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THE BOTTOM LINE

Concentrated market makes it risky to track JSE indices exactly

● *Large weighting of Naspers defeats passive strategy's aim of limiting exposure to any stock*

One of the many arguments in favour of passive investing is that investors are able to eliminate stock-specific risk while achieving the return of the entire market.

Passive investing is an investment strategy that aims to maximise returns over the long run by buying a sample of shares that represent one or more market indices. The advantage of this approach is that it seeks to spread risk by avoiding losses that can result from a large decline in one specific share or sector.

This works well in efficient markets like the US, where equity investors who track the S&P 500 index effectively have a portfolio where the 10 largest stocks (including companies like Apple, Google, Microsoft, Facebook and Amazon) still make up less than 20% of their holdings.

In SA, however, this argument does not hold as the stock market is highly concentrated.

The largest listing on the JSE is Naspers, which now makes up more than 19% of the all share index (Alsi) and 23% of the shareholder weighted index (Swix) due to phenomenal growth that is owed in large part to its 34% stake in Chinese internet company Tencent.

Thus, a large proportion of both these indices is now concentrated in a single stock, which in turn is heavily invested in a single foreign company.

Naspers has delivered incredible historical returns and handsome investor rewards. However, the overexposure of these indices to Naspers still poses challenges.

If your investment strategy is to simply track either the Alsi or the Swix, then more than 19% or as much as 23% of your portfolio will be invested in Naspers. Such a large exposure to a single stock is hardly ideal when this is what index investing is intended to avoid.

MORNE BEZUIDENHOUT

The Alsi and Swix are often used as benchmarks against which asset manager performance is measured. If the benchmark for a particular fund is the Swix, for example, the asset manager may then be tempted to hold up to 23% of the portfolio in Naspers.

However, asset managers have a responsibility beyond investment returns. They are also tasked with managing portfolio risk, and it certainly would not be prudent to hold that much of a portfolio in a single stock for the sake of a benchmark.

For example, some asset managers hold the view that

Naspers is undervalued and has a relatively large weighting in their portfolios. However, the size of the weighting is trimmed in accordance with their view of the stock's risk-adjusted return.

Fortunately for investors, even if an asset manager were prepared to expose clients to such a large single-equity risk, if their fund is subject to regulation 28 of the Pension Funds Act the manager would be limited to holding a maximum of 15% in a single stock.

As a result of the benchmarking problem the JSE has recently introduced a capped Alsi and a capped Swix, which limit their overall exposure to a single stock to 10%. Some asset managers have adopted the capped indices as benchmarks so that they can better align their responsibilities to both risk and client expectations.

Active and passive investments should be seen as complementary to each other. It is unlikely that favouring active over passive (or vice versa) will make a significant difference to your financial independence. It is far more important to ensure that you have an investment strategy with an appropriate allocation to the different asset classes (shares, bonds, property and cash) over the correct time frame. Once decided, don't be tempted to switch your investment strategy.

Engage with an independent certified financial planner to help you to understand both active and passive investments and to tailor a comprehensive financial plan appropriate for your circumstances.

PASSIVE INVESTING SEEKS TO SPREAD RISK BY AVOIDING LOSSES FROM A LARGE DECLINE IN ONE SPECIFIC SHARE

● *Bezuidenhout (morne@netto.co.za) is a director and investment planner at Netto Invest.*

MARKET SHARE OF FIVE BIGGEST COMPANIES

SA STOCK MARKET

Company	Market share (%)
Anglo American	3.91
British American Tobacco	3.62
BHP Billiton	7.1
Richemont	7.62
Naspers	19.72
Remainder of SA market	58.03

US STOCK MARKET

Company	Market share (%)
Johnson & Johnson	1.7
Facebook	1.9
Amazon	2
Microsoft	2.9
Apple	3.9
Remainder of US market	87.6

Graphic: DOROTHY KGOSI

UNDERCOVER ECONOMIST

Low unemployment and productivity show the robot boost is yet to arrive

To adapt a 30-year-old quip from the great economist Robert Solow: you can see the robots everywhere except in the productivity statistics.

This fact has been puzzling me for years now. Productivity growth is disappointing — especially but not only in the UK — and it has been for years. Unemployment is near record lows and employment is high. All this is the opposite of what one would expect if the robot job apocalypse was upon us.

Yet there is no denying the remarkable advances in various branches of artificial intelligence. The most talked-about example is the self-driving car.

This technology has come a long way in a short time, which is more than one can say for the original participants in the 2004 Darpa Grand Challenge, a race sponsored by the US military. With large cash prizes for the first autonomous vehicle to complete a 240km course in the Mojave desert, the best effort foundered after 11km. The contest became a punchline. Just 13 years later, nobody is laughing about autonomous vehicles.

