CEO's message
(January 2018)

Why you should not compare apples with oranges in investing

2018 is here with us and we look forward to another successful year. I would like to start off by thanking each and every investor who selected Databank as their investment partner of choice in 2017. We are grateful and we remain committed to ensuring we provide you with a range of investment solutions that are backed by a proven track record and experienced fund managers.

Recap of 2017

The Year 2017 was generally a good one for the economy and for investors, particularly those invested in equities. The Ghanaian economy in 2017 exhibited strong growth. In the fourth quarter, the economy grew 9.3%, fueled by an expansion in oil production. The growth, if sustained, would mark a turnaround for the country after recording slower economic growth from the years 2014-2016. Ghana's equity market, represented by the Ghana Stock Exchange (GSE), rallied from two back-to-back years of losses to post a full-year return of over 52%, outperformed only by Malawi (62.14%) in local currency terms on the African continent. The stock markets in other key African countries, such as Nigeria (42.30%), Uganda (35.44%) and Kenya (28.39%) also posted strong returns, albeit not as strong as the GSE. However, as the economy began to stabilize, we saw the monetary policy committee revise the prime rate downward four times. We also saw interest rates in the money market (e.g., 91-day treasury bills) fall in response to the cuts in the policy rate as the government pushed investors towards longer-term instruments by offering better rates in that space. For example, at the beginning of 2017, the 91-day T-bill rate was 16.43%; however, it fell to 13.35% by year-end. As such, fixed-income investors found that their investments grew at a slower pace than equity investors.

Outlook for 2018

At Databank, we are looking forward to an exciting 2018 for investors. Backed by data from our award-winning research team, we expect the equity markets to remain strong, which should translate to another year of positive returns in that space – though we cannot and are not (by law) allowed to guarantee any returns. The GSE has already started on a strong note, and gained 7.83% by January 15th, led by stocks such as GCB, EcoBank, Stanchart and Total. As the year progresses, we will see which stocks continue to lead and which ones are lagging, but the general business climate has improved and it is translating into strong performance for many of the listed companies. Returns on fixed-income investments are expected to remain at levels similar to 2017, primarily due to our expectation of lower inflation.

Why you should not compare apples with oranges

It is for this reason, I think it is important to talk about what feeds into our investment decisions. In an effort to chase the highest return, many investors end up comparing apples with oranges and then making ill-informed investment decisions. The example I would use would be the **comparison of investment categories (equity and fixed income) that are not similar.**

Equity funds (apples) and fixed-income funds (oranges) are not the same and are not intended to be the same. Equity funds are those that invest primarily in the stocks of companies listed on one or more stock exchanges. Fixed-income funds, on the other hand, invest primarily in government instruments (e.g., treasury bills, bonds). Due to the nature of these investments, the performance of equity funds tend to fluctuate more because they depend on the performance of the underlying companies, which are affected by what is happening in the economy, the market and the business itself. Fixed-income funds fluctuate less, because government instruments are very stable. Here is a practical example. Epack (an equity mutual fund) has seen its return climb as high as 137% (in 2003) and fall as low as -12.21% (in 2011), while MFund (a fixed-income fund) has seen its returns range from 11.99% (in 2007) to 28.06% (in 2009).

The point I would like to make here is that, as an investor, you should not expect to get equity type returns from a fixed-income investment over an extended period. There may be years that the equity and fixed-income returns come close, as we have seen in recent years with Ghana's high-interest rate environment. However, this is not the norm, and as the economy strengthens and the markets correct, you will begin to see the gap between the performance of equities and fixed-income investments widen.

Know which investment category best suits you

So where do you go from here as an investor? I would recommend that you answer these questions to help you decide which investment category is better suited for you.

1. **What is your investment objective?** Is to buy a house, a car, start or grow your business, pay for your child's education, invest toward your retirement? It's important to know why you are investing as it will inform how much time you have to achieve your goals.
2. **What is your time horizon?** Is it short term (i.e., less than 1 year), medium term (i.e., 2-5 years) or longer term (5 or more years). Your time horizon is important in determining how much fluctuation you could/should be willing to accommodate in your investment. If your time horizon is short, then you should veer towards fixed income, which focuses more on capital preservation, particularly in the short term.
3. **What is your risk tolerance?** In other words, how much fluctuation can you withstand? One way to answer this question is to think about how you would react if an investment you commit to for 3 or more years loses 10% of its value in the first year? Would you be extremely concerned and sell (i.e., low risk tolerance)? Would you be concerned but not sell (i.e., medium risk tolerance)? Or would you stay invested because you know you are in it for the long term (i.e., high risk tolerance)?

Once you have answered these questions, then you are in a better position to know which investment best suits you, and by extension then what type of return you should expect. You should not have a 1-year time horizon with a low risk tolerance, but expect the return of an equity fund. Therefore, when you see an equity fund performing very well, do not be quick to sell your fixed-income investments and chase those equity returns because it runs contrary to your investment profile. And remember, the same equity market that is going up today, could go down tomorrow – that is the nature of equity markets; they are cyclical. I therefore encourage you to invest using caution versus hype. Know yourself, know the investments that best suit you and know why you choose them.

Diversify for the best effect

My ultimate recommendation, when it comes to investing, is to build a diversified portfolio of two to three mutual funds – one that has some equity as well as fixed income. The proportion of each would then depend on your risk tolerance. If you have a low risk tolerance, for example, you could consider investing 20-30% in an equity fund and 70-80% into a money market or fixed-income fund. That will give you the stability that you desire, while also exposing a small portion of your portfolio to the higher growth investments. The higher your tolerance for risk, the more you can shift the balance so that you increase your equity investments and reduce the fixed-income portion. You can also consider adding a balanced fund to help bring even greater diversification to your investment. The key is to invest, and invest wisely!

What you can expect from Databank in 2018

In 2018, Databank has a number of initiatives in store to increase our level of accessibility for Ghanaians who want to invest with Databank. Here are just a few of the initiatives we plan to roll out in the first quarter of 2018:

- New branches in Koforidua (January) and Ho (February)
- Launch of online account opening platform
- Launch of Databank mobile app
- Update of Databank's website

Our goal is to ensure that your investment experience with Databank is even better in 2018. Once again, I thank you for partnering with Databank in 2017 and look forward to helping you on your journey to financial independence in 2018.

Sincerely

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Kojo Addae-Mensah
Group CEO