third circle
Asset Management

by Christo Luüs (christo@thirdcircle.co.za)

Equity market recoveries after crashes

- Over the past 45 years, real returns (i.e. after inflation) amounted to 8,2% for equity; 2% for bonds; 2,2% for cash and 5,1% for direct property. (See table and graph below.)
- In 2013, real returns on equities amounted to 15,2% year-on-year, while property returned around 3,2%. Bonds and cash had negative real returns of respectively –4,5% and –0,4% y/y.
- Nine periods since 1925 were identified when the SA total real return equity index lost around 30% or more. Bear markets associated with such declines lasted on average 24 months, while all "losses" were recovered within 3 years and 2 months, on average. (See graphs and tables in document.)
- The longest equity bear market lasted for 68 months from Jan 1948 to Sep 1953, while it took nearly a decade (115 months) for the entire loss over this period to be wiped out.
- Because of volatility differences and the often uncorrelated nature of bond / cash / equity returns in relation to each other, diversification amongst asset classes is usually a good strategy. The optimal ex-post asset allocation over the past five years was 5% in cash; 20% in bonds; 65% in equity; and 10% in property. Over the past 10 years, this allocation would have been 5% in cash; 10% in bonds; 75% in equity; and 10% in property.

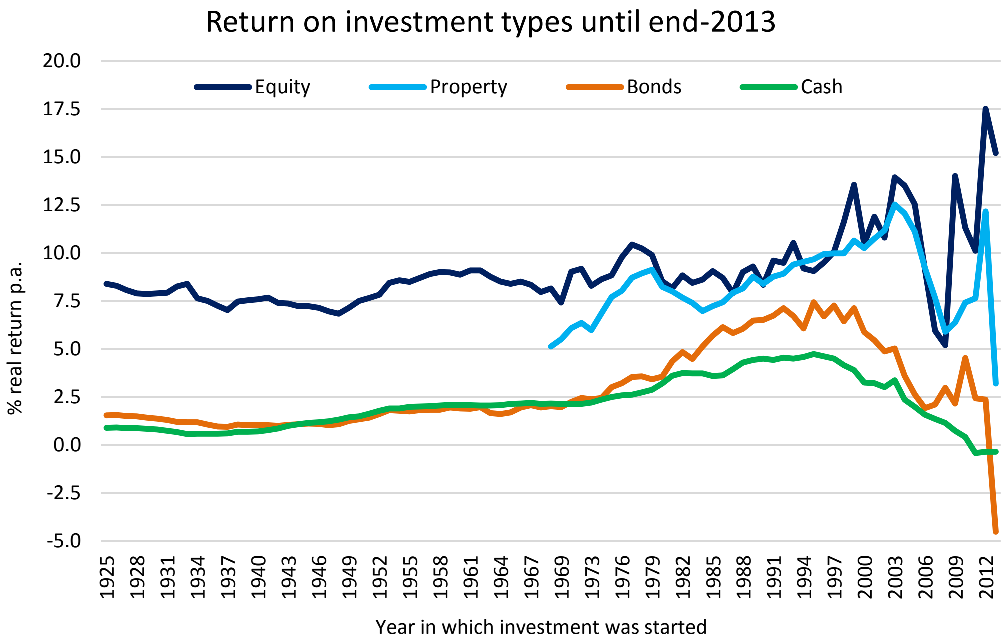
Real value of R100 portfolio at the end of 2013, invested earlier