Then there are deep-learning technologies such as AlphaGo Zero, which took just 72 hours to teach itself to become seemingly invincible at the formidable board game Go.

Alexa, Cortana, Google Assistant and Siri have made voice recognition an everyday miracle. Strides are being made in image recognition, medical diagnosis and translation. Deep learning is optimising power-hungry cooling in server farms.

All of this makes the puzzle of high employment and low productivity even more puzzling. Yet there are several ways to resolve it. A simple explanation is that the robot talk is all hype.

Nobel laureate Herbert Simon predicted in 1957 that a computer would beat the world chess champion within 10 years; it took 40. In 1970, Marvin Minsky predicted that computers would have human-like general intelligence "within three to eight years", a prediction even more inaccurate than Simon's.

TIM HARFORD

A more encouraging story is that we are understating productivity, for example, by undervaluing the output of services in general and the digital economy in particular, much of which is free and therefore invisible to normal measures of economic output. A third possibility is that — to borrow an idea from the writer William Gibson — the future has already arrived, but it is unevenly distributed. Perhaps the zero-sum scramble to dominate winner-takes-all markets is simply squandering most of the potential gains.

To tease apart these accounts, a research paper by a team including both sides: Erik Brynjolfsson, an economist well known for his writings on "the new machine age", and Chad Syverson, one of the leading experts on economic productivity. The researchers argue that the productivity slowdown is real. It may feel plausible to suggest our data simply are not good enough to recognise that productivity is growing strongly, but the story seems off in a number of ways — most obviously that the productivity shortfall is just too large to be a statistical illusion.

Something similar can be said for the zero-sum fight for corporate dominance: it may well be happening, but is it really so wasteful that huge productivity gains simply evaporate?

IF THE BENEFITS OF TODAY'S IDEAS ARE REAL BUT DELAYED, THAT MAY EXPLAIN THE PRODUCTIVITY SLOWDOWN ITSELF

How, then, to resolve the puzzle? In the simplest way possible: to say, "just wait". There is no contradiction between disappointing productivity growth now and spectacular productivity growth in the near future. This is true in the narrow statistical sense that productivity growth tends to bounce around: today's productivity growth tells us little about tomorrow's.

But it is also true that there tends to be a delay between a technical breakthrough and a productivity surge. The most famous case in point is the electric motor, which seemed poised to transform US manufacturing in the 1890s, but did not realise that potential until the 1920s. To take advantage of the new technology, factory owners had to turn their organisations upside down, with new architecture, processes and training.

Brynjolfsson's early research in the 1990s found that companies experienced little benefit from investing in computers unless they also reorganised.

If the benefits of today's new ideas are real but delayed, that may also explain the productivity slowdown itself.

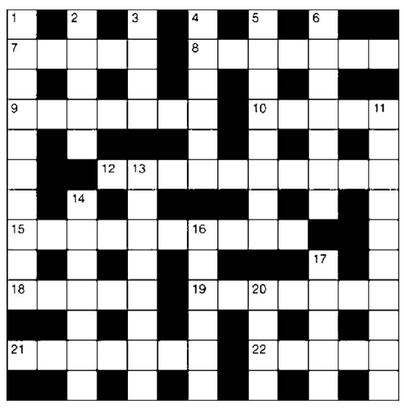
Consider the self-driving car: now it is a research expense, all cost and no benefit. Later, it will start to displace traditional cars, the industry, and many related businesses, from parking garages to automotive repair.

Finally, perhaps decades after a self-driving car becomes feasible, the full benefits are likely to be apparent. One does not simply invent a machine: economic progress requires much more than that.

Perhaps, then, this is a brief lull before an explosion of new technology that will radically reshape the world around us. Or perhaps we are due for another decade or two of disappointment. /© Financial Times 2017

TAKE A BREAK

30-MINUTE CRYPTIC CROSSWORD

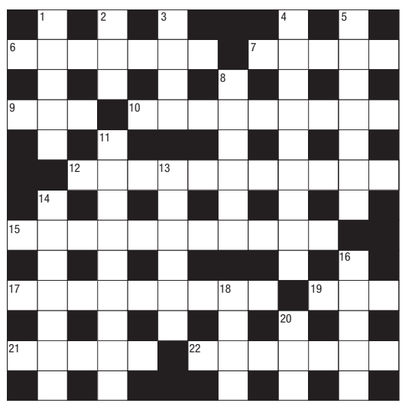


ACROSS
7 & 17Dn Voyaging to a town there, maybe (2,3,5)
8 & 16Dn But not what the ordinary soldier lives on! (7,6)
9 Put a sack in this place for vegetation (7)
10 I strongly criticise widespread religion (5)
12 & 4Dn Caused by banquet at the Over Forties Club! (6-4,6)
15 They have the same thoughts, we're told (5,5)
18 Short cut from the intersection (5)
19 Sound of disapproval coming from Tom (7)
21 To do this to land could be a miracle (7)
22 & 1Dn Travels on the Continent and maintains Tory beliefs (5,2,3,5)

