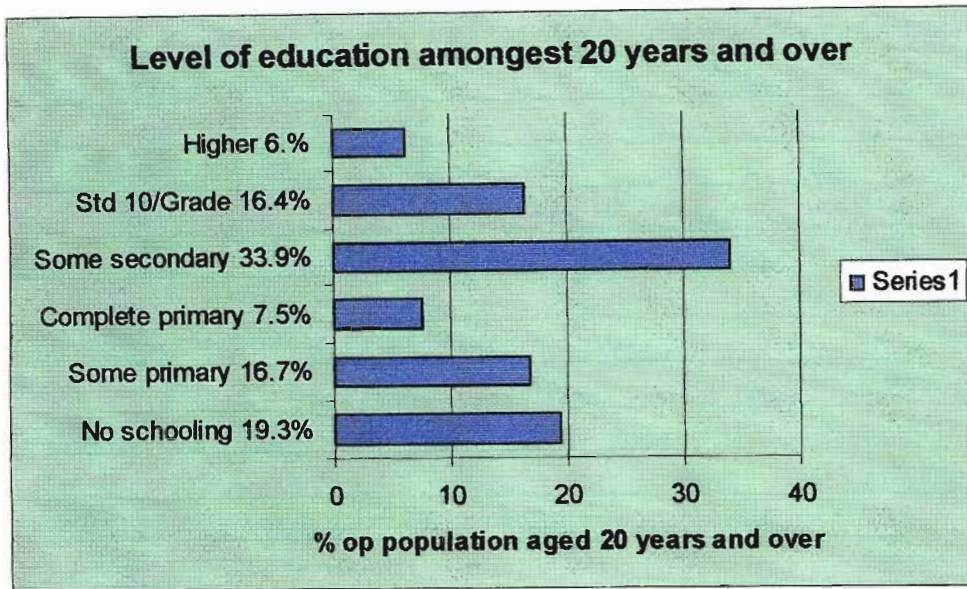


Figure 2.13 Level of education amongst 20 years and over

Source: Adapted from Census 1996

◆ Languages

There are various ethnic groups in South Africa with many languages being spoken by the people. This could further compound the problem in ascertaining the potential target market and pose a variety of problems for the marketer.

The most commonly-spoken first home language in South Africa is IsiZulu (spoken by 23% of the population followed by IsiXhosa. Afrikaans (14%) and English (9%), while widely spoken in all provinces, are less frequently used as first home languages than certain of the indigenous languages.

Home language by population group (percentages)

	African / Black	White	Indian / Asian	Colored	Unspecified /Other	Total
Afrikaans	0.7	58.5	1.5	82.1	27.7	14.4
English	0.4	39.1	94.4	16.4	23.2	8.6
IsiNdebele	1.9	0.1	0	0.1	0.9	1.5
IsiXhosa	23.1	0.1	0.1	0.3	9.9	17.9
IsiZulu	29.5	0.1	0.2	0.2	16.9	22.9
Sepedi	11.9	0	0	0.1	5.6	9.2
Sesotho	10	0	0	0.2	4	7.7
SiSwati	3.3	0	0	0	1.4	2.5
Setswana	10.6	0	0	0.4	4.4	8.2
Tshivenda	2.8	0	0	0	1.5	2.2
Xitsonga	5.6	0	0	0	2.8	4.4
Other	0.3	2	3.7	0.2	1.7	0.6

Table 2.10 Home languages by population group

Source: Adapted from Census 1996

2.6.4 Economical influences on consumer behaviour

Although income plays a pivotal role in ascertaining consumer spending, there is also a host of external environmental factors that can change and affect the pattern of consumer behaviour. The environment encompasses a broad range of influences that can play a significant role in the consumer decision making process. The main factors of the external environment that have a positive or negative impact on consumer spending is taxes, employment opportunities, inflation, interest rates, and the availability and cost of credit. The ability and willingness of a consumer to purchase is influenced by his disposal income (after-tax) and the availability of credit. These factors are in turn affected by domestic and international events or happenings. Government fiscal and monetary policies can cause changes in the countries economic environment and hence eventually lead to either positive or negative spending patterns. The countries political ideologies and economical conditions may either destroy or promote consumer confidence in a country, and hence affect consumer behaviour.

The main strength of the South African economy lies in its rich mineral resources, which provide two-thirds of exports. The decreasing economy in recent years has absorbed

less than 5% of the more than 300,000 workers entering the labor force annually. The economy slowed in 2001, largely the result of slowing of the international economy.

South Africa is a middle-income, developing country with a copious supply of resources, well-developed financial, legal, communications, energy, and transport sectors, a stock exchange that ranks among the 10 largest in the world, and a modern infrastructure supporting an efficient distribution of goods to major urban centers throughout the region. Nevertheless, growth has not been strong enough to cut into high unemployment, and discouraging economic problems remain from the apartheid era, particularly the difficulty of poverty and lack of economic empowerment among the disadvantaged groups. Other problems are crime, corruption, and HIV/AIDS.

2.7 Introduction to Investment Strategy for Individuals

Although the word "strategy" is mostly used and applied to business or organisation; it is also very applicable to individuals who are faced with various investment options. An individual strategy is the game plan used by the individual to stake out market opportunities and to successfully achieve ones objectives. The fundamental issue surrounding an individual's investment model is whether a given strategy makes sense from a money-making perspective. Crafting, implementing and executing a strategy are critical for an individual as it provides a vehicle in achieving sustainable long term financial growth, security and profitability. The essence of good strategy making is to build a market position strong enough and an individual capable enough to produce successful performances despite unforeseeable events or happenings. An individual's investment strategy is shaped by both external and internal factors:

- ❖ *External factors*-economical, political, societal, competitive conditions and overall industry attractiveness
- ❖ *Internal factors*-are individuals personal ambitions, philosophies, values, ethics

2.8 Strategy making and Implementation process

People today have to think strategically about their financial position and the impact of changing economic and social conditions. Individuals have to closely monitor the external environment and their internal capabilities and resources in order to know when

to institute changes in their strategies. Building a sustainable strategy is imperative to the success of the investor, but there are several pitfalls an investor should avoid:

- Designing an excessively elaborate strategic plan that overtaxes the individuals resources and capabilities
- Choosing a strategy that does not coincide with the investors values and beliefs (consumer behaviour)
- Choosing a strategy that conflicts with the investors target and aims
- Being hesitant to fully commit oneself to the chosen strategy

There are 5 tasks that an individual needs to implement in order to build a sustainable strategy.

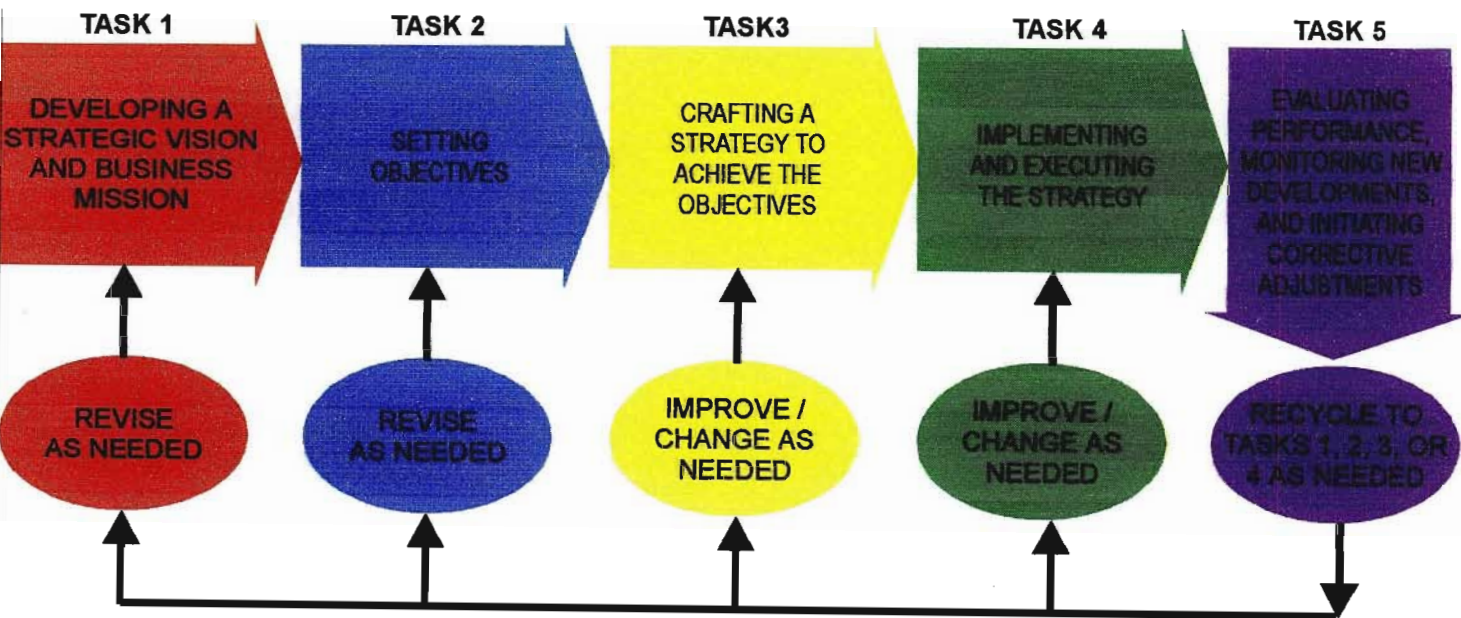


Figure 2.14 Five task of Strategic Management

Source: Adapted from Thompson & Strickland 2001

Thomson and Strickland, 2001 explains the Five Tasks of Strategic Management as follows and has been adapted by the researcher to suit the present dissertation:

2.8.1 Developing a strategic vision

Task 1

Strategic vision is essentially a long-term plan of where an individual hopes to be in the future. It is imperative that individuals have strategic vision in order to successfully

implement their chosen strategy. Individuals need to look beyond today and think strategically about the volatility of the Rand and which investment opportunities need to be pursued to protect their investments. A clear and concise strategic vision will enable an individual to think rationally and serve as a basis for crafting a strategy in attaining ones goals. Strategic vision involves selecting the markets an individual wishes to invest in, putting the individual on a strategic path and making a commitment to follow that path.

2.8.2 Setting objectives

Task 2

The aim of setting objectives is to transform the individual statements of strategic vision into specific performance targets; the results and outcomes the individual wants to achieve. In order for ones objectives to be useful to an investor, they must be stated in quantifiable or measurable terms and they must contain a deadline for achievements. Setting objectives and then measuring whether they are attained or not helps investors trace their investment progress. Setting financial objectives allows an individual to monitor their financial performance. Without adequate profitability, an individual's pursuit of his vision, as well as his long term financial growth and ultimate survival will be risked.

2.8.3 Crafting a strategy

Task 3

Developing a strategic vision and mission, establishing objectives and deciding on a strategy is fundamentally direction setting tasks. A strategy reflects individual choices among the various alternatives and signals an individual commitment to particular investment options. Strategy making shows the individuals crucial issues of how to achieve the targeted results in the light of the present economic situations. An individual's investment strategy represents the individual's answers to fundamental questions as whether to invest in the stock market or property market, how much of capital to invest, how to react to changing economic circumstances, etc. An individual's strategy concern "how": how to attain and sustain ones goals and targets, how to respond to changing market conditions, how to achieve financial objectives, how to attain short and long term profitability and liquidity. Individuals investment strategy is basically action orientated: it concerns what an individual should do and when to do it. An individual investment strategy is not a one-time event, but rather an ongoing process

that changes over time with changing market conditions. An important part of strategic change is the need for actions to improve on how an individual is maintaining his current financial portfolio and the need for actions to prepare for tomorrow's markets and competitive conditions. Whether an individual takes a proactive or reactive position in preparing for future market conditions shapes the character and speed of the adjustments it makes in its strategy over time. An investment strategy has to be tailored to the nature and mix of competitive factors in play, namely inflation rates, interest rates, changing government laws and regulation, economic climate, changes in the Rand, etc.

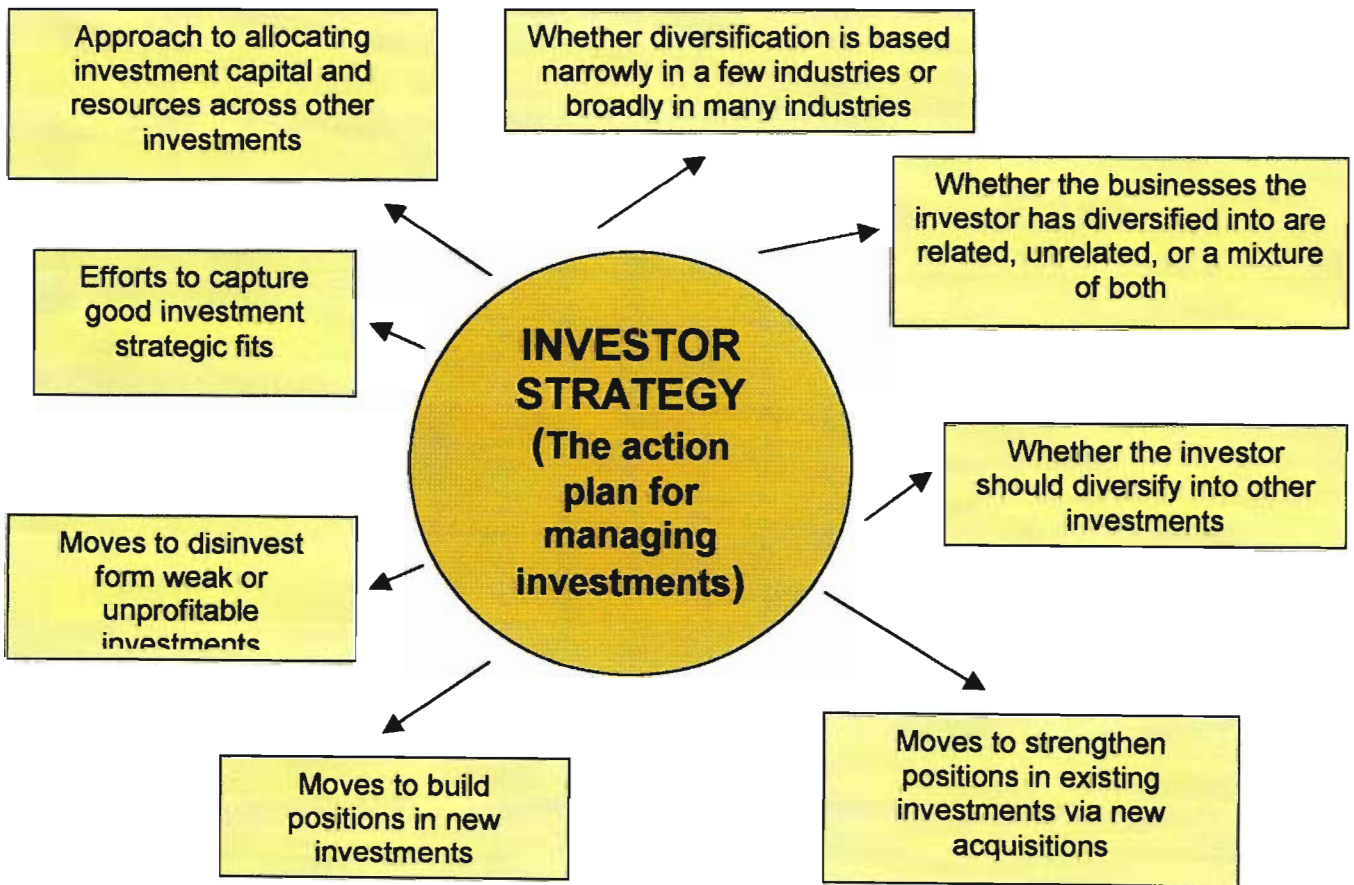


Figure 2.15 Identifying the overall strategy of a diversified portfolio

2.8.4 Implementing and executing strategy

Task 4

Implementing and executing the chosen strategy entails assessing what it will take to develop the needed individual capabilities and to reach the targeted objectives as planned. The strategy implementing and executing task is the most complicated and time consuming part of an individual strategy.

2.8.5 Evaluating performance and initiating corrective adjustments

Task 5

It is critical for investors to evaluate the performance and progress of their investment choices in order to ascertain whether or not they are on par with their strategic targets. Investors have to be alert to the various opportunities and threats presented by the changes in the marketplace and should be flexible enough to make the necessary strategic adjustments. Strategy should provide a defence against external threats to an individual's investment i.e. crafting offensive moves to capitalise the most promising investment opportunities and crafting defensive moves to protect the individual's financial position and long-term profitability.

2.9 Industry and Competitive Analysis

Thomson and Strickland 2001 states that in order to successfully ascertain what strategy an individual needs to pursue, one has to first conduct an extensive analysis of the investments external environment and the individual's individual internal capabilities. All investment options operate in a macroenvironment consisting of the economy, governmental regulations, and fluctuations in the currency, interest and inflation rates, societal values and lifestyles. People are thus compelled to observe them and adapt their strategy accordingly. A thorough analysis of the investor's situation is essential to help an individual decide suitable long-term direction, setting appropriate objectives and crafting a winning strategy.

"Industries differ widely in their economic characteristics, competitive situations and future profit prospects. The economic character of industries varies according to such factors as overall size and market growth rate, the pace of technological change, the geographic boundaries of the market (which can extend from local to worldwide), the number and size of buyers and sellers." (Kotler, 2000, p76) For the purpose of this

dissertation, the research mainly concentrates on the property market industry and the stock market industry. A given industry's economic qualities, features and economic conditions, and how they are expected to change, determine its profitability prospects. Industry and competitive analysis of an industry entails using a reliable method to ascertain the following factors, in order to aid an investor to think rationally about the industry's overall situation and to draw conclusions about whether a particular industry represents an attractive investment option or not:

- To get a clear idea of the industry's traits
- The industries market position
- The keys to competitive success
- The industry's profit outlook

2.9.1 The industry's dominant economic features

An industry is a group of firms whose product offerings have similar attributes and compete in the same market place, although they may differ in their basic character and structure. An industry's competitive analysis begins with an overview of the industry's economic features because they have serious implications for ones strategy. According to Thomson and Strickland 2001, there are various standard factors to consider when designing an industry's economic features:

- Market size
- Market growth rate
- Number of rivals and their relative sizes
- The number of investors and their relative sizes
- The types of distribution and marketing channels used to access investors
- Capital requirements and the flexibility of entry and exit
- The profitability of the industry

2.9.2 The industry's competition and how strong are each of the competitive forces

An analysis of the industries competitive environment is necessary to discover the main sources of competitive pressure and how strong each competitive force is. This process is essential to helping individuals devise successful strategy, given the rules of competition in the economy that an industry is confronted with.

Porter's 5 Forces Model (Porter M.E. 1980) is a powerful tool for diagnosing the main competitive pressures in a market and assessing how strong each one is. Using Porter's 5 forces model as a basis, the researcher has made the necessary adjustments in an attempt to explain the competitive environment relevant to the industry's applicable to this dissertation.

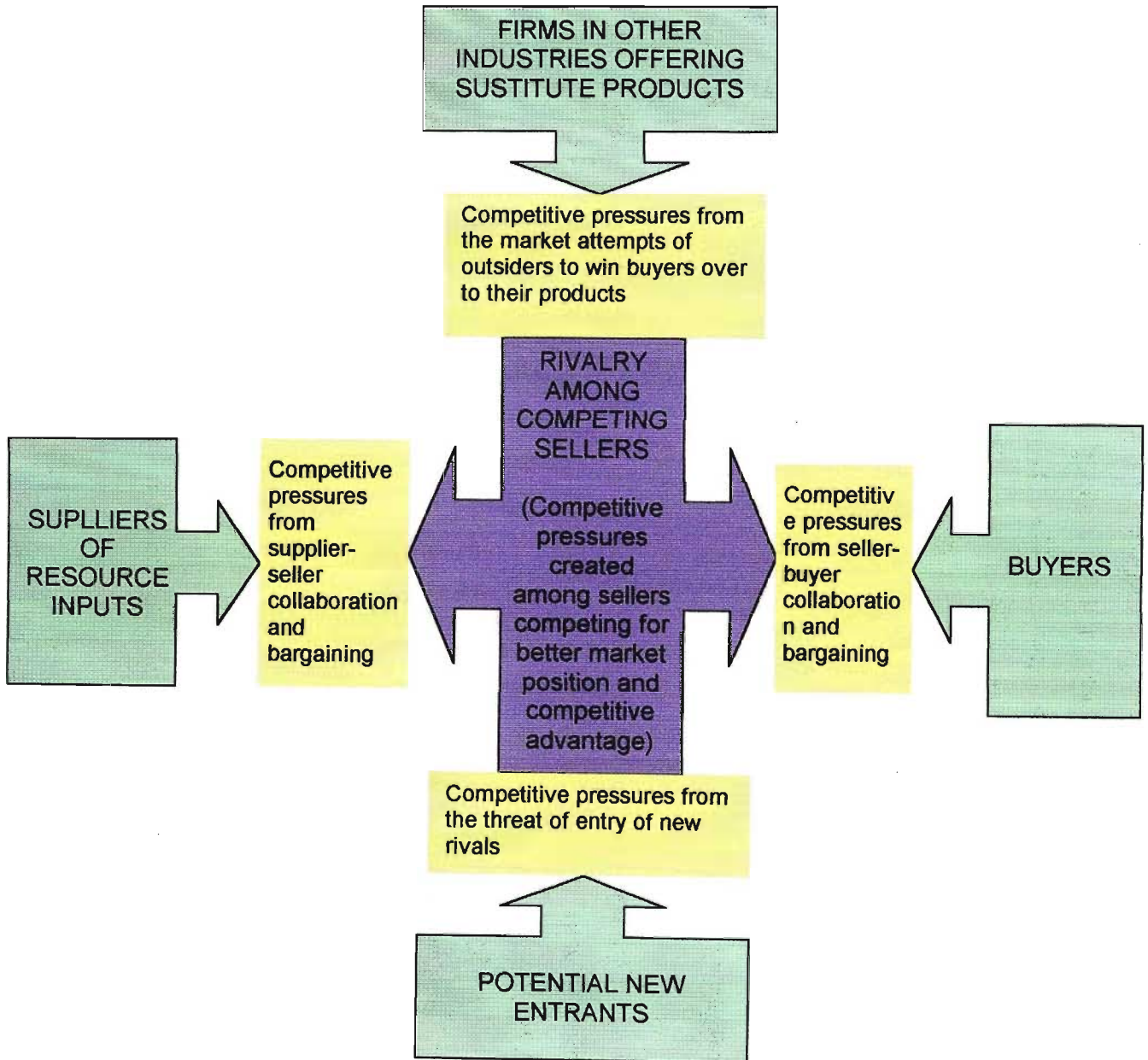


Figure 2.16 Porter's Five-Force Model

Source: Adapted from Porter M.E. How Competitive Forces Shape Strategy 1979

The above diagram is explained as follows:

- *Rivalry among competing sellers:* Is a result of the competitive pressures created by rival sellers in attempt to achieve larger market share and win buyer favour. The result of such rivalry is firms adopting such tactics as lower prices, expanded customer service, special discounts and promotions etc. Rivalry is generally stronger when demand for the product is growing slower and when the customers cost of switching products is minimal.
- *Competitive pressures from new competitors:* The result of new entrants in the market could result in new or improved product offerings and lower price offerings, in an attempt to win existing and secure new customers.
- *Competitive pressures from substitute products:* Substitute products result in enormous competitive pressures in the market place. The success of substitute products depends on whether the substitutes are readily available and attractively priced, whether buyers view the substitutes as better products in terms of their performance and offerings and lastly, whether the buyers cost of switching to these products is minimal.
- *Competitive pressures stemming form buyers:* Seller-buyer can only represent a strong competitive force if buyers have adequate bargaining power to influence the terms and conditions of sale in their favour and the importance of seller-buyer relationship in the industry.
- *Competitive pressures from suppliers:* Supplier-seller can only represent a strong competitive force if they have ample bargaining power to influence the terms and conditions of supply in their favour and if they have an inimitable supplier-seller relationship in the industry.

2.9.3 The industry's changing competitive structure and business environment

All industries are subject to new change and developments that gradually increase or decrease their competitive stance, therefore requiring a strategy response from potential

investors. Industries go through various life-cycle changes that require investors to reanalyse their investment options. The industry and competitive conditions are constantly changing therefore creating incentives or pressures for investors to change. The most important forces are called driving forces because they have tremendous influence on deciding what changes will occur in the industry's structure and competitive environment. A proper analysis of an industry's driving force is a prerequisite to successful strategy making. The most common driving forces affecting the property market industry and stock market industry are:

- The internet and new e-commerce opportunities and threats facing an industry
- Technological changes
- Changes in the long term industry and growth
- Changes in cost and efficiency
- Change in buyers preferences
- Government policy changes and regulatory influences
- Changes in societal attitudes and lifestyles
- Changes in business risk

2.9.4 Ascertaining which industries is in the strongest or weakest position

This is most important to the relevant dissertation, since a thorough analysis of which industry is in the strongest or weakest position, will aid the investor to determine which industry, an investment should be made in. For stock market investments, an investor can further segregate the industry into various companies offering the same investment services. This will allow the investor to look at various company portfolios to determine their success rates and approach to risk management, and hence to make an investment choice accordingly.

2.9.5 The key factors for an industry's competitive success

An industry's key success factors (KSF) are those factors that strongly affect the industry's ability to prosper in the marketplace, and hence is a prerequisite for an industry's success. Key success factors are the rules that shape whether an industry will be financially and competitively successful; therefore it is imperative that investors scrutinize them in detail. Key success factors may vary across different industries and within the same industries as driving forces and competitive conditions change. The

main purpose of an individual ascertaining an industry's KSF's are to make decisions about which factors are more important to them concerning their investment strategies.

In the property industry and stock market industry the KSF's factors are almost identical. They provide a favourable image and a good reputation with investors, reduction of investment risk ensuring confidence in the minds of the investor and most importantly providing acceptable returns on people's investments.

2.9.6 Determining the industry's attractiveness and prospects for above-average profitability

In conclusion, the final step in establishing an industry's profitability is determining the relative attractiveness or unattractiveness of the industry in both the short and long term. If a particular industry proves to be attractive, then an individual can employ strategies to strengthen their long-term commitment by investing more financial resources. However, if an industry proves to be unattractive, an individual may choose to invest more cautiously in order to protect their long-term profitability, or may seek elsewhere for profitable opportunities. The critical factors on which to base an industry's attractiveness or unattractiveness could be based on the following:

- The industry's growth potential
- The industry's risk and uncertainty in the economic environment
- The degree of problems that the industry is faced with
- Whether present economic circumstances will permit adequate profitability and whether competitive forces will become stronger or weaker
- Whether the industry's profitability will be positive or negative in relation to existing and changing driving forces
- The industry's competitive position in the economy and whether its position is likely to grow stronger or weaker
- Whether the industry is competent enough to defend itself against the factors that make it unattractive

2.10 Tailoring strategy to fit industry and investment situation

There are various strategic options open to an investor that are affected by the different circumstances surrounding an industry's performance. What follows are ways to deal with common industry situations.

- Strategies for competing in turbulent, fast changing industries

Many people are finding themselves in fast changing industry and market situations characterised by rapidly changing conditions. The main strategy making challenge in turbulent market conditions is for the investor to manage the change efficiently. An investor can either react to the change by adjusting their financial portfolios or can anticipate change by taking necessary precautions to secure their investments. Success in turbulent or fast changing market conditions rests on an individual's ability to adapt, improvise, be confident and exercise cautiousness, since change is inevitable and most of the time very unpredictable.

- Strategies for competing in declining industries and crisis ridden markets

No matter how profitable an industry may be at one time, they are not invincible and may be in a situation where the industry is in downturn or declining. This poses a host of problems for investors trying to secure long term profitability. The result of these declining industries is most likely to instil negative sentiments and lack of confidence in the mind of the investor, hence leading to very drastic methods being adopted by the investor. Harvesting the investment to obtain the greatest cash flow or selling out may be the only options an investor feels is relevant to him. A total sell out is a reasonable strategic option for investors placed in the following situations:

- When the industry's or investments long-term prospects are unattractive
- When trying to revive the investment would be too costly or marginally unprofitable
- When the individuals investment is becoming too costly to maintain or defend
- When an investor can redistribute their freed resources to better opportunity areas
- When the existing investment is not the bread and butter of the investor

- Strategies for sustaining rapid investment growth

According to Thompson and Strickland 2001, investors that are focussed on growing their revenues and earnings rapidly or above average pace year after year would have to craft a portfolio of strategic initiatives entailing three horizons:

1. Strategic initiatives to fortify and extend their position in existing investments, namely adding new investments on the investors present portfolio and expanding into new ventures where the investors have not yet invested. The underlying reason behind this rationale is to capitalize on whatever growth opportunities exists in the present economy.
2. Strategic initiatives to influence existing resources and capabilities by entering into new investments with hopeful growth capabilities
3. Strategic initiatives to make investments in areas that have not yet been tampered into. However this would require great insight from the investor and if successful, it will enable the investment to be very profitable; but if not successful, it will create disastrous results for the investor. E.g. investing in new share markets or properties that have no existing past records of success but display promising returns.

The main aim of adopting such a strategic stance is to craft a diverse portfolio consisting of various strategies, ranging from short term to long term. Although the present strategy could result in positive returns, it should be borne in mind that there is no return without any risks. The difficulty an investor could face is that it may be almost impossible to take a gamble on every opportunity that presents itself and there is of course the switching cost and opportunity cost of investing or changing from one investment to the other.

2.11 Cardinal rules for crafting successful investment strategies for investors

- Give top preferences to crafting and executing strategic moves that enhance the investors profitability for the long term
- Be quick in adjusting to changing market and economic conditions
- Invest in creating a sustainable competitive advantage and investment portfolio
- Avoid investments that are only capable of success under optimistic circumstances only
- Don't underestimate the influence of external factors that have an impact on investments

- Be cautious in making investments in markets that show mediocre results
- Avoid sticking into existing investments that do not show any future profit outlooks, because of fear of losing funds

2.12 Summary

In conclusion, it must be stated that consumer behaviour is the combination of various factors in an individual's life that influences their behaviour and buying patterns. Although consumer behaviour studies, theories and models attempts to make generalised predictions on how consumers operate, it should be noted that behaviour patterns vary from consumer to consumer. There are various individual and environmental factors that affect people differently, hence resulting in differences in consumer buying patterns and decision-making processes.

However, for an individual and investor to capitalise on long term profitability and growth, one has to craft successful strategies. Not all have the personality or insight to take gambles on our hard earned monies, therefore it is imperative that a strategic plan be made and implemented to ones best ability.

The people of South Africa over the past few decades have been through enormous changes in their social, political and economical environment, which has resulted in them constantly adjusting their "needs" and "wants" in life. This has further impacted on the consumer market and resulted in continuous changes in consumer behaviour, consumer buying patterns and most importantly causing individuals to make unpredictable investment choices.

CHAPTER THREE

3 Property and Stock Market Analysis

3.1 Property Market Investments in South Africa

**Property accounts for an estimated half of the world's wealth
(Journal of Portfolio Management)**

3.1.1 Introduction to the Property Market

“The residential property market in South Africa comprises approximately 7 million formal dwellings and, in the late 1990s, was estimated to be worth R 1483 billion-almost the size of the market capitalisation of the Johannesburg Stock Exchange at the time.”(Fortune Strategy: p144)

People may be different in their lifestyles and goals, but one factor that is unique to all is the need or dream to own a property. To all, this represents to someday own their own home and this belief is deep rooted in ones need for security and ownership. Few people are fortunate enough to inherit a home, while most save ardently to have sufficient income to purchase a home of their own. But the sad thing is, that to many people this dream may never be realised.

