



THE POWER
OF INDEPENDENT ADVICE

IN THIS ISSUE

JSE SHOCKING
UNDER-PERFORMANCE

SA IS HEADING
RAPIDLY TOWARDS
A FISCAL CLIFF

OFFSHORE
RECOMMENDATION

CONTACT US

BRENTHURST RANKED
TOP BOUTIQUE WEALTH
MANAGER IN SA, 2017



JHB (HQ) +27 (0)11 799 8100
 JHB (SANDTON) +27 (0)10 035 1391
 PTA +27 (0)12 347 8240
 CPT +27 (0)21 418 1236
 BELLVILLE +27 (0)21 914 9646
 STELLENBOSCH +27 (0)21 882 8706

SOUTH AFRICA A COUNTRY OF NO GROWTH

By Magnus Heystek, Investment Strategist and Director, Brenthurst Wealth

LONG-STANDING clients of Brenthurst Wealth will be well aware that we have been recommending offshore investments for some time to our clients. This recommendation was based on a number of factors, which we felt would negatively impact on the future returns earned by investors on the JSE. The first and perhaps most important factor was the dramatic downturn in the global commodity cycle in mid-2011 after several years of expansion.

The collapse in the demand - and hence prices - from China in particular exposed South Africa's dependency on the export of raw materials in order to pay for its large and growing deficit on the current account of the balance of payments. Not only did it lead to a sharp weakening of the currency against all major counterparts, but it also depressed the economic growth rate substantially as mines were forced to cut back and even close.

South Africa's economic growth rate since the end of the Great Financial Crisis has been less than 2% per annum and according to a recent World Bank report, will not be more than 0,6% for the 2017 calendar year. When measured against the population growth rate of 1,9% this is a further decline in the per capita wealth for the average South African.

This is much lower than the average growth rate of 3,5% percent forecast for the Sub-Sahara region or the 4% growth rate forecast for Egypt, which has just overtaken SA as the most favoured destination for foreign inward investment in Africa, according to Rand Merchant Bank.

Both consumer and business confidence is at record lows. Business confidence is down to levels last seen in 1985 after the disastrous Rubicon speech by former president P.W. Botha while consumer confidence is at 15 year lows, even worse than during the Great Financial Crisis of 2007.

What is the cause for all of this? It is not a reflection of global business conditions which have been surprisingly upbeat and global growth is forecast at between 3 and 3,5% for 2017.

SA's growth rate forecast to be 1,7% as late as the 2017 Budget in February this year, is now set to be not much more than 0,5-06% for the year, according to the World Bank.

The WB has also warned that SA runs the threat of missing the global economic upturn as its economy is still too dependent on resource extraction and that it has not diversified its economic base to any significant measure.

It is our view that this is a combination of the destructive economic policies of the ANC, led by pres. Jacob Zuma and his cabinet, which seems to be hell-bent on achieving Radical Economic Transformation, despite the costs to the economy and personal hardship of millions of unemployed and under employed South Africans. The continuous flow of media reports surrounding state capture and massive looting of state resources by people aligned to the infamous Gupta family have added to the current bout of intense negativity.

Unemployment has soared to record levels of around 27% of the working population, according to the latest figures from Statistics South Africa, while some place the number as high as 35%.

SHOCKING UNDER-PERFORMANCE

An analysis of the investment returns of the JSE over the past 5 years versus the main investment groupings in the world (which includes the Emerging Market-sector) shows a shocking under-performance, which is not publicly well-known or even discussed (see table and charts).

IN FACT, OVER ALL PERIODS MEASURED, THE RETURNS ON THE JOHANNESBURG STOCK EXCHANGE (JSE) HAS BEEN STONE LAST.

It's a shocking indictment of the poor returns investors are getting by being fully invested on the local stock market. Quite frankly: in investment terms we are being left behind by the rest of the world.

This poor performance is already being felt by millions of local investors who have not increased their offshore exposure within investment portfolios,

particularly investors with clients invested in pension and other retirement funds, which are subject to Regulation 28 which limits the amount fund managers can move into offshore, namely 25% of total assets.

Were it not for the returns earned on the offshore assets would the growth of pension and retirement funds (preservation funds, provident funds and retirement annuity funds) been substantially lower.