DOWN
1 See 22 Across
2 See 20 Down
3 Sounds like the chief producer of Helen (4)
4 See 12 Across
5 As a matter of interest, this is what is to be shared (8)
6 Sort of contractor who should have some pull (7)
11 Given enduring quality — like a well-formed shoe (4,2,4)
13 Where you'll find the transport driver to the fore at the battle (2,3,3)
14 Eat one's words about a religious paper (7)
16 See 8 Across
17 See 7 Across
20 & 2Dn Negotiate a bend and do one's stint on the rota (4,1,4)

PREVIOUS SOLUTION
Across: 1 Flapjacks; 8 Imp; 9 Generations; 11 Adverse; 12 Align; 13 Calves; 15 Beagle; 17 Erase; 18 Impress; 20 In the stalls; 22 Men; 23 Death-blow.
Down: 2 Lie; 3 Juror; 4 Cutlet; 5 Storage; 6 Wishing-well; 7 Springers; 10 Naval rating; 11 Arch-enemy; 14 Elected; 16 Cinema; 19 Pitch; 21 Leo.

10-MINUTE QUICK CROSSWORD

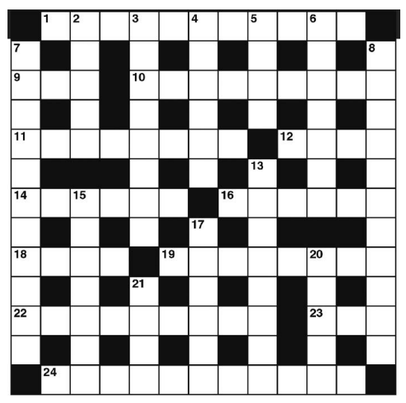


ACROSS
6 Plunder (7)
7 Smooth (5)
9 Arid (3)
10 Mark the boundaries (9)
12 Characteristic (11)
15 Remorse (11)
17 Polite (9)
19 Carton (3)
21 Balance (5)
22 Base (7)

DOWN
1 Tired (5)
2 Choose (3)
3 Shoot (4)
4 Speech ability (9)
5 Joyous (7)
8 Lodestone (6)
11 Depreciate (9)
13 Bid (6)
14 Small crown (7)
16 Shed (5)
18 Incite (4)
20 Task (3)

PREVIOUS SOLUTION
Across: 7 Lost in thought; 8 Discrete; 9 Type; 10 Lawyer; 12 Trepan; 14 Myopic; 16 Nicety; 18 Maze; 20 Vitality; 22 Measure swords.
Down: 1 Solitary; 2 Sticky; 3 Once; 4 Threaten; 5 Lustre; 6 Chap; 11 Recovery; 13 Attitude; 15 Please; 17 Call on; 19 Apex; 21 Test.

TWO-SPEED CROSSWORD



CRYPTIC CLUES

ACROSS
1 Graduate turning up in reputable organisation to walk about (11)
9 Idiot with brain, but no head! (3)
10 Meet people, though not at first, at bar (9)
11 Arm of the ocean? (8)
12 Poke pig's head with stick (4)
14 Fabricate lie, say, without difficulty (6)
16 Doorman, perhaps, losing nothing by chance (6)
18 Foreign leader backs Frost (4)
19 Metal gun follows language spoken (8)
22 Undergarment, said to be a trifling garment (9)
23 De facto to regularly dine (3)
24 Permissible bid for valid currency (5,6)

DOWN
2 Somewhat self-indulgent, like a pixie (5)
3 In the team enabled to be responsive (8)
4 Warp metal clasp (6)
5 Duo playing behind pound strongly audible (4)
6 Taught to cook trout by journalist (7)
7 Argument protects men — that's wrong! (11)
8 Overshadow IT promenade, possibly (11)
13 Loudly continue being an artist here in Devon (8)
15 New kit, let's knock down (7)
17 Upset at being made homeless (3,3)
20 Three out in that place (5)
21 Permit is held in Virginia (4)

COFFEE TIME

ACROSS
1 Stroll (11)
9 Awkward lout (3)
10 Come across (9)
11 Octopus' limb (8)
12 Elbow jab (4)
14 Readily (6)
16 Arbitrary (6)
18 Arab chief (4)
19 Modern wolfram (8)
22 Underskirt (9)
23 Devour (3)
24 Lawfully valid currency (5,6)

