We tend to see things in black and white. This is especially true for economics and the investment landscape. There are numerous examples. The country is going to the dogs, the rand is only going one way. It is easy to see why we could feel this way. The media and the public are voicing their views and we tend to be influenced by others, especially the so called experts.

The problem is that we are basing our views on a few factors when the situation is, indeed, much more complicated.

I am told, for example, that overseas there are macro-economic models that factor in over 100 factors and they do also get it wrong sometimes.

If one looks at the latest rating agency downgrades I, for one, was surprised by how calmly the market reacted to them.

Bond interest rates did not go through the roof.

The JSE did not collapse.

The Rand strengthened.

Conventional opinion was that exactly the opposite would happen.

So what can we do?

I think the best approach to follow is not to think in black and white terms but to try and cover all the major investment and economic probabilities. Don't bet 100% on any one eventually. That is not investment but speculation.

Clearly, the South African economy is in trouble. We should not have to wait for the rating agencies to tell us that.

The middle class is rapidly disappearing.
Close on 40% of the working population can't get work.

Our state owned agencies, with one or two exceptions, are in disarray.

Our economy is not growing fast enough and unlikely to do so for a number of years.

South African companies have recognized this and are investing outside South Africa. The most recent figure I saw was that the top companies on the JSE now earn 60% of their income in non-rand terms.

Investors have realized and are prepared to value these companies at high earnings multiples.

In contrast, domestic South African companies are in the doldrums, and their earnings multiples reflect this.

If South Africa does not go into complete collapse one might say, with the benefit of hindsight, domestic shares were cheap and offered much better value than the markets favourites. It all depends on the price you pay for the risks you are willing to take.

The South African market is less than 1 per cent of the world market. To me it therefore makes investment sense to hold a significant portion of your investments outside the domestic market. By the way, this is as true for investors in other countries as it is for South African investors.

The research into the past – and I stress the past, would suggest a figure between 20% to 50% depending on the return you want and the risk you are prepared to take.

Just remember that if you are invested in the top 20 companies in South Africa a large percentage of your return will depend upon non South African factors.

If South Africa comes right then those companies that serve the South African market look cheap. Therefore one would want some exposure to them.

If you are retired, you would also want some more stable assets in your portfolio

Even South African bonds, at the right price look attractive, even to overseas investors, because of the low interest rates available in the developed world.

In recent years listed property in South Africa has done well. While I don't expect these high returns to continue, listed property offers, diversification form both bonds and equities. Their major attraction for me is that the good ones offer the prospect of increasing income returns.

A balanced portfolio approach will try to cover all these eventualities but weight the percentages you hold for each eventuality by how likely you perceive the risk.

Kind regards
Brian Goodall