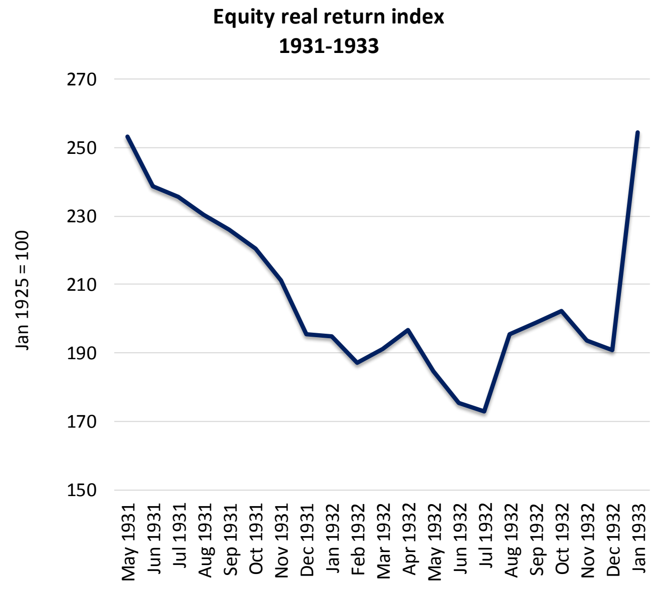
Number of years ago that investment was made		Equity	Bonds	Property	Cash	Gold
	5	R 155	R 110	R 156	R 108	R 160
	10	R 308	R 170	R 277	R 137	R 252
	15	R 390	R 265	R 415	R 197	R 385
	20	R 627	R 368	R 537	R 238	R 365
	25	R 805	R 444	R 600	R 244	R 213
	30	R 1 054	R 360	R 1 006	R 290	R 207
	35	R 2 612	R 303	R 1 491	R 244	R 371
	40	R 3 171	R 244	R 1 060	R 232	R 600

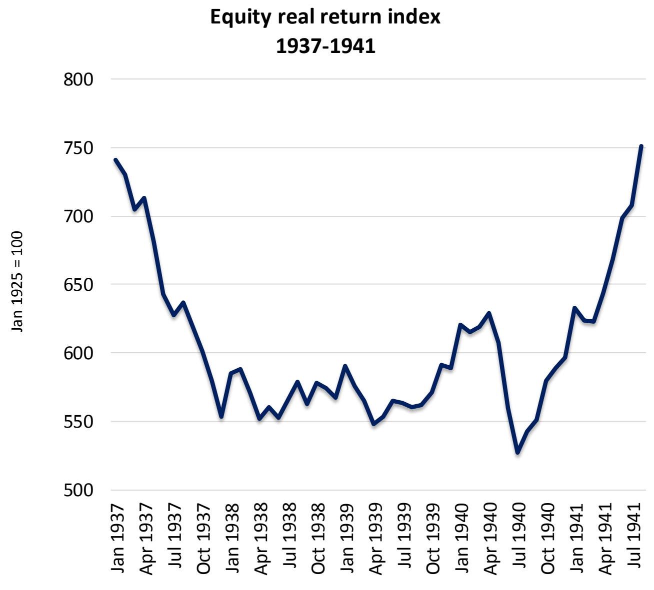
Suite 2
Regency Pavillion
cnr Regency & Viceroy streets
Route 21 Office Park
Irene