DOWN
2 Fairy-like (5)
3 Acquiescent (8)
4 Belt fastener (6)
5 Clamorous (4)
6 Coached (7)
7 Disagreement (11)
8 Overshadow (11)
13 Devon resort (8)
15 Bowling pin (7)
17 Annoyed (3,3)
20 In that place (5)
21 Entry permit (4)

PREVIOUS SOLUTION
Across: 1 Mumbo-jumbo; 8 Faces; 9 Swaddle; 10 Inexact; 11 Wh(o)elk; 12 Raise Cain; 15 Primp; 17 Infidel; 19 Precook; 20 Rumba; 21 Spectating.
Down: 2 Uncle; 3 Basmati; 4 Just the ticket; 5 Miaow; 6 Old bean; 7 Meek; 8 Fair; 12 Raiders; 13 At first; 14 Flea (Flee); 15 Pips; 16 Prose; 18 Demon.

SUDOKU

1				2			8	
6				4				9
				7			4	6
	2				4		5	
		1				7		
	9		6				2	
9	5			3				
2				9				8
	7			6				5

Puzzle by websudoku.com

CHESS

Patrick Foley

MUSOLINO — SIVIERI, CANTANZARO 1970

White to move. Can you find the win that he missed?

Solution at the bottom of this page

BRIDGE

Steve Becker

North dealer
Both sides vulnerable

NORTH
♠Q J 7 3
♥K Q 10
♦K 6
♣Q J 6 2

WEST
♠A 5
♥9 7 6 4 2
♦Q J 10 8
♣K 4

EAST
♠4 2
♥8 5 3
♦9 7 4 3 2
♣A 8 5

SOUTH
♠K 10 9 8 6
♥A J
♦A 5
♣10 9 7 3

The bidding:

North	East	South	West
1♣	Pass	1♠	Pass
2♠	Pass	4♠	

Opening lead — queen of diamonds.

A great deal of what is called good card play is based on making assumptions about how the unseen cards are divided. These assumptions are often wrong, but that doesn't mean it was wrong to make them; on the contrary, it would be impossible to play good bridge without making some assumptions that prove false.

For example, let's say you're West in today's deal and lead the queen of diamonds against four spades. Declarer wins with dummy's king and returns a low spade to his king, which you take with the ace. You are now at the critical point of the play. If you shift to the king and another club, partner wins and gives you a ruff, and the contract goes down one. But if you play anything else, declarer makes the hand.

Now how can you be expected to know at trick three that the king of clubs is the killing play? The answer is that you don't know — but you should make the play anyway!

It is based on the principle that your primary goal as a defender is to defeat the contract. You know from what you can see in your own hand and dummy that declarer must have either the ace of hearts or ace of clubs in addition to the king of spades and ace of diamonds he has already shown up with.

He may, in fact, have both of the missing aces, but you must dismiss that possibility because it would mean that the contract cannot be defeated. Instead, you should credit partner with one of them, and, going one step further, that one should be the ace of clubs. This is because if he has that card, you can beat the contract, while if he doesn't, you almost surely can't.

It is true that hoping your partner has a particular card frequently turns out to be only wishful thinking, but it is nonetheless the right way to play the game.

CHESS SOLUTION:
1 Qxe6 + !! , Kxe6;
2 Re1 + , Ne3 (not 2...Kd7 ; 3 Bf5 ≠)
3 Rxe3 + , Qe4 (3...Kd5 ; 4 Rg5 + , Kc4 ; 5 Bb3 ≠)
4 Bxe4, winning easily

Next Hand — South dealer
North-South vulnerable

NORTH
♠9 2
♥K J 4 3
♦K Q 10 6 3
♣7 4

WEST
♠10 8 3
♥A 5
♦J 8 2
♣K Q J 10 5

EAST
♠7 5
♥7 6
♦A 9 7 5 4
♣9 8 6 2

SOUTH
♠A K Q J 6 4
♥Q 10 9 8 2
♦—
♣A 3

The bidding:

South	West	North	East
1♠	2♣	2♦	3♣
3♥	Pass	4♥	Pass
6♥			

Opening lead — king of clubs.

DOODLE

SUDOKU SOLUTION

Puzzle by websudoku.com

5	1	9	2	6	4	8	7	3
8	6	3	5	9	7	4	1	2
2	7	4	8	3	1	6	5	9
3	2	8	7	1	6	5	9	4
4	9	7	3	5	2	1	6	8
1	5	6	4	8	9	3	2	7
6	4	1	9	7	8	2	3	5
9	3	2	1	4	5	7	8	6
7	8	5	6	2	3	9	4	1

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