The South African property market has changed radically over the last millennium. Laws and legislations previously enforced by an apartheid system such as, the Land Act of 1913 and The Group Areas Act of 1950 had changed the structure and ownership factors of our property market. One of the main plans of apartheid was the separation and segregation of land ownership. With the abolishment of the previous apartheid laws and the new move towards a free, democratic country there has been an equitable standard set regarding property ownership. However, it will take a good few many years before the South African market can rectify the distortions created by the past.

Property investments have always been seen as good investment option, primarily because of the fact, that one can actually “see” their investment. Without being totally blind, wrong property choices or uncontrollable economic conditions, has resulted in

many people losing their homes and investors losing their investments. Like any other investment option, property is also subject to various market and economical cycles and conditions. Market volatility, fluctuations in the economy, changes in government legislations to name a few, has seen profitable property investments turn bad, and vice versa. Once again the researcher stresses the need for adequate market research and a good investment strategy to counter the ill effects that one may be faced with.

As a result of the cyclical nature of the property market, many a times property valuations systems tend to hide the volatility of this asset class. What counts is not what the property is valued for, but rather what money can be realised once it is sold. Example: Looking at the changing structure of the CBD in South Africa, it is evident that the value it can presently be sold for is not the true value of that property .e.g. Carlton Hotel in Johannesburg. If one has to build a building of that nature in another location, it would be more expensive than purchasing it presently in the Johannesburg CBD. This leads us to 3 most important factors when considering property investments: location, location and location.

There are many risks associated with purchasing a property that are not necessarily a result of market and economic risk factors. Property investments can also be subjected to investment-specific risk e.g. the emergence of squatter camps can decrease the value of ones property as witnessed in many suburbs in South Africa. Before any property investment is to be made, there are two main factors that is imperative to consider, namely the type of property to be purchased (land, house, building etc) the method of investment (direct ownership, partnership, syndicate etc).

Unlike any other asset class, the property market is dominated by the cycle of boom and bust, thus it is imperative that investors invest cautiously. Property investments like any other investment choices are very complex and difficult. This is partially due to the non-liquid nature of such investments, but many investors still view it as a very viable option primarily because it provides them with a more direct means of control over their investment.

3.1.2 What is property?

Property essentially refers to purchase of tangible goods. It may be in the form of land, house, flat, farm, complex or a building. The returns from property generally consist of capital gain and income received minus any expenses incurred. There are also various sub-sectors relevant to the property market as shown in table 3.1 below:

Type	Brief description	Example
Residential	Space to live	Houses, flats, townhouses etc.
Office	Space to work and do business	Shopfronts offices, office buildings, etc.
Retail	Space to sell things	Retails shops, shopping centres etc.
Industrial	Space to make and move things	Factories, warehouses, etc.
Rural	Space to grow things	Farms, small holdings etc.
Leisure & Tourism	Space to have fun	Hotels, parks, beach resorts, entertainment facilities, etc

Table 3.1 Property sub-sectors

Source: adapted from Fortune Strategy p149

The capital gain of property can only be realised once it is sold. This would be the difference between the purchase price paid and the sale price at the given time. Property sales are also subject to various costs that can affect the overall return of that asset class e.g. taxes, transfer duties, brokerage fees, conveyance fees etc. There are also various other direct finances relating to property investments, namely:

- Income/return

It is essential to first decide between why the property was purchased? Was it purchased for personal use or investment purposes? Return from property purchases for investment purposes comes in the form of rent. However, if personal use was the main objective, return is foremost received from the satisfaction that is felt by owning and living in ones own home. Obviously, there are opportunity costs associated with owning and residing in ones own investment. Many people are of the belief, that given certain

market conditions, it may be wiser to rent a home and invest surplus cash in other asset classes. This belief stems from the fact that better returns could be achieved using that root, without having to tie oneself down to a non-liquid asset.

- Expenses

Expenses associated with owning a property may include rates, land taxes and the overall maintenance and upkeep of that investment. Maintenance may be in the form of attending to plumbing and electrical problems, which the onus in most cases lays with the owner rather than the tenant.

One of the biggest problem posed by investing in property, is the correct valuation of them. Unlike other investments classes, it is very difficult to correctly value properties as no two properties are alike, although they may seem similar in nature. People often forget that what is important is not the valuation price of that property, but rather what will be received should the property be sold. Although insurance valuations of property will be fairly accurate in their methodology, they are not to be used in predicting what that property would fetch in an open market. Insurance valuations generally tend to value a property higher than what it would receive if it was sold. Russell (1989:p2) said “The use of appraisal-based pricing techniques for the property asset class while using market prices for prices for the remaining asset classes results in an ‘apples and oranges’ comparison, one which often leads to spurious results from strict quantitative analysis.”

3.1.3 Property investment options

The ownership of property has drastically changed over the past few decades worldwide. This is an important factor for investor to consider as it helps to reduce the amount of risk one may be exposed to. Investors nowadays can choose not to opt for total ownership but can rather choose to buy an interest in a property through various means available, namely:

- Direct investments

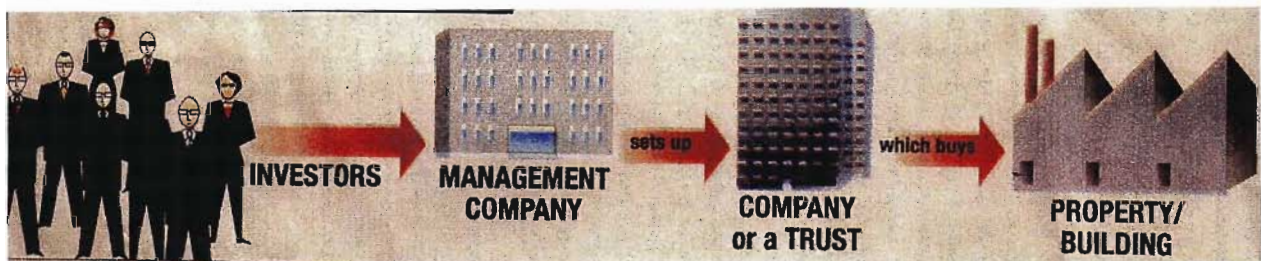
Entails buying a property directly oneself and developing it by using the investors own funds.

- Partnerships

Could be a formal or informal agreement whereby two or more people join their funds to collectively purchase or develop property.

- Property syndications

These are a group of people that join together to form a company to purchase or develop a property. Investors usually acquire a part of that property owning company by purchases shares being offered. Also financial service groups may use their power to buy a property and sell shares to prospective investors.



- Property trusts

Investors pool their funds to purchase a property. Property unit trusts operate in a very similar way to unit trusts investments and there are two types available, unlisted property trusts and listed property trusts. Unlisted property trusts require investors to find new investors to purchase their units if they wish to pull out from the investment, while listed property trusts are units that are bought and sold on the stock exchange.

- Property companies

Property companies are large companies that consists of a collection of investors namely, individual investors, estate agents, developers, project managers, contractors etc. They may be listed or unlisted companies. However if they are listed on the stock exchange, investors can purchase an interest in the same manner as one would purchase ordinary shares on the stock exchange.

- Time-share facilities

Generally concerns holiday destinations. Investor's generally purchase a week from the 52 weeks available annually. Price naturally depends on whether an off season or peak season week is purchased. The researcher has conducted a dissertation concerning Timeshare Investments in South Africa as part of the degree requirements in Quantity

Surveying. If one is interested in reading further, a copy can be obtained from the University of Natal.

3.1.4 Factors influencing Property Investments

Property unlike share market investments, are a tangible good, which means that it can be seen and touched. In many ways this aspect is very comforting for investors as they feel they can see where their money is being invested. The mere fact that their investment can be physically seen makes many investors feel as though they are in control of their investment. Although the appeal when purchasing property is naturally its aesthetic or uniqueness, the bottom line, overriding importance to all, is the ability to generate income or attain capital gain. There are various factors that affect the value of the property, be it from the sellers or buyer's perspective. They can be narrowly defined as property specific factors and market related factors.

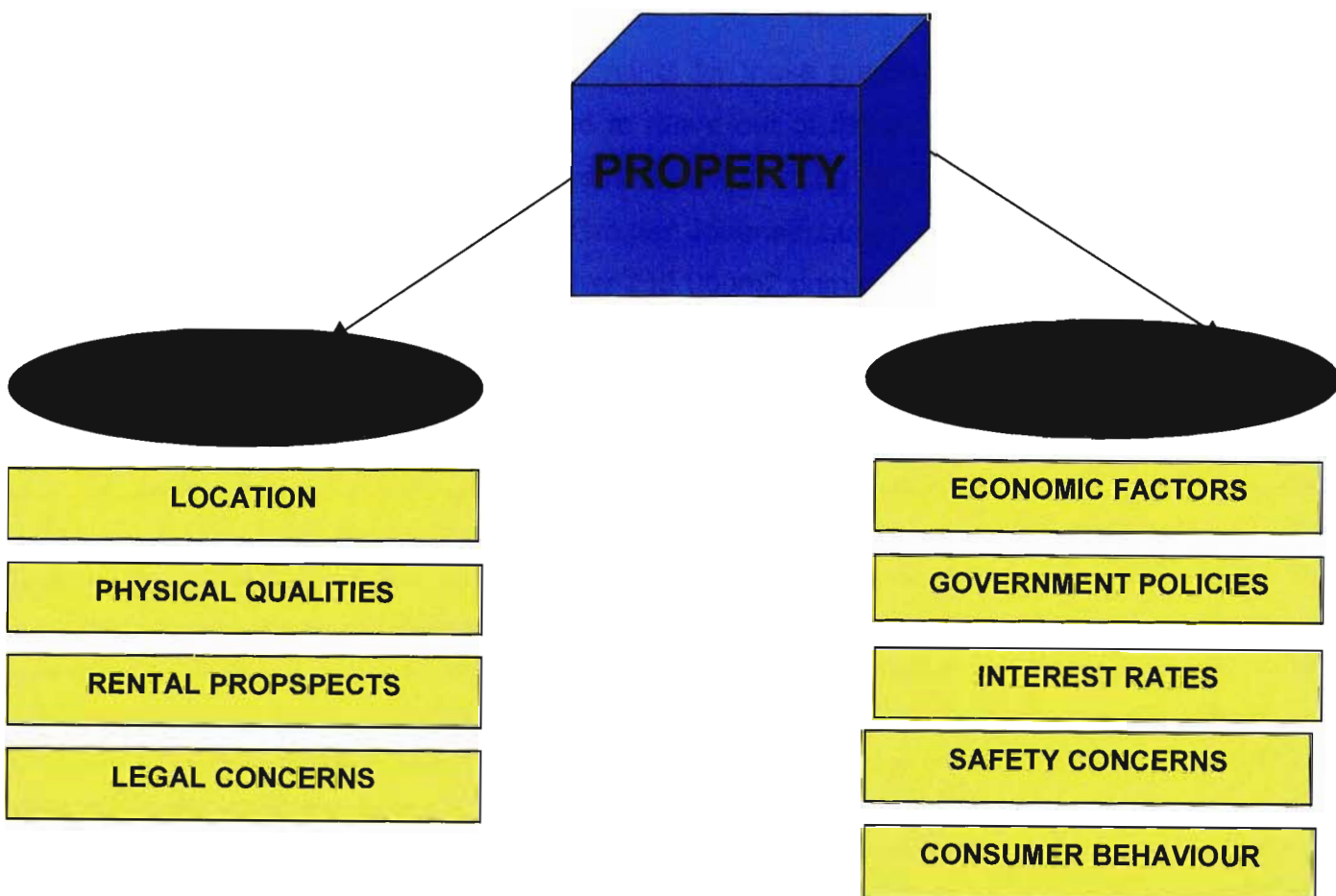


Figure 3.1 Factors influencing property investments

❖ *Property-specific factors*

▪ Location

The location of the property is one of the most important considerations in making a property purchase. A well maintained, expensive home in a not so ideal location would not necessarily be more valuable than an average home in a prime area. Prime area properties generally command higher prices even though the property itself might be of poor standard, as witnessed in our current market. In the Durban area, Berea and Morningside have become prime targets for home buyers. There are many factors that contribute in making a property fall under “prime areas”, the most common being easily accessible, good infrastructure and lower crime rates.

The changing face of the CBD areas in South Africa has left many high rise office blocks vacant. These previously sought after locations have now become unattractive to investors as it is very difficult to secure tenants for these premises even at giveaway rentals. Corporate businesses have opted to move out of the central business district and to relocate to the outskirts of many suburbs. According to the Sunday Times, 03 March 2002, it was stated that that the Greater Johannesburg has one million square metres of vacant office space, with a further 210 000m² coming up every year and that the CBD'S in other major cities have also been badly affected.

▪ Physical qualities

The physical attributes, uniqueness and aesthetic appeal is naturally a key consideration in determining the value of a property. People are different in their needs and wants, and generally have a predetermined set of qualities that they consider to be important when purchasing a property. If a particular property fulfils these needs and wants or if there is potential for them to be fulfilled, then only will an investment be made. Home owners as opposed to people purchasing property for the sole purpose of generating income will have different expectations. Home buyers will consider factors such as number of bedrooms, recreation facilities; etc whilst investors will consider if there will be a demand for that property.

- Rental prospects

The underlying fundamental reason behind any investment opportunity is the ability to generate income or capital gain. If neither can be achieved, an investment would be fruitless and unprofitable. In relation to property market investments, if an investor considers purchasing an office block or residential flats, the factors that would influence a sale would be the leasable area, the technicalities of the existing lease and ability to secure good tenants. A beautiful, well maintained property with no prospects of tenants would be useless to property investors seeking sound property investments. Two very good examples are;

- Carlton Centre and Hotel in Johannesburg: Carlton Centre and Hotel was once a sought after and very popular building in the central business districts of Johannesburg. As a result of increasing crime rates and the relocation of many businesses in the vicinity has left that building almost vacant. Even though minimal rental have been offered as an incentive for tenants to occupy them, they still remain largely vacant.

- Ponte Centre in Johannesburg: This is a residential block, which was previously built in a fairly good location in Johannesburg central. The uniqueness and shape of this round building made it very attractive to many home buyers. As a result of the crime rate in its existing location and surrounding areas, it has become very unattractive as an investment option to investors. The occupancy today consists mainly of illegal immigrants and many other undesirables, whom constantly default on their rent payments which as a result have caused its value to plummet.

- Legal concerns

In all facets of life, people are subjected to various government laws, regulations, legislation and statutes that impact on their personal, business or investment lives. Likewise, numerous existing or new laws can affect ones existing property investments, could provide an opportunity or be a deterrent to new property investments. Certain legal issues, namely zoning restriction, building regulations, etc can affect the price and value of ones property.

- ❖ *Market-related factors*

- Economic factors

The underlying factor behind any economic theory is the law of supply and demand. If demand increases, so too does the price of that commodity or service. Conversely, if

there is excess supply, the price will decrease. The property market, like any other market operating in the economy is also governed by the laws of supply and demand. The property market cannot be looked at in isolation, but rather there are a host of external factors that determine its risk/return and supply/demand possibilities. If a country is in boom, people will be earning higher wages. These higher wages creates a need amongst individuals to purchase better homes or to rent better properties .This increase in demand will naturally cause property prices to increase. Conversely, if the economy is in a recession, the opposite will apply.

- Government policies

Any changes in government monetary or fiscal policies will affect the property market.

Through the use of monetary policy (e.g. interest rates), the government may attempt to control the pace of the economy. When the economy is running too slow, the government decreases the interest rates, thereby encouraging greater spending in the economy. Likewise, when the economy is running too fast, the government increases interest rates, thereby curtailing consumer spending in the economy. Also other government measures, such as first-home subsidies can stimulate the property market.

- Interest rates

Fluctuations in interest rates have the ability to affect ones property investments. Short-term interest rates in South Africa are influenced by the government in the form of utilising monetary policies. Low interest rates encourage people to make property market investments, while high interest rates discourage people from making property market investments. Suppose interest rates increase, the demand for property investments will decrease. People may not be able to afford bond repayments as a result of the increase in interest rates. Although the government can manipulate short to medium-term interest rates, controlling long-term interest rates is almost impossible for various reasons as discussed later in the chapter.

- Safety concerns

In South Africa, safety is one of the main key concerns facing individuals. People are taking great measures to ensure the safety of their homes due to the abundance of violence, crime, thefts, homicides, etc. This fear has led many home owners to sell their large homes, and in extreme circumstances abandon their homes and move into smaller

and most importantly safer homes. There has been a huge demand for cluster homes, duplexes, etc largely because people have become very safety conscious due to the increasing crime rate in South Africa. Although crime can never completely be erased, people are seeking ways to better manage them by taking the necessary precautionary measures. South Africa has also witnessed the emergence of various squatter camp settlements tangent to many residential areas. This has led to increase in crime among the neighbouring areas, thus resulting in property prices plummeting in those areas.

- **Consumer behaviour**

Consumer behaviour is a major element in determining the demand and supply of a commodity or service. If people’s attitudes change positively towards an existing area or location, property price increases as a result of this excess demand. Likewise, if people hold negative opinions towards a certain area, property values will decrease since minimal investments will be made. Consumer sentiment plays a pivotal role in both the property and stock market investments.

3.1.5 Tools to analyse Property Market returns

Ratio	Calculation	Explanation
Initial net yield	Annual net income (minus outgoings)/ purchase price	Useful to measure the return of a property investment. Expressed as a percentage
Years/purchase ratio	Purchase price/ gross rental received	Represents the number of years of rent needed to buy the property at its current price.
Years Purchase		A multiplier of net income to give capital value. Years Purchase depends upon the yield required from a property and the period for which the income is received.
Vacancy rate		Measures the average portion of a market that is available at any time.

		Residential property-based on amount of houses of flats available. Commercial property-calculated as percentage of unoccupied floor space
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Table 3.2 Tools to analyse property market returns

- How to calculate the market value of a property

In order to determine the market value of a property, one will firstly need the first year's net income (income after costs) or what is known as the capitalisation rate. If net income is R20 000 and the market value of the property is R200 000, then the capitalisation rate will be 10 percent. The capitalisation rate is calculated by dividing the first year's net income by the market value of the property ($R20\ 000/R200\ 000=10\%$). Inversely, if an investor requires a 10 percent return on their investment and the first years net income is R20 000, then the most the investor can afford to pay for the property is the first years net income divided by the capitalisation rate, which will give you a market value of R200 000 ($R20\ 000/10\%=R200\ 000$).

However, although an investor may require a specific return, the capitalisation rate is determined by the market value and the net income generated by surrounding properties. Different areas will produce different return and factors such as the risk of investing in that area will have an impact on the capitalisation rate of that property.

3.1.6 Present view of the Property Market

While the overall market has shown increasing volatility and uncertainty, the property market has managed to stay ahead. The demand for property has increased considerably over the past few years, as investors and home owners view it as being solid investments to make. This can evidently be seen by landlords reaping the benefits of a booming industry as leasing continues to increase; and estate agents experiencing a shortage of stock and being inundated with calls from potential tenants and home buyers everyday. However, the introduction of the new capital gains tax (discussed later)

has decreased investor confidence in the property market, as people are reluctant to purchase second homes for rental purposes for fear of the tax implication involved.

“In 1997, the average price of a house was R191 420. By the end of last year, the same house cost R375 525. Over the next two years, you can expect the rate at which the price of your house increases, on an average inflation basis, to pick up again.’ (Personal Finance, 29 March 2003). Since the middle of 2002, the rate at which houses prices grew has slowed, according to recent research by ABSA. Further more, Jacques du Toit, a senior economist at ABSA Group Economist Research, said that “it appears that the tide has turned and the growth in after-inflation property prices is expected to start increasing soon in line with a declining inflation rate.” Du Toit further stated that over the past three years, house prices have performed well in real terms (after inflation) and that real growth was recorded for three consecutive years-the first time since the early 1980s.

There are several factors that have influenced the residential property market and have been discussed in greater detail later in the dissertation. They are:

- Strengthening of the rand against major foreign currencies after its disappointing decline at the beginning of 2002
- A constant increase in consumer price inflation
- Several interest rate hikes as a response to the rising inflation
- Major tax aids for individuals
- Introduction of the new capital gain tax in October 2002
- Increase in economic growth
- Improved business and international confidence in the country
- Reduction in the transfer duty payable when one buys property

❖ Reduction in transfer duty

One of the biggest costs in acquiring transfer of immovable property is transfer duty payable to the South African Revenue Service. No transfer of land may be registered in the deeds office unless transfer duty has been paid. However, the reduction in transfer duty has created a positive effect for the property market .Home ownership has become more affordable and easier for first-time buyers to assess the market as a result of the reduction. Amendments to transfer duties are as follow:

- No duties in property less than R100 000
- 5% duty on properties above R100 000 up to R300 000
- 8% on the value of property above R300 000
- ❖ ABSA studies relating to residential property market

There are numerous studies and statistics conducted following the trends and paths of the property market. For the sake of simplicity; the researcher has opted to use information from ABSA sources.

House prices increased by 14.2% year-on-year last year, to R358 000 for the price of an average house. Considering that the average consumer price index in 2002 was 10.1%, this show a 3.7% in real term. The average price of houses in 2002 for three different groups is as follows:

House type	Size	Price	% increase
Small	80m2-140m2	R246 000	Nominal 10.8% and real 0.6% higher than 2001
Medium	141m2-220m2	R329 000	Nominal 12.8% and real 2.4% higher than 2001
Large	221m2-400m2	R 510 700	Nominal 17.8% and real 7% higher than 2001

Table 3.3 ABSA-Average prices of houses

Source: www.absa.co.za

It is also relevant to note that the average increase in the cost of building a new house was 14.1% in 2002. In comparison, the average cost to build a new house was R483 700 in 2002, while the average cost of an existing house was R341 400 in 2002. This shows that it made it R142 600 or 29.6% cheaper to buy an existing house than to completely build a new house. Mortgage rates also increased from 2001 to 2002. The average mortgage rate in 2002 was 15.8%; thus considering that the average house price was R357 960 in 2002, the repayments of a new mortgage amounted to approximately R3 941, compared with R3 081 in 2001.

According to ABSA sources it was further stated that as a result of domestic monetary policy focussing on inflation, interest rates can be expected to decline in 2003. As a result of the expected decline in interest rates, the housing market is expected to perform relatively well in 2003 and the average house prices are expected to increase by approximately 4%.

Property market returns								Forecast	
	1997	1998	1999	2000	2001	2002	2003	2004	
Property market index ²	137.1	154.4	177.0	203.0	225.0	253.0	281.6	322.3	
Q/Q return (%)	17.0	10.0	18.2	11.9	10.6	13.7	10.1	15.7	
Y/Y return (%)	18.1	12.7	14.5	14.8	10.9	12.4	11.3	14.4	

² The Dunlop Heywood property index adjusted by Carson to include rentals. The index is based on actual properties held by institutions. It is geographically spread and is constituted as follows: City centre offices: 23%; Decentralised offices: 18%; Industrial properties: 3%; Shopping venues: 54%; Residential/hotel: 2%.

Table 3.4 Property market returns 1997-2004

Source: www.absa.co.za

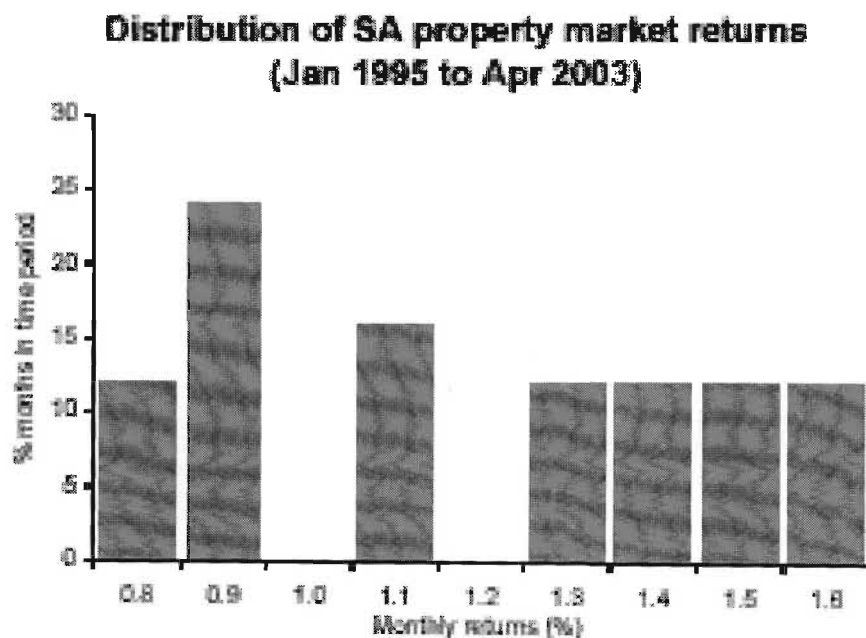


Figure 3.2 Distribution of SA property market returns (Jan 1995 to Apr 2003)

Source: www.absa.co.za

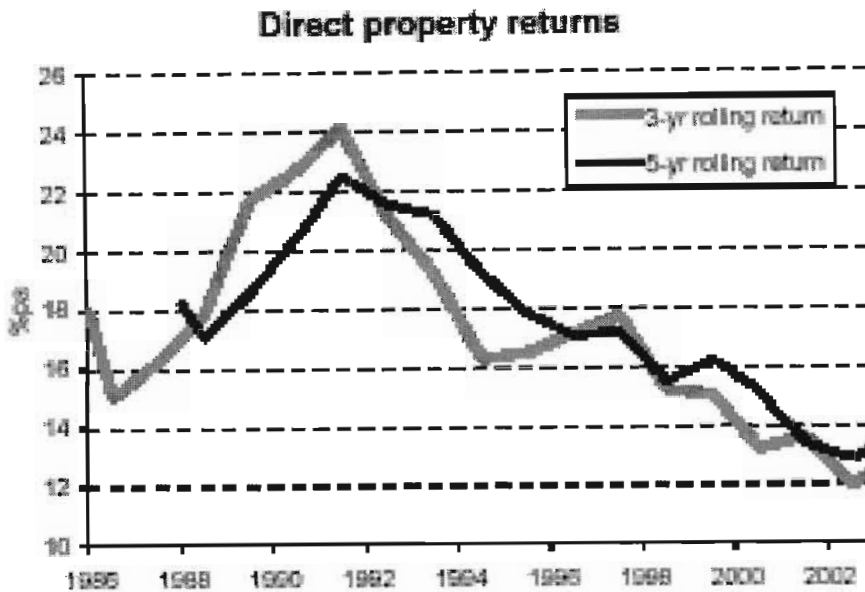


Figure 3.3 Direct property returns 1996-2002

Source: www.absa.co.za

3.1.7 Summary of Risks and Returns associated with Property Market Investments

❖ Risks

The following are some of the risks that face present and future property investors that have the potential to affect yields.

- Capital Gains Tax: The investor will be responsible for his own tax liability and any CGT will be payable on disposal of the property.
- Increase in property expenses: Always take into account property expenses as any change in this will affect the property value.
- Government policies: Property value may change in relation to taxes, exchange rates, legislative changes, land tax, income tax and other government revenue factors.
- The tenant: Type of tenant could affect your property
- Interest rates: Increasing interest rates will naturally increase bond repayments on your property.

- Non-liquid secondary sales: Due to the non-liquid nature of immovable property, it may be difficult to convert into cash if one has cash flow problems.
- Responsibilities of property ownership: As a property owner, you will bear the responsibility for unforeseen items of expenditure, such as a local authority requiring work to be done on a property which has not been budgeted for.

❖ Returns

- Ownership
- Can attain long term growth above inflation

3.1.8 Common terms used in Property Market Investments

Term	Brief explanation
All Risks Yield	Implicitly reflects future uncertainty, including risks relating to macro-economic conditions, property market and sub-sector fortunes, the financial standing of individual tenants, depreciation/obsolescence and changes in planning, taxation, landlord and tenant and any other legislation. The key determinants of the yield are security of income and the prospect of rental growth. The lower the yield, the better those qualities.
Capital employed	The capital value at the start of the year plus half of any net capital flow and half of income receivable (i.e. the calculation assumes flows of capital and reinvested income are even through the year).
Deeds	Legal documents relating to land, a deed is created by being signed, sealed and delivered.
Freehold	The highest form of land ownership, a freehold is a perpetual interest.
Full rental value	The maximum rent that might be obtained for a property - the same as an open market rent.
Holding	A term sometimes used in connection with agricultural

	land which would be described as an agricultural holding' rather than an 'agricultural property'.
Income return	The income receivable net of property management and irrecoverable costs divided by capital employed through the year.
Initial Yield	The yield the current income represents on the cost of the investment, where $\text{Capital value} = \text{rent} \div \text{initial yield}$
Leasehold	A legal interest in land which lasts for a limited term; the agreement made between landlord and tenant is known as a lease (or if for a period not exceeding three years a tenancy agreement) and sets out the conditions of the agreement.
Net income growth	The change in rent passing from year to year.
Over-rented property	A building where the rent being paid is above the current open market rent.
Premium	A sum of money paid between a landlord and tenant, sometimes used to describe the purchase price of a leasehold interest.
Privity of contract	The contractual relationship between the original parties to an agreement and which exists even if other parties take over from the original ones.
Rack Rent	Rent representing the full letting value of a property on a given set of terms or conditions.
Remunerative Rate	The rate of interest at which an income is capitalised
Rental value growth	Synonymous with estimated rental value growth and open market rental value growth. It is the percentage change in the rental value used in the valuation from one year end to the next.
Reversionary Income	Income during the remaining life of the investment after next rent review or at the expiry of the lease. It is referred to as "in perpetuity".
Statute	A law made by Parliament, also known as an Act of Parliament, as opposed to a law developed by the Courts

Tenancy Agreement	An agreement made between a landlord and tenant where the letting is for a period not exceeding three years.
Term Income	The rent passing paid until the next rent review or at the lease expiry.
Total return	The overall return on capital employed, and is the sum of income return and capital growth.
Unitisation	The division of the ownership of a large property into small units (shares) which can be individually marketed.
Zoning	A way of comparing and analysing retail units of different dimensions.

Table 3.5 Common terms used in property market investments

In the new world order, in which investors are largely free to invest where they wish, each day sees billions of dollars of capital shifting around the globe. These massive flows dwarf the entire economies of many countries.

(Derek Breed)

(Economic commentator & co-founder of Ashburton, the offshore investment managers)

3.2.1 Introduction to the Stock Market

Month after month we are constantly hearing stories of people investing in the stock market with the hope of making large sums of money. Many people make their investments from tips received from families, friends or brokers, article and reports featured in the newspaper and TV. However, making investment decisions from these sources have proven timeously to be fruitless and unrewarding, therefore it becomes imperative that people acquire some sort of skills that would enable them to make wise and better informed investment decisions. Like many investment opportunities present in South Africa, investing in the stock market is just as well as taking a gamble with ones hard earned monies, but it is vital to note that success in the stock market is based on both knowledge and experience.

Market sentiment and consumer behaviour plays a crucial role in the efficient functioning and operating mechanisms of the stock exchange. How people view or react to certain companies or shares can have significant consequences in the stock exchange. Example: If Investors view company XYZ in a negative light, this would induce them to sell those shares. Once news of company's XYZ shares are continuously being sold, this would induce others buyers to start selling off their shares under the perception that something terrible is going to happen to company XYZ. As a result of this negative sentiment held by a few investors, the share price of Company XYZ falls to unacceptable levels. Investors holding shares of Company XYZ are now being placed in very unprofitable situations as a result of people and market sentiment regarding company XYZ. Investor sentiment plays a pivotal role in driving share prices up or down.