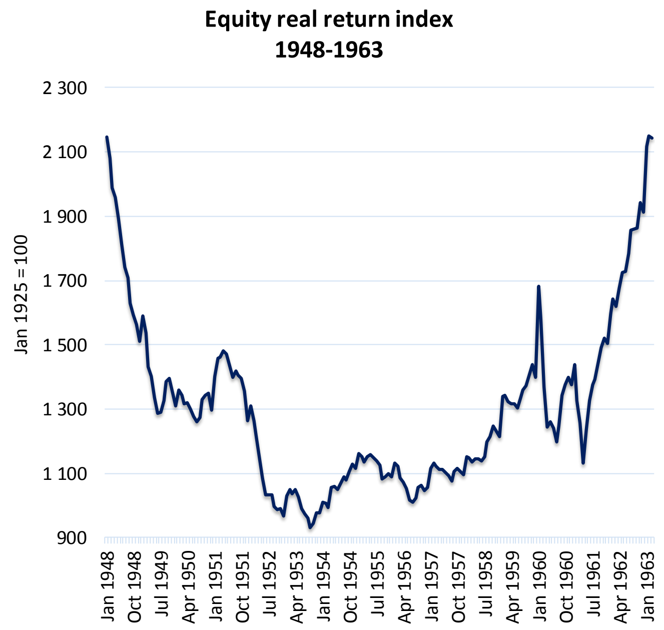
Tel: 086 111 4560
Fax: 012 345 5629

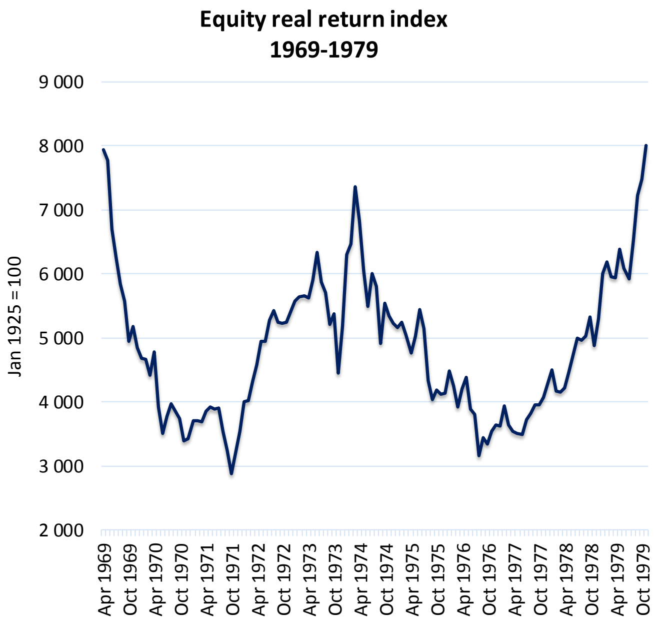
www.thirdcircle.co.za

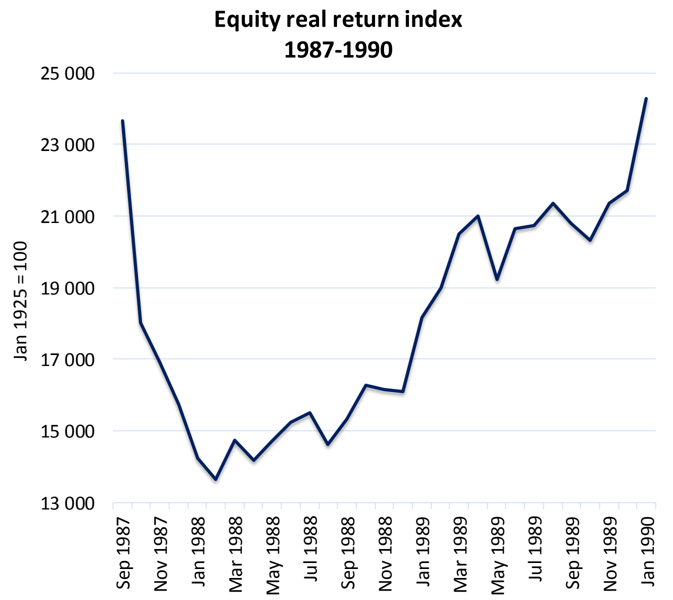


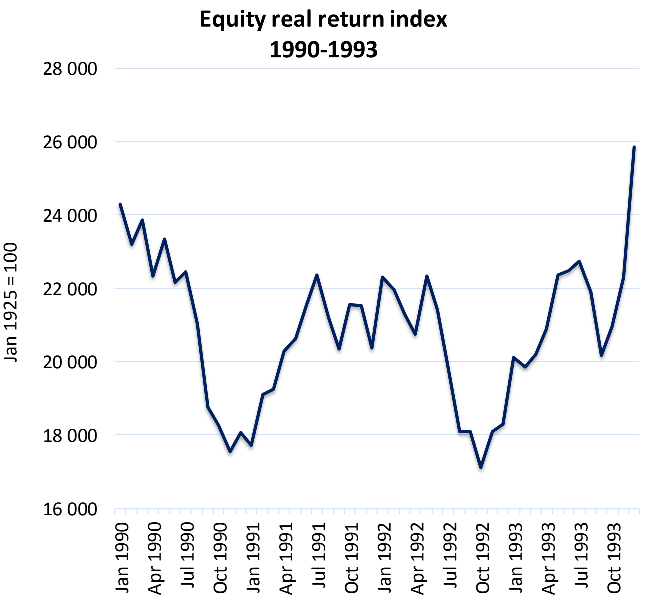

Equity real return index
1931-1933
Jan 1925 = 100
270
250
230
210
190
170
150
May 1931
Jun 1931
Jul 1931
Aug 1931
Sep 1931
Oct 1931
Nov 1931
Dec 1931
Jan 1932
Feb 1932
Mar 1932
Apr 1932
May 1932
Jun 1932
Jul 1932
Aug 1932
Sep 1932
Oct 1932
Nov 1932
Dec 1932
Jan 1933


Equity real return index
1937-1941
Jan 1925 = 100
800
750
700
650
600
550
500
Jan 1937
Apr 1937
Jul 1937
Oct 1937
Jan 1938
Apr 1938
Jul 1938
Oct 1938
Jan 1939
Apr 1939
Jul 1939
Oct 1939
