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'Look beyond SA's borders'

THE stocks in the all share index have done extremely well for investors over the past 13 years, and from 2001 to 2014 — except for three years 2002, 2008 and 2011 — they have delivered between 15% and 47% in returns.

Brian Butchart, MD of Brenthurst Wealth, says: "The local market has had a phenomenal run. However, given the economic climate and the ability of companies to deliver earnings growth this pattern of good returns is not sustainable. Commodities have taken strain. There is value in those stocks but it is still a risky sector and until world commodity demand from players such as China increases, they are unlikely to stage a recovery in the short to medium term."

He says most fund and asset managers are indicating that beyond SA's borders is where investors should be looking for returns.

"We agree with this view and we have been advising people to invest offshore. Offshore investment gives people access to opportunities to which are not available in the South African market.

"Moreover, geographic diversification gives people some protection from a risk perspective as they are not exposed to the vagaries of one economy," Butchart says.

He says in general investors need to consider offshore investments; however, the level of overseas investment needs to be evaluated in the light of the individual's circumstances, plans and goals.

Moreover, the offshore market can be a minefield for the unwary and having input from a trusted adviser who has a finger on the pulse can be crucial in the investment process.

"We have fund managers visiting us on a daily basis and not all of these approaches are from funds in which we consider it wise to invest. There is a vast array of choices but some offer lacklustre returns or should simply be left completely alone because they are frauds. For example, before the Madoff scheme blew up we were approached by one of its feeder funds.

"However, one of the keys to making good investments is having a clear understanding of the business and how it is making money, in this case we did not and thus avoided it completely," Butchart says.

Exchange rates and the performance of the rand adds another good reason for South Africans to invest offshore. In 2011 the rand was trading at R6.50/$1 and it has been about R13/1 in recent times.

"That is a significant depreciation in the rand's value. Hindsight is a wonderful thing and investors who took money offshore back in 2011 are reaping the rewards today.

"Where the rand will go in the future is difficult to predict. The rand has always been a volatile currency influenced by a range of factors. Foreign investors' confidence is a key factor and concerns over local conditions add to the mix.

Brian Butchart ... understanding.

"Fundamentals in SA are not strong at the moment and until perceptions and internal issues are addressed, the rand could continue to weaken," Butchart says.

Geographically, he says India and China appear to offer good opportunities, though people have to be selective in terms of stock picking.

"Globally, it has become a lot tougher to identify opportunities but they are still out there," Butchart says.

Daniël Kriel, CEO of Sanlam Private Wealth, says there is a huge demand of offshore portfolio diversification from South African high net worth individuals.

"This trend is driven by several factors including the increasing financial sophistication of South African investors; their outlook with regard to the South African environment and its ability to grow and protect their wealth; and currency fluctuations," Kriel says.

He points out that most of the companies in the JSE top 40 have healthy offshore revenue streams and this provides some hedging for investors against further local currency and earning deterioration.

Around the world investors placing money offshore is expected to grow by about 5% per annum for the next four years. "However, we expect SA's growth in offshore assets to be higher," Kriel says.

A few years ago the exchange rate was about R6/$ and today (at the time of writing) it is about R12.40/$.

"Some investors have taken the opportunity to diversify their portfolios offshore when the rand was strong.

"It is not too late for those who have been blind to the need for offshore diversification as the economic outlook in SA does not support potential short to medium term rand appreciation.

"Any potential short-term rand strength, for whatever reason, should be utilised as an opportunity to invest offshore," Kriel says.