The JSE can be considered to be the main indicator of the strength or weakness of the South African economy. It provides investors with a medium in making future investment choices and it is a fairly accurate predictor of how the economy will behave in the future. The JSE also provides a great vehicle for the economic prosperity of the South African economy as it allows companies to raise capital from the public, which in turn will be used to expand their businesses. This expansion will result in promoting better jobs and business opportunities. As these companies profits improve, shareholders will be paid dividends as part of their compensation in investing in their company on the stock exchange. The investors will then use these profits (dividends) to purchase additional shares in other listed companies in the stock exchange. As explained, it can be concluded that the JSE plays a primal role in the economical cycle of the South African economy.

Although investing in the stock exchange is one of the few ways to attain swift and sizeable profits, a proper understanding and a certain amount of skill is required in order to make sustainable and confident investment choices. Risk tolerance level is an important determinant in making investment choices. Investments offering a higher return will naturally carry a higher risk than one offering a lower return. Example: Unit trusts are a less risky option to investing on the stock exchange than directly buying ordinary shares in listed companies. However the returns received from unit trust investments will be much lower than ordinary share investments.

3.2.2 History of the stock market

The Johannesburg stock exchange (JSE) was founded in 1887 and was established by an act of parliament called the Stock Exchange control act. The Act provides for the functioning and supervision of all the activities conducted by the Stock exchange. Although the JSE is a self-regulatory body, it is also controlled by a higher regulatory body called the Financial Services Board that is responsible for implementing public policy. The JSE is the only equity exchange in South Africa, therefore providing businesses and firms an opening to raise capital in the public market.

The JSE has moved in line with other stock exchanges in the world becoming very efficient as a result of constant technological changes and improvements. Previously share certificates were issued to shareholders denoting ownership of shares in a

respective company; however these share certificates have now been replaced by electronic numbers to enable the quicker exchange of shares. This latest technique is called “share transaction totally electronic” or “Strate” for short. In June 1996, the JSE closed its trading floor and disbanded the open-cry system previously used, in favour of the JET system, which is the official JSE electronic trading system. The introduction of the JET system has enabled the JSE to function more efficiently, and has subsequently resulted in an increase in trading.

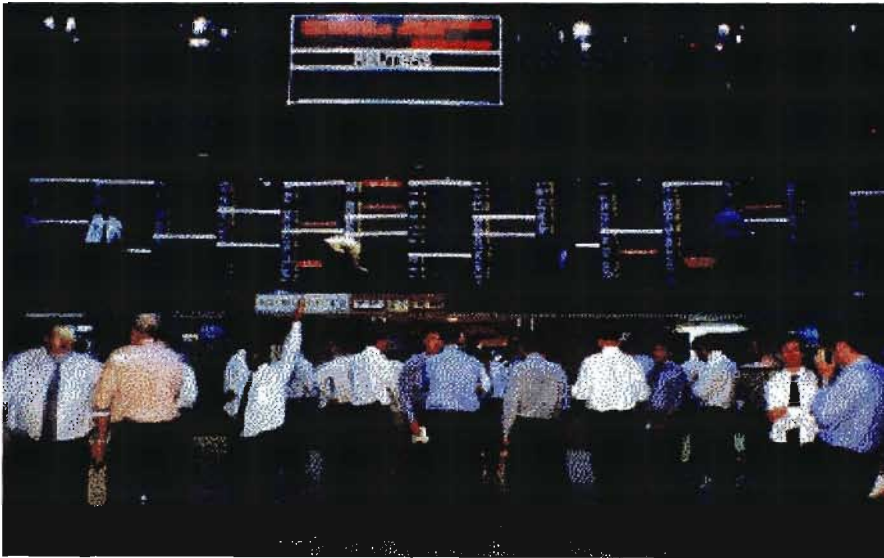


Figure 3.4 The JSE's old trading floor

Source: www.jse.co.za

The JSE has over 500 listed companies which are public limited companies from various sectors of the economy, e.g. mining, textiles, telecommunication, etc. Closed corporations, partnerships, sole proprietorship and propriety limited companies are excluded from participating in the JSE. Although the JSE primarily operates an equities market, they also provide trade in alternative securities, namely bonds and financial futures.

The last decade has witnessed the privatisation and listing of various large private corporations and government owned enterprise thus creating thousand of new investors in the JSE. This result is reflected in South Africa's share market capitalisation which has grown form R405 Billion in 1990 to R1 616 billion in the year 2000. "In 1999, McGregors estimated that domestic institutions owned 38% of South Africa's listed

equities; private individuals, through retail and retirement funds owned 30 per cent, and international institutions owned 26 per cent.” (Fortune strategy: p15)

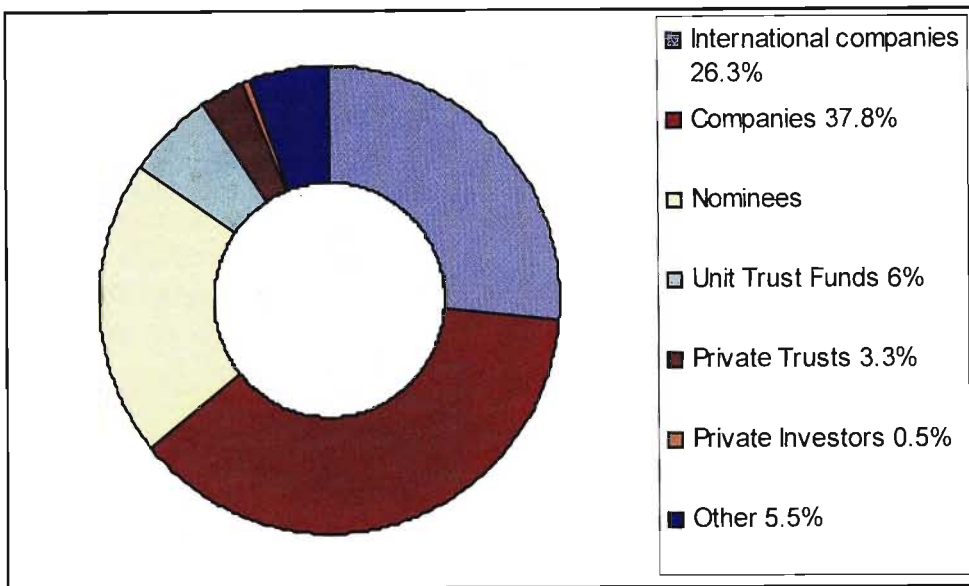


Figure 3.5 Ownership of South African listed companies

Source: Adapted from McGregors: Privatisation in South Africa (1987)

3.2.3 The Stock Market

By definition, stock markets can be explained as a facility that provides the medium for the exchange of shares between buyers and sellers to be conducted. If a business wishes to expand their business or enter into new business ventures, they list themselves on the stock exchange in order to raise the required funds. The public then purchase these shares and effectively become small shareholders in that company depending on the value or amount of shares they purchase. Therefore the stock exchange provides an opportunity for investors to invest their cash and for businesses to raise capital. As market condition fluctuates and people’s requirements change, investors are permitted to sell their shares to other prospective buyers.

The stock exchange market can also be viewed as an excellent indicator of the economy as a whole. The demand and supply for shares in different companies and different sectors provides an indication as to how investors and people in general view the economy.

Shares are commonly referred to as stocks, securities or equity, and there are two main types of shares:

❖ Ordinary shares

- Also known as common stock
- consist of the majority of shares traded today on the stock exchange
- represent ownership in accompany and a portion of profits(dividends)
- investors have voting rights (one vote per share) to elect board members
- very risky, as shareholders will not receive money until creditors, bond holders and preference share holders receive payment, in the event of the company going bankrupt or liquidating

❖ Preference shares

- represent only a certain degree of ownership in a company
- Preference shareholders often have limited voting rights at the company's annual meeting
- Preference shares pay a predetermined fixed price dividend
- Shareholders receive priority over ordinary shareholders in receiving their dividends
- are generally fixed interest stock and repayable at company's discretion (redeemable preference shares)
- If a company collapses preference shareholders rank more highly in any distribution of assets than ordinary share holders.
- may also provide shareholders to be paid any interest arrears resulting form poor trading years
- One of the disadvantages of preference shares is that because they pay a fixed dividend their value does not rise as the company prospers

A debenture is a form of loan security, and is fixed interest stocks that are repayable by a given date. Although debentures are a lower-risk investment as compared to ordinary or preference shares, the drawback is that shareholders receive less interest than preference shareholders and they forfeit any voting rights in the company. However, debentures do form a high degree of security, as the company has to attach certain assets to the debenture issue.

3.2.4 Operations of the stock market

When one thinks of the word “market”, one visualises a place where the exchange or buying /selling of goods occur. Likewise, the stock market is a place where financial instruments are bought and sold between buyers and sellers.

The prices of shares are dynamic and can change by the minute as a result of various buyers and sellers interacting in the stock market. Investor’s perceptions and sentiment regarding how valuable the share is or how stable the company is, causes share price fluctuations. The supply and demand of shares influence the overall worth of that share e.g. if investors decide to sell their shares creating a supply of shares greater than the demand of shares, the price of that share will automatically fall. Likewise, if investors want to buy shares rather than sell them, the demand for that share will cause the price to rise.

Magliolo (2002:23) said “whichever way the wind blows, prices can rise as quickly as they fall, confounding the best-laid plans of some industries while rescuing others from the brink of disaster. These random forces-the “great unknowns”-combine with the everyday laws of supply and demand, and the cyclical nature of the business itself, to share the peaks and valleys of a dynamically shifting market. We may not be able to predict these forces, but by analysing and understanding them, we will be better equipped to weather the lows as we wait for the tide of fortune to turn. It can be said, though, that it is important always to assess a company on its fundamental. In the long run, companies usually return to their real value, ironing out any speculation based on rumours and innuendo.”

One of the most important reasons why share prices fluctuate, deals with the investor returns on their investments. If their earnings or dividends do not prove to be profitable, an investor will then sell that share. This further compound the problem of the falling share prices and pushes it down even further. There are various formulas/ratios available to investors to ascertain whether their share is proving to be profitable or not, or to whether the shareholders objectives are being realized. An analysis of the various tools available is discussed in greater detail in the latter part of this chapter.

There are various types of investors in the stock market, depending on their approach, strategies or philosophies. According to Meyer (Sunday Times, May 2002), investors often classify themselves as either “bottoms up” or “top down”.

- “Bottoms up” refers to the practice of searching for investment companies that meet the investors standard and fits their philosophy, no matter the industry or geographical location. Regard themselves as value or fundamental investors and often tend to hold their investments over the longer-term. Value investors emphasize cash flows, net asset value, management, competitive positioning etc. Their main challenge is to obtain more assets for every rand spent, i.e. to buy shares that are trading at a discount to the inherent net asset value per share.
- “Top down” investors first define the industry or geographical location for investment and then search for investment opportunities. Regard themselves as technical or momentum investors and often take short-term positions in shares. Technical analysts believe that a picture is worth a thousand words, and study share price movements by analysing graphs. They often refer to trend lines, flags, head and shoulder and moving averages, and believe that the illustrations on graphs coupled with various other indicators have certain predictive properties to ascertain the next move in the share price.

3.2.5 Different market conditions

In various discussions or newspaper articles concerning the share market, one often hears various terms being used. A brief explanation of these commonly used terms will enable a prospective buyer or seller to better understand and comprehend the language used in the stock market. Some of them are:

- “Up” and “down”

Although the words “up” and “down” may be self explanatory to many people, a brief explanation of them is essential for the sake of completeness. When a stock price is said to be “up”, it implies that that share prices has increased. Conversely, when a stock price is said to be “down”, it implies that share prices have decreased.

- Bear market

A term used to describe a declining market, where sellers hope to make profits by selling shares and buying them back at a cheaper price. A “bear market” is a period when share prices are falling. A “bearish” investor will buy shares very carefully as they believe that the share prices in the stock market will go down. During a “bear market”, the economy of a country is in a recession, thus resulting in high inflation rates and large scale unemployment. Due to these unfavourable circumstances, investors have great difficulty in choosing profitable shares to invest their monies in. Bear markets are associated with low interest rates.

Bears: These are pessimistic city dealers who think investments are going to fall after rising a few points. Therefore they sell their investments in the hope of buying them back at a lower price.

- Bull market

A “bull market” is a period when share prices are rising.

A “bullish” investor will buy more shares since they believe that the share prices in the stock market will go up.

A “bull market” is a very profitable period of time for the economy as a whole, since people make large investment



as a result of economic growth and prosperity. As a result of favourable market conditions, investor’s decision making becomes relatively easier in selecting their shares portfolio. Bull markets are associated with high interest rates.

Bulls: These are optimistic investors who believe prices will rise and therefore buy securities in the hope of selling them at a higher price than they paid.

3.2.6 Importance of market research

Although it is essential for investors to analyse market trends and economic circumstances before investing in the stock exchange, an investor will be negligent if research is not conducted regarding the performance of companies or the various sectors in the economy.

- Sectors

Investing in certain sectors of the economy can be more profitable than others. With rapid technological advances, the telecommunication sector could provide better returns than investments in the agricultural sector that is plagued by droughts or the manufacturing sector that is weighed down with strikes and go-slows.

- Companies

Once an analysis of the various sectors is conducted, an investor should now focus more specifically on listed companies. Company information is critical in determining the fundamentals of that company. Annual reports depicting profit, turnover and most importantly, dividends paid to shareholders can enable an investor to decide if investing in this company is a lucrative option. The financial stability of the company, its management issues and the competition it faces, are some of the key elements that investors should research. Past performance levels can be compared to determine if the company has been moving from strength to strength or in ascertaining in which part of the life cycle the company is in. Impending bankruptcy, liquidation, takeovers or mergers are crucial information to investors. Past trends or progress of the company is useful in enabling an investor to determine whether they should purchase more shares or sell their existing shares.

3.2.7 Tools to analyse Stock Market returns

Share and ratio analysis provides a useful measure to investors as to whether they should hold their existing shares, buy new shares or abandon their existing shares. Share price values published in newspapers and journals, as well as dividends received may provide an overall picture to the face value of that investment; however they may not be very useful in providing a detailed analysis. There are also a wide range of indices that can be used as a benchmark to monitor investments performances. However it is important for an investor to note that an index benchmark is relative to the benchmark, and it is not a measure of absolute performance. Therefore if an index is going up, an investor should check if the investment is doing better or worse than the index is. If the index is dropping, the investor should check if the investment is dropping at a slower or faster rate than the index. On that note, there are various ratios and mathematical formulae that are available to investors to ascertain the true value of their investments. One does not have to be a chartered accountant or stock broker to use,

analyse and interpret them as they are very basic and self explanatory. The relevant information needed to be used in these ratio analyses are public knowledge and can be obtained from a company's annual statements and reports.

There are various commonly used ratios available, falling under broad categories of solvency, liquidity, profitability, efficiency, gearing or investment performance that can be used. However for the sake of simplicity and bearing in mind that the dissertation is merely concerned with small investors, only certain ratios pertinent to small investors will be briefly explained. There are also various mathematical models that can be used, but one will require some sort of insight or knowledge to apply them. They can be found by those that are interested by contacting stock brokers or searching various books.

Ratio	Calculation	Explanation
EPS-earning per share	Attributable Profit/ number of shares	Shows an investor the percentage of profit each share has achieved over the past year
DPS-dividend per share	Dividends payable/ shares x 100	Shows the amount of money paid to shareholders for their investments. It is important to note that a company not necessarily pays all of its earnings as dividends.
P:E ratio	Current share price/ earnings per share	Shows the amount the market will pay for each share in the company. Shows the amount of time an investor will take to cover the cost of their investments in terms of earnings. The higher the ratio, the longer the time to cover the investment. The price earning ratio is usually used for comparing company's

		investment potential.
Earnings yield	$\text{Earnings per share} / \text{share price} \times 100$	Shows the company's earnings per share as a percentage of its share price, thus an indicator to investors whether their return is increasing or decreasing.
Dividend yield	$\text{Dividend per share} / \text{share price} \times 100$	Shows how much a company is paying in dividends as a percentage of its current share price. Shows the ratio of the company's annual cash payments to share holders compared to the company's share price.
Dividend cover	$\text{Earnings per share} / \text{dividends per share}$	Shows the amount of cover from earnings per share that is paid to shareholders.
Rate-of-Return		The increase in value of an investment. There are several variations on the way a rate-of-return can be presented. Total rate-of-return is the return from any income received plus any price or capital appreciation or depreciation. Cumulative rate of return is the return earned over a period of time (three months, three years, 10 years, etc.). Annualised rate-of-return is the method of presenting the cumulative return from any period of time on an average annual basis.

Net Asset Value per Share	Net assets/ number of ordinary shares	The market value of the securities and assets held by the fund, less its current liabilities divided by the number of total shares
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Table 3.6 Tools to analyse stock market returns

3.2.8 Present view of the Stock Market

According to the Sunday Times, November 2002, Jeremy Gardiner, a director of investec asset management said that the South African markets have outperformed world equities over the past three years, and are expected to do so for the next year or two. Local markets have delivered because equities are relatively cheap compared with off shore markets at current levels and the economy is in good condition. Over the long term, however, because South Africa is an emerging market, it is at risk of being negatively affected when world sentiment turns against emerging markets, Gardiner says.

“The JSE All Share Index has provided investors with positive investment returns averaging 22 percent over the past 25 years.” (Sunday Times, March 2002). Rian le Roux, head of economic research at old mutual asset managers said that over the past seven years choosing the right investment portfolio has been more difficult than the previous 18 years and that while the retail index has gone downhill, the resource market has boomed over the past four years. There are several conditions that need to be met for an equity market to perform favourably, le Roux says.

Since 1997, the following conditions have not been met by the South African market:

- Strong economic growth is needed. South Africa has averaged only 2.2 percent a year
- Strong “pricing power” is needed-as the price of raw material increase; consumers may have to absorb some of the additional cost, hence decreasing their profit margins.
- Strong profit growth is needed-as profit margins decrease, companies are forced to retrench staff to attain profitability

- No corporate /banking casualties-in 2001 alone Regal Bank and Saambou have been placed under curatorship and Fedsure had to be rescued by Investec
- A stable internal policy is needed- South Africa has been through several shocks ranging from government scandals and corruption, changes in regulatory controls to unpredictable exchange rates.
- External stability is needed-the September 11 terrorist attacks and the war on Iraq, fluctuating price of crude oil have all affected the performance of investment markets

Table 3.7 South African Markets

Source: Sunday Times, March 2002

<i>Yields, prices and returns</i>							Forecast	
	1997	1998	1999	2000	2001	2002	2003	2004
JSE all-share index:								
Dividend growth (%)	11.5	-3.4	7.5	16.1	35.1	25.8	8.5	5.0
Earnings growth (%)	10.9	4.0	7.9	20.6	37.9	14.6	10.7	8.3
Dividend yield (%)	2.4	2.5	2.4	2.3	2.8	3.0	4.7	4.6
Price/Earnings ratio	16.1	14.5	14.9	15.0	12.1	12.4	9.8	11.0
Dividend Cover	2.6	2.8	2.8	2.9	3.0	2.7	2.6	2.8
Price	6 295	5 850	6 533	7 899	8 818	10 315	9 100	10 979
Q/Q return (annualised %)	-2.7	-11.1	48.6	11.4	16.9	7.3	9.1	26.5
Y/Y return (%)	4.6	-4.9	14.3	23.7	14.5	19.8	-7.0	25.2

Table 3.8 Yields, prices and returns 1997-2004

Source: www.absa.co.za

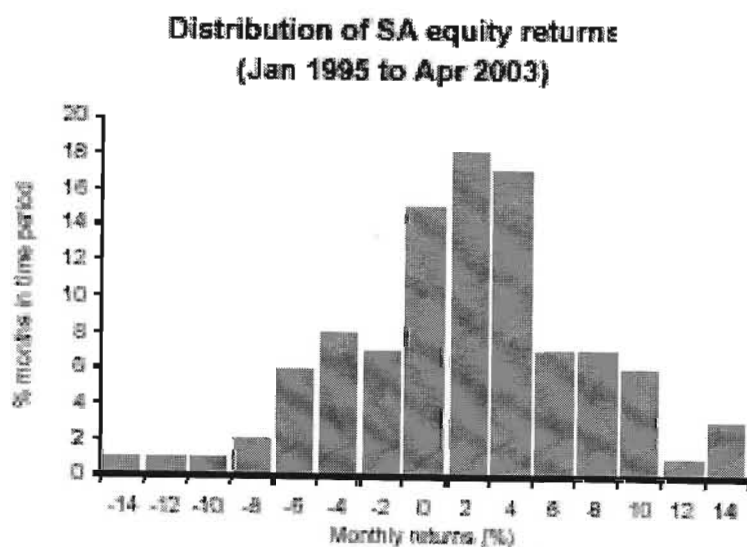


Figure 3.6 Distribution of SA equity returns (Jan 1995 to Apr 2003)

Source: www.absa.co.za

All share total returns

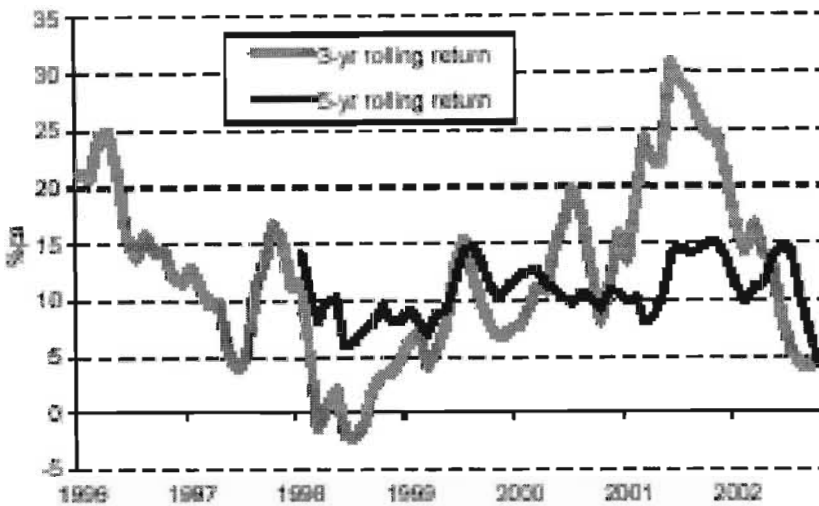


Figure 3.7 All share total returns 1996-2002)

Source: www.absa.co.za

3.2.9 Summary of Risks and Returns associated with Stock Market Investments

❖ Risks

- Current market volatility: Due to the unpredictable and volatile market of the share industry, an investor could risk his investment being eaten away by poor performing shares.
- Volatility of equities: Volatility of equities continues to make it the most risky asset class if one was forced to sell all or some of their shares when prices are at one of their periodic low points.
- Equities should not be used for investing in the short-term as it is subject to negative market volatility.

❖ Returns

- Liquid secondary sales: Shares on the Stock Exchange are relatively liquid and may be easily converted back into cash.
- Owning shares allow the investor to use the power of compounding to earn a return on top of their returns.
- Share dividends are exempted from tax
- Combat against inflation: Shares can allow an investor to cushion his investment through rising dividends and increase in share prices.

3.2.10 Common terms used in Stock Market Investments

Term	Brief explanation
Ask Price	Price at which a Market Maker will sell stock. Formerly, known as the Offer price.
Bid price	The price at which a Market Maker will buy stocks and shares, and a unit manager's trust fund will buy units in his fund(s).
Blue Chip	Generally a large capitalization, well known with actively traded common stock. A record of continuous dividend payments and other advantageous investment attributes.
Call Option	An investment product that gives you the right to purchase shares at a pre-determined price for a limited period of time.
Capital Markets	Generally, the market places where money is raised and securities are traded. Stocks, bonds and money markets are each a part of the capital markets.
Collective investment schemes	These are funds which take money from a number of private investors and pool it together into one fund. This enables investors to invest in a larger number of individual investments than would otherwise be the case and therefore to avoid the risk of investing only in a few companies' shares
Contract note	This is sent out to an investor by firms such as fund managers and stockbrokers when a transaction has been completed. It is a legal document which provides the client with all the details of the oral deal that was made on his behalf.
Correction	A sudden momentary decline in stock or bond prices after a time of market strength.
Derivatives	Derivative products are the collective term applied to certain types of financial instruments such as futures and options. Their value derives from other commodities,

	indices or individual shares.
Dividend	This is the income you receive as a shareholder from a company. It is a share of the profits made by a company that it has chosen to distribute to its shareholders. Returns vary from year to year depending on the company's profits or operational strategy.
Equity	Ownership of an asset. You can have sole ownership such as the equity in your house, but generally it refers to shared ownership of a company via stocks.
Funds, Closed ended	These are investment funds which issue a fixed number of shares. To buy shares there must also be someone wishing to sell their shares.
Funds, Open ended	These are collective investment schemes, in which the number of units in the fund varies from day to day according to the number of people wishing to buy or sell their holding in the fund.
Gearing	The debts of a company expressed as a percentage of its equity capital. If a fund is geared it means that it has the ability to borrow money and therefore take advantage of greater investment opportunities. When a market is rising this means that investors will be in a position to gain more than those not in a geared fund. Conversely, when a market is falling investors are likely to be at greater risk. Also known as leverage.
Hedge	Used to describe protective manoeuvring by an investment manager to reduce the risk of loss from a specified event.
Holding	This term to describe the amount of shares an investor owns.
Index	A statistical measure which provides a standard against which the performance of other similar investments can be compared.
Index funds	Unit trusts which track the performance of an index.

Insider dealing	Is dealing in the shares of a company on the basis of unpublished price sensitive information such as bad results, a change in management, new technology or a new product, or to advise or enable others to deal on this basis? An insider dealer will be privy to this sensitive information and use it to his advantage to gain from the expected increase in the share price once the information becomes known to the market. This is a criminal offence which can carry a penalty of jail and/or an unlimited fine.
Investment Trust	A company whose sole function is to invest in the shares of other companies.
Listing particulars	When a company applies to be listed as a member of the Stock Exchange it has to give detailed information about itself which is published in the form of a prospectus.
Money Market	The part of the capital market where short-term debt securities are traded.
Nominee Company	A company that acts as the registered owner of securities, but looks after them on trust for a beneficial owner e.g. a private individual who wishes to remain anonymous might buy or sell shares using a nominee company.
Options	An option gives the right but not the obligation to buy or sell an underlying commodity or financial instrument at a certain date in the future. Options are often favoured by smaller investors as the risk is limited to the purchase price of the option. An option is a derivative.
Placing	This is when an investment bank or broker advising a company arranges for other institutions or individuals to buy that company's shares at a fixed price. The advantage of this is that placing the shares for the company then cuts out the broker (i.e. the middle man. A placing helps ensure that a minimum sum is raised and therefore, that the launch will be a success.
Privatisation	Process where the government puts state owned

	industries into the private sector, e.g., water, electricity. Usually involves an offer for sale to the general public of its shares.
Put option	Option providing its holder with the right to sell an investment at a future date but at a price agreed now.
Rally	A brisk rise in the general price level of securities.
Scrip issue	This is when a company issues free new shares to current shareholders. These are normally in direct proportion to their existing holdings (shares) and can be used when a company's shares have become so expensive they are not easy to sell. Also known as a capitalisation or scrip issue. No money changes hands and the share price falls pro rata
Short selling	This is when a dealer believes that the price of a particular share is going to rise and can see the opportunity to make a quick profit.
Spread	This is the difference between the offer price at which units or shares are sold and the bid price at which they are bought back from the public.
Stag	Someone who applies for a new issue of shares (IPO) intending to sell them (for a quick profit) as soon as market dealings commence.
Stamp duty	A tax that is deducted when purchasing ordinary shares and preference shares (equities).
Standard & Poors 500 Index: (S&P 500)	The index which measures the average performance of 500 of the largest publicly-trade U.S. companies.
Yield	The percentage return on an investment from any dividend or interest income. This is the annual return you receive from holding a stock, share or unit trust. It is based on the holding's current price and the gross amount of annual dividends the company has paid out to shareholders.

Table 3.9 Common terms used in stock market investments

3.3 Comparison of different asset classes

3.3.1 "Roof over your head is a sound investment"

Personal Finance P10, 29 March 2003(The Independent on Saturday)

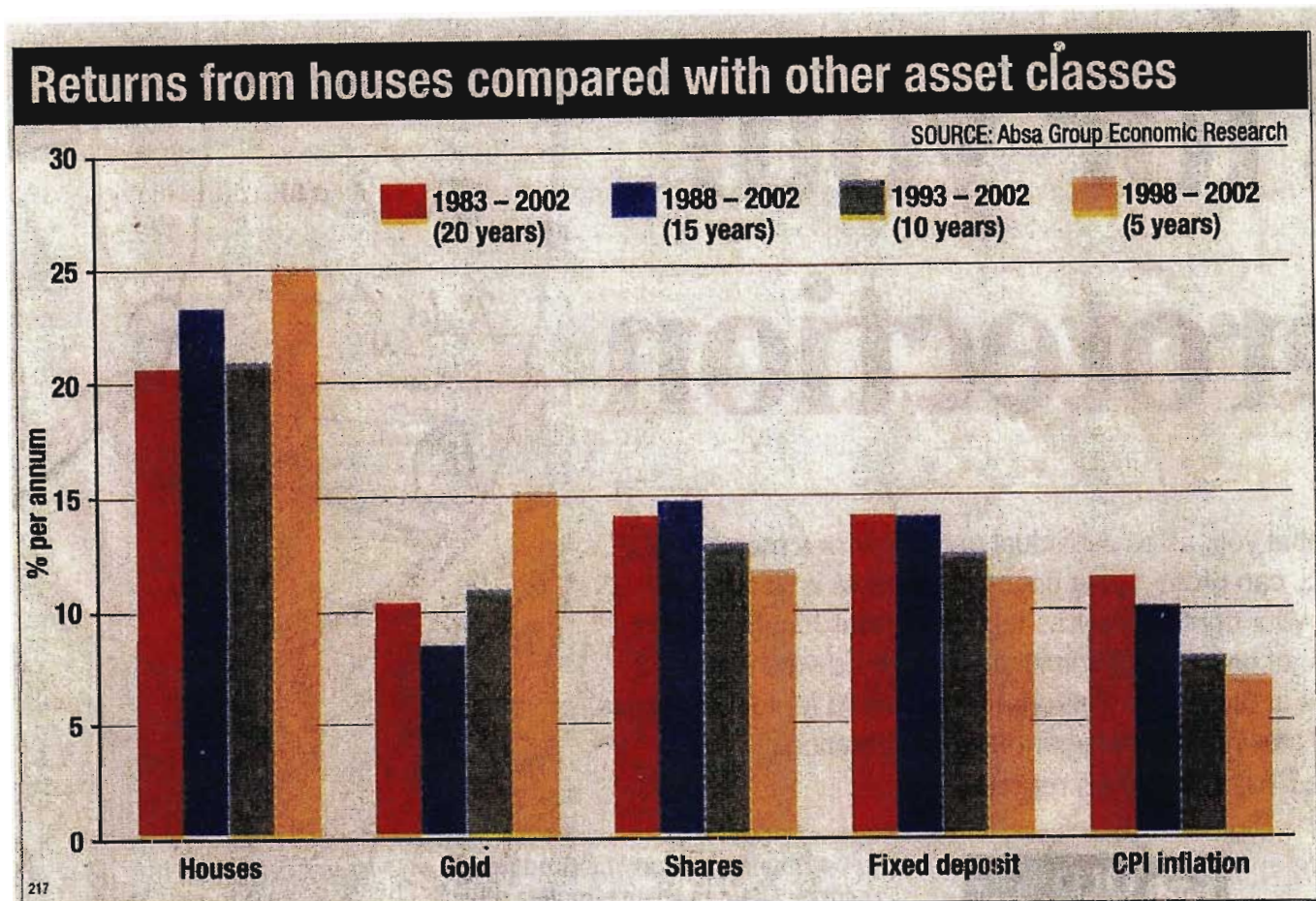


Figure 3.8 "Returns from houses compared with other asset classes"

Source: Personal Finance P10, 29 March 2003(The Independent on Saturday)

Research conducted by ABSA shows that if you have been letting your house to tenants, your investment returns have more than comfortably beaten the returns from gold , shares and fixed deposits over the 5, 10, 15 and 20 years. The returns have also beaten inflation over these periods. This calculation is conducted assuming there is an 80% bond on the property and a market related rental. ABSA's research measures the gross internal rate of return of the various asset classes. This measure excludes deductions for maintenance costs, commissions and rates and taxes, but includes

capital appreciation and income earned on the assets. According to ABSA's research the following results were noted:

- Over the past 5 years: Property delivered returns of just under 25% a year, compared with about 15% from gold, about 12% from shares, and about 11% from fixed deposit. Inflation over this period was about 5.5%.
- Over the longer 20 year term: Property delivered returns of about 20%, compared with about 10% from gold, about 14% from shares, and about 14% from fixed deposit. Inflation over this period was about 10%.

