



on my mind by Magnus Heystek fm

DR DOOM OR MR BOOM?

Why I choose offshore equity markets over onshore

On June 11 2020, almost five years ago, the FM published an article focusing on me and my views on choosing between offshore and onshore equity markets, as far as personal investments are concerned. The headline on a balanced article, "How Magnus Heystek became SA's Dr Doom", was more alarmist, earning me a moniker which, to this day, hasn't completely been erased.

My immediate reaction was to furiously pen a reply, thundering away at all the reasons why I am right and everyone else is wrong, but then I stopped, reminding myself of the old Arabian saying: "Revenge is a dish best served cold."

So perhaps it's time to write this rebuttal and put some undisputed facts on the table. But first some background.

I don't work for a bank, assurance company or any of the many South African asset management companies. I work for fee-paying clients who demand an honest and objective assessment of the financial situation (in South Africa and elsewhere).

In 2013, I returned from an investment tour of the US, during which our group visited companies including Facebook, Amazon, Google, Tesla, Boeing and Starbucks. My main impression gained from this exposure to some of the world's most innovative companies – the potential of which I totally underestimated – was that South Africans need to have an exposure to these and other companies, which were changing the world. I also attended an investment seminar where I listened to John Mauldin and his strong views on technology and biotechnology shares. His parting words to me, when I greeted him afterwards, were "technology, technology and more technology".

On my return to South Africa, I found very few ways to participate in this nascent boom in technology companies on the local scene. I concluded that the only way to do so was to take some money offshore. This recommendation

hasn't changed and has made the early adopters of this investment strategy very wealthy indeed, with compound annual growth rates in excess of 25% a year over 10 years. The time to get into those Magnificent 7 shares was 10 years ago; they have only now hit their stride.

I have one or two clients who now have more than R100m, with starting capital of R10m.

At the same time, the JSE started showing signs of the damage inflicted on business conditions by the Zuma years, in general, which led to several downgrades by the rating agencies, as well as a huge outflow of capital from the JSE, from both the capital and equity markets.

Over the past five years this combined outflow now exceeds R1.7-trillion according to Bloomberg and shows no signs of abating, despite the short-lived upturn in the performance of the JSE after the GNU was created.

Naturally, my advice didn't sit well with the large asset managers who tried hard to stem the outflow of capital, with the "local is lekker" war cry every now and then. This was particularly prevalent at the start of the Ramaphoria phase, which also disintegrated into dust. There was one large asset manager who, in 2018, confidently forecast that the "JSE will be the best global equity market over the following five years", as reported by Business Day. We now know this forecast had no basis; in fact, it was just wishful thinking.

But as time marched on, so the difference in returns between local and offshore funds grew bigger – in favour of offshore – to such an extent and for such a long period that there was absolutely no reason for advising clients to stick to the JSE for their equity investments.

And here we are, 10 years since I started avoiding the JSE as a place for equity investments, and the results are in. This advice really escalated after the National Treasury, in 2015, increased the single discretionary allowance to R1m, and R10m per person as far as the investment allowance was concerned. It

basically meant that individual investors could freely remit their money offshore and invest anywhere they wanted.

When the returns of the JSE are compared to the three major indices I consider to be important – the MSCI world index, the S&P 500 and the Nasdaq, you – find the following results: in not one of the periods ranging down from 10 years, seven years, five years, three years and one year (or even six months) could the JSE all share index match or outperform *any* of those three indices. Not only that, but the outperformance of the S&P 500 and Nasdaq over the JSE was enormous, in some cases returning two or three times the returns of the JSE.

What was I supposed to do: hard sell an underperforming asset for some additional fees or hidden commissions, only to see the financial outcomes of capital invested locally fall short of the rands and cents numbers earned by being invested offshore, in better returning markets?

I don't think local investors are even aware just how large this difference is today.

Here's a table which shows the current rand value of an investment made 10 years ago into the four indices referred to above:

CURRENT VALUE OF R1m INVESTED IN THE FOLLOWING FOUR INDICES

JSE all share index	R2,163,000
MSCI world index	R4,444,000
S&P 500	R5,614,000
Nasdaq	R9,029,000

Even a 50/50 split between the MSCI world index and S&P 500 would have returned money in the bank, more than double the return of the JSE today. Can this change? One must never use the word *never* in the investment world, and stranger things have happened, but there is very little on the economic and political horizon which will change the situation for me. So, for now, it remains offshore for equities and local for bond investments for local investors. ✕

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