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Page: 26

International investors who chose the JSE five years ago have been bitterly disappointed.

Woe to the JSE investor

RETURNS WHITEWASH: MAUDE ST 8.6% VS WALL ST 91.7%

Wall Street has powered ahead in the last five years, returning a whopping 91.7% while local investors on the JSE have winkled out a paltry 8.6%. So what went wrong?

Magnus Heystek

THE ZUMA EFFECT. David van Rooyen is sworn in as new finance minister, for a three-day interregnum that roiled markets in December 2015 . Investor trust has not recovered fully from this event. Picture: Moneyweb

LOUD AND PROUD. Julius Malema and Economic Freedom Front supporters address the media after another stormy parliamentary session blighted by insults, raucous interruptions and MP evictions.

Spare a thought for the foreign investor who, five years ago, decided to diversify away from the United States to put some money into the Johannesburg Stock Exchange (JSE).

What could go wrong? After all, South Africa was the largest economy in Africa, a major producer of resources and was newly elected as the fifth member of Brics.

Deceptive forecast

The country still had an attractive international credit rating and economic forecasts augured well, with growth well in excess of 3% per annum.

In fact, the first year worked out very well. SA returns in 2012 were well ahead of the so-called mature economies, but thereafter the wheels fell off.

Today, the foreign investor— assuming he/she is still invested — will have the following investment comparison to consider:

Total return in SA market(USD): 8.6% (1.7% per annum)

Total return in US market (USD:91.7% (14.7% per annum).

In sporting parlance it's been a whitewash, a 6-0,6-0,6-0 victory at Wimbledon; the All Blacks playing the Springboks.

The returns over four years looks even worse. The mythical foreign investor would today have recorded a loss in USD terms of more than 10% compared to a potential return of almost 70% from the S&P500.

Over three years the figures are JSE -8.3% versus S&P 27%, over two years -8.8% and 27% respectively . Only over one year, as a result of a stronger rand, did the JSE creep ahead with a return of 16.5% versus 10.2% for the S&P500.

So what happened?

It would be trite to say that President Jacob Zuma happened, but the destructive impact of the economic policies followed by the ANC happened to coincide with two global macro-economic trends, namely the collapse in the global commodity cycle and the resurrection of the US dollar as the supreme measure of exchange between countries.

The US dollar is at 14-year highs against every other measure of exchange, whether the British pound, the euro, the Japanese yen, oil, gold copper and even pork bellies.

South Africa under Zuma not only chose the wrong friends (the Chinese and Russians), it also followed the wrong policies under the illusion that commodity prices only rise and never collapse.

The ANC government also seemed hell-bent on abandoning its long-established trading and investment partners from the West, suffering from the illusion that they will be replaced by foreign investment from China and Russia.

But the flood of money from the Chinese or the Russians has not been forthcoming.

Foreign direct investment (FDI) has dropped to ten-year lows. The annual AP Kearney global survey has shown some two years ago that South Africa has completely dropped off the radar screen of the top 500 multi-national companies.

Until 2013 SA featured prominently on this list but since then it has completely vanished.

Today the coffers are empty; wages and salaries of the government sector were boosted way ahead of inflation to stifle any rising discontent in the ranks.

The local investor has suffered a very sharp drop in global purchasing power.

Much was due to the sharp decline in the rand.

You should be investing in the S&P 500 index, probably the Vanguard S&P 500 index fund, with an annual fee of 0.19% per annum. It returned 225% in five years.

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Part two will be published on Monday.