3.3.2 "Put your money where your house is"
 Personal Finance P21, 19 April 2003(The Independent on Saturday)

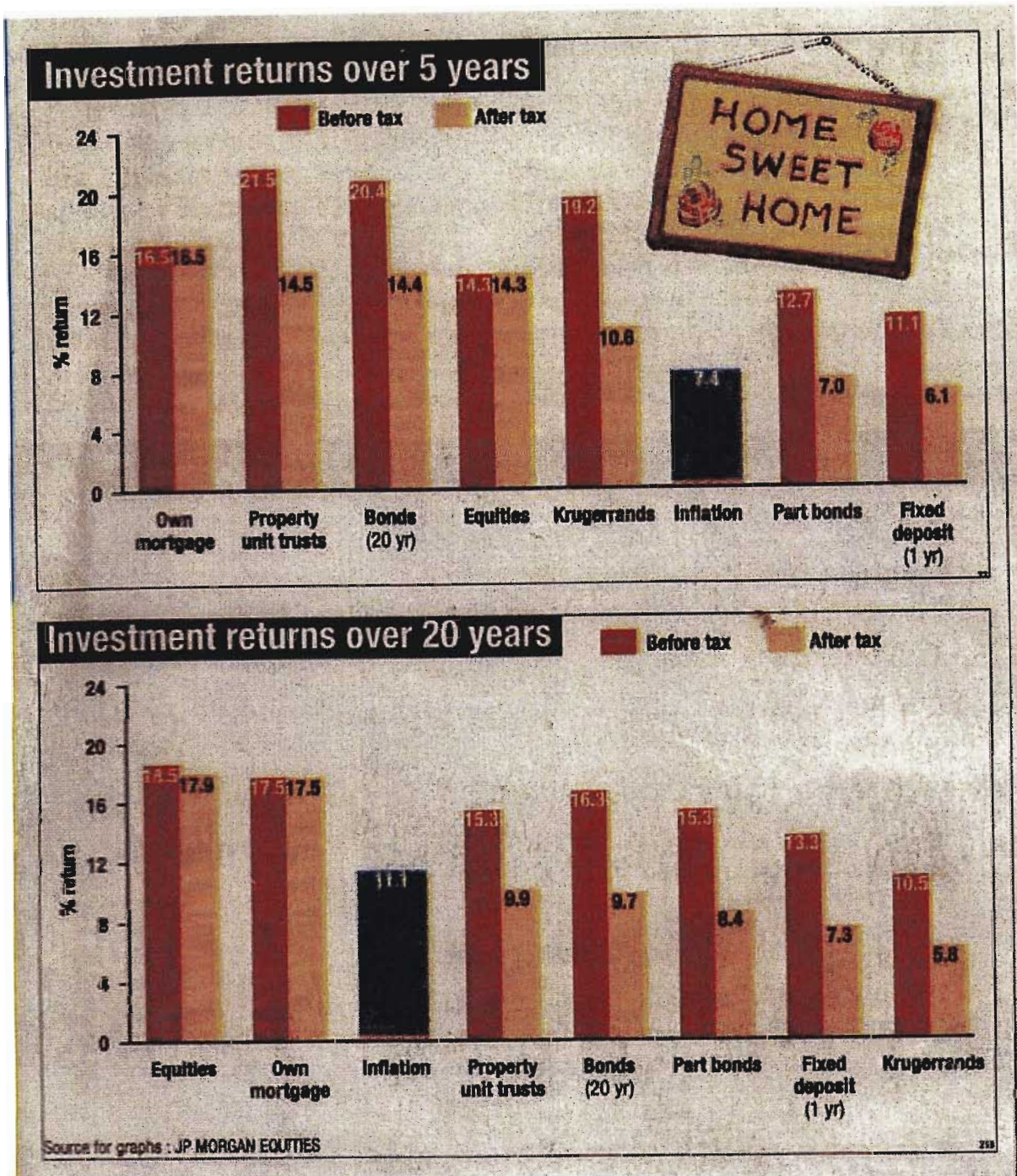


Figure 3.9 "Put your money where your house is"

Source: Personal Finance P21, 19 April 2003(The Independent on Saturday)

JP Morgan Equities investments comparison report for 2003, shows that paying off your homeloan has been the best investment over the past 5, 10 and 15 years. Over the past

20 years, only equities have performed better. JP Morgan report compares the returns from paying off your house, property unit trusts, participation mortgage bonds, equities, bonds, fixed deposits and Krugerrands over the 5, 10, 15 and 20 year periods and also looks at which investment beats inflation. According to JP Morgan's report the following results were noted:

- Over the past 5 years: Repaying your homeloan was the best investment, followed by property unit trusts and then equities. However participation mortgage bonds and fixed deposits failed to beat inflation on an after tax basis.
- Over the past 10 years: Repaying your homeloan was the best after inflation investment, followed by equities then bonds and property unit trusts.
- Over the past 15 years: Repaying your homeloan was the best after inflation investment. However, property unit trusts, participation mortgage bonds, fixed deposits and Krugerrands failed to beat inflation.
- Over the past 20 years: Only repaying your homeloan and equities have beaten inflation on an after tax basis. Repaying your homeloan delivered an after tax return of 17.5 percent while equities delivered a marginally higher after tax return of 17.9 percent. Inflation for this period was 11.1 percent. However, property unit trusts, participation mortgage bonds, bonds, fixed deposits and Krugerrands failed to beat inflation.

3.4 Summary

South Africa today is one of the most sophisticated and promising emerging markets in the world. The distinctive blend of a highly developed first-world economic infrastructure and a huge emergent market economy has given rise to a strong and dynamic investment environment. The plethora of investment opportunities have left many investors confused as to where to place their money. Selecting the most appropriate investment instruments and products may be very difficult for small investors if they do not follow a systematic approach and understand the broad categories of investment. It is important to remember that the younger you are, the more risk you can afford to take. Since time is in your favour, one should be geared towards making their money grow. As one gets older, then should one making safer investment choices that will ensure stability and will preserve ones capital. Investors should never permanently adopt any

type of asset or any selection method. They must remain flexible, open-minded and sceptical.

Advice to investors and to would-be investors is the well known caution 'Investigate before You Invest'. The more one learns about an investment, the better prepared one is to take advantage of its possible changes. If one is willing to accept high levels of risk and uncertainty one can seek opportunities which may offer higher returns. In current volatile and uncertain market conditions, it is very tempting for many investors to take short-term views on the market and to overrule any investment rationale and hope for the best.

CHAPTER FOUR

4 Research Methodology and Analysis of Findings

**As far as their own business is concerned, investors are often their own
worst advisers**

(Andre Swanepoel)

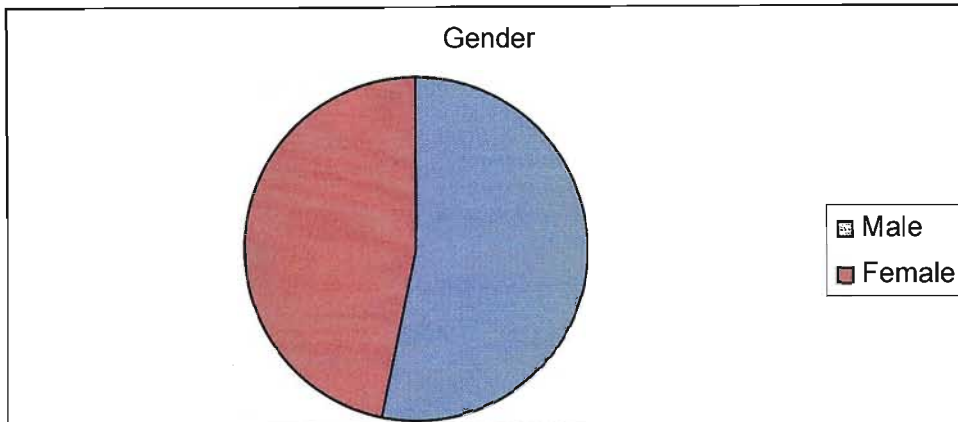
(Deputy executive officer of Financial Services Board)

4.1 Introduction to questionnaires

The information needed in the successful presentation of this dissertation was gathered and analysed from the various primary, secondary and tertiary sources available. A literature search was conducted to ascertain the problem statement whilst questionnaires and interview sessions were used as primary gathering information tools. Exploring secondary data (both external and internal) has provided valuable information in attempting to understand the research dilemma. The questionnaires were dispensed to MBA students at the University of Natal, private investors, property consultants and stock market consultants. The questions varied from dichotomous questions (yes or no type) to free response questions (also known as open-ended questions that allowed the various respondents to state their opinions in their own words). The received responses are translated and measured using nominal and ratio data scales and by means of tables, graphs, charts and other statistical tools.

4.2 Views of Present Investors

4.2.1 Gender

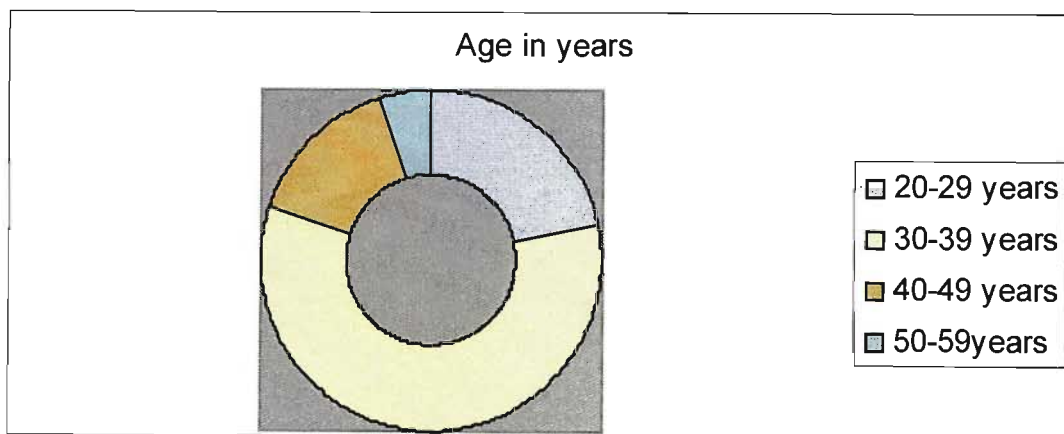


Gender		
Category Label	Frequency	Percentage
Male	32	53%
Female	28	47%
Total	60	100%

Figure 4.1 Questionnaires to Present Investors: Gender

Table 4.2.1 shows that from a sample of 60 respondents, 53% were males, whilst the females accounted for the remaining 47%.

4.2.2 Age in years

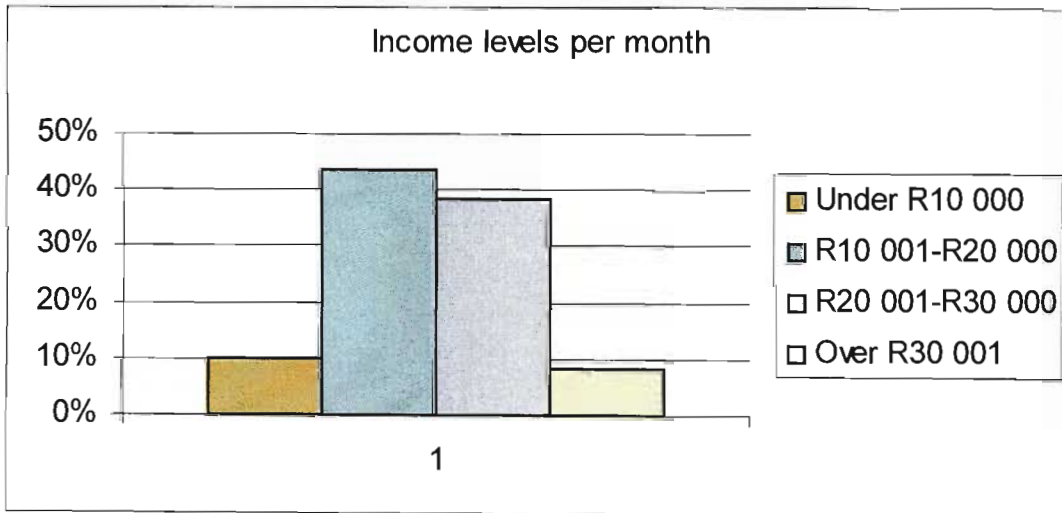


Age in years		
Category Label	Frequency	Percentage
20-29 years	13	22%
30-39 years	35	58%
40-49 years	9	15%
50-59 years	3	5%
Total	60	100%

Figure 4.2 Questionnaires to Present Investors: Age in years

Table 4.2.2 demonstrates the various age groups that responded to the questionnaire. The majority of respondents fell into the age category of between 30-39 years, thus accounting for 58% of the sample population. The 50-59 years age group was the minority group, only accounting for 5% of the sample. The remaining respondents fell into the age group of 20-29 years (22%) and 40-49(15%).

4.2.3 Income levels per month

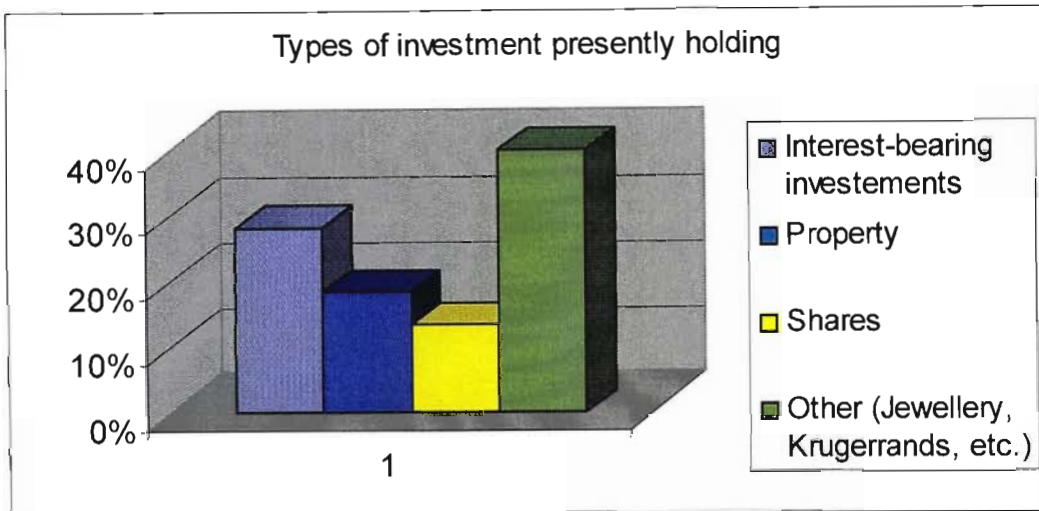


Income levels per month		
Category Label	Frequency	Percentage
Under R10 000	6	10%
R10 001-R20 000	26	43%
R20 001-R30 000	23	38%
Over R30 001	5	8%
Total	60	100%

Figure 4.3 Questionnaires to Present Investors: Income levels per month

43% of the respondents earned between R10 001-R20 000 per month and was closely followed by the income group of R20 001-R30 000 which accounted for 38%. A minor 8% earned over R30 001 per month, whilst 10% earned under R10 000 per month. The above percentages indicate that income earners of between R10 001-R30 000 had made major investment decisions.

4.2.4 Which of the following investments types do you presently hold?



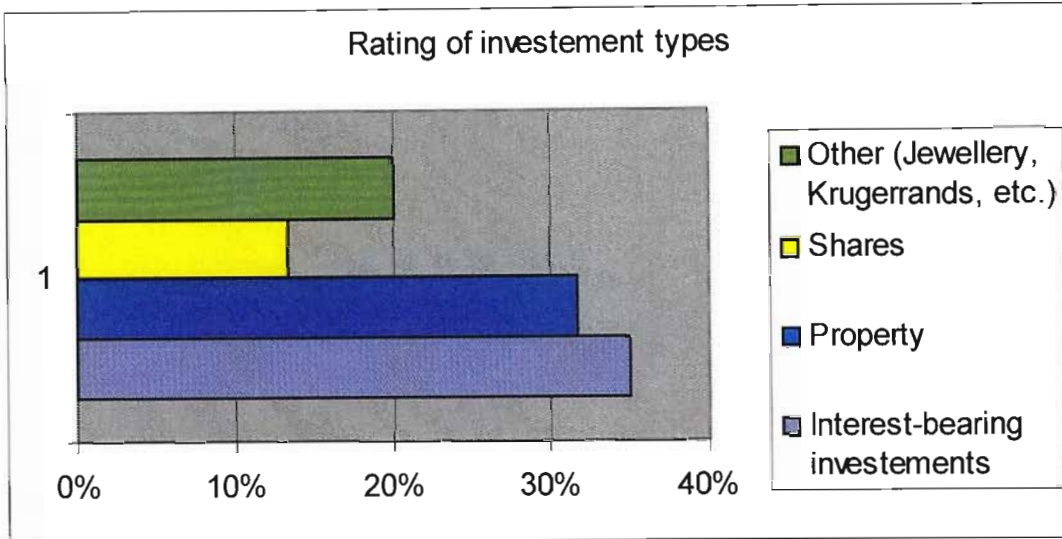
Types of investment presently holding		
Category Label	Frequency	Percentage
Interest-bearing investments	17	28%
Property	11	18%
Shares	8	13%
Other (Jewellery, Krugerrands, etc.)	24	40%
Total	60	100%

Figure 4.4 Questionnaires to Present Investors: Present types of investments

It is interesting to note that although the dissertation explores property and stock market investments, the major investments made by private investors are alternative investment choices (jewellery, Krugerrands, etc) and interest-bearing investments, which accounted for 40% and 28% of investments respectively. Property market investments accounted for 18% of investments made, while share market investments only accounted for a mere 13% of investments. The above table is indicative of the level of confidence small investors have relating to their investment decisions, opting for relatively more secure

type investments such as interest-bearing investments and alternate investments(jewellery, Krugerrands, etc).

4.2.5 How would you rate the following as investment options? Number in order of preference (1-4)



Rating on investment types		
Category Label	Frequency	Percentage
Interest-bearing investments	21	35%
Property	19	32%
Shares	8	13%
Other (Jewellery, Krugerrands, etc.)	12	20%
Total	60	100%

Figure 4.5 Questionnaires to Present Investors: Rating of investment types

When respondents were required to rate the various investment options available, 35% of the respondents felt that interest-bearing investments were better investment choices and was closely followed by property investment which accounted for 20%. Table 4.2.4 and table 4.2.5 reveal some astonishing facts relating to people's investment choices. Although 4.2.5 shows that property investment was considered to be a good investment choice, the actual investments made by investors were astoundingly low. In conclusion, it shows that although small investors felt that property investments are good investment choices, they are still very cautious when making investment decision. The stability of the country, coupled with wide spread crime and the emergence of squatter camps

could be reasons for small investors being cautious when making property investment choices.

4.2.6 What were you initial reasons for making property and/or stock market investments?

To most people the common reason for investment in property was to purchase a home for private use. Living in a property that they owned was preferred over renting as most believed that rentals paid was money lost. People viewed property as a “solid” and “safe” investment yielding good returns depending on the location of that property. People also believed that property is a fixed asset that appreciates in value. Investments in stock markets were mainly to make profit, makes ones capital grows and to achieve good returns. Thus it can be concluded that the main reasons behind property and/or stock market investments was to attain high profits, save for retirement, beat inflation and to achieve financial security. Many respondents felt that property market investments, especially residential property was suitable for long-term appreciation while stock market investments was suitable for wealth accumulation.

4.2.7 Were you fully aware of what purchasing a property and/or stock market investments entailed before embarking on your purchase?

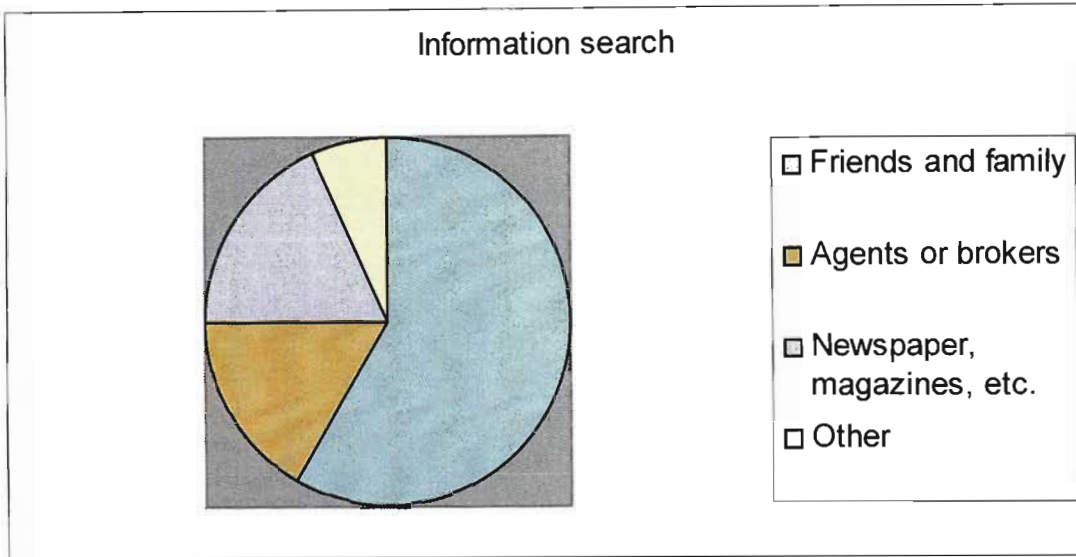


Purchaser awareness		
Category Label	Frequency	Percentage
Yes	39	65%
No	21	35%
Total	60	100%

Figure 4.6 Questionnaires to Present Investors: Purchaser awareness

65% of small investors believed that they were fully aware of what investing in property/or stock market entailed. 35% felt that they were not fully aware or were slightly blinded when they embarked on their investment.

4.2.8 How did you gather your information regarding your investment choice?

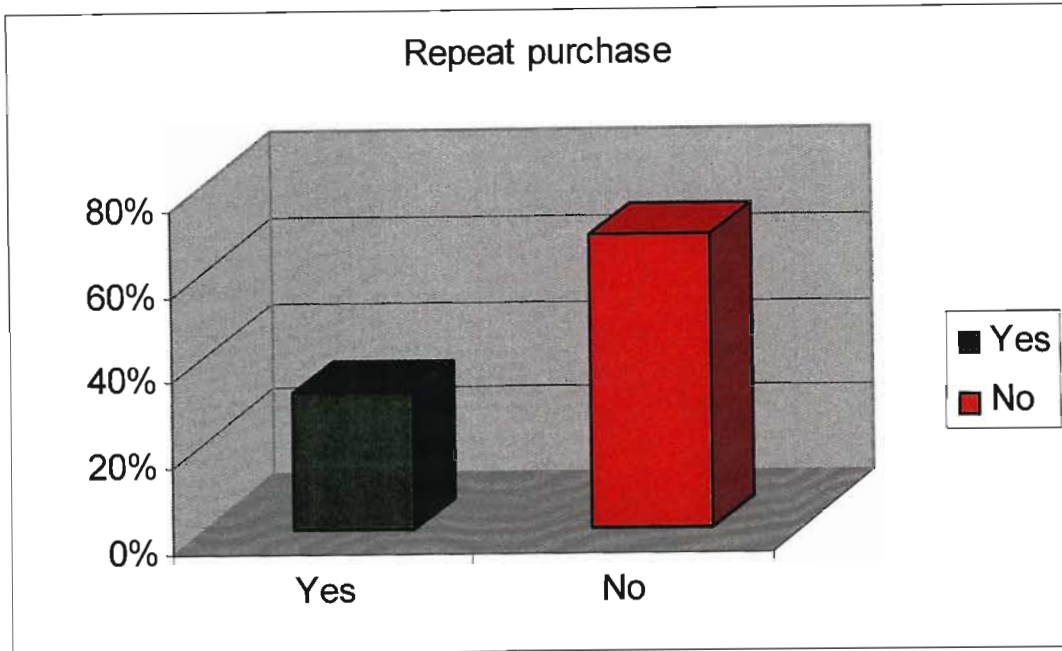


Information search		
Category Label	Frequency	Percentage
Friends and family	35	58%
Agents or brokers	10	17%
Newspaper, magazines, etc.	11	18%
Other	4	7%
Total	60	100%

Figure 4.7 Questionnaires to Present Investors: Information research

It is evident that the influence placed by ones friends and family is imperative when one makes an investment choice as displayed by table 4.19, where 58% of the respondents gathered their information through friends and families. 17% of the respondents gathered their information from agents and brokers, while 18% of small investors utilised the means of the media via newspapers, magazines, etc.

4.2.9 Would you buy another property or stock market purchase or recommend it to others?



Repeat purchase		
Category Label	Frequency	Percentage
Yes	19	32%
No	41	68%
Total	60	100%

Figure 4.8 Questionnaires to Present Investors: Repeat purchase behaviour

It is disturbing to note that 68% of the respondents felt that they would not embark on another property/or stock market investments nor with they recommend it to others. It will be useful to ascertain the reasons why present investors feel so disappointed with their present investments. However, 32% of investors felt that they would repeat their purchase decision and would recommend it to others.

4.2.10 Are there any factors that you would advice others on to be cautious about?

The range of answers varied greatly from respondent to respondent. However, there were certain factors that were common, namely, for:

- Property market investments: choosing a good area, researching tax implications and the various fees involved, negotiate good interest rates, be cautious about large deposits, conduct a detailed diligent inspection of the property prior to purchase,

constant maintenance of properties, changes in property laws, transfer duties and agents commissions and to check body corporate accounts or else one might have to pay extra levies to cover large deficits.

Stock market investments: high commissions, investor sentiment can distort values, never borrow to invest, international crisis and to ensure that you personally monitor the state of your stocks

Present investors believe that it is critical for future investors to ascertain their return on investments before any purchase decision is to be made and to have a proper valuation method in place. A good investment strategy was also recommended by many respondents. As a final parting point, most believed that any potential investor should ask a lot of questions, keep abreast with the latest developments in the industry and to constantly do research before parting with ones hard earned cash.

4.2.11 What do you feel are the risks and returns of the property market in South Africa?

It was unanimous among the respondents that in regards to the property sector, the loss of value in property prices in previously good areas is most disturbing to them thus making property investments very risky. Other risk factors included the financing vehicles available, high interest rates and that property prices were too high for the average South African to afford.

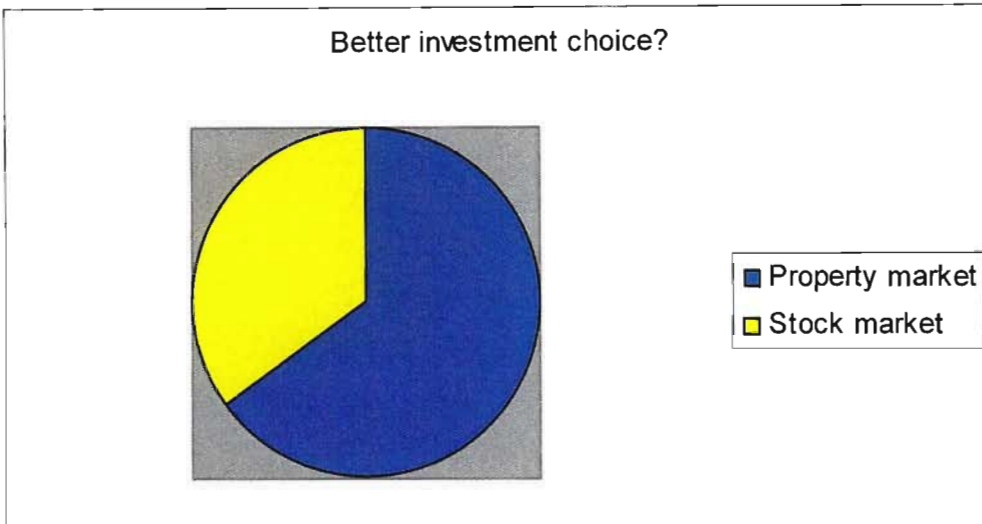
4.2.12 What do you feel are the risks and returns of the stock market industry in South Africa?

Although most respondents believed that the returns on stock market investments were fairly good, they were most concerned with the risk factors such as risk perception, emotion, investor sentiment, and insider knowledge, lack of public knowledge, high transaction costs, and fluctuations in the Rand, volatility of the stock market and the economic stability of South Africa. Respondents also felt that there were higher risks in investing in South African markets as opposed to making investments in stock markets of more stable economies. It was further stated that although an investor might attain lower returns in foreign markets, they believed that the returns would be virtually guaranteed.

4.2.13 How do you believe that consumer behaviour and people's perceptions affect or impact on the property and stock market industry?

Most respondents felt that consumer behaviour and peoples perceptions are very relevant to investments as they greatly impact on the property and/or stock market industry. People also believed that people in the political arena and influential people in society have a tendency to impact on an investor's investment decision. There were however a large group of respondents that felt that consumer behaviour has very little impact on the property market and a larger impact on the stock market. They further stated that people's perceptions have a tendency to affect both property and stock market investments. Many respondents also believed that the prices of shares are largely dictated by a few with insider knowledge. As explained by one respondent that consumer behaviour has a direct correlation with the economic principle of demand and supply. Example: As consumers become positive towards the property industry, their behaviour will be displayed by them purchasing more properties. This additional demand will cause property prices to increase. Therefore there is naturally a link between consumer behaviour and people's perceptions and the property and stock market industry.

4.2.14 Given your present investment portfolio, what do you regard as being a better investment choice-the property market or the stock market?

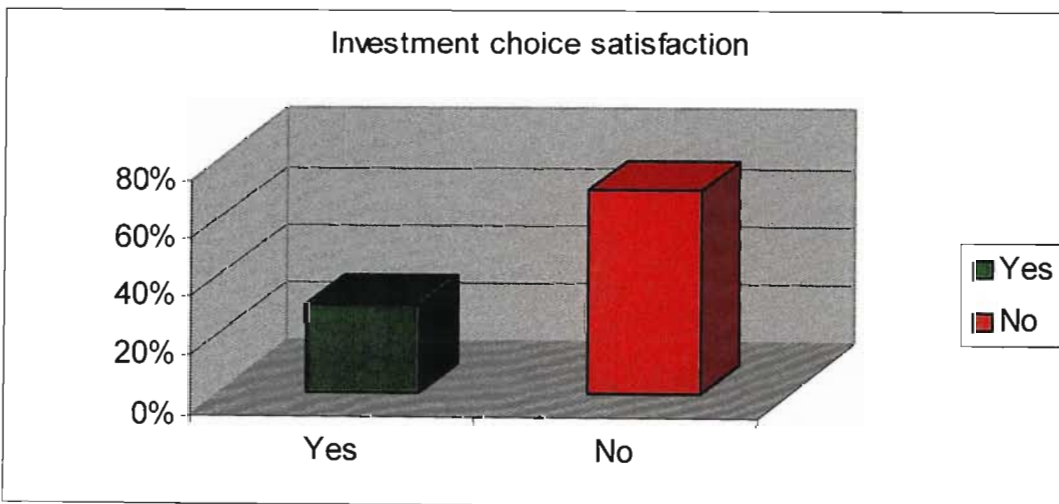


Better investment choice?		
Category Label	Frequency	Percentage
Property market	39	65%
Stock market	21	35%
Total	60	100%

Figure 4.9 Questionnaires to Present Investors: Better investment choice?