Jan 1940
Apr 1940
Jul 1940
Oct 1940
Jan 1941
Apr 1941
Jul 1941

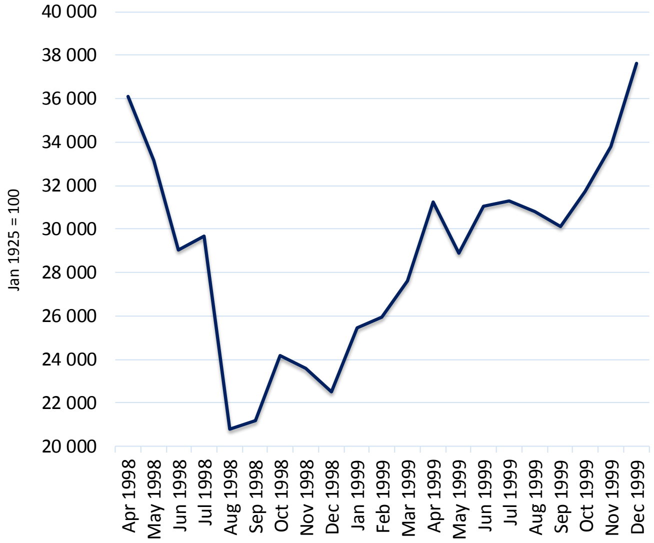

Equity real return index
1948-1963
Jan 1925 = 100
2 300
2 100
1 900
1 700
1 500
1 300
1 100
900
Jan 1948
Oct 1948
Jul 1949
Apr 1950
Jan 1951
Oct 1951
Jul 1952
Apr 1953
Jan 1954
Oct 1954
Jul 1955
Apr 1956
Jan 1957
Oct 1957
Jul 1958
Apr 1959
Jan 1960
Oct 1960
Jul 1961
Apr 1962
Jan 1963


Equity real return index
1969-1979
Jan 1925 = 100
9 000
8 000
7 000
6 000
5 000
4 000
3 000
2 000
Apr 1969
Oct 1969
Apr 1970
Oct 1970
Apr 1971
Oct 1971
Apr 1972
Oct 1972
Apr 1973
Oct 1973
Apr 1974
Oct 1974
Apr 1975
Oct 1975
Apr 1976
Oct 1976
Apr 1977
Oct 1977
Apr 1978
Oct 1978
Apr 1979
Oct 1979