As it is, have the returns of the JSE over the past 3 years barely kept pace with inflation, and in some cases performed below inflation.

It is our view that this situation is likely to continue, perhaps even for several years, considering the gross mismanagement at almost all levels of society, including local, municipal and national level.

JSE INVESTMENT RETURNS OVER THE PAST 5 YEARS



SA LOSING THE GLOBAL INVESTMENT RACE

Instrument	1 month	6 months	1 year	3 years annualised	5 years annualised /Since launch* annualised ZAR
FTSE/JSE All Share Index (ALSI)	1.2	7.7	10.6	5.6	12.1
MSCI AC Asia ex Japan	5.9	23.9	19.4	14.7	19.4
MSCI AC World	4.1	14	12.7	13.8	21.5
MSCI Europe	4.5	19.5	16.4	10.1	19
S&P 500	4	10.9	11.1	16.9	25.2
MSCI EM (Emerging Markets) NR USD	5.9	22.4	19.9	11.2	15.4

SA IS ALSO HEADING RAPIDLY TOWARDS A FISCAL CLIFF

Government has, once again, over-estimated the expected growth rate in the 2017 fiscal year (1,7%), which is causing the collection of tax revenues to run substantially behind budget. A shortfall of about R40-45 billion rand is now widely expected and substantial tax increases are expected when finance minister Malusi Gigaba delivers the Medium Term Budget Forecast towards the end of October. Prepare for a wide range of tax increases, which could include higher Capital Gains Taxes, dividend taxes and possibly an increase in Value Added Tax.

These tax increases will further depress consumer expenditure, especially amongst the higher earning tax payers who were hit with sharply higher taxes, CGT and dividend taxes earlier this year in the 2017 Budget.

THERE ARE MANY WAYS TO INCREASE OFFSHORE EXPOSURE WITHIN THE INVESTMENT PORTFOLIOS WE MANAGE ON BEHALF OF OUR CLIENTS.

This has been an ongoing process within Brenthurst Wealth for several years now, but we feel that many investors are still reluctant to increase offshore exposure on the misplaced fear that offshore investments are “risky”.

South African investments - as per the table - should rather be considered risky and that offshore investments should form the cornerstone of any long-term investment portfolio, despite the short term volatility caused by the rand.



INVEST WITH THE TOP BOUTIQUE WEALTH MANAGER IN SA, 2017 BRENTHURST WEALTH

SPEAK TO YOUR DEDICATED INVESTMENT ADVISOR AT BRENTHURST TO INVESTIGATE HOW TO GET GREATER OFFSHORE EXPOSURE WITHIN RETIREMENT FUNDS AS WELL AS DISCRETIONARY PORTFOLIOS

THE POWER OF INDEPENDENT ADVICE

BRENTHURST FINANCIAL PLANNERS

MAGNUS HEYSTEK

MAGNUS is a director of Brenthurst and is in charge of investment strategies, research and client communication.

EMAIL: magnus@heystek.co.za

TEL: +27 (0) 83 692 8635

BRIAN BUTCHART CFP®

BRIAN BUTCHART is managing director of Brenthurst and head of financial planning at the CAPE TOWN OFFICE. Brian is also responsible for compliance and operations throughout the six offices in JHB, PTA and CPT.

EMAIL: brian@brenthurstwealth.co.za

TEL: +27 (0) 82 335 5117

JOHAN BURGER CFP®

JOHAN BURGER is a director of Brenthurst and head of financial planning at the PRETORIA OFFICE.

EMAIL: johan@brenthurstwealth.co.za

TEL: +27 (0) 82 732 8655

RICHUS NEL CFP® ACCA

RICHUS NEL is the head of financial planning at the TYGERVALLEY WATERFRONT OFFICE in BELLVILLE. Richus is a fully registered member of ACCA (Association of Chartered Certified Accountants).