Table 4.1.14 illustrates that 65% of the respondents regards the property market as a better investment choice than the stock market. A mere 35% however were in favour of the stock market.

4.2.15 Finally, are you satisfied with your present investment decisions?



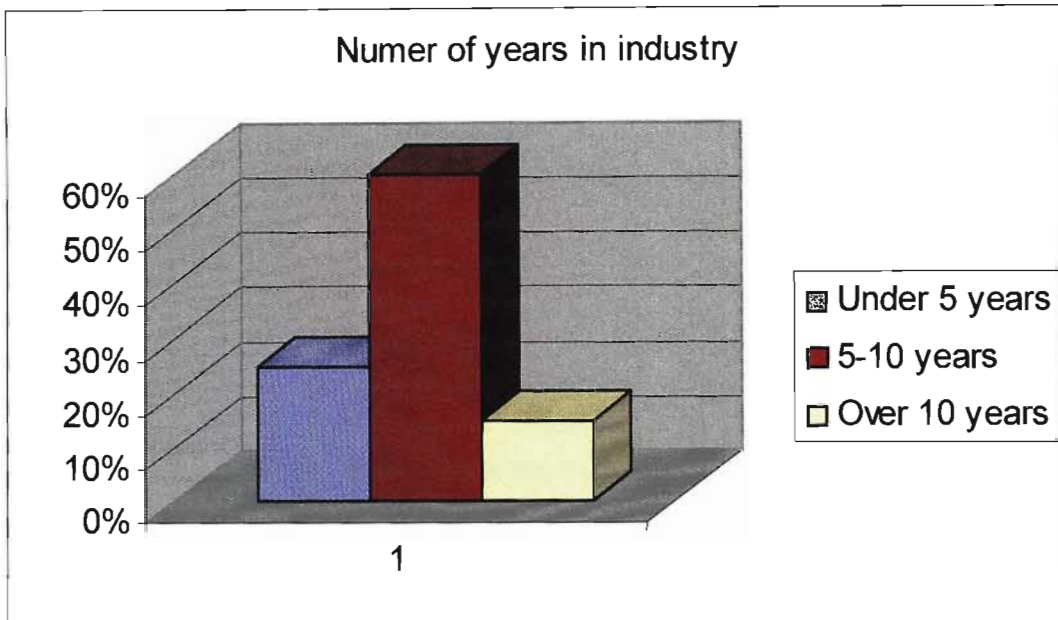
Investment choice satisfaction		
Category Label	Frequency	Percentage
Yes	18	30%
No	42	70%
Total	60	100%

Figure 4.10 Questionnaires to Present Investors: Investment choice satisfaction

Table 4.2.15 indicates that from a sample of 60 respondents, 70% of the respondents were not satisfied with their present investment decisions while only 30% were satisfied.

4.3 Views of Property Consultants

4.3.1 For how long have you been involved in the property market?



Number of years in industry		
Category Label	Frequency	Percentage
Under 5 years	5	25%
5-10 years	12	60%
Over 10 years	3	15%
Total	20	100%

Figure 4.11 Questionnaires to Property Consultants: Number of years in industry

Table 4.3.1 shows the number of years the respondents; in this case it will be the property consultants have been in the property market for. Of the 20 respondents that were surveyed, 25% were in the industry for less than 5 years and 10% for over 10 years. The majority, which is 60%, were in the property industry for between 5-10 years.

4.3.2 What do you regard as being the 3 most important triggering factors for people investing in the property market?

The respondent's answers were very similar in response and mainly consisted of replies such as interest rates, price, location and capital availability. As the old property market cliché goes that the most important factor when buying, selling or valuing property is "location, location, location" was emphasized by most respondents. There were also

different answers such as “condition (some like fix up, others want perfect structures)” and South Africa’s “political situation”.

4.3.3 What do you consider to be success factors in the property market?

The success factors in the property market that many respondents considered to be important were stable interest rates, secure ownership, high rental opportunities, and the availability of tenants and the prospects of good long term returns.

4.3.4 What do you consider to be failure factors in the property market?

The factors in the property market that most respondents considered to be failure or negative factors were the emergence of squatter camps, the high court decision to invoke the squatter rule involving evictions in terms of non-payers, escalating prices (unreasonable high), the establishment of low cost housing in good middle class areas, rise in unemployment and poverty levels, and of course the increasing crime rate in South Africa. Respondents were also concerned with the disparities in the rates of property values and believed that there is no just system being implemented to properly value property rates. Respondents also expressed that many buyers were concerned with the prospect of nationalisation and socialist policies being implemented as witnessed by the Zimbabwe crisis.

4.3.5 How do you believe that consumer behaviour and people’s perceptions affect or impact on the property market?

The basic laws of demand and supply in economics can be used to explain how consumer behaviour and people’s perceptions affect or impact on the property market. As people show confidence towards the property industry, more purchases are made. This increase in purchase or demand will cause the prices of property to increase, and vice versa. The property market is currently being seen as a good medium to long term investment., as evidently seen in the escalating prices and demand of property. The majority of respondents stated that there is a direct correlation between consumer behaviour and people’s perceptions on the property market, and has the ability to affect prices in a positive or negative manner.

4.3.6 What effects do you feel the Rand/Dollar exchange has on our property market?

Respondents believed that the rand/dollar exchange has a great impact on our local property market since the falling rand induces greater foreign investments in our markets. When the rand depreciates, property prices become very cheap to foreign buyers and more purchases are made as witnessed in certain holiday destinations such as the Western Cape with the huge upsurge in prices. However, this is not good news for local investors as prices become too high for them to compete with. Hence, the depreciation of the rand is good for foreign investors only, but has a negative impact on local investors.

4.3.7 What do you foresee in respect to the property industry in the new South Africa?

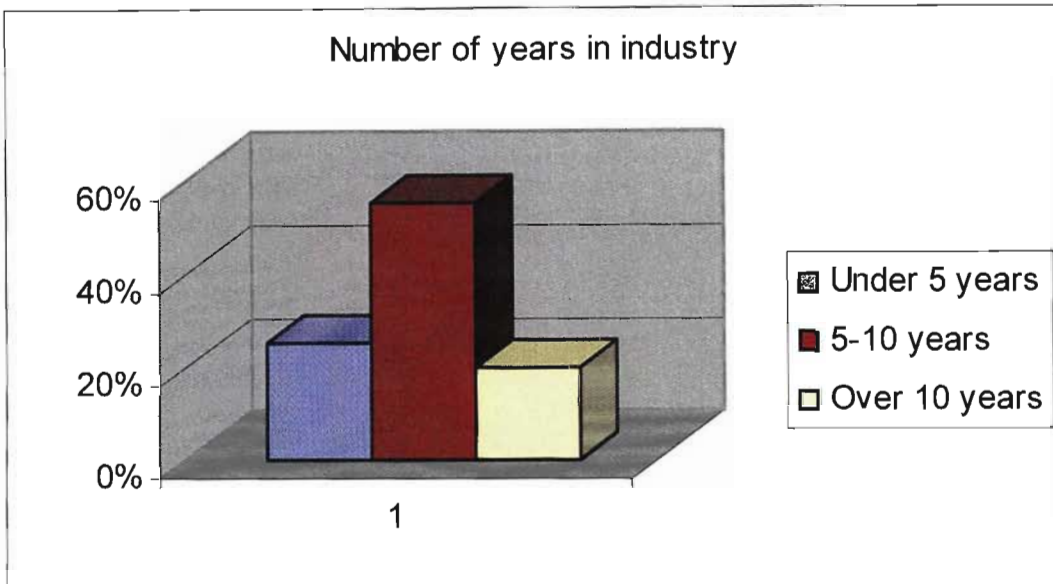
Respondents stated that as home owners and investors are becoming more security conscious, there will be the mushrooming of many cluster homes and townhouse developments in the future. Respondents also believed that the property prices in prime areas will rapidly escalate due to the growing demand of those areas. Some property consultants stated that changing laws and legislations in the future will affect the property industry. An example often given is the amnesty given to people who had previously taken their monies out of the country illegally. With the new amnesty given to legally bring their monies back into the country, property consultants feel that this “grey” money will find its way into the property market. One respondent also stated that, “as long as there is no interference, the industry has a brilliant future.”

4.3.8 Finally, how do you rate the property market as opposed to stock market investments?

To sum it up, the property consultants considered the property market to have lower risks and be more predictable in nature although the returns might be lower, and the stock market, although having potentially higher returns also have potentially higher risks. They also believe that the stock market has too many uncontrollable variables and is largely based on people’s perceptions. One property consultants stated that “both are gambles, but the chances of you winning in the property market are greater.”

4.4 Views of Stock Market Consultants

4.4.1 For how long have you been involved in the stock market industry?



Number of years in industry		
Category Label	Frequency	Percentage
Under 5 years	5	25%
5-10 years	11	55%
Over 10 years	4	20%
Total	20	100%

Figure 4.12 Questionnaires to Stock Market Consultants: Number of years in industry

Table 4.4.1 shows the number of years the respondents; in this case it will be the stock market consultants have been in the stock market industry for. Of the 20 respondents that were surveyed, 55% of the consultants were in the industry for between 5-10 years. The less than 5 year's category accounted for 25% of the respondents whilst the over 10 year's category consisted of 20% of the respondents.

4.4.2 What do you regard as being the 3 most important triggering factors for people investing in the stock market?

In this question the answers varied significantly from one consultant to the other, however some of the responses received were as follows:

- Risk appetite, patience, volatility
- Long term capital gain, short term capital gain, alternate investment tool
- Desire for inflation beating returns, tax efficiency, more aggressive capital growth
- Gold, rand, oil

4.4.3 What do you consider to be success factors in the stock market industry?

Answers varied among the stock market consultants ranging from the economy as a whole to the client itself. Some of the answers were as follows:

- Stable economy
- Bigger volumes
- Greater influx of clients
- Performance
- Thorough research
- Focus on strengths
- Patience
- Diversification

However one consultant provided a rather interesting answer. It was as follows:

“Long term capital gain (over 10 years period): the market has outperformed any other form of investment over the last 100 years.

Short term capital gain- investors who have acted on “tips” have made a lot of money. This is not to say that all short term investments have made gains but people will act on the hope of a “quick” buck. This is human nature.”

4.4.4 What do you consider to be failure factors in the stock market industry?

Again as in question 4.4.3, answers have varied amongst the consultants ranging from broader issues regarding the economy to the client itself. After careful analysis of findings, some of the common answers were:

- The economy: Volatility of global markets, Global uncertainty, Volatility of the rand, Increasing costs, Irregular accounting practices
- Clients: High costs to private clients, Emotion, Impatience, Inexperience, Loss of confidence

4.4.5 How do you believe that consumer behaviour and people's perceptions affect or impact on the stock market?

The respondents strongly felt that consumer behaviour and peoples perceptions do significantly affect the stock market industry. Many respondents felt that clients who lose money paint a negative picture to other shareholders. It was unanimous that the performances of shares are to a larger extent dependent on investor confidence. If investors feel negative towards a particular share, and react by selling them, this could cause chaos in the markets and result in others selling their shares. This would eventually cause that share price to drop. It was also stated that "equity valuations are far more volatile than cash, bonds or property". Stock market consultants also believe that investors must feel safe and confident before they spend in any form. One of the major problems encountered by stock market investors is that they believed that investors are very impatient when making stock market investments, and want positive returns sooner than possible.

4.4.6 What effects do you feel the Rand/Dollar exchange has on our stock market industry?

The sample population surveyed stated that the Rand/Dollar exchange has a momentous impact on their industry. Some respondents stated that the larger companies that are dual listed e.g. Anglo, Sasol, and Dididata benefit greatly when the rand weakens as evidently seen in the strengthening of their shares. The majority of respondents stated that a weak rand generally booms the JSE. One respondent provided an interesting reply which was as follows: "Quite simply put: strong rand means weak rand hedges and vice versa. The markets need a weak rand but the country needs a strong rand".

4.4.7 What do you foresee in respect to the stock market industry in the new South Africa?

Most respondents did not answer this question too clearly, as they possibly believed that committing themselves to an answer is virtually impossible; as the future is very hard to predict. However, those brave few that did have the courage to answer stated that “they would be an increase in number of smaller clients” and that South Africa would witness more “Black empowerment-more listed JSE companies”.

4.4.8 Finally, how do you rate the stock market as opposed to property market investments?

“Historically superior, but more recent performances are very disappointing”, is the answer of one respondent. Another respondent stated that “the yield on property markets is larger than the stock markets due to shortage of space. However the returns on stock markets can outweigh the property market.” To conclude most believed that although the property market is presently looking very promising, the tide will change soon, very soon.

4.5 Summary

The evaluation of the questionnaires proved to be a very long and tedious task primarily due the fact that there were many open-ended questions presented in the questionnaires. This proved to be most challenging for the researcher to quantify since the received responses varied. However, there were common factors present.

The questionnaires revealed that the major investments made by private investors are jewellery and Krugerrands. Interest-bearing investments followed second, and property market investments were third. Stock market investments were rated last. This is indicative of the level of confidence small investors have relating to their investment decisions, opting for relatively more secure types of investments such as interest-bearing investments and alternate investments(jewellery, Krugerrands, etc).

Further questioning showed that property investment was considered to be a better investment choice than stock market investments; however the actual property

investments made by investors were astoundingly low. The questionnaires further revealed that investors were not fully satisfied with their present investment choices and would not embark on another property and/or stock market investments nor would they recommend it to others. This is disturbing to note, since it could reveal that South African's have lost confidence in investing in their country.

Factors such as changes in interest rates, volatility of the rand and the overall economic stability of the country are of great concern to investors and property and stock market consultants. Most respondents revealed that the main reasons behind property and/or stock market investments were to attain high profits, save for retirement, beat inflation and to achieve financial security. However, this cannot be fully achieved if people have lost confidence in their country. In conclusion, it shows that although small investors felt that property investments are good investment choices, they are still very cautious when making investment decision.

CHAPTER FIVE

5 Investment decision making

In the explosive world of investment, yesterday's winners are often today's losers

(Jacques Marliolo)

5.1 Introduction

In order to survive in the volatile world of investments, it is imperative for an investor to conduct market research to ascertain the most sustainable and feasible strategies to implement. A thorough analysis of environmental factors namely the economical, social and financial factors should be thoroughly examined and researched before any investment choices are made. Current world events like the pending War on Iraq also place tremendous influence on investment choices and decisions as previously displayed by the September 11 2001 attack on the World Trade Centre in New York, which resulted in global panic across economies of the world.

The volatility of investments experienced in our current markets has changed the perceptions of the South African people as well as the way foreign investors view South Africa and its investment opportunities. South Africa is now viewed as an emerging market globally and it therefore is important that greater emphasis be placed on factors that are considered important to foreign investors. South Africa, like any other country cannot solely survive and thrive on the investments of its own people, but also needs foreign investments to prosper. As a result of foreign investors having confidence in the South Africa economy, large sums of money are invested, thereby resulting in a growing economy and new market opportunities for South African investors.

A pre-requisite to making successful and profitable investment choices is for the potential investor to be well informed. An investor that makes investment decisions on hopes, wishes and pure speculation, will most probably be left in very unfortunate circumstances. Thus the importance of market research and an analysis of investor risk tolerance cannot be emphasized enough in making sound long-term profitable investments.

It is important for investors to remember that there is no “best” investment, only “appropriate” investments depending on the investor’s requirements and circumstances. Different investments suit different people’s purposes and needs, and hence should be constructed accordingly.

In the coming years, investors will have to learn how to cope with, and protect themselves from all types of investment risks. There are lessons one could learn from what famous investors have said, and are saying, about investing in the days ahead? The following is adapted from The Sunday Times (Lessons from the master investors William Meyer - December 21, 2001)

- “Sir John Templeton has much to teach us. A pioneer in his day of cross-national investing, he brought home the advantages this has in terms of reducing volatility and increasing returns. Never before has it been more important to have a properly structured and internationally diversified portfolio. If you search throughout the world you will find more bargains and better bargains – also, you gain the safety of diversification.

“It takes patience, discipline and courage to follow the ‘contrarians’ route to investment success; to buy when others are despondently selling, to sell when others are avidly buying. However, based on a half century of experience, I can attest to the rewards of the end of the journey,” Templeton says. He correctly maintains that achieving a good investment record takes hard work – far more work than most people think. Templeton currently favours cash and bonds above stocks, unless they are very carefully selected.

- Warren Buffett, an American, is more insular in his investing approach. Contrary to Templeton’s approach, Buffett believes that diversification is an excuse for ignorance. Buffet’s approach is to put all your eggs in one basket and watch that basket carefully.

Buffett is perhaps most famous for his articulation of the concept of franchise investing. By this he means buying shares in companies that have some sort of monopoly. A favourite example for this is Coca Cola, which has the strongest franchise in the world. “If you gave me \$100 billion and said take away the soft drink leadership of Coca-Cola,

I'd give it back to you and say it can't be done. A take-over of Coca-Cola would be like Pearl Harbour."

5.2 Investment risk

In order to put together a sustainable investment portfolio, one needs to understand the element of risk and the prospects of returns on their investments. One needs to first define risk. Firstly there is no such thing as an absolute risk, only relative risk. A chosen investment can only be ranked as more risky, less risky or about the same risk as a competing investment. It is important to remember that, the riskier the investment, the greater the potential for larger gains and losses. Different investments have different risk levels and risk tolerance levels naturally vary from investor to investor.

If an investor compares buying a property to buying shares on the stock exchange, then he may opt for the better option. The relative risk of owning the immovable property may be somewhat advantageous for certain investors when they compare their investments to the volatility and uncertainty of the stock exchange.

There are 2 ways to deal with relative risk:

- Firstly one needs to outline the specific type of risk being undertaken and outline the numerous consequences the investor will face
- Secondly one needs to evaluate these risks with other alternate investments and their respective risks. Example, if your interest rates rise and increases your bond repayments then you should evaluate the repercussions of these increased interest rates on your stock portfolio.

Once the issue of risk has been dealt with; one now needs to focus on the issue of returns. The issue of return is more difficult to ascertain since expected return in two or three competing investments is very difficult to establish.

It is important to bear in mind that the higher the risk, the higher the potential return, but then too, are the chances of losing money. Investors must appreciate the investment risk associated with their chosen investment strategy and should have an understanding of possible fluctuations in value of their investments in the short and long term, to deliver

the required rate of return. It is important to remember that the higher the rate of return, the longer the time period required for the return to be reliably attained.

Risk should be constantly monitored not only for certain investments the investor has made, but for the entire investor's portfolio. An investor's personality type or their age can both affect investment decision making. Young, ambitious investors are most likely to take greater risks in attaining higher returns by recklessly investing than old, conservative investors that are primarily concerned with making acceptable returns thus making more cautious investments. Generally conservative investors will diversify their portfolios by investing in fixed deposit, property market or unit trusts, while the young investors will be more willing to invest in the challenges provide by the volatility of the share market.

The risk-return trade-off is a key concern when making investment decisions, bearing in mind that the higher the risk the greater the reward. An investor's portfolio should therefore be planned according to their risk tolerance level. Many people are of the opinion that risk should not be totally avoided as it offers one the opportunity for achieving higher returns. In order to define "return" an investor needs to distinguish between capital growth and income. Capital growth concerns the value of an asset, and can only be established once the asset is sold or cashed in. Income on the other hand is the continuous stream of money as a result of the purchase of that asset. The four most important considerations that could have devastating effects on ones investments and hence the risk-return trade-off is inflation, tax, transaction costs and currency movements.

Risk to investors represent the periods of "markets falling" causing unprofitable returns and at the worst case scenario, losing ones entire investment. Like any investment situation, periods of boom can turn into disasters, and periods of disaster can turn into boom. This is essentially what makes investment decisions very trick and risky. But, one has to bear in mind that there is a greater possibility of failure turning into gains only after a long period of investments. Two types of risk, an investor should understand are, namely:

❖ Investment risk

On a broader spectrum there are two types of risks that investors are exposed to namely systematic risk and unsystematic risk. Systematic risk concerns those risks that are unavoidable and cannot be controlled by an investor, as it is inherent to the market as a whole. Unsystematic risk on the hand is a more controllable risk, which offers an investor the opportunity to exercise some degree of management e.g., by holding a diversified portfolio of investments.

The broad possibility of risk stated in alphabetical order that investments can be exposed to is as follows:

- Advice risk-the risk of being misinformed or deceived regarding an investment
- Asset class risk-the risk of being in the wrong asset class when performance levels are low
- Business risk
- Capital risk-the biggest risk facing all investors. Capital risk is the risk associated with losing ones capital
- Company or fund risk-important to share market investments. If companies go bankrupt; the investment will be lost
- Country risk-if making off shore investments, the foreign countries environment and market conditions could impact on your returns
- Currency risk-Fluctuations in currency values may undervalue ones investments
- Inflation risk-One's investments may not provide acceptable returns above the inflation rate.
- Interest rate risk-Changes in interest rate values may make one's investment prohibitive to maintain.
- Market risk-markets are constantly fluctuating and going through various cycles. In rare instances the market can crash e.g. October 1987 and October 1997 stock market crashes
- Market sector risk-the risk of a particular sector moving downwards
- Portfolio risk-risk of choosing the wrong portfolio could have adverse effects on your finances. The key is to invest in a wide range of investments which perform differently and are affected by different market influences
- Product risk-risk of investing in the wrong product. Investment returns change according to market situations. What may seem a good investment now may be

useless later. The key is to diversify rather than choosing a specific investment in order to minimise risk

- Political risk-An unstable government or changes in legislation can result in confiscation of ones assets. E.g. Zimbabwean crisis
- Prudential risk-linked to systematic risk. Risk of ones investment being stolen e.g. risky to invest in unlisted companies. Also includes the risk that ones asset manager may not manage the investment satisfactorily
- Systematic risk-the potential of a system collapsing e.g. banks
- Taxation risk-various changes to tax laws can affect ones investments.
- Timing risk-risk of timing the market. it is almost impossible to do and many have lost great amounts of money by believing they can time the market
- Volatility risk-values of investments do go up and down. e.g. If the share market is down, an investor will lose badly if he decides to sell his shares

❖ Personal risk

Investor's needs to decide whether they are conservative or aggressive type of investors, and formulate their investment strategy accordingly. Conservative investors would plan cautiously to ensure the stability and safety of their capital, whilst aggressive investors would be prepared to take higher risks with the hope of achieving higher returns. A moderate investor is someone that rests between the both types. The following table can be used to establish whether one is an aggressive, conservative or moderate investor.

QUESTIONS TO ASSESS INVESTOR TYPE	YES	NO
▪ Do market fluctuations keep you awake at night?		
▪ Are you unfamiliar with investing methods and procedures?		
▪ Do you consider yourself more of a saver than an investor?		
▪ Are you comfortable with the ups and downs of investment markets?		
▪ Are you knowledgeable about investing in your chosen market?		
▪ Are you investing for a long-term goal?		
▪ Can you withstand considerable short-term losses?		
▪ Are you fearful of losing 25% of your assets in a few days?		

Key: Answers to the above questions:

- More Yes than No = Conservative investor
- More No than Yes = Aggressive investor
- Equal Yes and No = Moderate investor

Table 5.1 Questionnaire to assess investor type

Source: Adapted form The Millionaires Portfolio (p70)

After establishing the type of investor an individual is; they should determine their risk profile by considering the following factors:

▪ How long you are prepared to invest for-the longer ones investment period, the less likely one is subjected to short-term market volatility
▪ How much money one earns or has-the greater the amount of money one has, the more one may be able to handle investment losses
▪ Your investment knowledge-it is important for an investor to be knowledgeable regarding the chosen investment
▪ Your investment target-investment targets needs to be established to formulate investment plans and goals
▪ Your age-younger investors have more time to recover losses than older investors
▪ Your health-if an investors health is not optimal and their earning years are numbered, they should have a lower risk profile

Table 5.2 Establishing risk profile

Source: adapted form Cape Times (November 2001)

5.3 The importance of Inflation on Investments

5.3.1 Overview

Inflation has often been termed South Africa's worst enemy. What is inflation? Inflation is a process of continuous increase in the prices of most goods and services in a country. This does not necessarily mean that all prices increase. There may be some exceptions. Inflation can therefore be described as a persistent general increase in prices. Inflation is measured by defining a basket of goods and services used by a "typical" consumer and then keeping track of the cost of that basket.

Looking at past inflation rates, the double-digit inflation which reigned from 1974 to 1992 left considerable scars in the South African economy. The double-digit inflation had caused serious distortion in the economy and undermined the buying-power of people as illustrated in the following example. A basket of goods which cost R100 in early 1983, shot up to R380 in early 1993, and currently amounts to R815. Although inflation has receded to single-digit levels and has averaged around 7, 8 per cent per annum over the last ten years, this has still not been enough to sustain the economy or increase living standards of people.

It is by now well-known that the South African government has set a target of 3 to 6 per cent for CPIX inflation. In 2002, the actual outcome was 10 per cent but this outcome was not unexpected in the light of the 34 per cent depreciation of the nominal effective exchange rate of the rand during 2001. It fed higher rand prices for imported products into the inflation spiral. The adoption of inflation targeting policies by the government and the reserve bank has managed to control inflation to a certain degree. However, unpredictable factors such as the depreciation of the rand in 2001 and its subsequent domino effects have caused inflation rates to fall out of its target band.

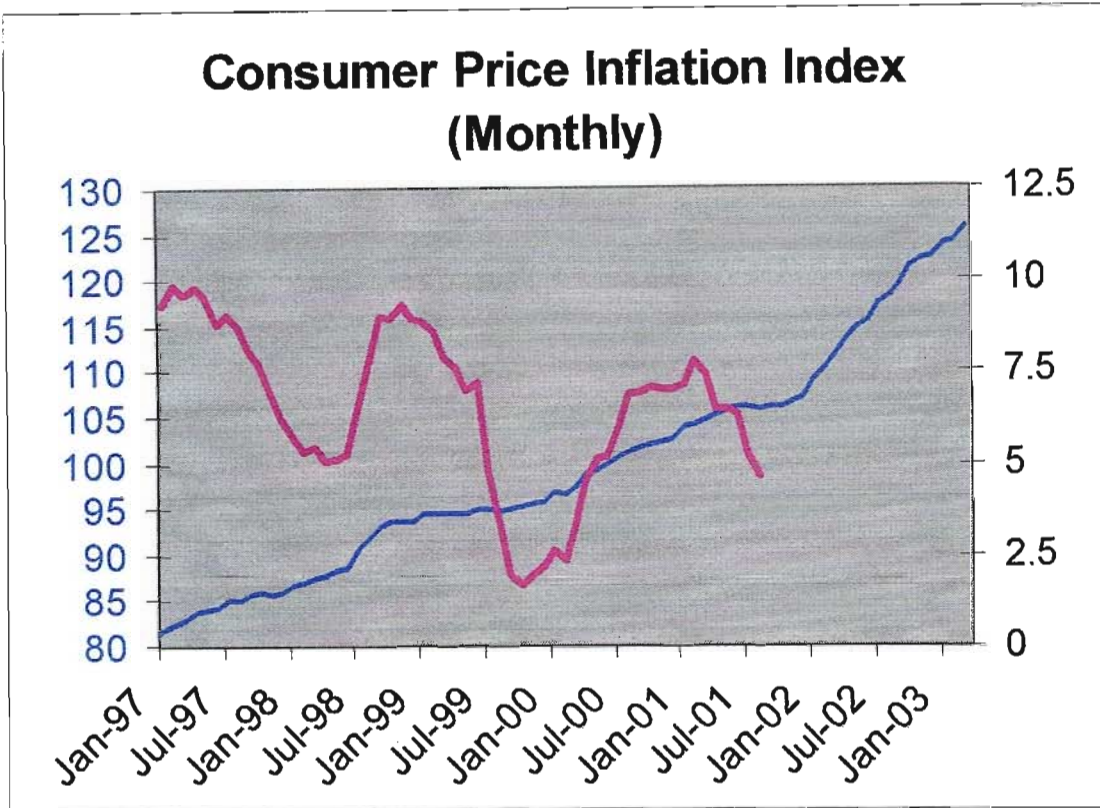


Figure 5.1 Consumer price inflation index

Source: <http://www.ed.standardbank.co.za/data/historical/pctx00.xls>

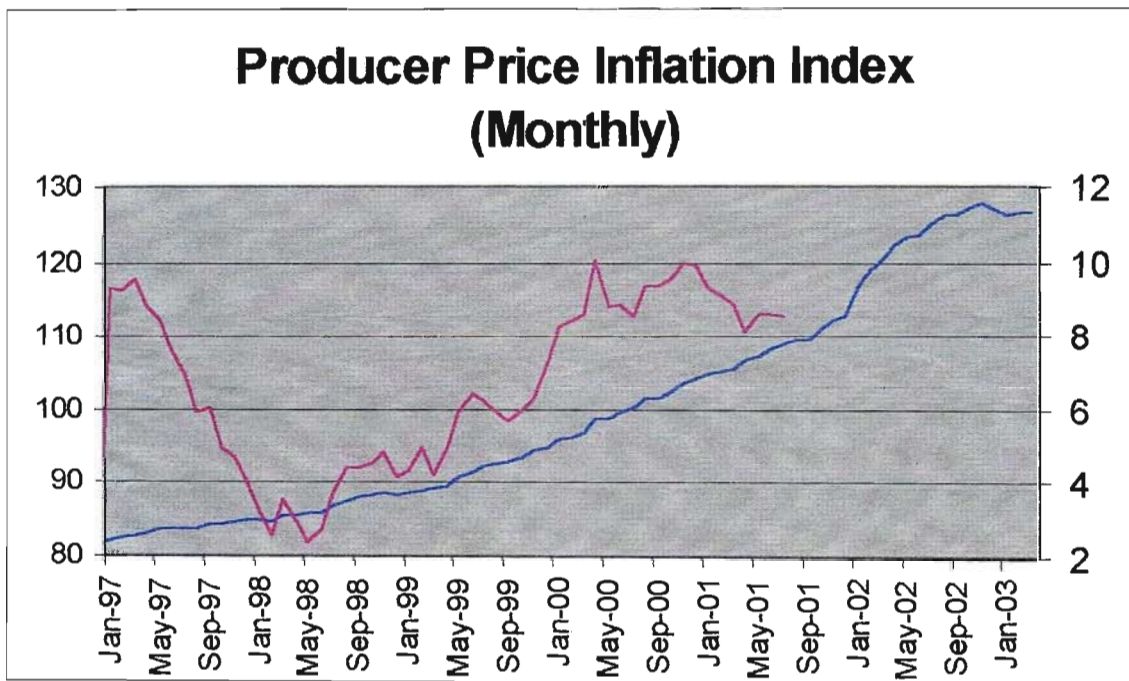


Figure 5.2 Producer price inflation index

Source: <http://www.ed.standardbank.co.za/data/historical/pctx00.xls>

Inflation leads to many distortions and causes various problems in the economy, namely:

- Losses to savers

If one saves their money by hoarding cash, inflation erodes the purchasing power of the amount saved. Even if one saves in the form of savings deposits which pay interest, the interest may not be enough to compensate you in full for inflation. This also applies to pension planning, where a person may, for example, save for a pension during his entire working life, just to find at the end of his career that his savings have been eroded by inflation.

