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TIME TO GET ANGRY WITH YOUR FINANCIAL ADVISOR

BY MAGNUS HEYSTEK, DIRECTOR & INVESTMENT STRATEGIST, BRENTHURST

The battle of investment returns between “local” and “offshore” has been raging for a long time in the investment community of South Africa.

Especially since 1 April 2015 when individual investors were allowed to remit up to R10m per person offshore in the form of an investment allowance (since then renamed Authorised International Transfer) plus the annual R1m single discretionary allowance.

Remember that SA investors had been prevented from investing money offshore legally since 1960 when exchange control rules were introduced after the Sharpeville riots to prevent large capital outflows.

Since then, generations of investors have been forced to invest locally via the JSE and other large financial institutions.

Surprisingly, investment returns were generally good as SA experienced a major boom during the '70s and early '80s, on the back of a rising gold price and other economic factors which caused a “hothouse” effect as capital could not go anywhere.

This led to the outsize growth of financial services in SA, much larger than other similar-sized countries in the world, with life insurance companies, banks and, later, asset management companies showing stellar growth as a consequence of all this money looking for a home.

The status quo started to change ever so slightly in 1997 when Treasury allowed individual investors to take R200 000 out of the country, an amount which was gradually increased over time.

World stock markets suffered a series of convulsions, first in 1998 with the Russian debt default and then, later, the Dotcom bubble which burst in 2001.

Meanwhile, the JSE was booming on the back of China's insatiable demand for commodities plus the massive building activity in preparation for the 2010 Soccer World Cup. Who needed offshore investments when the local market was doing this well?

However, since 2011, the returns of the JSE have steadily started underperforming in relation to global markets; slowly at first, but very dramatically since 2014.

Duncan Artus, CEO of Allan Gray, recently said that the JSE has made no money for international investors in USD terms since 2011. Investors in local funds would not have noticed this as they prefer to look at the rand returns.

Earlier this week, Coronation expressed the same sentiments at its AGM held in Cape Town. "It's been a lost decade for the local market," Karl Leinberger, CIO of the R600bn group, said. It's also worth noting that Coronation's assets under management have been stuck at around R600bn for almost 7 years now, with new inflows counteracted by similar outflows.

GLOBAL CITIZENS

An ever-increasing number of South Africans consider themselves global citizens and have realised that they need to think in USD terms as far as their investments are concerned.

In effect, the surprising increase in the offshore allowances in 2015 meant that exchange control had been scrapped for individual investors. At the time, local fund managers were quite blasé about this new dispensation and spent a lot of time trying to discredit offshore investments in as many ways as possible. I have personally been attacked by various people in the media for being a "financial pornographer" or for being disloyal and unpatriotic for recommending offshore investments.

The pushback from the industry was also immense, and one of the reasons why I was booted as a commentator from the RSG radio programme Geldsake was for "talking too much about offshore investments".

The 2015 announcement also came as a massive surprise and caught the investment industry unprepared. Very few had offshore funds or tie-ups with global fund managers who could manage their offshore portfolios.

Today this situation is different and all major local fund managers have ties with the global brand names in the investment world. But some would say it was too late; the horse bolted a long time ago.

Investors who stuck with their local investments at the insistence of their advisors have experienced a dramatic collapse in the international purchasing power of their investments.

OFFSHORE RETURNS HAVE, ON AVERAGE, BEEN DOUBLE THAT OF LOCAL ASSETS ACROSS ALMOST ALL CATEGORIES OF INVESTMENTS.



NO ARGUMENTS ANYMORE

In the face of increasing evidence that the offshore markets are dramatically outperforming local markets, one would have thought advisors would have recommended a switch out of the local market. Think again, for that is not how the investment industry works, as I will explain.

The majority of investment advisors in SA are described as “tied agents”. In other words, they can only market products of the financial institution they work for, invariably one of the big three, being either Sanlam, Old Mutual or Liberty.

These advisors are instructed to sell only the products their employers offer, nothing else, irrespective of returns, costs, and other factors. That’s just how the industry works. And the bulk of their investments are, as you guessed, local investments on the JSE. Generally, these products are substantially more expensive than offshore products and come with extra layers of fees, such as performance fees, which have generally been banned elsewhere in the world.

In addition, many local investment advisors also have no working knowledge of offshore markets and the increased complexity it brings to investment management.

In short, local financial institutions have, until recently, resisted marketing offshore investments to their clients. But the flow of money out of the JSE — estimated to be in the hundreds of billions of rands — forced them, belatedly, to start offering and marketing offshore investment.

Independent investment advisors, of which Brenthurst is one the premier ones in South Africa, have a different approach: trying to get the best returns for clients from all the various options available.

The best returns since 2014 have been from offshore investments, either via asset swaps or direct offshore investments.

THE LOST DECADE

From about 2013, the increasingly negative statistics concerning the SA economy forced us to look elsewhere for better investment returns.

The downgrades in SA’s global credit ratings from investment grade in 2012 to junk status in 2019 should have been a very clear signal to local advisors to take steps to protect the wealth of their clients.

In 2015, or thereabouts, I was lambasted publicly by Charles de Kock, fund manager at Coronation, for recommending offshore investments on radio and in my articles. Today Coronation advertisements promoting their offshore products pop up on cell phone screens all the time.

Investment seminars on offshore investments and emigration are now commonplace at SA’s large financial institutions. With the JSE seemingly in a terminal decline and a massive outflow of funds of better-informed investors, they had no choice. Money was flowing out of the country in the billions and most of the money was going to non-South African funds.

But it is surprising how many investors remain locked into the view that “local is lekker”. They have lost a great deal of their global purchasing power over the past 10 years.

NOT TOO LATE

FOR MANY INVESTORS, HOWEVER, IT'S NOT TOO LATE TO OBTAIN MORE OFFSHORE EXPOSURE. This can be done by switching within existing portfolios, provided the company has offshore capacity, or it can be taken out directly via legal channels.

But it is time to have harsh words with your advisor, tied or otherwise, if they still insist on investing the bulk of retirement capital locally. Investment returns cannot be a reason for such advice. Perhaps then, hidden fees and commissions are the driving force behind certain advisors remaining loyal to local investments.

It's time to get angry and take action. After all, it is your money and your future.

By Magnus Heystek, director and investment strategist of Brenthurst Wealth. invest@brenthurstwealth.co.za
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Brenthurst was also crowned as the Top Boutique Wealth Manager in SA in 2017 & 2020 in the highly regarded Krutham (previously Intellidex) Private Banks and Wealth Manager Awards. [>> Read More](#)

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