Keep a calm mind and steady hand

by Paul Bosman

As an investor in our **Granate BCI Balanced Fund** or **Granate BCI Flexible Fund**, you have experienced an uncomfortable decline in the value of your investment over the last couple of months. This is a painful experience, and even more so given that the instability in local politics and global trade tariffs persists.

In times like these we find it helpful to simplify; not to be ignorant, but rather to focus on the reality that is most relevant for our decision making. **The story of our client, Steve, might be just the right one to help us keep a calm mind and a steady hand.**

"You haven't lost it until you have sold it."
- Steve Gain

Steve is a geologist who spent the earlier part of his career prospecting, especially for platinum group metals (PGMs) - a metal group with which SA is uniquely well endowed.

Steve's career took a very lucrative turn when his venture not only discovered a new PGM resource but also managed to secure the mining rights to that resource. Steve waited patiently until a mining house was prepared to pay the true value of the resource. He managed this process more than once.

It sounds simple enough. Now let's add complexity. Assume that Steve and his partners listed the company owning the rights to the PGM reserve on the JSE. The share price of this company would have inevitably made wild swings, as human emotions ebbed and flowed. Sometimes, the emotions would have been a function of expectations related to PGM supply and demand. But other times, they would have had nothing to do with the potential value of the resource.

Through all this volatility Steve would only really need to have focused on two questions:

1. Over the **long-term**, will there be demand for these metals without structural oversupply? For example, if many major miners were sinking PGM shafts, he might have been a seller of the share.

2. Is the share price significantly mispricing the value of the reserve? Steve would have wanted to hold on to more shares when they traded below the value of the resource, and to sell when they ran ahead of the underlying value.

If he focused on these two factors, he need not have been too concerned about the news flow driving his shares up and down.

What is the read-through for your investment in Granate BCI Balanced Fund or the Granate BCI Flexible Fund?

We continuously monitor developments - like, for instance, tariff wars - to determine whether they can change the l**ong-term value** of the businesses we own. For example, if we think a company's competitive advantage is being eroded, we will act. If we believe that the balance sheet could not withstand a possible recession combined with high interest rates, we will act. If we note management teams making kneejerk, short-term decisions, we will also act.

Secondly, we watch share prices for opportunities to sell when we are getting far more than the value of the business, or to buy when we can pay less than we are getting. Currently, there is plenty of bad news resulting in good buying opportunities. Owning more of a good company is almost always a good thing.

How much further will share prices fall? This is impossible to know, so we are not buying as if it is the last day of the sale. We are gradual buyers and continue to hold plenty of dry ammunition (cash and bonds) should the sell-off continue.

Being an investor in equity markets can at times be a joyful experience. But at other times, it can be scary. We find it less scary when we remember that, like Steve, we own good assets with share prices that can be completely dislocated from their underlying value. If it helps, go and make sure that there are still customers queueing at Capitec ATMs and Shoprite cash registers. That is where your dividends are made, not on the exchange.