



THE POWER
OF INDEPENDENT ADVICE

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JSE LOSING THE INVESTMENT RACE

THE Brenthurst Wealth house view on future investment returns have not changed materially over the past five years. We have consistently warned that the growth outlook for companies listed on the Johannesburg Stock Exchange - and hence their future earnings - will remain under pressure as consequence of the confluence of many negative developments.

From a global perspective SA's growth prospects were undermined by the decline in the global commodity index since 2012, while domestic conditions were badly affected by policy uncertainty in key areas of the economy, a slowdown in domestic consumption expenditure as well as the political rhetoric surrounding private property ownership, so-called white monopoly capital as well as the steep and continued declines in consumer and business confidence.

Our investment approach has consisted mainly of two legs: for domestic investments we have reduced our SA equity exposure by increasing our allocation to cash and bond funds while being overweight in global equities for investors seeking long-term capital growth.

This approach has served our clients well as can be seen from the accompanying tables comparing SA's investment returns to the major global sectors, including our own peer group in the emerging market sector. The returns over periods ranging from 1 month to 5 years show an alarming trend. The JSE has been the worst performing market over ALL periods, both in rand terms as well as US dollars.

Even the recent strengthening of the rand over the past 18 months has not improved the situation materially. Growth in offshore returns have been higher than the strengthening in the local currency.

Most global equity markets—Dow Jones, S&P500 and the Nasdaq—have been trading at record levels in recent weeks. The JSE, by contrast, has been moving sideways for a prolonged period of time and is currently at levels reached almost three years ago. Investors with a large exposure to the local market have not experienced any real growth over this period.

The JSE is also heavily influenced by the performance of Naspers, the global diversified technology and media giant, which makes up more than 20% of the market capitalization. Naspers is up about 30% for the year, which disguises the fact that many constituents of the JSE Top 40 index are much lower today than 3 years ago.

INVESTORS WHO HAD NO OR LITTLE EXPOSURE TO OFFSHORE MARKETS HAVE SUFFERED AN ALARMING DETERIORATION IN THE PURCHASING POWER OF THEIR LONG-TERM INVESTMENTS. OFFSHORE INVESTORS, ON THE OTHER HAND, HAVE BENEFITTED HANDSOMELY FROM OUR ADVICE AND IN SOME INSTANCES HAVE MATERIALLY INCREASED THEIR PERSONAL WEALTH.

South Africa, it seems, is falling off the radar screens of foreign investors. An estimated R270 billion has been withdrawn from the JSE over the past 18 months and either invested in local bond funds, or remitted offshore. Added to that is the estimated R80 billion that has been remitted offshore by private investors who have made use of their offshore investment allowance of R10 m per year per person.

Our investment view remains unchanged and we feel that, considering the considerable headwinds being faced by companies listed on the local market, that future prospects remain muted at best, with possible further declines in the future, especially if Naspers comes under pressure.

JSE VERSUS THE WORLD CURRENCY: ZAR

Instrument	1 month	6 months	1 year	3 years annualised	5 years annualised /Since launch *annualised
FTSE/JSE All Share Index (ALSI)	3.7	2.4	3.8	4.1	12.9
MSCI AC Asia ex Japan	6.9	17.2	16.0	13.2	19.6
MSCI AC World	4.8	7.7	8.2	13.2	22.4
MSCI EM (Emerging Markets) NR USD	7.6	14.7	13.9	9.2	15.4
MSCI Europe	4.8	12.4	11.5	8.4	20.8
S&P 500	4.4	5.6	6.4	17.4	26.0

14/07/2012 - 14/07/2017

JSE VERSUS THE WORLD CURRENCY: USD

Instrument	1 month	6 months	1 year	3 years	5 years annualised /Since Launch *annualised /
FTSE/JSE All Share Index (ALSI)	-1.5	4.1	11.2	-3.1	2.7
MSCI AC Asia ex Japan	3.4	21.3	26.4	6.0	9.1
MSCI AC World	1.4	11.4	18.0	5.9	11.7
MSCI EM (Emerging Markets) NR USD	4.1	18.7	24.2	2.2	5.3
MSCI Europe	1.4	16.3	21.5	1.5	10.3
S&P 500	1.0	9.2	16.1	9.8	15.1

14/07/2012 - 14/07/2017

A FINAL COMMENT ABOUT REGULATION 28 AND YOUR INVESTMENTS. Regulation 28 of the Pensions Act determines that fund managers can only provide offshore exposure up to 25% of your investment portfolio. This applies to money in your pension, provident, preservation and retirement annuity fund. The official line was always that this rule is to protect investors from making mistakes. It is becoming clear that Reg 28 is costing you severely in terms of long-term capital growth.

Investors older than 55 can change the asset allocation of the above-mentioned investment funds by complete withdrawals, partial withdrawals and moving balances to living annuities, which do not fall under the control of Regulation 28. In a living annuity, for instance, can you have 100% of your capital invested in offshore portfolios, provided your risk profiles allows it.

SPEAK TO ANY OF OUR INVESTMENT ADVISORS ABOUT THIS OPTION.

BRENTHURST WAS RANKED AS THE TOP BOUTIQUE WEALTH MANAGER IN SA AT THE 2017 INTELLIDEX WEALTH MANAGER AND PRIVATE BANKS AWARD.

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