- Losses to people with fixed incomes

People earning fixed incomes (such as the interest on a fixed deposit, or a fixed salary) will find that the purchasing power of their income diminishes over time. People in more affluent positions have the means to protect their earnings against inflation by investing in assets, such as shares or property, which increase in value during periods of inflation. Therefore it can be concluded that inflation indirectly aids in creating greater inequalities between different income groups.

- Losses to taxpayers

If an individual's salary increases in line with inflation, and no adjustments are made to income tax, the individual will then move into a higher tax bracket. This would result in greater tax being paid. This can also be regarded as an indirect way utilised by a government to raise money, without having to formally raise taxes.

- Confusing price signals

Inflation and the laws of supply and demand often clash, creating conflicting situation and confusing price signals to all participants in the market place. The law of supply and demand states that, as demand increases so too does the price. Under inflation circumstances, an increase in the price of a product can occur simply as part of the regular inflation-related adjustments to prices. These two kinds of price increases can send mixed signals to consumers and producers.

- Negatives effects on production

An environment of high inflation and financial instability causes individuals to invest in other asset classes such as property as a way to combat inflation. This speculation and negative sentiment amongst individuals causes people not to expand their businesses nor increase production.

- Tension, unrest and social disruption

A country fraught with high inflation devotes more energy to redistributive issues, in which case each person or group perpetually tries to gain or regain a better price, wage or position. Unacceptably high inflation causes the cost of living to rise beyond acceptable levels. This has the power to cause tension, unrest and social disruption in a country. E.g. Brazil crisis, Argentina crisis

There are many alternatives to fight inflation, but two main options that an investor should consider is as follows. The first one is to invest early in an inflation-beating portfolio. It is critical that one holds a diversified portfolio and seek investments that have inflation-linked guarantees. The second option is to invest a large portion of ones fund from the last few years of salary, since ones salary in the latter years of ones life will be better than earlier year's salaries.

The government and the South African Reserve Bank is strongly opposed to high inflation, and uses its monetary policy to combat it. Such inflation targeting policies is essential for continued economic growth, prosperity and a fair distribution of income and wealth.

5.3.2 Investment implication

Inflation or deflation can drastically affect investment returns and as a result should be considered in ones investment strategy. Inflation refers to a rise in consumer prices and is measured by the government through the CPI (consumer price index). The CPI is a measure of goods regularly purchased by the majority of consumers. A "basket of goods" is used as a measure to compare prices on an annual basis. If the value of the "basket of goods" has risen by 10% from year 1 to year 2, it can be concluded that the inflation rate is 10%. Not considering the effects of inflation on investment will produce false results such as inflated rates of return. Therefore for investor's to ascertain the real

rate of return, inflation rates and tax rates have to be deducted. From the example given below, it is evident that vast differences occur in return projections if inflation and tax rates are not considered.

Initial investment	R1 million
Compound growth (@15.2% a year: 1990-1998)	R2.1 million
Total investment	R3.1 million
Less inflation: (average 1980-1990 @ 8.7%)	R269 700
Pre-tax investment	R2 830 300
Less tax on interest (@ 45%)	R1 273 635
Net investment	R1.6 million

Table 5.3 Example of inflation and tax implications on an investment

Source: Millionaires Portfolio (p83)

The inflation rate should be built into any investor's strategic plan as it provides a useful tool in determining long-term rate of return. Inflation rate can also be used by investors as a benchmark to monitor investment's performances. If an investor aims at getting inflation plus three percent, and achieves it, then the investment is doing well. Anything above that should be considered a bonus.

5.4 The importance of Interest Rates on Investments

5.4.1 Overview

Short-term interest rates in South Africa are regulated and influenced by the government and by the use of its banker, the Reserve Bank in the form of utilising monetary policies. The reserve banks lend monies to commercial banks in the form of repo rates, which is determined daily by tenders. The Reserve bank manipulates the level of repo rate indirectly by altering the amount of liquidity which it makes available to commercial banks. If the reserve bank wants to increase liquidity, it will reduce the repo rate, therefore allowing banks to reduce interest rates. This results in the creation of more demand for borrowing. Conversely, if the reserve bank believes that there is an unnecessary creation of liquidity in the economy, it will intervene and raise the repo rate. This increase will now force commercial banks to increase interest rates to fund the increased costs associated with the increase in the repo rate. Thus through the use of

monetary policy (interest rates), the government attempts to control the pace of the economy. When the economy is running too slow, the government decreases the interest rates, thereby encouraging greater spending in the economy. Likewise, when the economy is running too fast, the government increases interest rates, thereby curtailing consumer spending in the economy. However, although the government and reserve bank can manipulate short to medium-term interest rates, controlling long-term interest rates is almost impossible for numerous reasons:

- The ability of the government to balance its own budget.
- Interest rates tend to have a high association with inflation rates.

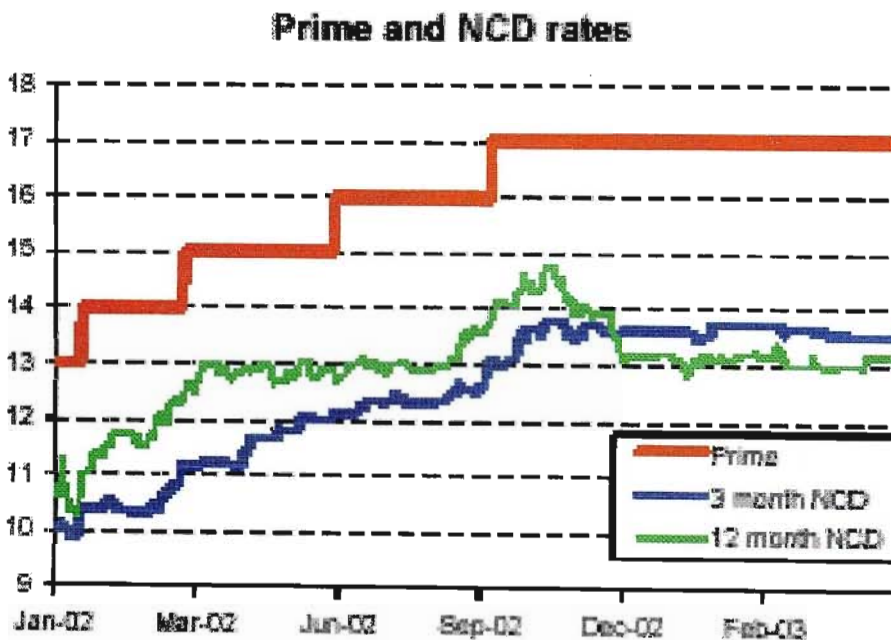


Figure 5.3 Prime and NCD rates

Source: www.absa.co.za

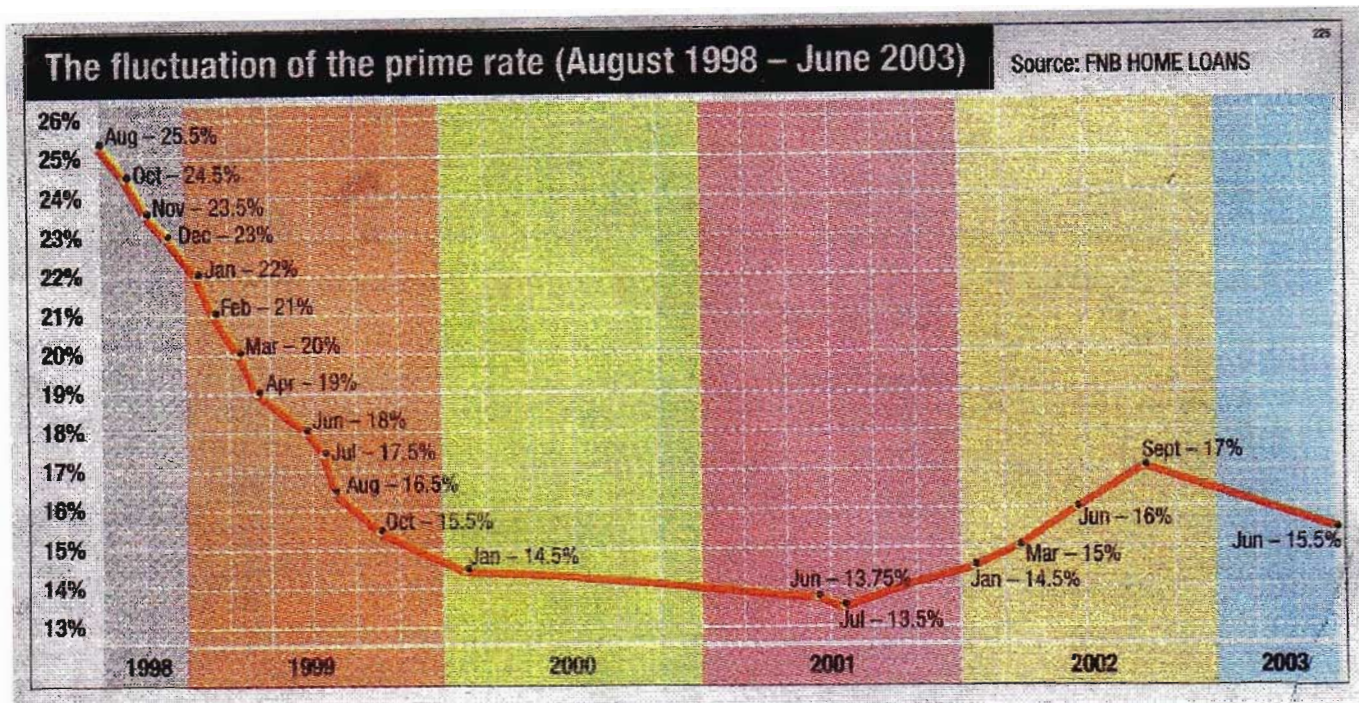


Figure 5.4 The fluctuation of prime rate (August 1998-June 2003)

Source: Personal Finance (14 June 2003)

5.4.2 Investment implications

Interest rates are therefore indirectly predetermined by the demand of capital in a country. If the demand for capital increases, interest rates rise, therefore causing investments to become more expensive. Conversely, if there is low demand for capital, interest rates decrease hence making certain investments more economical to invest in? As previously mentioned, high interest rates can be associated with bear markets and low interest rates can be associated with bull markets. Interest rates are also generally high during periods of inflation thus making the cost of capital more expensive.

In holding a diversified investment portfolio, changes in short-term interest rates will not produce devastating results for the investor, as any gains in ones asset class can offset the losses in another.

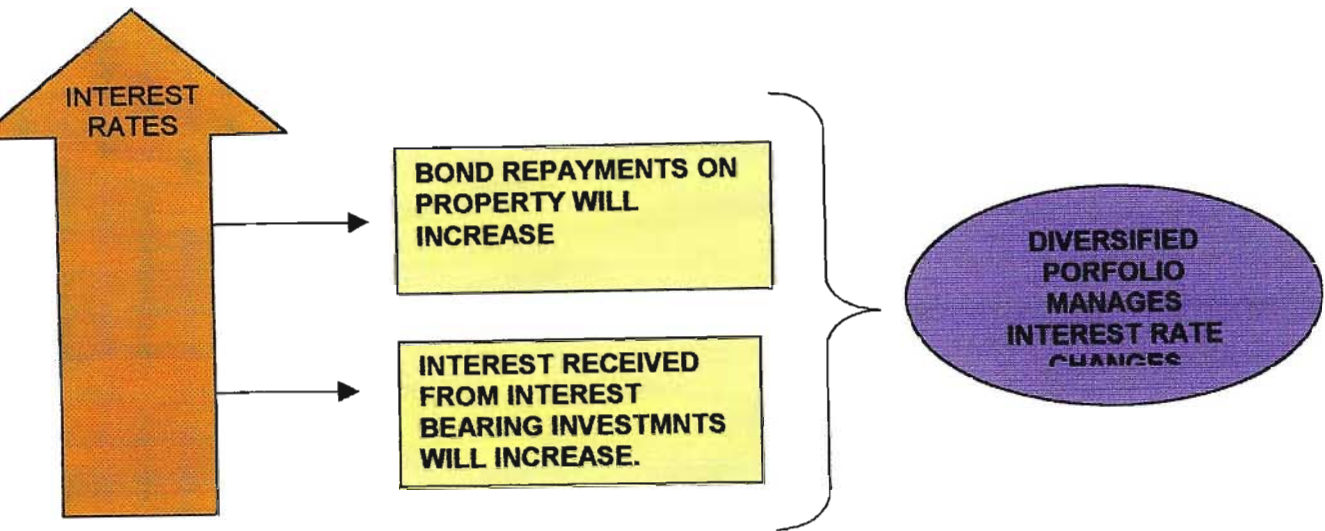


Figure 5.5 Interest rate implications on an investment

- Interest Rate Driven: A point in the business cycle when interest rates are declining and bond prices are rising. Money will tend to shift from interest rate instruments to equity-based instruments.
- Inverted Yield Curve: Short-term interest rates are higher than long-term rates. This occurs when demand for short-term credit is escalating, thus driving up short-term rates. This is usually a sign of increased inflation, accompanied by low levels of confidence in the economy. A recessionary period has been proven to follow this situation.

5.5 The importance of tax on Investments

5.5.1 Overview

Tax plays an important part to all earners in society and most people look for loopholes to minimise their tax payments. This can be done by looking at the various legal ways available between the various types of taxation and by taking advantage of the exemptions allowed by tax authorities. South African tax rates are considered to be higher when compared to other countries in the world. This is partially due to a greater amount of funds needed to sustain the economy. High unemployment rates, poor infrastructures, sub-standard education and poor social services require great funding. One of the ways this additional capital is raised is through taxes. Tax issues that need to be considered are:

- Deferment of tax to a later date- e.g. retirement products
- Preferential tax- e.g. average tax rate of retirement lump sums
- Exemptions from tax- e.g. From capital gains tax
- Tax arbitrage- e.g. interest and rental income in life assurance products are paid on your behalf

Tax is generally paid according to the tax bracket one falls into. With regards to investments, equities provide the greatest return against tax, since dividends are non-taxable. Interest bearing investments provide returns in the form of interest, which are taxable and can therefore not be regarded as good investment choices. Tax laws are constantly changing and are very complex to analyse. It would be wise for investors to seek thorough tax advice before any investments be made. Understanding how returns or any capital gains are taxed is crucial to any investment choice; since it has the capacity of reducing ones returns substantially. Taxes that can affect ones investment are:

- Income tax-this is tax one pays on income received e.g. tax on interest, tax on rent, tax if one is considered to be a trader in shares
- Capital Gains tax- The introduction of the new residence based taxation in October 2001; Capital Gains Tax has created serious effects for existing and future investors. This is tax one pays on investments that have capital growth. In terms of residence-based tax, one is expected to pay tax on assets held within as well as outside the country.
- Donations tax-this is tax one pays on any investment worth more than R25 000 that one donates in one year
- Estate duty-this is tax on investments that one inherits

5.5.2 Capital Gains Tax

Since its introduction in October 2001, capital gains tax has been a much talked about and feared topic by investors since the implications it has on investments can hinder ones returns. A larger part of this section 5.5.2 has been dedicated to this tax, since it is relatively new and can have serious repercussions on ones investments. CGT can be very complex and it is advisable for investors to use this section as a brief guide; and further information should be obtained from ones lawyer, accountants and available

books. Capital gain is essentially the profit one makes when one disposes of an asset; and profitability takes into account the cost of the asset plus the costs of anything that has been done to make the asset more profitable. CGT was introduced as a counter measure to dispel any tax loopholes. In the absence of CGT, a shrewd investor could convert income (which is taxable) into capital gains (which was not). It is of utmost importance for investors to keep proper records of all costs for CGT purposes.

There are a host of things that are affected and not affected by CGT; but for the purpose of this dissertation the researcher will only focus on assets that are applicable to the topic.

- What is not affected by CGT
 - One primary residence unless you make a gain of more than R1 million or it is bigger than two hectares
 - Jewellery, artworks, antiques and other personal effects
 - Lump sum from pensions, provident or retirement annuity sums
 - Lump sums from endowments
 - Any gain one makes on exchanging foreign currency into Rands when one returns from an overseas trip
 - A gain of up to R500 000 on the sale of assets from a small business on retiring

- What is affected by CGT
 - property one does not use as primary residence (including any rights to property as well)
 - land
 - shares
 - unit trusts
 - Kruger Rands
 - Any asset one inherits. The deceased estate will be liable for the CGT and the heir will be deemed to have received the asset at market value. CGT will be charged in addition to estate duty.

• Relevance to property and share market investments

- Primary residence: primary residence is considered the home you live in and which is owned in your name. A home owner will be given a year's concession to transfer property out of a close corporation or company into ones own name in order to qualify for an exemption from transfer duty.
- Shares: If the tax authorities consider you to be a trader, your profits on share sales will be regarded as income and you will have to pay normal income tax. However if you not considered to be a trader, profits will be considered as capital gain and you will be liable for CGT when you sell your shares.

❖ The tax rate

An individual will only be taxed on that part of the capital gain which accrues after 1 October 2001 and will pay CGT as part of ones normal income tax return. An individual will be taxed on one quarter of the aggregate capital gain i.e. Total of all capital gains for the year less any capital losses. The first R10 000 of ones aggregate capital gain or loss will be disregarded. On the remaining gain, an individual will be taxed at their marginal rate (the highest rate of tax you pay on your income). An individual can offset capital losses against capital gains, but cannot offset capital losses against income. CGT will be charged at 25 percent of the gain to ones marginal tax rate. Marginal tax rates range from zero to 42 percent depending on ones annual income. The effective rate for CGT is hence anything from zero to 10.5 percent for individuals. It is interesting to note that this rate is lower than income tax rates; hence it might be wise for an investor to convert income into capital gains.

❖ The base cost

Capital gains are essentially the difference between the base cost of the asset and the sum one receives at the sale or disposal of the asset.

Base costs include:

- Acquisition cost-what was paid to attain the asset
- Costs associated with acquisition and disposal- e.g. Transfer duty, legal fees, advertising costs, agents commission, brokers fees, stamp duty, conveyancing
- VAT
- Improvement costs-the amount you spent to improve the value of the asset

- Any legal cost- e.g. costs one has occurred if one had to go to court to maintain the right to an asset one already owns

Base costs exclude:

- Current expenses such as insurance, repairs and interest on loans

❖ Examples of CGT

- For shares: What is the tax rate?

Assume you bought shares in October 1990 and sell them in October 2003. You will only pay tax on the increase in the price of the shares between October 2001 and October 2003. Assume further that you are on the top marginal rate of 42 percent and make a capital gain of R20 000. Your CGT will be calculated as follows: R20 000 less R10 000=R10 000; divide by one quarter=R2 500; tax at 42 percent=R1 050.

- For property: How do you value an asset before October 1?

Assume you bought a plot five years ago for R50 000. In 10 years time you decide to sell the plot and you receive R260 000. In 15 years the plot has gained R210 000 in value. You can only be taxed on the part of the capital gain that took place after October 1, 2001.

Full capital gain=R210 000

Period=15 years of which 10 years fall after October 1 2001

Taxable portion of gain=10/15

Taxable gain 2/3 of R210 000=R140 000

5.5.3 Investment implications

❖ Property market investments

- return on property investments is called rent-rent is taxable as income
- property trusts pay dividends-these dividends are taxable
- capital gain is not taxable for ones primary residence.(or ones first property)
- however if the investor is considered to be a trader in property(owns more than one property simultaneously), then only will the capital gain be taxable
- capital improvements, e.g. renovations to an existing properties does not warrant any tax deductions

- maintenance and routine expenses relating to investment property only can be tax deductible e.g. repairs, insurance, council rates, advertising, etc.
- however it is important to note that no tax deductions are allowed for primary residence.

❖ Stock market investments

- dividends received from any share market investments are exempted from tax in the hands of the investor only
- however, the company itself pays a secondary tax (STC) before distributing dividends to investors-to the private investor this knowledge is really not relevant
- dividends received from offshore equities is taxable

5.5.4 Example of the effect of tax on investments

The implications of the effects of tax are very severe, especially to an investor who is in the top marginal income tax rate of 45 percent. (This tax has been reduced to 40 percent).

An example conducted by JP Morgan Equities is as follows:

- Equities: A R1000 investment in equities in 1960 with income ploughed back would, on a pre-tax basis be worth R717 792 now. But after tax (dividends were taxed until the early 1990's), an investor would receive only R444 587. Income tax was assumed to be constant at 45 percent.
- Fixed deposits: If the same R1000 was put into fixed deposit in 1960, it would be worth R57 302 today. However, after paying tax at a constant rate of 45 percent, one would only be left with R9 779 today.
- Property: When one invests in property (mortgage bond), no interest is received; hence one does not pay tax on it. Therefore one is eliminating a non-tax deductible expense, which is the same as making a tax-free investment.

5.6 The importance of South African Rand on Investments

5.6.1 Overview

Fluctuations in the value of the rand against other currencies have an important effect on the future course of the economy. South Africa imports about 25 per cent of all the goods and services it uses in the country, and exports over 20 per cent of its total domestic production. The serious fall of the rand as witnessed in the early 2002 had serious consequences for inflation as well. There is also the underlying danger that the indirect or subsequent effects of the depreciation can in the long term lead to an escalation in the rate of inflation. However, not all price changes are bad for the economy, and an anti-inflation policy must be flexible enough to accommodate relative price adjustments that contain important signals for change. The depreciation of the rand can, for example, turn out to be beneficial for the South African balance of payments if a greater part of domestic production can now be diverted to exports, and even more so if domestic production can be increased, both for export and for domestic consumption. This however will only be possible if overall inflation can be constrained, and if production costs per unit of production will not rise. Otherwise, the competitive advantage for South African producers created by the depreciation will be of short duration.

This makes South Africa's anti-inflation policy even more critical than before the depreciation took place. South Africa must continue to pursue its inflation target over time to reduce the inflation in this country to a level that will be more in line with the average level of inflation in the economies of our major trading partners. The time horizon may have shifted -- the objective remains the same. Inflation has come under a new threat, and the task of the Reserve Bank to protect the value of the rand now faces a new challenge

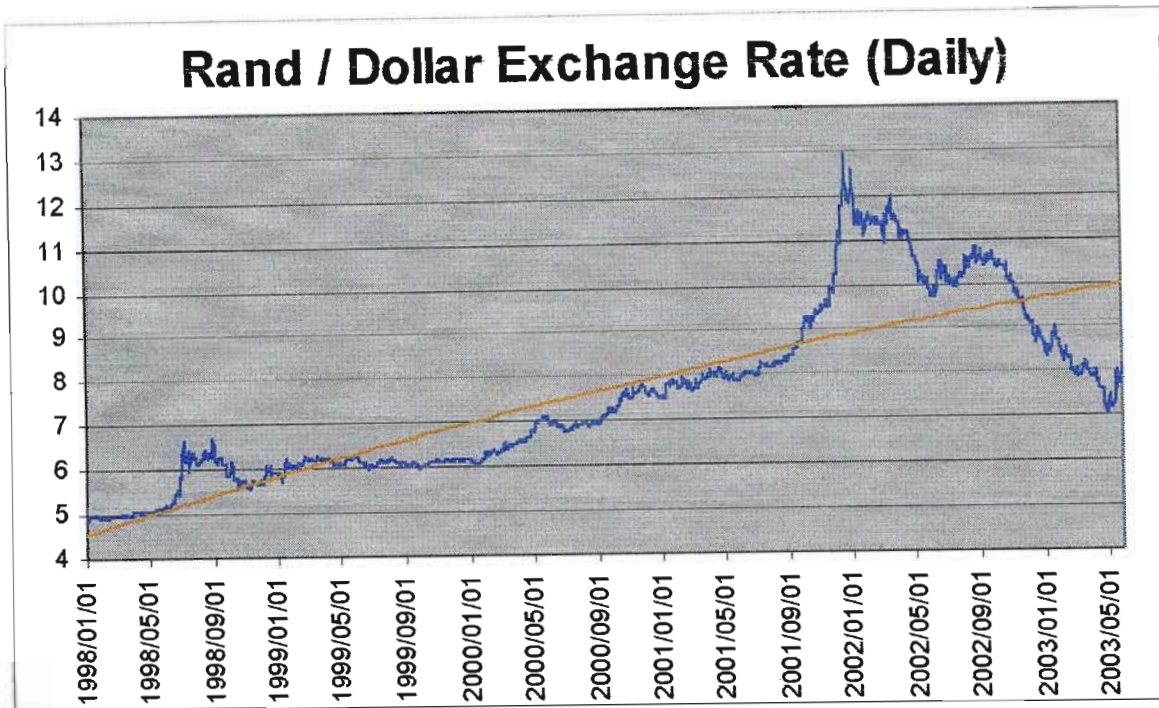


Figure 5.6 Rand/Dollar exchange rate (01 January 1998 to 01 May 2003)

Source: <http://www.ed.standardbank.co.za/downHistorical.html>

5.6.2 Investment implications

South African investments are relatively cheap in world terms partly due to the depreciation of the rand. However with the strong rally of the rand presently, many investors are now faced with whether to invest in local markets or off-shore investments. The depreciation of the rand, as previously displayed in 2002 provided many benefits for investors with offshore investments. Although the rand is displaying strength against the US dollar presently, the value may change overnight depending on various factors.

Many South Africans with off-shore investments have felt the effects of the market downturn dramatically when the rand started strengthening last year. The strengthening of the rand coupled with falling world markets has had a severe effect on ones investment. The majority of South Africans have most of their assets invested locally, thus if the rand strengthens (as it has been doing in the past few months), and their offshore portfolio is down, they would still be in a better position since the larger portfolio of their assets would have greater value. An example to explain the effects of the strengthening and weakening of the rand on investors local and offshore investments is as follows:

Assumptions: A combined investment portfolio of R1.1 million, with R1 million invested locally and R100 000 invested off-shore with the currency exchange rate of R10:\$1.

		Local	Off-shore	Total effect
Current rand	R10:\$1	R1 million (R100 000)	R100 000 (R10 000)	R1.1 million (R110 000)
Strengthening of rand	R14:\$1	R1 million (+R140 000)	R70 000 (R10 000)	R1.07 million (R150 000)
Weakening of rand	R7:\$1	R1 million (+R70 000)	R140 000 (R10 000)	R1.14 million (R80 000)

Table 5.4 Example of strengthening and weakening of the rand on local and off-shore investments

Source: Adapted from Personal Finance, 05 April 2003 (Independent on Saturday)

The above table illustrates the need for investors to think about the currency implications of their investments and where their future liabilities may lie. Wishfully believing that the rand will only weaken and that investing off-shore is a way to make money from the rand depreciating, has caused investors to lose vast amounts of money, now that the rand has strengthened.

5.7 The importance of information search

To be a successful investor one has to be an informed investor and this can only be achieved by building up a resourceful financial library. This can only be achieved by constantly researching and conducting information searches. Making investments without gathering information is just as well as taking a gamble with ones hard earned money. Information regarding the economy, various sectors in the market, and individual companies should be accumulated if an investor wishes to invest in the stock exchange.

Time after time the researcher has constantly emphasized the need and importance of information search as a method of helping an investor reduce their risk exposure. Investments do not function in isolation, but rather are faced with a host of internal and external factors that impact or play a great influence in the efficient and successful functioning of that investment. Equally important, is that research allows an investor to compare the various investment alternatives. Information search is not just limited to

before one embarks on an investment, but constant monitoring even after the purchase has been made is equally important. Thanks to rapid technological advancements, this process has become relatively easy with the Internet becoming one of the most valuable sources of information regarding almost everything. There are various other sources that could be useful to investors, e.g. Annual reports by companies, bank reports, newspaper and magazine articles, documentaries, councils or organisations for specific industries, investment advisory companies, government and economical statistics, etc. There are a host of external and internal factors an investor should research in relation to an investment opportunity.

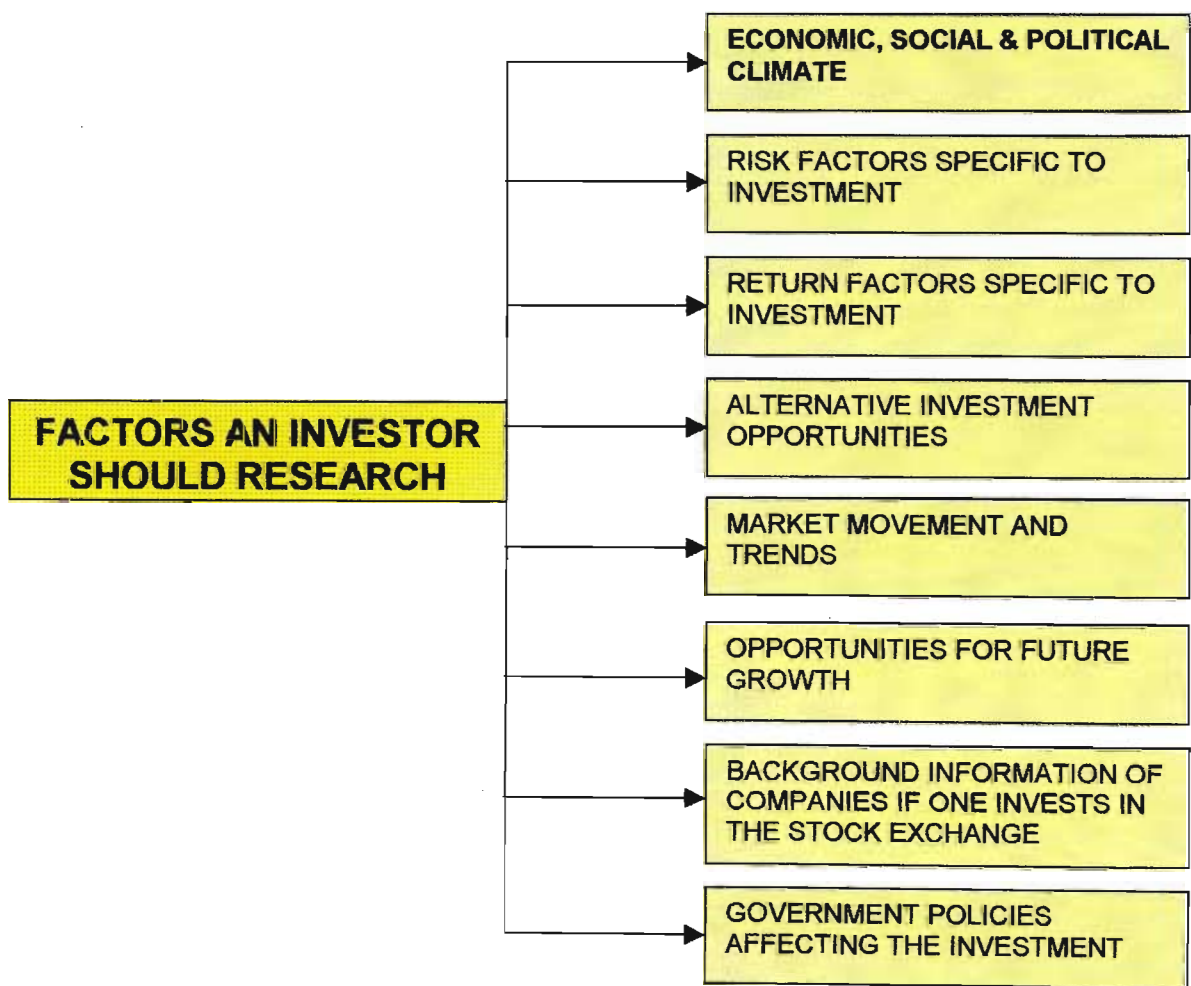


Figure 5.7 Factors an investor should research

After an information search has been conducted, an investor should realise that the onus is upon him to make an independent assessment of his financial position, and formulate an action plan accordingly. An investor should carefully sort and analyse all

the relevant information and never make any decisions hasty. Fortunes have been lost overnight in making hastily and greedy investments.