EMAIL: richus@brenthurstwealth.co.za

TEL: +27 (0) 78 260 4013

RENEE EAGAR CFP®

EMAIL: renee@brenthurstwealth.co.za

TEL: +27 (0) 83 233 9373

SONIA DU PLESSIS CFP®

EMAIL: sonia@brenthurstwealth.co.za

TEL: +27 (0) 83 260 4055

MAGNUS L HEYSTEK CFP®

EMAIL: magnus1@brenthurstwealth.co.za

TEL: +27 (0) 72 071 5567

MARISE SMIT CFP®

EMAIL: marise@brenthurstwealth.co.za

TEL: +27 (0) 12 347 8240

ESMERIE PIENAAR CFP®

EMAIL: esmerie@brenthurstwealth.co.za

TEL: +27 (0) 12 347 8240

SUZEAN HAUMANN FSA™

EMAIL: suzean@brenthurstwealth.co.za

TEL: +27 (0) 21 914 9646

CHRISTOFF POTGIETER RFP™

EMAIL: christoff@brenthurstwealth.co.za

TEL: +27 (0) 82 358 3099

ARIN RUTTENBERG BCOM INV MAN

EMAIL: arin@brenthurstwealth.co.za

TEL: +27 (0) 10 035 1391

GAVIN BUTCHART ACC DIP

EMAIL: gavinb@brenthurstwealth.co.za

TEL: +27 (0) 11 799 8100

DIRECTOR & HEAD OF MARKETING:

SUE HEYSTEK

sue@brenthurstwealth.co.za

MEDIA LIAISON EXECUTIVE:

DALEEN VAN WYK

pr@brenthurstwealth.co.za

FOREIGN EXCHANGE CONSULTANTS:

ESMERIE PIENAAR

esmerie@brenthurstwealth.co.za

SUZEAN HAUMANN

suzean@brenthurstwealth.co.za

WILLS & ESTATES:

ROZANNE HEYSTEK-POTGIETER

rozanne@brenthurstwealth.co.za

WILLS & ESTATES | LEGAL & COMPLIANCE:

MALISSA ANTHONY

malissa@brenthurstwealth.co.za

TAX & ACCOUNTS:

GAVIN BUTCHART

gavinb@brenthurstwealth.co.za

CLIENT SERVICES & EXECUTIVE ASSISTANTS

JHB: FOURWAYS
+27 (0) 11 799 8100

CELESTE PHAKHATI
celeste@brenthurstwealth.co.za

ERNA MARÉ
erna@brenthurstwealth.co.za

DANINE VAN SCHALKWYK
danine@brenthurstwealth.co.za

NICCI VAN HEERDEN
nicci@brenthurstwealth.co.za

JOSH MACRAE
josh@brenthurstwealth.co.za

PHONET NCUBE
phonet@brenthurstwealth.co.za

PTA: ERASMUSKLOOF
+27 (0) 12 347 8240

YOLANDI BURGER
yolandi@brenthurstwealth.co.za

MAGDA KAMFER
magda@brenthurstwealth.co.za

RENE DAVEL
rene@brenthurstwealth.co.za

JHB: SANDTON
+27 (0) 10 035 1391

KAREN MUNODAWAFA
karen@brenthurstwealth.co.za

CPT: DE WATERKANT
+27 (0) 21 418 1236

GREER BEKKER
greer@brenthurstwealth.co.za

DALEEN NORTJIE
daleen@brenthurstwealth.co.za

BELLVILLE: TYGERVALLEY
+27 (0) 21 914 9646

RONELLE STIPP
ronelle@brenthurstwealth.co.za

STELLENBOSCH: CENTRAL
+27 (0) 21 882 8706

KERRY-JANE LANDMAN
kerry@brenthurstwealth.co.za

JOHANNESBURG
(FOURWAYS)

Tel: +27 (0) 11 799 8100
Fax: +27 (0) 11 799 8101

JOHANNESBURG
(SANDTON)

Tel: +27 (0) 10 035 1391
Fax: +27 (0) 86 775 7089

PRETORIA
(ERASMUSKLOOF)

Tel: +27 (0) 12 347 8240
Fax: +27 (0) 12 347 0601

CAPE TOWN
(DE WATERKANT)

Tel: +27 (0) 21 418 1236
Fax: +27 (0) 21 418 1304

BELLVILLE
(TYGERVALLEY)

Tel: +27 (0) 21 914 9646
Fax: +27 (0) 21 914 6515

STELLENBOSCH
(CENTRAL)

Tel: +27 (0) 21 882 8706
Fax: +27 (0) 21 882 8530