

I hope you enjoy this article and pictures (see below). I took over 2,500 pictures on this trip, 2,475 were horrible, this is the 1% that turned out OK.

I have to warn you the very last picture should not be viewed while you are consuming food. – Enjoy.

South Africa's Heartbreak And Hope

Fifteen years after the election of Nelson Mandela, South Africans again go to the polls to plot the future course of their country.

By Vitaliy Katsenelson, CFA

When I was invited to give a presentation in March about my book to South African CFA Society members in Cape Town and Johannesburg, to say that my expectations for South Africa were low is a tremendous understatement.

Preparations included a visit to my doctor where I paid \$285 for three vaccinations against hepatitis, tetanus and typhoid. My wife packed me antibacterial wipes and gave me clear instructions: "Wipe your hands every time you touch anything."

Images of dirt roads, AIDS, food-deprived kids, militants with AK-47s, and general lawlessness were circulating in my head, and on some very subconscious level I was saying final goodbyes to my wife and kids. I was going to South Africa.

Ignorance is bliss. With hindsight, my expectations were so low that the presence of semi-paved roads would have elicited a positive surprise. The South Africa I found was not dominated by shades of brown, the color of sand and poverty that were imprinted in my head about Africa. The South Africa I found was bright green, blue and white. If it was not for the cars driven on the "wrong" (left) side of the street, a gift from the U.K., you'd confuse it with Southern California (Santa Barbara comes to mind especially).

The roads are in far better shape than in most cities in first world countries. Neatly manicured grass and palm trees and endless vineyards are responsible for the rich green colors. White is the color of waves bathing the coasts and the color of European-style buildings that are in perfect shape. Blue, the color of two oceans (Indian and Atlantic) surrounds the Cape, meeting at the Cape Point, and of course is the color of the bright blue sky.

This is the view that you'll get of Cape Town and the Cape if you only stay on the major roads and only visit the tourist areas. Until the early 1990s you'd see this side of the country only if you were white. If you were black, colored or Indian this paradise was off

limits. The slums, poverty, humiliation, and treatment as a second class citizen were your domain. Whites controlled the country.

Until the early 1990s, South Africa was governed under apartheid. Instituted in 1948, apartheid was a version of modern day slavery. Though individual black people were not *per se* owned by white folks, white people as a class dominated non-whites. People's treatment and their rights were based solely on race. They were divided into four categories. Whites, about 15% of the country, had all the rights and ran and owned the country. Blacks, 80% of the population, involuntarily segregated to live in ghettos, also called townships, had no right to vote, were kept for the most part uneducated or were provided only vocational education, and were treated as sub humans. Blacks were not free to roam around the country; they needed a special travel document that allowed them to travel between ghettos and their place of work. Colored (mainly Indians) accounted for the remaining 5% of the population.

Even more disturbing was that people's rights varied based on skin color--the more white blood you had in you the more rights you had. Black people had no rights at all, colored and Indian had slightly more rights. The definition of colored in South Africa is someone of mixed race between white and black. There was even a special commission in South Africa that determined a person's official color (race). In one year, thousands of people would change their color in their official documents through that commission. None went from black to white or white to black, most of the changes were ("upgrades") from black to colored or colored to white.

In the early 1990s the country was ready to explode; modern day slaves got fed up with apartheid. They started demonstrations which spilled into violent confrontations with the government. They demanded equal rights and the release of their leader, Nelson Mandela, who at the time had been in prison since the 1960s. The government resisted at first, blood was spilled, but out of fear of a nationwide uprising Nelson Mandela was released. Negotiations between him and F. W. de Klerk, South Africa's newly elected president, began as result. Apartheid was dismantled, equal rights for all races were established and black people voted for the first time in the 1994 elections. Nelson Mandela was elected president.

Then amazing transformations began in South Africa.

Nelson Mandela's actions after he became president are fascinating to me. This is a person wrongly imprisoned for 27 years by white people, who now had effective control of the country, as his party controlled over 65% of the votes. He did not seek revenge. He did the unthinkable--he united the country. It would have been easy for him to go after his oppressors and try to socialize wealth. After all, a small minority of the population controlled all the wealth of the country. What is easier than taking wealth from the rich oppressors who had gotten rich on the backs of slaves, and distributing this wealth to the poor? Though it would have been the easier decision, it would have been the worst decision for the country and for all races. This type of thinking sent Zimbabwe (South Africa's northern neighbor) back to the proverbial Stone Age. White people would have

fled the country and the new owners of businesses and land) would not have known what to do with it, lacking the skills and experience to manage it.