5.8 Important statistics for investors

The importance of market research has been constantly emphasized to potential investors. There are various sources of information available to investors that are interested in making sound and reliable investment decisions. The information received from these statistics can help explain the position of our economy and aid an investor to make better informed market-related investment decisions. However, information received from these statistics cannot be regarded as gospel, as errors can occur. Some of the most commonly used statistics that indicate the position of our economy are:

Statistic/Index	Description
Consumer price index	The CPI is a measure of goods regularly bought by majority of consumers. A "basket of goods" is used as a measure to compare prices on an annual basis. If the value of the "basket of goods" has risen by 5% from year 1 to year 2, it can be concluded that the inflation rate is 5%.
Gross domestic product	GDP represents the amount of production that occurs in the economy during a three month period. On a broader scale, this information is relevant in showing how efficient production in the economy is.
Real gross domestic product	The real gross domestic product is a measure of GDP adjusted for inflation. Real GDP uses the value of total production in an economy from the previous year to ascertain the amount of change in production from one year to the next.
Unemployment rate	The unemployment rate depicts the percentage of the official workforce that is employed, and is a good indicator regarding the position of our economy.
Consumer confidence index	The consumer confidence index displays the degree of confidence consumers have regarding the economy. A series of questions are asked to a sample of consumers and their responses are statistically measured to establish their

	confidence in the economy.
Misery index	The misery rate indicates the problems caused by unemployment and inflation. If the unemployment rate is 4% and the inflation rate is 5%, then the misery index is said to be 9%.
Alsi 40	Applicable to the JSE only. This is a collection of 40 stocks trading on the JSE, and they collectively indicate whether stock prices are rising, falling or remaining the same.

Table 5.5 Commonly used statistics

5.9 Investment alternatives

For the purpose of this dissertation, the property market and stock market were used as investment choices available to investors and were compared to enable investors to make better informed investment decisions regarding these two alternatives. However, for the sake of completeness in compiling this dissertation, it is incumbent upon the researcher to state various other alternatives available that could provide profitable investment opportunities to the South African investor.

❖ Fixed interest bank deposits

- can provide cautious investors with stability
- can be used as a short-term saving opportunity
- provides below inflation returns
- can be viewed by many as not a viable option as it does not provide substantial profits

❖ Unit trust

- a system where money from a number of investors is pooled together and invested collectively in investments such as shares and bonds.
- each investor owns a unit, (or a number of them) the value of which depends on the value of those items owned by the fund.
- a unit trust allows modest investment to be diversified away from a holding in a single or small number of companies.

- enables investors to protect their capital against inflation and to accrue capital growth
- risk is comparatively lower but only viable if considered as a long-term investment
- unit holders: The investors in the pooled fund who beneficially own the assets of the fund.

❖ Gilt market

- also known as Bonds and are state issued script's (governments issue gilts to obtain finance for certain commitments. E.g. building of roads and hospitals)
- a Government security (when the Government wishes to borrow money, it issues stocks which can be bought and sold on the Stock Market; the price of these stocks depends upon current yields).
- pays a fixed interest rate
- risk is relatively lower since they are issued by the government
- not a viable option to small investors as a standard unit could cost approximately R1 million rand (depending on the supply and demand for them)

❖ Bonds

- a bond is a loan agreement with a company or the Government (i.e. the company or government issues bonds) whereby there is an arranged repayment to the investor when the loan matures and the investor receives interest throughout the life of the loan.
- see Gilt market

❖ Warrant market

- this is an investment which gives the owner the right to buy new company shares at an agreed price at a future date.
- although warrants can be purchased like a share, they are usually introduced as an incentive to an investor to take an offer from the company
- available through the JSE and a form of investing in shares on the stock exchange
- generally a warrant gives an investor the right, but not the obligation to buy/sell shares at a fixed price at a future date
- allows an investors to buy/sell warrants on the JSE at a lower cost

- main benefit is that the maximum amount an investor can lose is only the price paid for the warrant
- two types, namely call warrants and put warrants
- call warrants: allows investors to profit from share price increases
- put warrants: allows investors to profit from share price decreases
- however they tend to have a more volatile price than company shares

❖ Futures market

- this is a contract to buy or sell a commodity at a future date, at a fixed price which is agreed now
- similar to the warrant market in its operation and complexity
- can be profitable to investors, only if they understand the system of futures
- allows an investor to hedge and protect their investments against negative market fluctuation
- whilst wealthy private individuals trade them, futures are normally traded by institutions as a substantial amount of risk can be involved.
- a future is a derivative.

❖ Listed property

- important for investor to realise the differences between direct property investments and that of listed property shares on the JSE
- listed property investments distribute mainly rental income generated from lease agreements
- property managers must distribute 100% of earnings from listed property, making provisions only for bad debts and maintenance
- since they distribute mainly rental income, they are comparable to interest bearing investments such as money market instruments and bonds
- return's received on listed property is fully taxable
- cost of listed property is determined by current interest rates-rising interest rates imply falling share prices, and vice versa
- has been said that listed property offers a higher yield or income than other income-generated asset classes

- since equity markets are subjected to market volatility and uncertainty, listed property is considered more secure and relatively predictable since income is derived from leases which are generally contracted for years

- ❖ Krugerrands

- are gold coins and may be able to provide a hedge against rand fluctuations
- may not be viable to many investors as prevailing crime conditions in South Africa make it impossible to safely store them (unless one has safety deposit lockers-not an option available to many)

- ❖ Other markets

- people also make great investments in other types of markets, e.g. Artworks, coins, horses, jewellery, antiques, classic cars, fine wines etc
- the risk is substantial and generally not very profitable
- the main success depends on the knowledge of the investor
- not a very lucrative market to invest in, if an investor does not have a keen interest in the subjects
- it is advised that investors seek highly specialised advice before investing, as investments can be quite erratic, i.e. when highly sought after, you could receive a high return but economic recessions or fashion trends can lead to lower returns on your investment.

- ❖ Managed investments

- is essentially a way for small investors to pool in funds to take advantage of opportunities that could not be achieved individually
- developed on the premise that pooled funds could be beneficial to all investors
- allows small investors with minimal funds to hold shares in major companies or invest in prime commercial properties that would not otherwise be possible
- offers investors a variety of alternative vehicles to access the various asset classes to “beat the market”
- provides the best way for small investors to make investments in property, equities of interest bearing investments.
- allows small private investors to realise economies of scale of efficient diversification across national or international boundaries

- generally trusts, unit trusts, endowments policy or retirement funds
- drawback: High management fees
- ❖ Off-shore investments
- off-shore investments are becoming very popular among South African investors as they discover that foreign markets can offer more growth potential
- investments in foreign countries offer many ways for investors to diversify the risk of volatility in domestic markets
- fluctuations in currency can affect investment returns if currency is totally unhedged
- presently South Africans can only invest up to R750 000 directly into foreign markets, and unless exchange controls are lifted, this might not be a viable option to many.
- countries economies are exposed to different cycles of strengths and weaknesses at different times. Off shore investments offer investors exposure to a range of economies, thus being able to take advantage from countries experiencing good innings.

5.10 Benefits of compounding

Compound interest is the part of many investments that makes ones money breed. The longer one leaves money invested, the more profitable it will be, creating its own growth pattern in the future years.

The benefits of compounding adapted from “The Millionaires Portfolio”, (Jacques Magliolo) is used to illustrate why it is beneficial to start investing early:

How much must you save each year at 10% assuming you are 20 years old and want to have R3 million at age 65? The answer is R4 000 per year. However, due to inflation and other external factors, the amount one needs to save will change if they decide to wait longer. Example:

- At age 20: One needs to save R4 000 annually to have R3 million at age 65.
- At age 30: One needs to save R10 000 annually to have R3 million at age 65.
- At age 40: One needs to save R28 000 annually to have R3 million at age 65.
- At age 50: One needs to save R85 000 annually to have R3 million at age 65.
- At age 60: One needs to save R450 000 annually to have R3 million at age 65.

The following example also adapted from "The Millionaires Portfolio", (Jacques Magliolo), is used to highlight the concept of real compound growth. The following assumptions are made:

- Lawrence and Owen both invest R100 000 for a three year period with a bank at an annual compound growth rate of 10%, which is compounded monthly.
- Lawrence chooses to withdraw the interest yearly, whilst Owen prefers to remove the full interest at the end of the three year period.
- Both Lawrence and Owen are taxed 30% on all interest earned.

A. Lawrence (withdraws interest annually)

YEARS	INVESTMENT	INTEREST RECEIVED*	TOTAL	WITHDRAW	TAX LIABILITY	NET BALANCE
Year 1	R100 000,00	R10 471,30	R110 471,30	R10 471,30	R3 141,39	R100 000,00
Year 2	R100 000,00	R10 471,30	R110 471,30	R10 471,30	R3 141,39	R100 000,00
Year 3	R100 000,00	R10 471,30	R110 471,30	R10 471,30	R3 141,39	R100 000,00
TOTAL	R100 000,00	R31 413,90	R131 413,90	R31 413,90	R9 424,17	R100 000,00

Conclusions:

- Lawrence earned R31 413,90 in interest and paid R9 424,17 in taxes.
- This means that his investment has earned him a net R21 989,73.
- This equates to a 22% net return over three years.

B. Owen (withdraws interest at the end of the three-year investment period)

YEARS	INVESTMENT	INTEREST RECEIVED*	TOTAL	WITHDRAW	TAX LIABILITY	NET BALANCE
Year 1	R100 000,00	R10 471,30	R110 471,30	–	–	R110 471,30
Year 2	R110 471,30	R11 567,79	R122 039,09	–	–	R122 039,09
Year 3	R122 039,09	R12 779,09	R134 818,18	R34 818,18	R10 445,45	R100 000,00
TOTAL	R100 000,00	R34 818,18	R134 818,18	R34 818,18	R10 445,45	R100 000,00

Conclusions:

- Owen earned R34 818,18 in interest and paid R10 445,45 in taxes.
- This means his investment has earned him a net R24 372,73.
- This equates to a 24,37% net return over three years.

Figure 5.8 Example of compound interest

Source: Duplicated from The Millionaires Portfolio, p51

5.11

Common terms used in Investment Markets

Term	Brief description
Annual Return	The simple rate of return earned by an investment for each year.
Asset Class	Broad categories of investments grouped by basic type consisting of Equities, Bonds, Property and Cash
Asset Mix	The percentage of your investment held in each asset class.
Average Annual Compound Return	The annual rates of return, including reinvestment of distributions, averaged over a specified time span.
Capital	Forms of wealth. Capital means financial assets such as investments in securities, property, other assets or cash.
Capital Gains Tax	A tax on gains over a certain limit realised in any tax year.
Capital growth	The change in capital value from one valuation to the next net of any capital flows, divided by capital employed.
Certainty	Single valued expectation, or known outcome.
Commission	Charge made by a firm for their services.
Deflationary	A circumstance where the general price of goods and services is declining.
Diversification	Spreading your investments amongst different asset classes, individual companies, industries or even different sectors of the economy.
Endowment Policy	An insurance on a person's life where payment is made on reaching a Specified age or on prior death, a share of the insurance company's profits can be added to the final payment in which case the policy is described as 'with profits'.
Investment Portfolio	Financial assets including stocks, bonds, short-term securities and cash.
Investment Trust	A company owning shares in a number of other companies, thus a unit-holder in an investment trust spreads his risk
Liquidity	The ability to convert an asset easily into cash.

Net Operating Income (NOI)	The actual or anticipated income remaining after deducting operating expenses from the effective gross income but before deductions for debt service or income taxes.
Privatisation	Process where the government puts state owned industries into the private sector, e.g., water, electricity. Usually involves an offer of sale to the general public of its shares.
Rate-of-Return	The increase in value of an investment. There are several variations on the way a rate-of-return can be presented. Total rate-of-return is the return from any income received plus any price or capital appreciation or depreciation. Cumulative rate of return is the return earned over a period of time (three months, three years, 10 years, etc.). Annualised rate-of-return is the method of presenting the cumulative return from any period of time on an average annual basis.
Risk	A range of probable outcomes, some of which are desirable (upside risk) whilst others are undesirable (downside risk). It provides a quantifiable array of expected outcomes described by a probability distribution.
Short-term	Generally refers to an investment made for one year or less. In the case of bonds, it refers to a period of between one and five years.
Statute	A law made by Parliament, also known as an Act of Parliament, as opposed to a law developed by the Courts
Uncertainty	Un-quantifiable, unknown outcome or where outcome can only be estimated within a very wide range.

Table 5.6 Commonly used terms in Investment Markets

5.12 Summary

Investing can be fairly simple if one knows what they want out of an investment, and understand the basic building blocks that are common to all investments. There is no general, one-size-fits-all investment plan. One's investment strategy will be affected, now and in the future, by such things as age, wealth, income, health, dependants and one's financial goals.

Much is written in investment and financial planning journals regarding investment choices and decisions, however not much emphasis is directed to the cornerstone which is time. An investor should recognize that an investment strategy needs time for it to achieve its objective. A sound investment strategy could result in the loss of money for the following two important reasons. Firstly, most investors are impatient and lose confidence when markets go through difficult times and, in most cases, act in a manner that results in the loss of money. Secondly, the investor does not appreciate and fully understand the investment risk associated with the investment strategy. Investors whose expectations have not been properly anchored will, without doubt, give in to the powerful emotional forces of fear and greed when volatility strikes. As a consequence of these emotions, the critical investment cornerstone, time, will be being ignored, resulting in financial loss.

An investor should have in mind a minimum acceptable return that is to be earned. Some sort of benchmark must therefore be set to enable investors and planners to gauge the acceptability of an investment's performance. When you have made your investment, you must monitor the investment's performance. You need to review your strategy regularly in relation to the investment environment.

In conclusion, it is thus important when embarking on your financial planning journey, to bear in mind that you are planning for the rest of your life, and you should take time to do it.

CHAPTER SIX

6 Recommendations and Conclusion

The golden rule is that in any market, no good things last forever

(Anon)

6.1 Overview

An investor has various issues to consider when making investment decisions in South Africa considering that the various markets produce different average rates of returns. Investors have to give importance and consider various internal and external circumstances facing the South African economy. On a national scale, government restrictions, sub standard services, the volatility of the South African economy and on the international scale, the September 11 2001 attacks on the World Trade Centre, following war in Afghanistan, the Palestinian –Israeli Crisis and the war on Iraq, all impacted on South African investments. The South African economy does not function in isolation. Various worldly events cause domino effects on the economies of countries.

An investment decision-making process is a chain of rational steps that follow a predetermined, sound portfolio strategy. It is imperative to be aware that many of us have pre-existing preferences and emotional factors that can affect this process. If ones preferences are based on fallacies or are the result of a lack of knowledge, then it is essential to take time to educate one's self.

Trying to time the market is definitely not a feasible investment strategy. One will get far better returns by appropriate asset allocation according to ones exclusive needs and then being committed to it. Although it is important to monitor past successful performers in the property and stock market industry, solely choosing yesterday's winners are a sure and quick way to destroy ones wealth.

6.2 Strategy for successful investing

Good investment strategy requires diversification across a number of asset classes. A well-diversified investment portfolio is the key to attaining profitable and sustainable returns. This portfolio must be built on the foundation of the principles of quality, value, diversity and time. One's investment strategy must be designed to achieve the expected rate of return required to realise one's dreams. "What you need is a strategy that will help you select the right investment portfolio for your particular needs. If you get the strategy right, there should be very little need to chase the latest performing star" said Bruce Cameron, the editor of Personal Finance.

It is imperative to realise that any market-related investment is going to fluctuate in value over time. This is largely due to the economic and social uncertainty experienced in South Africa. In making any investment decisions, it is pivotal to take into account our volatile inflation rates.

This dissertation has set out to compare and explain the various factors concerned in investing in the property and stock market. Although making the "correct" decision is never easy, the investor should at the very least consider the environment in which one wishes to invest and of course the risks and returns of such an investment. Thereafter investment strategies can be constructed accordingly.

Aside from the various environmental and market factors (as discussed previously) playing a major role in the change of one's strategy, there are also various personal factors relating to an investor that can have an equally profound effect:

- ❖ Change in age: People require different investments to suit their age requirements. A young investor may want to invest to earn large sums of money to fund their existing flamboyant lifestyles and will be more likely to be geared towards making their money grow. An older investor might be more concerned with investing to attain a comfortable income in retirement years or search for investments that will preserve their capital. Also the younger one is the more risk one can afford to take.

- ❖ Change in family structure: Marriage, divorce, deaths or new extensions to one's family may require some restructuring of one's investment portfolio.

❖ Change in careers: Change in careers e.g. Promotions or demotions will necessitate investors making changes to their investment strategy.

❖ Change in monthly expenditure: Families monthly expenses may increase hence causing an investor to sell certain investments to fund this increase. E.g. an increase in children's education expenses

6.3 Cardinal rules of investing

There are various issues an investor should consider before making investment decisions. According to Sunday Times (November 2002), Bruce Cameron said that an investment product should first be chosen to suit ones profile and not merely because one suspects that it may provide better returns than another product. The following factors should not be looked at in isolation, but rather be collectively used in enabling the investor to make sound, sustainable and profitable investment choices. There are various elements that form a framework that successful investment decisions can be built upon as depicted in figure 6.1.

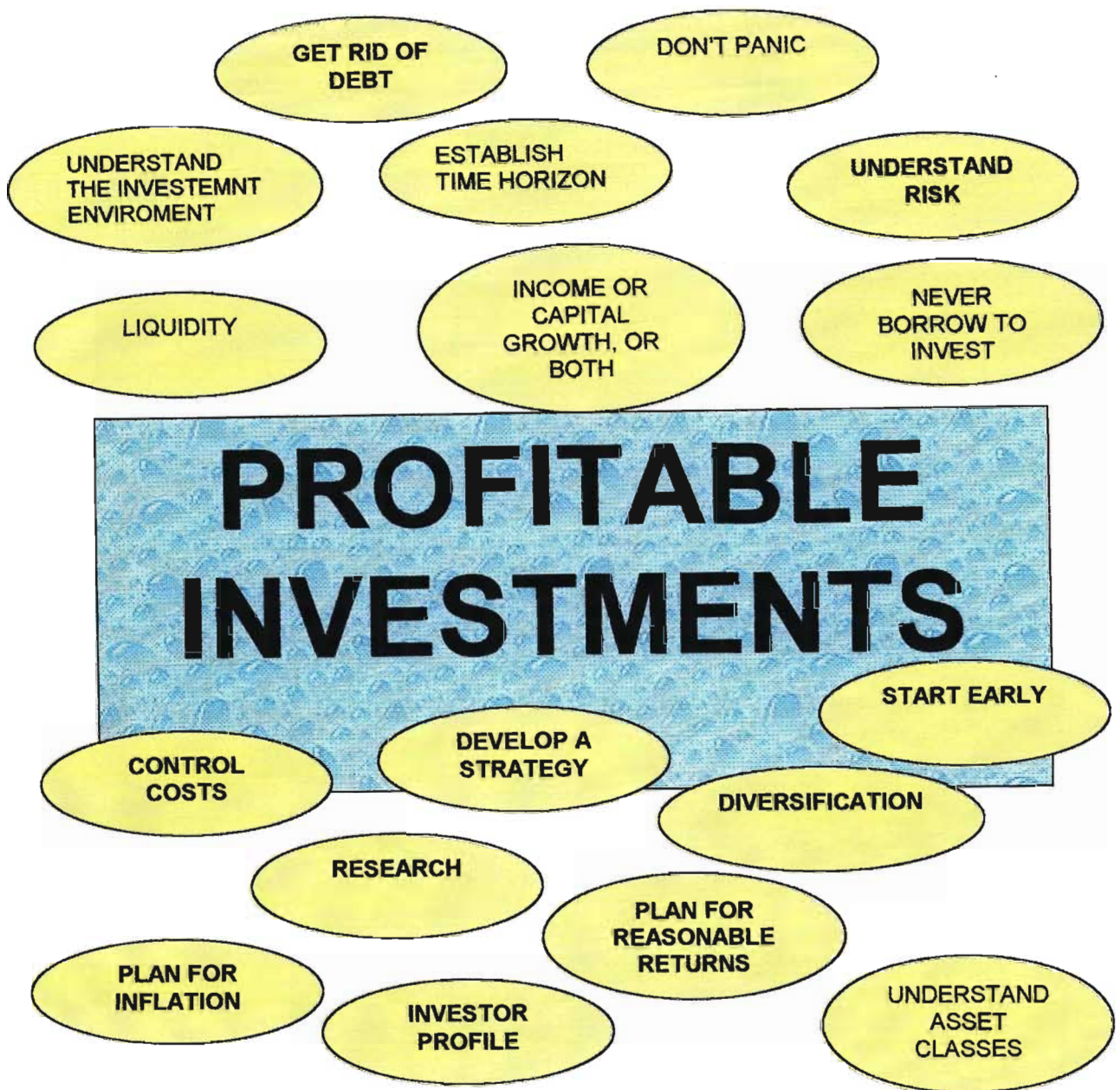


Figure 6.1 Cardinal rules of investing

❖ **Develop a strategy**

Before any investment decisions are made, an investor should have a clear strategy entailing their objectives, risk tolerance levels and acceptable return parameters from ones investment. Their strategy should also include the time frame in which investments are to be made. A person's investment strategy would naturally differ across age groups and peoples financial circumstances. Making short-term or long-term decisions will influence the overall strategic plan. It has been repeatedly said by experts, that to realise

the true value of ones investments, one has to make sound long-term strategic plans. But many people do not have the patience for long-term investments and hence become very despondent when returns are not positive in the short run. A good investment plan should be flexible, focused and regimented at the same time, and always have an exit window should an investment turn bad. It is important for an investor to realise the importance of planning and to consider that there is no such thing as a get-rich-quick investment scheme. Strategic investment plans are not one off plans, but should be closely monitored and constantly reviewed in considering various markets, economic and personal changes. An investors investment strategy should capsulate collectively the investors personal and financial goals, both in the short-term and the long-term. For example:

- Short-term goals: to buy a car or save for a deposit on a house, it might be a better option to invest in fixed deposit accounts
- Long-term goals: to save for retirement, it might be more profitable to purchase shares or a property

A method to aid investors to determine their strategy is to conduct a financial needs analysis that will encompass the following:

- Final destination: what are your needs and wants?
- Financial route map: what can you afford to invest and are willing to risk

❖ Start early

To start investing early is a lesson that many people are negligent in taking cognizance off. As the old saying goes, people should invest at least 10% of their disposal income to have a comfortable nest egg in retirement years. This may not be an easy solution to many, as one always finds a need for that money. If one does not plan for the future and start early investments, it may become too late as the cost of investing in later years of ones life becomes prohibitive. (As displayed above under 5.10). Magliolo (2002) said that 25 year olds should set themselves a goal of saving 20% of their gross income, thereby obtaining a rate of return of at least five percentage points over inflation, and avoiding tax on their investments. If they continue this discipline throughout their careers, they may reasonably expect to attain financial independence and security.

❖ Investor profile

An individual needs to assess his personal situations before any investment decisions are made. Factors such as the investor's time horizon, whether the individual has any dependants to care for and the individual's income, expenses, and tax profile should all be carefully examined.

❖ Plan for reasonable returns

Many are overly ambitious to achieving high returns and thus make greedy and unwise decisions. The required rate of return from one's investments should be reasonable and attainable taking into consideration the investor's risk tolerance levels. One should plan their investment strategies to attain at least 10% returns on their investments, and by some great luck should it increase, view it as fate and chance in their favour. The greatest downfall that many investors face is that they set themselves up to chase rainbows, making unrealistic expectations thus resulting in fortunes being lost.

❖ Understand risk

There are two main issues regarding risk that an investor should be concerned with. Firstly, the investor needs to understand the investment's risk. There are many types of risks to investing and different asset classes have different risks attached to them; hence it is imperative that an investor have a clear understanding of them. Under extreme circumstances, investors do carry the risk of losing all their monies invested as a result of various factors beyond the control of the investor. Secondly, equally important is for the investor to establish their risk tolerance levels i.e. personal risk. An investor needs to ascertain whether they are conservative or aggressive investors and establish their risk profiles and formulate their investment strategy accordingly. A more detailed analysis of various types of risks can be found under section 5.2

❖ Income or capital growth, or both?

Investors need to ascertain whether they are investing for income, capital growth or both options. Generally investments are either structured to give an investor income (lending investments) or to give an investor capital growth (ownership investments). Income can be classified as dividends received from share investments; and capital growth is buying something cheaply and then selling it at a higher price. These options of earning money may come from two types of investments, namely:

- lending investments: e.g. Lending money to the bank (interest bearing accounts) or lending money to the government (bonds)
- ownership investments: e.g. shares in a company, purchasing a property

If an investor needs income, they should focus on lending investments and if an investor is concerned with saving for long-term targets, ownership investments should be considered. In a nutshell, individuals need to understand the reason for investing. One reason may be to protect savings against inflation and to make it grow and/or the other reason may be to utilise savings to generate an income.

❖ Understand asset classes

Different asset classes have different risk and returns attached to them. An astute investor should carefully analyse them and select the most suited ones to enable them to achieve their objectives. Asset classes can be divided into financial assets and hard assets.

- financial assets: shares, cash and bonds
- hard assets: diamonds, gold coins, artworks, etc

Property can be regarded as both a financial and hard asset

The investment product that one chooses will ultimately depend on ones need for income or capital protection and growth.

❖ Diversify ones investment portfolio

This should be considered as one of the most fundamental things any investor should do. Investors should diversify across the different asset classes and over the various sectors within that asset class. Although a brief point would be made under this heading, the researcher will cover this issue in greater detail in the latter part of this dissertation. Diversification allows one to minimise their risk by holding investments across various investment classes.

❖ Liquidity

A major concern when investing is: how liquid are ones investments? Different asset classes have different levels of liquidity. People facing unforeseen circumstances may be forced to cash in or sell their assets to raise money. Certain investment may be subject to severe penalties if surrendered or investors may find it very difficult to dispose

of an asset without incurring a loss. Thus it is important that investors hold a certain degree of assets that are liquid enough to counter any unfortunate incidents.

❖ Establish time horizon

“It is not about timing the market-it is about how long you are in the market” says Bruce Cameron (July 2001). An investor should establish as to whether to invest for the short, medium or long term. The time horizon of the investor is very significant to the different investment classes. Investors with long-term time horizons will be more inclined to invest in shares and property as they offer protection against market volatility in the long run. On the other hand, investors with short-term time horizons will be more inclined to invest in cash and bonds as they offer protection against market volatility in the short run.

❖ Control costs

It is fruitless attaining higher returns, when a major part of it is being eroded by broker's fees, or in the management of ones investment etc. It is critical therefore to implement a cost control program to ensure that ones costs does not exceed or dampen ones returns.

❖ Plan for taxes

Every one of us is affected by tax in one way or the other. Although shareholders dividends are exempted from tax, any other interest received from investments are taxable. The introduction of Capital Gain Tax has serious implications for people owning second or more properties. Although it is impossible to totally avoid paying the Receiver of Revenue their share, an investor should make provisions in their investment strategy to ease their tax burden. One of the most commonly used methods adopted by investors, is by postponing their tax liability to later dates, thus giving them the opportunity to reinvest their returns and as a result of the benefits of compounding, lighten their tax load in the end. It goes without saying that the fundamental reason behind any investment is for the investor to earn an acceptable income whilst trying every possible method to minimise taxes.

❖ Plan for inflation

It is imperative to consider inflation when judging investment returns. If there is an inflation rate of 8 percent and ones investment yields a return of 5 percent, the investor

is actually losing money. Many investors make the grave mistake of forgetting to protect the buying power of their income. One's income will not keep up with price rises; instead its value is eroded by inflation and so will the capital invested.

❖ Never invest on borrowed money

Many people are of the belief that if they borrow money and invest it wisely they could make a sizable profit in the process. It is a very irrational and unwise move to borrow money to invest, as borrowing multiplies one's risk. If an investment turns sour, one will now be in debt to repay that borrowed debt. However gearing or leverage can be useful in order to minimise taxes. Gearing or leveraging is essentially borrowing for investment purposes. Although one of the golden rules of investing is never borrow to invest; in certain circumstances it can be a lucrative option.

❖ Get rid of debt

It is important to realise that if one is investing money they should not have any debt; but quite honestly having no debt is almost impossible. The main argument for not having debt is one cannot be certain that one will receive a tax-free return from one's investments that will equal to the amount payable in interest on one's debt.

❖ Research

The need for conducting various types of research has been constantly emphasized in this dissertation. Research should be gathered regarding the factors that can directly or indirectly affect the investment market. A PEST analysis should be conducted to ascertain the various influences that could impact upon the investment. Prospective investors should also seek advice from financial advisers or companies that have genuine expertise in investing; and above all to thoroughly understand the advice you receive.

❖ Understand the investment environment

"It is essential to understand the difference between opportunities for sustainable wealth creation and speculative traps. Such knowledge helps the investor to assess which companies, industries and economies are advancing, which are stagnant and which are dying. It also provides a basis for working out the value of a particular investment. (Fortune Strategy: P7)

❖ Contain greed

It is important to impress upon investors that there is no quick and guaranteed way to attain higher returns. Investors are often their own worst enemies and often make wrong investment choices based on their greed and gullibility. Every year millions of Rands are lost by investors as a result of greed by making speedy and often ignorant decisions; by investing in scams that promise extraordinary returns.

❖ Don't panic

Markets, be it property, share or any other asset class constantly fluctuate as a result of a host of factors changing. What may seem like a boom now could end up in bust later, and vice versa. Investors that panic when markets fall often make hasty decisions by either switching to other investment classes or surrendering or disposing their existing investments. Surrendering investments often lead to penalties being imposed and hence further reduces the return on the asset. If one has a sound long term strategy they will not be frightened by short term market fluctuations.

6.4 Importance of investors personal circumstances

Making investments to different people represent different things. To some it is a means to preserve wealth for retirement years, and to many others it a form of generating wealth to lead a high standard of life. There is no winning investment strategy for all individuals, since people are governed by their own unique set of needs, wants, ambition and requirements. The only "best" investment strategy is one that fulfils the needs and satisfies the goals of that individual investor.

