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LOOK AHEAD. Mags Heystek, certified financial planner at Brenthurst Wealth, recommends youngsters invest in unit trust funds that have high-equity components, primarily focused on offshore equity. Picture: Shutterstock

Unit trusts for minors

TAKE LONG-TERM VIEW: BE OVERWEIGHT IN OFFSHORE FUNDS

A reader asks: My children would like to invest in unit trusts. Which are best?

Mags Heystek

There are so many options in terms of where to invest and what unit trust products to use, but my advice would be for your children to firstly look at tax-free savings accounts (TFSAs).

As they're still minors, you'd be appointed the authorised signatory on their investments until they're 18.

TFSAs have rules

- R33 000 annual contribution limit per tax year (March to February); any amount above this is taxed at 40%;
- R500 000 lifetime contribution limit;
- No tax payable on any growth in the investment (including interest, dividends and capital gains tax);
- Funds with performance fees aren't permitted;
- Access to many different funds is possible, depending on the platform used.

Shop around

A few banks offer TFSA solutions, but will punt only their funds.

Independent advisors will be able to provide a more comprehensive solution and your children would be able to start saving with R500 per month.

Maximising their annual contributions would be R2 750 a month.

In terms of the type of unit trusts, I'd recommend unit trust funds with high-equity components, primarily focused on offshore equity.

Why? Because they should start getting into the habit of long-term savings, as their savings should only really be accessed in 15 to 20 years' time.

They also have time on their side and will be able to withstand market volatility much more, as opposed to an investor approaching retirement who requires a more conservative portfolio.

The rand is under pressure due to our shrinking economy and lower tax revenue and the economy's at risk of being destabilised by Eskom.

The JSE All Share Index (Alsi) has performed at 6.1% per annum for the last five years and the S&P 500 Index has performed 18.3% over the same time frame.

Looking at performance in US dollar terms, the JSE Alsi performed at -0.3% per annum and the S&P 500 at 10.9% over the same five-year time frame.

Taking both rand and US dollar terms into account, the JSE has underperformed the US market by a large margin.

South Africans remain net importers of goods – our cars, cellphones, computers, and so on, as well as any foreign clothing and food are imported in US dollar terms – and investors require offshore exposure to protect them against the inflation that creeps in when our currency starts to deteriorate.

Compounded with the risks I've indicated, having a long-term view and being overweight in offshore funds is probably the best recommendation.

Mags Heystek is a certified financial planner at Brenthurst Wealth.

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