



THE POWER
OF INDEPENDENT ADVICE

IN THIS ISSUE

“Diversification is about not having all your eggs in one basket. It's about investing in a range of different asset classes, across borders, strategies & products.”

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ASSETS MUST BE DIVERSIFIED

By Mags Heystek, Certified Financial Planner®, Brenthurst Wealth Management

Although it doesn't guarantee against loss, diversification is the most important component of reaching long-range financial goals while minimising risk.

It has been a tough time for South African investors, especially over the past few years of low returns from the market. The JSE has been in a sideways trend since September 2014; the period has also been characterised by high volatility, and a series of high-profile events at a political, economic and corporate level.

The lacklustre performance of the local equity market is ample proof that diversification is critical for long-term investing and why investors shouldn't place all their bets on one horse. As a matter of fact, since 2014, no consecutive asset class was the top performer two years in a row. See table.

LOCAL AND OFFSHORE ASSET CLASSES' RETURNS INZAR (%)

HISTORIC RETURNS

	ALSI	ALBI	SA CASH	SA LISTED PROPERTY	OFFSHORE EQUITIES	OFFSHORE CASH	OFFSHORE BONDS	OFFSHORE PROPERTY
YTD	6.3	2.4	1.2	3.0	8.3	-1.9	-1.8	7.6
2018	-8.5	7.7	7.2	-25.3	5.3	18.4	15.2	8.0
2017	21.0	10.2	7.5	17.2	12.2	-8.5	-2.7	5.1
2016	2.6	15.4	7.4	10.2	-4.8	-11.4	-10.3	-7.4
2015	5.1	-3.9	6.5	8.0	30.8	34.1	29.2	34.1
2014	10.9	10.2	5.9	26.6	15.1	10.6	9.9	25.5
2013	21.4	0.7	5.2	8.4	51.6	23.6	18.5	28.1
2012	26.7	16	5.5	35.9	22.0	5.3	6.8	38
2011	2.6	8.9	5.7	8.9	13.1	22.2	29.8	13
2010	19	15	6.9	29.6	1.2	-10	-5.5	8.4
2009	32.1	-1	9.1	14.1	7.2	-20.2	-18.3	12.5
2008	-23.2	17	11.7	-4.5	-21.8	38.5	50	-30.8
2007	19.2	4.2	9.4	26.5	8.2	2.2	7.5	-7.7
2006	41.2	5.5	7.4	28.4	34.5	16.9	18	57.2
2005	47.3	10.8	7.1	50	24.8	16.4	4.8	29.5
2004	25.4	15.3	8.0	41.3	-2.7	-14.4	-6.9	14.9
2003	16.1	18.1	12.3	41	4.2	-21.3	-10.6	9.8
2002	-8.3	16	11.6	18	-42.3	-27.2	-14.5	-26.6
2001	32.6	17.8	10.2	6	32.8	65.1	56.9	60.8
2000	0.4	19.2	10.9	26	5.5	31	24.9	37.4
1999	70.8	29.4	15.6	44.4	32.4	10.2	0.21	9.4

Source Morningstar 2019

Cash provides consistent returns, but investors who remain invested in cash can potentially miss out on local shares and offshore equity or property performance.

Diversification aims to maximise returns by investing in different asset areas that would each react differently to the same event or during the same time period. And most financial planning professionals will agree that, although it does not guarantee against loss, diversification is the most important component of reaching long-range financial goals while minimising risk.

There are many studies demonstrating why diversification works. To put it simply, by spreading your investments across various sectors or industries with low correlation to each other, you reduce price volatility.

This is because different industries and sectors don't move up and down at the same time or at the same rate. If you mix things up in your portfolio, you're less likely to experience major drops, because as some sectors encounter tough times, others may be thriving. This provides for a more consistent overall portfolio performance.

Diversification is about not having all your eggs in one basket. It is about investing in a range of different asset classes (shares, bonds, property, cash, alternative options); across borders (emerging markets, developed markets); strategies (value, growth, momentum, income growth, total return); and products (unit trusts, endowments, exchange traded funds, tax-free investments, retirement annuities).

Every investor needs diversification with every investment in order to provide capital growth in the long term, but how to bring that variation to one's portfolio will differ from person to person.

Managing investment risk can become an inherently complex activity, and therefore requires a sophisticated approach to be discussed with your financial advisor. It is complex because the future is always uncertain; markets are complex adaptive systems; not all risks can be predicted or even identified; and there are a host of market players all with differing views and intentions.

Your financial advisor will help you combine uncorrelated assets in your portfolio, to enable you to reduce portfolio risk, without necessarily giving up expected return. The historical performance of balanced and flexible funds for example, which largely cater for retirement and discretionary investors, regularly perform better than equities and listed property – especially in strenuous market conditions.

Although diversification is the primary investment principle here, it is important for investors to have a long-term mindset and perspective. It is also imperative to manage expenses in terms of product cost and management fees. Tax also falls into this category.

While we advocate for investors to remain invested through these trying times, and keep emotions out of their decision-making, it is essential that they still take some action to ensure their investments and savings are sufficiently diversified and that they are indeed implementing sound long-term investment principles.

INVESTMENT SEMINARS

HOSTED IN ASSOCIATION WITH MOMENTUM AND RAPPORT

THE SPEAKERS:

- ▶ **Mike Schüssler**, Keynote Speaker and Economist
- ▶ **Glyn Owen**, Investment Director at Momentum Global Investment (London)
- ▶ **Magnus Heystek**, Investment Strategist and Director Brenthurst Wealth

STELLENBOSCH SEMINAR

Date: Monday, 10 June 2019 | **Time:** 16:00 to 18:15/18:30

Venue: Lanzerac Hotel

GEORGE SEMINAR

Date: Tuesday, 11 June 2019 | **Time:** 16:00 to 18:15/18:30

Venue: Oubaai Hotel

PRETORIA SEMINAR

Date: Thursday, 13 June 2019 | **Time:** 16:00 to 18:15/18:30

Venue: CSIR Conference Centre

CLICK HERE TO REGISTER ONLINE: <http://www.bwm.co.za/seminars/>

It is with pleasure that we extend this personal invitation to each and every client of BRENTHURST WEALTH to attend our upcoming investment seminar at **NO CHARGE**.

Members of the public will be required to pay R200 pp.

Info: pr@brenthurstwealth.co.za

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MIKE SCHÜSSLER, owner of Economists dotcoza, an Economic Consultancy, has been extensively quoted in the media over the last three decades.

Mike's innovative research on employment and household issues has earned him much praise. He is the most quoted and endorsed economist in South Africa for his insights from Academia to Analysts the world over.

His innovative approach has led to new economic measurement indices and management tools such as Transport cost adjustment and logistics indices, the BankservAfrica transaction index and the ABSA SMME Index.

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