The essence of any investment strategy fundamentally represents the same reason to all: a means to maximise returns, whilst minimising risks. However, in order to do this an investor should have an efficient investment portfolio to achieve ones goals and satisfy ones needs. There are essentially four steps that an astute investor should follow in designing an efficient investment portfolio as represented in figure 6.2

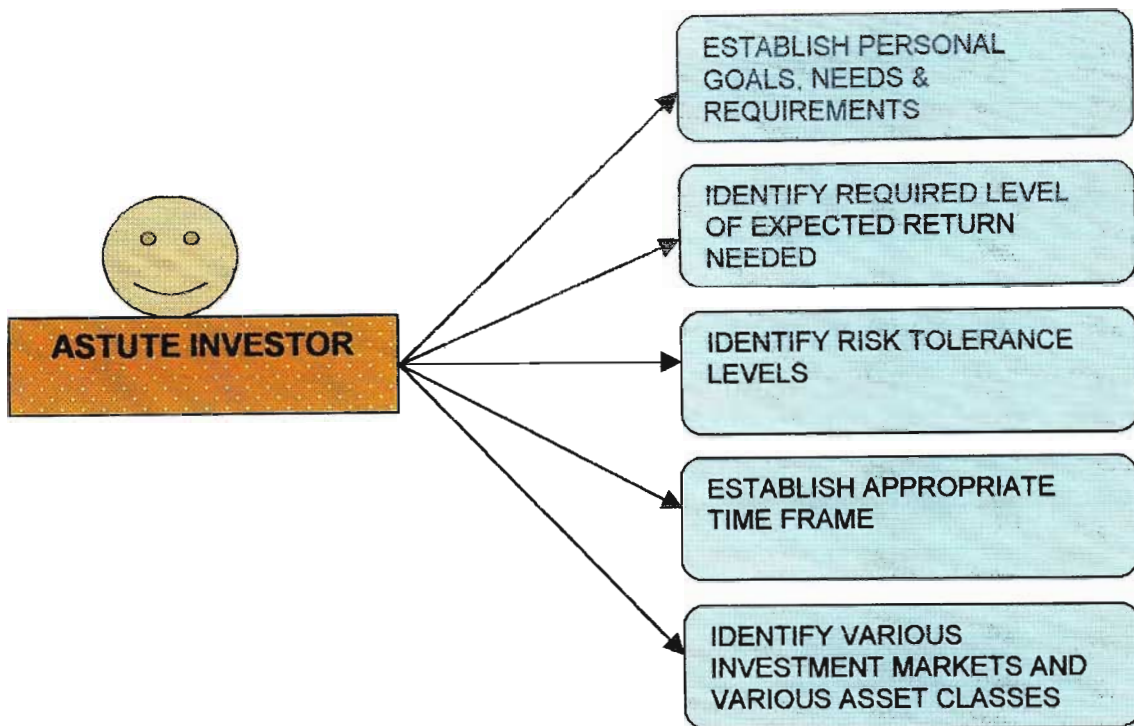


Figure 6.2 Designing an effective plan

In order to design an effective plan an investor should first look at their personal factors and formulate a plan accordingly. The investor's final decisions will be influenced by a host of factors, but on a more personal level, the following factors should be considered in the planning process:

- Income-How much of income does an investor presently receive and have to invest i.e. Salary or any returns generated from existing investments etc
- Expenses-What are the investors existing expenses i.e. daily living expenses, mortgages, car repayments, payments towards investments etc.
- Assets-What asset classes does the investor presently hold and what is the approximate value of them i.e. cash, fixed interest, property and/or equities
- Risk tolerance levels-How much of risk can the investors manage?
- Returns-How much returns are acceptable from any given investment? It is important to set realistic return levels.
- Time horizon-Does the investor have a certain time limit set to achieving ones goals? Are they planning for the short, medium or long term?
- Asset class-Does the investor have preferences for any specific asset class?
- Knowledge-Does the investor possess any knowledge, skills or experience with any particular asset class or investment decision making?

- Goals-Does the investors have any specific goals that need to be fulfilled?

The answers to the above personal questions will enable the investor to set the pace or direction of their overall investment portfolio, thus playing a significant part in allowing the investor to attaining ones goals and objectives.

6.5 Selecting an investment product

According to Sunday Times (November 2002), Bruce Cameron said that an investment product should first be chosen to suit ones profile and not merely because one suspects that it may provide better returns than another product. There are various investment alternatives available catering for the needs of many investors. The selection of the "correct" choice is subject to an individuals own personal circumstances and needs. It is imperative to apply certain tests to narrow down the various alternatives before selecting any specific investment product. Analysis of the following factors is important:

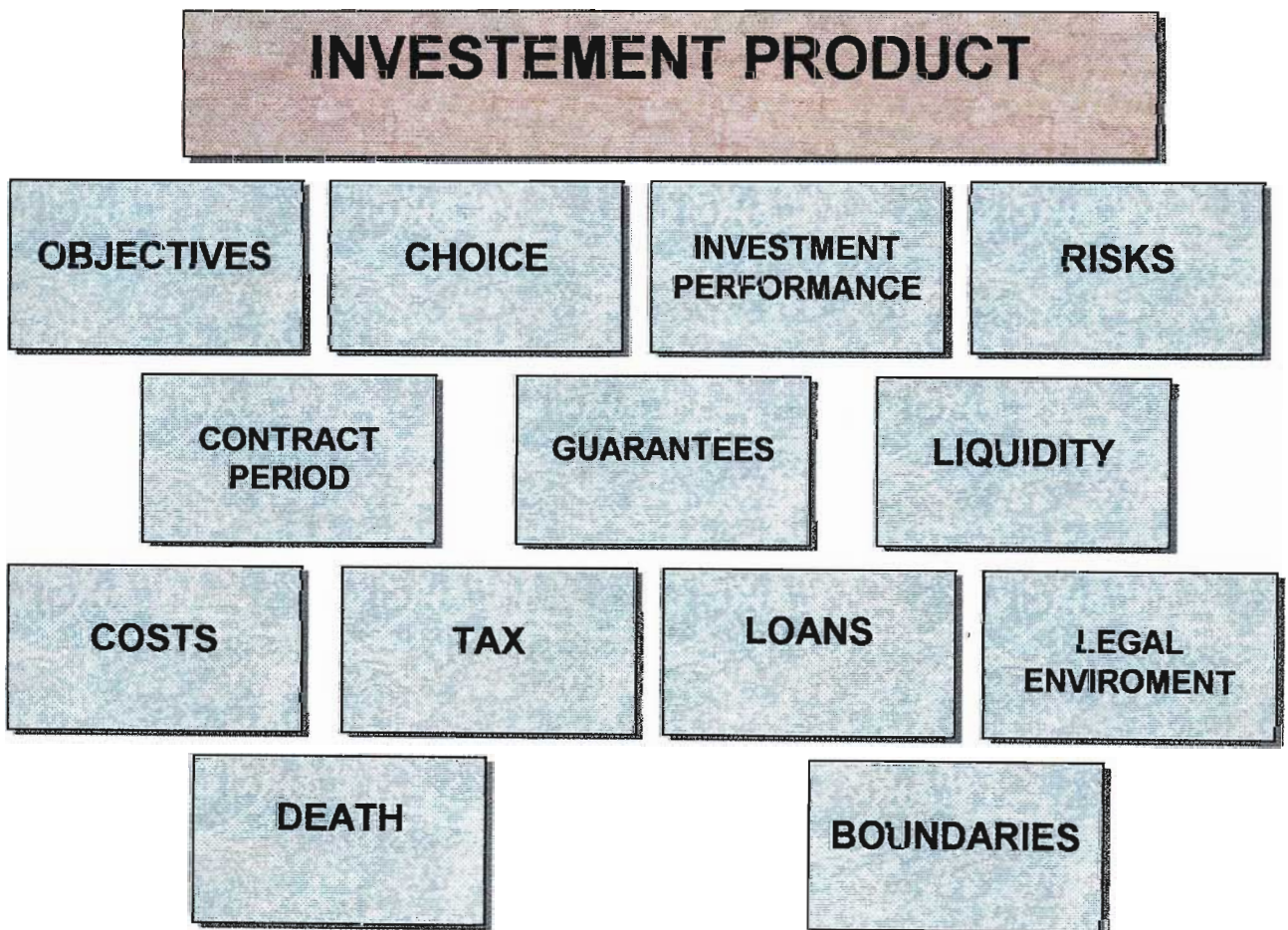


Figure 6.3 Selecting an investment product

❖ *Objectives*

- need to ascertain if investing for capital growth or income or both
- for capital growth; shares and property could be better options
- for income; unit trusts, money market, rent from a property should be considered
- the object of any investments is to give an investor a real rate of return after deductions of the effects of inflation and taxation are made

❖ *Choice*

- after a particular investment choice is made, there are a number of sub-choices to make
- if property is chosen, does an investor want to deal with tenants directly or work through an agent?
- if stock market investments are chosen, does an investor want to play an active role in trading activities, or are they prepared to leave their investments solely at the discretion of the broker?
- what are the alternative investment choices?

❖ *Investment performance*

- what has been the historical performance of the investment?
- what factors are considered to be success or failure points regarding the investment?
- a number of ways are available to monitor ones investment e.g. Benchmarks, indices, financial reports etc.
- important for investors to find a link between the past and future performance of investments

❖ *Risk*

- investors need to know how much risk they are willing to assume
- the various risk factors should be examined, both external and internal
- different investments have different risk levels
- shares are known to be more risky than interest bearing investments
- "how much an investor is willing to lose" should be assessed
- note that diversification provides the best guarantee against investment risk

❖ *Contract period*

- is the investment for short, medium or long term
- what will the penalties or negative costs be if the investment was surrendered or disposed off

❖ *Guarantees*

- guarantees are available in various forms, including on capital one invests and/or the performance
- certain investments may have a degree of guarantees built in to it e.g. annuities, structured products
- investors need to ascertain what exactly is guaranteed and how much do the guarantees cost
- guarantees cost money and often have lower performance levels
- many guarantees are misleading, therefore its imperative for an investor to understand what is guaranteed and what is not

❖ *Liquidity*

- investments have different required periods of investments, hence can create cash flow problems if an investor is in need of immediate money
- important to understand that lock-in investments have severe penalties if one needs to access their funds immediately
- interest bearing investments may be more liquid than investing in the property market
- it may be more difficult to dispose of a property asset than to cash in on shares
- however, amount received from share cash in are also subject to what the market currently values that share at
- different asset classes have different levels of liquidity
 - high liquidity: shares, unit trusts
 - medium liquidity: life assurance products
 - low liquidity: property, most retirement funds

❖ *Costs*

- the initial investment costs or the on-going management of ones investments have different costs attributed to them
- while certain investments may be lucrative to invest in, the ongoing cost may diminish ones overall final return outcomes
- costs that investors should be wary of are: initial costs, annual costs (premiums), withdrawal costs, hidden costs, layered costs, performance cost
- some costs are calculated as a percentage of the investment while other are fixed
- high costs can significantly undermine investment performance and an investors required returns

❖ *Tax*

- investment products are taxed differently
- dividends received from share market investments are tax free, while rent received from property investments are subjected to tax
- the new Capital Gains Tax introduced as of October 2001 has serious repercussions on ones investments

❖ *Loans*

- how valuable is the investments?
- can it be used as a security to raise a loan?

❖ *Legal environment*

- various investment industries are governed by specific government legislations and have different legal standings
- e.g. Under legislation, unit trusts investors are protected against losing their investments in the event of the unit trust company going bankrupt
- e.g. If a life assurance company goes bankrupt, the investor stands a chance of losing their life insurance investment
- although the legal environment may provide for a certain degree of protection for investors; changes in legislation may expose the investor to greater risks

❖ *Boundaries*

- how much investing should be done locally or internationally
- if investing in off-shore markets, certain countries are tax havens for investors
- however, any dividend received in foreign countries is taxable in South Africa as income
- off shore investments pose risks in the form of currency fluctuations

❖ *Death*

- what will happen to the investment if the investor has to die?
- what additional costs or taxes is the investment subjected to if the investor has to pass away

Countless articles have been written on the subject of investments ranging from strategy to decision making etc. Well known investment guru, Magnus Heystak has said (Personal Finance: 1999 and 2000) there are numerous lessons one has to learn from the past two decades. They are as follows:

- | |
|--|
| <ul style="list-style-type: none">▪ Invest for the long-term▪ Beware of brokers and investment advisers who are always recommending changes to your portfolio- Invest in quality▪ Go for growth when you are young and income as you get older▪ Stick to the basics▪ Don't let investments and markets rule your life▪ Watch out for self-proclaimed investment gurus▪ Take responsibility for your investments- Invest the maximum off-shore- Take control of your money▪ Don't invest while in debt▪ Work for yourself▪ Diversify your investments |
|--|

Table 6.1 Investment lessons from the past two decades

Source: Adapted from Personal Finance: 1999 and 2000

6.6 Recommendations for Property Market Investments

Property provides investors with consistent earnings, even in a depressed economic environment, however it is imperative that investors do their homework before making any investment decisions. Location is critical and one should choose a property in an area where urban decay is not likely to occur and crime is minimal. It is important to note that an investor enjoys capital appreciation irrespective of whether they may have a home loan on the property or not. Taking out a home loan does not affect the growth in the value of that property. However, the selection, location and cost of the property one chooses will influence the returns one receives. Before embarking on any property investment, the investor should keep in mind the three main reasons for investing in property and plan their investment accordingly:

- Capital growth

Over time the value of ones property should increase and the investor will thus utilise this capital growth as a hedge against inflation. This increase in the value of the property will offset the depreciation in the purchasing power of money caused by inflation.

- Income

If investors did not purchase the property for self occupation, it can be concluded that it was purchased for investment purposes. Rentals received from property purchased for investment purposes will increase year after year, thus enabling the investor to see the income the investment is generating.

- Tax shelter

The investor will gain certain tax advantages by buying property. If the property purchased is bonded, the investor is permitted to write off the interest that has to be paid, since interest is incurred in the production of income.

It is advisable that investors do not expect returns from a property investment in the short-term and be prepared to hold on to their investment for five to ten years. It is important to also remember that the property market moves in cycles and that these cycles are gentler than those experienced by the share market, which can change dramatically from one year to the next. Brian Kirchmann, the chief executive of the South

African Property Owners Association (SAPOA), says that property is always a good long-term performer that delivers reasonable and stable returns in the long-run.

6.7 Recommendations for Stock Market Investments

Traditionally, shares have offered the best return on asset class, but are at risk to short term fluctuations as a result of market volatility and investor sentiment. The world today is witnessing a “bear market” in the world stock exchanges, a prolonged downward move in the price of shares, which has lasted thus far for three years. According to Roddy Sparks (MD of Old Mutual South Africa), bear markets are considered to be somewhat unusual as the world has observed some 20 bear markets over the last 100 years. He further stated that this bear market has been one of the most severe but it will end. However, one cannot predict when.

Investors who wish to succeed in the stock market or increase their buying power in the long term will need a sustainable strategy to manage share market risk. Once an investment is made, it is critical for the investor to revisit their investments time and again. If one has made properly considered investment decisions, there might be no need to switch investments around. However, many investors often switch, or get out of their investments at the wrong time, which has resulted in adverse effects on the value of ones investment.

Investment checklists should be used together with ones investment strategy when evaluating a potential investment opportunity on the stock market. This provides for a useful means to protect the investor against making disturbing stock market investments. The checklist of two different authors who have written about investing in the equity market is as follows:

<p>Lynch (author of One up on Wall Street)</p> <ul style="list-style-type: none"> ▪ You must understand what the company does ▪ You must have specific reasons for wanting to buy the stock ▪ If you prefer buying shares of smaller companies, remember big companies have small market moves, small companies have big market moves ▪ Preferably the company should have an above-average growth record ▪ Preferable, the company should appear dull, mundane and out of favour with the market ▪ Check the balance sheet. companies that don't have debt cannot go bankrupt ▪ Check if the company is consistently buying back its own shares ▪ Check the price/earning ratio. If the stock is overpriced, even if everything else goes right, you wont make any money ▪ Check if the company's management has a personal financial interest in the business-are they shareholders and have their shareholdings stayed the same or increased?
<p>Slater (author of The Zulu Principle)</p> <p>Slater insists that his first five criteria must be present before he will consider investing. The more the remaining criteria are met, the greater the possibility of success.</p> <ul style="list-style-type: none"> ▪ A positive five-year track record ▪ A low price/earning ratio in relation to growth ▪ An optimistic statement from the chairperson ▪ Strong liquidity, low borrowings, and a high cash flow ▪ A competitive advantage ▪ Something new ▪ A small market capitalisation ▪ A high relative strength ▪ Dividend yield ▪ A reasonable asset position ▪ Management shareholding

Table 6.2 Investment checklists

Source: adapted from Sunday Times, July 14 2002)

Magnus Heystak (October 1999) said that if investors are better educated about the vagaries and unpredictability of stock markets they are less likely to throw caution to the wind and switch their funds at the first sign of volatility. On a more humorous note, Meyer (November 2001) said that one should always buy shares in a company that could be run by an idiot, because sooner or later an idiot will be running it.

6.8 Recommendations for investing in our current uncertain times

Fluctuations in the property market and recent falls in world stock markets have left investors feeling very vulnerable, anxious and concerned about the value of their investments. Whether an investor is debating starting a new investment plan or is considering making adjustments to their existing strategy, there are a few basic principles for investing that should be considered. The following points are adapted from the Independent on Saturday (Personal Finance, 19 April 2003).

❖ Building a diversified portfolio

Holding a diversified portfolio is the most important element for sound investment planning as it provides the best way for investors to manage their risk. A sound investment plan should contain a balanced portfolio of investments, namely cash, shares, bonds and property invested both locally and in international markets.

❖ Consider your investment as a whole

In holding a diversified portfolio, one asset class may prove to be more profitable than another at a given point in time. Markets fall and rise at different times and in any portfolio there will be better performing and worse performing assets. It is imperative that one views their investment as a whole and not make any irrational or hasty decisions.

❖ Holding cash is not the solution needed to outpace inflation

Holding a portion of cash is a vital part of sound investment planning, especially if the interest earned is untaxed. However it is imperative that investors do not abuse this requirement by holding large amounts of cash when markets are down. When the market finally recovers, these cash reserves can have a negative impact on ones investment portfolio.

❖ Investing on a regular basis in falling markets

By investing small amounts regularly in falling markets, an investor would realise higher returns when the markets finally recovers.

❖ Investors needs are unique

Investors are all unique in their needs and wants. The investment plan that works for others might not work for you. It is important that investors identify their own needs and wants and plan accordingly.

❖ Be patient

“Patience” is the key word to investing in any market, be it property or the share market. Timing the market is very difficult as no one can accurately predict when the market will rise or fall. The key to success is to be patient with your investment plan and to remember that the sooner you start investing, the more likely you will achieve your desired results.

❖ Invest with an experienced agent or broker

If you are planning to invest in the share market, it is advisable that you choose a reputable broker that has the experience and tools to aid you to structure your investment to suit your needs.

❖ Building a sound financial plan

It is crucial that investors develop a sound investment plan to suit their individual needs and wants and to be prepared to endure the ups and downs of the investment markets. Factors such as risk tolerance, tax implications etc are all critical elements in enabling an investor to attain their overall investment goals.

6.9 Diversification: Key to attaining acceptable returns with least possible risk

Diversification is the “in” word used by many when considering making investment decisions and there have been numerous articles written and much expert advice is given concerning the advantages of diversification. Diversification is the key to attaining and sustaining short and long term profits and growth. It is essentially the practice of investing across different investment classes as a means of reducing risk exposure. Fundamentally diversification is the process of investing across various asset classes, and the design of this asset allocation will eventually determine the returns for short and long term periods. A diversified portfolio offers much higher returns per unit of risk than blindly investing in one asset class only. Diversification on a broader note entails distributing ones assets into lifestyle assets and investable assets. Lifestyle assets include ones house, car etc; while investable assets is the money one has available or will have available to invest in the future.

According to Fortune strategy (P71), there are four asset classes or principal investment markets, namely cash (short term money market), bonds (long term money markets), property and equities (share market).

Asset class	Risk/Return	Description
❖ Cash	Safest asset class with the lowest return	On-call investments in banks, short-term interest bearing investments, cash management trusts. Offers investors greater flexibility In the long term, provides less protection against inflation. Can be tax-ineffective for high income earners
❖ Bonds	Low to medium risk investments with low to medium returns over time	Also interest bearing investments, but have longer periods of maturity. In the long term, provides less protection against inflation. Tax-ineffective for high income earners

❖ Property	Medium to high risk investments with medium to high returns	Any real estate investment i.e. Residential or commercial. Adversely affected by increases in interest rates. In the long term, provides best protection against inflation. Very vulnerable to market "cycles" Can be tax-effective for investors
❖ Equities	Highest risk with the highest return possibilities	Shares on the stock market. In the long term, provides less protection against inflation. Very vulnerable to volatility in the economy Tax-effective for investors

Table 6.3 Asset classes

Source: Adapted from Fortune strategy (p71)

The main test is to find the right mix of investments to make, considering the economic climate, market climate and the investors personal circumstances, time frame and objectives. An important point to bear in mind is that diversification can protect the investor from most risk factors, but not necessary from market and inflation risks, as well as market movements caused by investor perceptions. The investor's age and financial sources available both play an important element in diversification as well. Diversification also protects an investor against risk exposure caused by fluctuations in the economy. Diversification or asset allocation is the key to investing. The correct asset allocation entails deciding on the best mix of these asset classes and re-balancing ones portfolio to the right mix on a regular basis. Any asset class will naturally have periods of underperformance or will outperform the market trend but in order to maintain profitability one needs to not get despondent when returns are low or greedy when returns are high. Diversifications into the different asset classes are most beneficial when asset classes rise and fall in value at different times. The asset allocation mix will also allow an investor to consider the degree of risk he is willing to assume in achieving ones lifestyle and financial goals.

The key to successful investments is to minimise risk and maximise return, but this can only be achieved by efficient diversification across the major asset classes. But in order to do this, investors first have to look at individual asset's risk and returns and then choose a portfolio accordingly. The degree of risk that each individual investment class possesses depends on a host of various risks namely:

- Investment risk-comprises factors affecting the returns of a specific industry only e.g. specific government legislations, location, strikes
- Industry risk-comprises factors affecting certain industries only e.g. Changes in consumer preferences, changes in technology
- Asset class risk-comprises factors affecting all investment asset classes e.g. Changes in tax laws
- Economy risk-comprises factors affecting all investment classes in the economy e.g. Inflation rates, interest rates

In holding a diversified portfolio, an astute investor will attempt to eliminate or minimize the above risk factors in order to maximise returns. Investors can either choose a portfolio entailing asset classes with high returns to offset any differentials caused by asset classes with high risk; or choose a portfolio across various asset classes with different risk and returns on the basis that over time the odds will be in their favour. Example: it would be relatively safe for investors to hold a portfolio consisting of cash and equities, since cash carries a low risk and equities provide high returns. Thus adding a certain amount of cash to a share-based portfolio can considerably reduce risk, without drastically reducing returns. However investors should be cautious about both under-diversification and over-diversification, and putting ones money into too many investments, which, among other things, will push the costs up.

Different asset classes are taxed differently. Certain income or capital gain from investments are non-taxable or allow for tax deductions. Two investments that yield the same return can produce different end results after tax is considered. It is thus important for investors to analyse the implications of tax structure on their portfolio. Diversification once again allows for an investor take advantage of certain tax opportunities thereby allowing them to secure good returns. Investors should also be cautious about using historical performance negligently to predict the future and it is recommended that investors assess what factors could cause a change in historical experience.

Investors will be well advised to apply the KISS principle-Keep It Simple Stupid-to investing. Its only when an investor chases stars and ventures into uncharted waters, will the likelihood of being in serious financial difficulty increase. An investor's target rate of return could be more easily achieved by holding an effective diversified portfolio rather than holding an undiversified or weakly planned diversified portfolio. Therefore, in summary it is critical that investors decide how to allocate assets among the range of possibilities, since no single asset class can out-perform all the others in all economic environments. Diversification and changing the balance of an investment portfolio can improve returns while at the same time reducing risk.

6.10 Conclusion

Property booms and busts; stock market soaring and crashing has made investment decisions especially difficult for investors in South Africa and elsewhere. Irrespective of the volatility of our exchange rates and various other factors facing South Africa, there is still opportunity for dependable investments in South Africa, and paradoxically there are greater chances for losing money by committing to bad investments. The level of choice that people are currently faced with has increased, and so to has the greater chance of failure. One of the biggest reasons as to why so many people have lost money by committing to bad investments is that many look for one-off investment opportunities rather than holding a diversified investment portfolio. This compounded with fear, greed and not having an investment strategy or plan has further resulted in fortunes being lost. In setting a sustainable strategy, people need to set themselves practical goals and then to be committed to them. The solution to a profitable investment plan is setting up an appropriate asset allocation strategy and constantly monitoring it.

Unrest in the world, minor rumours or looming global and civil wars can all cause investor sentiment and confidence to change universally and hence could cause economies to fall and peoples investments to plunge. Changes in government can result in local and foreign investors questioning the future stability of a country, therefore resulting in serious negative implications. e.g. the release of Nelson Mandela in February 1990 and the election of Thabo Mbeki as president in April 1999. Both are instances that caused the rand to depreciate partly due to negative investor sentiment.

People's personal situations can determine how much risk they will be willing to take. Factors such as how long you are prepared to invest for, how much money you have or your potential earnings, your age, your health, your investment target and your investment knowledge are all relevant in making successful investment decisions. The greatest way of reducing risk is to ensure that people have diversified investment portfolios.

There is no such thing as a risk free investment. Risk will always be present in any investment decision across any investment class and no investment strategy can be successful without a framework for comparing the risks and returns of different investments. The key to effective risk management is to understand that risk can never be completely eliminated, just more efficiently managed. There will always be a trade-off between risk and return in any investment choice, bearing in mind that in order to achieve higher returns, one must be willing to assume additional risk. The most important factor when assessing return is whether or not it is a sustainable, real return. The relationship between the risk of an investment and the return it provides is also a key factor determining the value and price of that investment. Investors need to take a view on how much risk they are prepared to tolerate in the current volatile and uncertain markets. In many instances people are tempted to take short-term views hoping for the best, ignoring wise investment rationale.

The only sure thing in life is "change" and investors operate in a world that is also subject to constant change. Bearing this in mind and the fact that there are only a few possible factors under an investor's control, an investor should realise the importance of building sound long-term strategies. A sound strategy is one that is sustainable during calm and turbulent times and the essence is, to maximize returns with the least possible risks. Although, it is important to adopt a good strategy, an investor must remember that even the best laid strategy will be subjected to the occasional negative periods.

A balanced portfolio, with a mix of equities, bonds, cash and property is the best option for conservative investors. Aggressive investors who can handle more risk, should also hold a balanced portfolio, but should include a larger portion of equities. It may also be wise to invest a portion of ones portfolio in off-shore developed markets to protect ones investment against the fluctuations of the rand. Effective diversification across the major

asset classes can provide a hedge against the trade-off between risk and return, but it is essential for investors to first understand why different investments perform in different ways.

As a result of current stable market conditions and a growing economy, it is crucial that investors cautiously react to market opportunities in order to profitably take advantage of them. It is imperative for investors to develop a framework to assess "risk and return" and to utilise various tools to develop a sustainable wealth creating strategy. It has been said many a times, that if investors can identify the industry of the future, they will be assured of untold wealth. However, predicting the future and perfect foresight is next to impossible as the future is always faced with profound uncertainty.

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Appendix

▪ Comparison of Investments

"Rands & Sense

Putting property investment in perspective

Home vs shares

My biggest investment has been in property. We bought our house 16 years ago for R175 000 and have spent R228 000 on improvements.

Today the house would fetch about R850 000. We rented it out in 1990 for R2 500 a month (net of rates), escalating at 12% a year for five years. If inflation was not a consideration, we would appear to have made an excellent return, but I fear the worst.

What has been our real annual appreciation? Would we have fared better renting and investing our capital in the Johannesburg Stock Exchange?

Roger Adkins, of Scott Adkins in Durban, replies: The short answer is that there is no real annual appreciation on your property investment. The average annual return on the property investment equates to 10.08% per year. In making this calculation I have assumed a nil tax rate on the rental income. If I had taken tax into account, this would have reduced the average annual return to less than 10% a year.

At best, you could say that the purchase of the property, and the subsequent improvements, have produced a return marginally less than inflation.

The market value of a share portfolio made on the same basis as the property investment would be R1 992 138. This equates to an average annual return of 13.66% per year, over the 16-year period. This ignores the payment of any dividends and is based on the value of the JSE all-share index at the beginning of January each year. The inclusion of dividends at an annual rate of 2% would increase this annual investment return to a rate of more than 15% a year.

From a pure investment point of view you would have been better off investing in shares on the JSE than buying the property.

However, before you kick yourself, you need to assess the risks associated with making different investment choices. The emotional comfort of owning your own home and your investment objectives at the time influenced the decision you took. To simply compare the returns of the two investments in isolation ignores the fundamental principle that each investment decision should have as its aim the achievement of a financial objective."

Source: The Sunday Times (10 September 2000)

▪ **Introduction to Questionnaire**

Dear Sir/Madam

My name is Soraya Asmal and I am a final year MBA student at the University Of Natal. I am currently in the process of compiling my dissertation as required as part of the MBA program. My topic chosen is "Risks and Returns between the Property and Stock Market's in South Africa."

My dissertation sets out to explore which investment decisions yields more profitable results with the least possible risks and the overall perceptions that small private investors have regarding these choices. The study therefore aims to identify which is the most appropriate investment decision one should make regarding investing in the property market and share market.

In order for me to successfully complete my dissertation, I require your help in answering my questionnaire. Thank you for taking a few minutes off your busy schedule to fill in my questionnaire. Should you have any further information that you feel is important in my dissertation, please e-mail me at the address below.

Thank you once again for your time and effort.

Many thanks and kind regards,

SORAYA ASMAL

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Cell: 0832254747

▪ **Questionnaires to Present Investors**

1. Gender

- *Male* -----
- *Female* -----

2. Age in years

- *20-29 years* -----
- *30-39 years* -----
- *40-49 years* -----
- *50-59 years* -----

3. Income levels per month

- *Under R10 000* -----
- *R10 001-R20 000* -----
- *R20 001-R30 000* -----
- *Over R30 001* -----

4. Which of the following investments types do you presently hold?

- *Interest-bearing investments* -----
- *Property* -----
- *Shares* -----
- *Other (Jewellery, Krugerrands, etc)* -----

5. How would you rate the following as investment options? Number in order of preference (1-4)

- *Interest-bearing investments* -----
- *Property* -----
- *Shares* -----
- *Other (Jewellery, Krugerrands, etc)* -----

6. What were you initial reasons for making property and/or stock market investments?

7. Were you fully aware of what purchasing a property and/or stock market investments entailed before embarking on your purchase?
- Yes -----
 - No -----
8. How did you gather your information regarding your investment choice?
- *Friends and family* -----
 - *Agents and brokers* -----
 - *Newspapers, magazines, etc.* -----
 - *Other* -----
9. Would you buy another property or stock market purchase or recommend it to others?
- Yes -----
 - No -----
10. Are there any factors that you would advice others on to be cautious about?
11. What do you feel are the risks and returns of the property market in South Africa?
12. What do you feel are the risks and returns of the stock market industry in South Africa?
13. How do you believe that consumer behaviour and people's perceptions affect or impact on the property and stock market industry?
14. Given your present investment portfolio, what do you regard as being a better investment choice-the property market or the stock market?
- *Property market* -----
 - *Stock market* -----
15. Finally, are you satisfied with your present investment decisions?
- Yes -----
 - No -----

▪ **Questionnaires to Property Consultants**

1. For how long have you been involved in the property market?

- *Under 5 years* -----
- *5-10 years* -----
- *More than 10 years* -----

2. What do you regard as being the 3 most important triggering factors for people investing in the property market?

- -----

3. What do you consider to be success factors in the property industry?

- -----

4. What do you consider to be failure factors in the property industry?

- -----

5. How do you believe that consumer behaviour and people's perceptions affect or impact on the property market?

- -----

6. What effects do you feel the Rand/Dollar exchange has on our property market?

- -----

7. What do you foresee in respect to the property industry in the new South Africa?

- -----

8. Finally, how do you rate the property market as opposed to stock market investments?

- -----

▪ **Questionnaires to Stock Market Consultants**

1. For how long have you been involved in the stock market industry?

- *Under 5 years* -----
- *5-10 years* -----
- *More than 10 years* -----

2. What do you regard as being the 3 most important triggering factors for people investing in the stock market?

- -----

3. What do you consider to be success factors in the stock market industry?

- -----

4. What do you consider to be failure factors in the stock market industry?

- -----

5. How do you believe that consumer behaviour and people's perceptions affect or impact on the stock market?

- -----

6. What effects do you feel the Rand/Dollar exchange has on our stock market industry?

- -----

7. What do you foresee in respect to the stock market industry in the new South Africa?

- -----

8. Finally, how do you rate the stock market as opposed to property market investments?

- -----