Mandela and de Klerk received Nobel peace prizes for their roles in the transition. Mandela united a country that was deeply divided, prevented bloodshed in a time of great risk for civil revolt, and put South Africa on the right course to strengthening democracy and capitalism.

With that historical backdrop, let's get back to the trip. At first I was touched by the beauty of South Africa, especially the pulchritude of Cape Town; at least the parts visible to a tourist. But as I learned more about the country, I was deeply touched by its transformation from modern day slavery to a capitalistic democracy where everyone enjoys equal rights. Now, people of all races are an equal part of the country that used to be controlled by a relatively small minority.

South Africa has the most robust economy on the continent, which is kind of like being the best baseball player on a minor league team. After all, the majority of its neighbors are embattled in civil war or suffering from the last one. A peaceful transition from one of the worst civil rights abusers on the continent to a model for other nations, spiked with a healthy dose of capitalism and democracy, has given this country a chance to be a formidable competitor in a more serious league.

Don't assume that South Africa doesn't have problems; it has plenty. Official unemployment is running at 25% or so, and the unofficial number is a lot higher, closer to 40%. The country still has to make up for the hole in education created by apartheid, but the situation is improving dramatically for blacks. People with means, still predominantly white, have access to better private education, but government sponsored programs have made huge leaps since the 1990s.

While in Johannesburg, I visited the infamous slum of SOWETO, which stands for South Western Township. It is probably the most well known township, as guided tours go there twice a day, and it was the residence for the most famous person on the continent, Nelson Mandela. His house has been turned into a museum.

SOWETO, just like other ghettos created by apartheid, is still around but the contrast in its transformation is very observable. The shacks and matchbox houses (the size of a two car garage) are gradually being torn down and replaced by government built housing. That did not impress me much, as this new housing reminded me of socialist Soviet Union government built houses. You could call them "architectural terrorism." They were probably designed by Stalin's or Khrushchev's favorite architect. They were identical ugly ducklings and made all cities look blandly the same.

What amazed me about SOWETO were the beautiful, privately owned houses that are being erected in the township. The contrast of shacks, government built houses and beautiful new little mansions located side by side is quite a view. Though a lot of non-whites still live

in townships, they do it by choice and can buy or build a house in any neighborhood, including previously white-only areas.

Crime is high in South Africa, as poverty is still much, much higher than in developed world countries. I was told not to walk on empty streets at night even in safe neighborhoods. But as long as the country remains on the road of democratic capitalism, the poverty will decline and the crime rate will follow. Most of the houses in semi-wealthy (non-township) neighborhoods have fences topped by electric wire. While crime is an issue, I did not see a single electric fence in SOWETO. Of course, there is little to steal from the shacks of poor people, but the electric fences were even missing around the wealthy houses. I was told that if you try to rob folks in SOWETO they don't call the police, they just shoot you.

Politically, South Africa is only slightly more dysfunctional than the rest of the world, even the good old U.S. of A. All corruption charges against Jacob Zuma, a leader of the majority party and likely to become the next president, were withdrawn by a high court (before the case went to trial), and he was acquitted of rape charges in 2006. Most people in South Africa believe that he was guilty, but they'll never find out, as the case never went to trial. This sounds horrible, but then our senator from Alaska was almost reelected in November after he was convicted of bribery, and then all the charges were dropped in April by the U.S. Attorney General.

Today, South Africa is still battling with discrimination, but a different one--reverse discrimination. Its version of affirmative action is called black economic empowerment (BEE). Blacks, colored and Indian candidates must be given preferential treatment when hiring decisions are made. As my white South African friend put it, this is a small price to pay for a bloodless revolution that has taken place in the last two decades. I agree that neither BEE, nor affirmative action, is good for the economy or the race they try to promote. I had a very pleasant two-hour conversation on the plane from Cape Town to Johannesburg with a very bright (I mean smart here) black woman who is online marketing manager for LG. She resented BEE because it created a perception that she was hired not based on merit but on color.

BEE is not good for South Africa, though it was a sacrifice needed to appease population that has been oppressed for a long time. It is by far not the worst that could have happened, but it does produce a "brain drain," as well-educated, skilled workers are leaving the country.