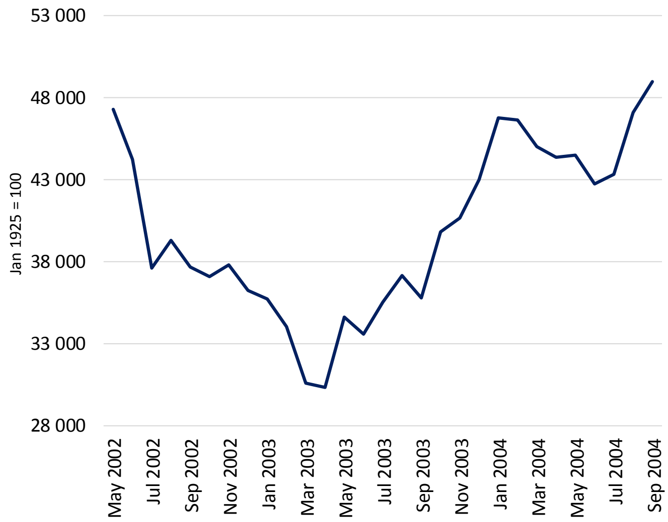

Equity real return index
1987-1990
Jan 1925 = 100
25 000
23 000
21 000
19 000
17 000
15 000
13 000
Sep 1987
Nov 1987
Jan 1988
Mar 1988
May 1988
Jul 1988
Sep 1988
Nov 1988
Jan 1989
Mar 1989
May 1989
Jul 1989
Sep 1989
Nov 1989
Jan 1990


Equity real return index
1990-1993
Jan 1925 = 100
28 000
26 000
24 000
22 000
20 000
18 000
16 000
Jan 1990
Apr 1990
Jul 1990
Oct 1990
Jan 1991
Apr 1991
Jul 1991
Oct 1991
Jan 1992
Apr 1992
Jul 1992
Oct 1992
Jan 1993
Apr 1993
Jul 1993
Oct 1993

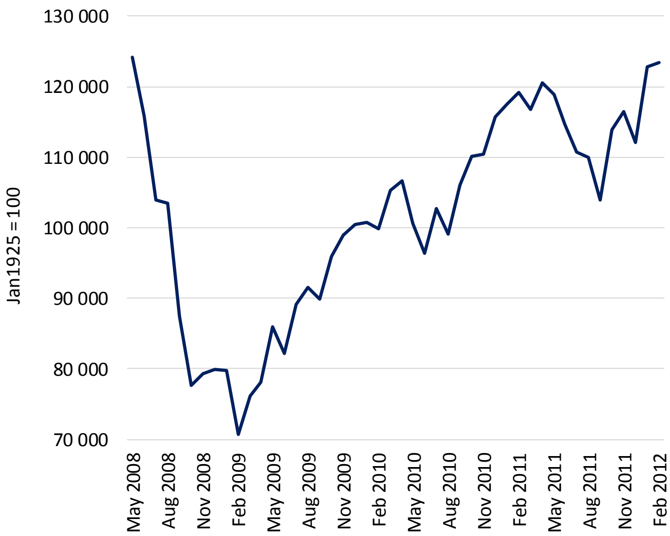
Equity real return index
1998-1999



Equity real return index
2002-2004



Equity real return index
2008-2012



From	To	Total % change	Number of months
May 1931	Jul 1932	-31.8%	14
Jul 1932	Jan 1933	47.4%	7
Jan 1937	Jul 1940	-29.0%	42
Jul 1940	Aug 1941	42.6%	14
Jan 1948	Sep 1953	-56.6%	68
Sep 1953	Mar 1963	130.0%	115
Apr 1969	Oct 1971	-63.8%	30
Oct 1971	Nov 1979	178.5%	98
Sep 1987	Feb 1988	-42.4%	5
Feb 1988	Jan 1990	78.0%	24
Jan 1990	Oct 1992	-29.5%	33
Oct 1992	Dec 1993	51.0%	15
Apr 1998	Aug 1998	-42.5%	4
Aug 1998	Dec 1999	81.1%	17
May 2002	Apr 2003	-35.8%	11
Apr 2003	Sep 2004	61.4%	18
May 2008	Feb 2009	-43.1%	9
Feb 2009	Feb 2012	74.6%	37
Average decline for 9 periods		-41.6%	24.0
Average rise for 9 periods		82.7%	38.3

Note: Figures are based on real (i.e. after inflation) total return index for South African equities. Periods where the total decline amounted to roughly 30% or more were taken into account.

SA Equity Total Return Index: Jan 1925 = 100
(Log scale)