I'll be watching them with great interest to see if South Africans still vote in this election along racial lines. The African National Congress, the party of Nelson Mandela, has been ruling the country since 1994. Absolute power corrupts absolutely and thus many perceive this party as being corrupt. Though ANC and its current leader Zuma are expected to win, this year ANC has a new challenger, the Congress of the People (COPE), a party that was started by ex-ANC members who are respected by non-whites. The emergence of COPE provides a hope (I know it rhymes) that presents a formidable opposition force that might prompt ANC to clean up its act.

South Africa's success in the future will be determined by several factors:

- The country's ability to remain a capitalist, free market economy. It has a long history of this, along with a Roman-Dutch-English legal system and property laws.
- Maintaining democracy and equal rights. This is the country's biggest test. If it maintains equal rights for all races, in this case especially for minority whites, it will stop the "brain drain" and people who left may actually return.
- Educational achievement. Apartheid has kept 85% of the country intentionally uneducated. Education will solve a lot of the problems in South Africa. Unfortunately, it is a slow process that requires substantial upfront investment and a long-term payoff period.

The history of the continent doesn't bode well for South Africa's future. It is full of starts and failures, riddled with examples of what not to do. So far, South Africa has defied the continent's history. Hope is the word that describes South Africa and its transformation from what appeared like a hopeless situation in 1990s to by far the most progressive political and economic force in Africa. It gives me the feeling that almost anything is possible.

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Cape Town: Table Mountain



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Cape Town: Shopping mall. Looks just like any other shopping mall in the US.



Cape Town area. This doesn't look like your "typical" Africa, instead it resembles Santa Barbara. Wine is very cheap in South Africa; it produces so much of it. I'm no connoisseur, but I liked every bottle I tried. Pinotage is a very popular grape in South Africa; it's a cross between a delicate pinot noir and a robust (i.e. it grows like a weed) Hermitage. It was created in South Africa in 1925.



Cape Town area.



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Cape Town: Synagogue. Built in 1905.



Cape Town: view from the Table Mountain



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Cape Town: view from the Table Mountain



Cape Town area.



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~~Santa Barbara, California.~~ Cape Town



Simon's Town. An hour drive from Cape Town.



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Simon's Town. South African Navy. Maybe they should take care of the Somali pirates



Cape Point (an hour drive from Cape Town). The place where the Atlantic and Indian oceans meet.



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Cape Point. View from the restaurant Two Oceans.



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Cape Point. Baboons are like squirrels at Cape Point.

They are a tourist attraction and an annoyance as they are known to jump into the cars (when the door is open) in search of food.



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Cape Town. Safari. I was expecting a Safari where you are driven around the wilderness and you get to observe huge herds of wild animals. Well, the part about being driven around was right, but for the most part herds were very small, usually a pair or half a dozen at the most. There were only two elephants on this Safari. This safari trip was not unlike a visit to the zoo, but fewer people, no ice cream, no crying toddlers and you do get to see animals up close in their semi-natural habitat. As my guide explained, if you were to go to a national park (the real Safari) you'd see huge herds of animals, but you'd have to drive hours at a time to see different species. Despite its limitations it is still a lot of fun.



Safari.



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Cape Town area. This vineyard is adjacent to Safari. Safari, which is only six years old, used to be a vineyard.



Johannesburg. SOWETO. House Nelson Mandela grew up in. Now a museum. A very typical matchbox house in SOWETO, the size of a two car garage.



Johannesburg. Nelson Mandela's new house. Was gifted to him by the people. Quite an upgrade from the house he grew up in or his prison cell. He deserves it!



Johannesburg, SOWETO. Pretty, well-groomed houses like these are directly across the street from slums and government housing.



Johannesburg. SOWETO. Government built houses (upfront). Shacks and slums (in the back).



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Johannesburg. SOWETO.



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Johannesburg. SOWETO. Open-air barbershop and mini market. To the right: mansions To the left: slums



Johannesburg. SOWETO. These are being gradually replaced by government housing. South Africa is going through substantial renovations in preparation to hosting FIFA 2010.

Warning: Last picture....



Johannesburg. SOWETO. As my guide explained – the butcher buys five or six cow heads, cheap, carves out the meat and sells it on the street. He said if I ate it I'd probably get sick, though he'd be ok – he has been eating it all his life.