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SOLID REASONS TO USE GLOBAL ASSETS IN YOUR INVESTMENT PORTFOLIO

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MANY SOUTH AFRICANS HAVE WOKEN UP TO THE FACT THAT IT MAKES SENSE TO INVEST GLOBALLY. It is important to have a comprehensive understanding of the reasons for doing so – that it is not only because of the risks in SA and, as such, feeling the need to "go offshore" with our money. We face several risks in SA, which are well documented and warranted. This article discusses beneficial reasons for including offshore assets in your investment portfolio; beyond the issue of local risk.

GREATER OPPORTUNITIES OFFSHORE

THE SOUTH AFRICAN MARKET CONSTITUTES LESS THAN 1% OF THE WORLD INDEX.

This means that a global portfolio should include global assets, and most South Africans are underweight when considering their percentage of offshore exposure.

BEST INNOVATIONS FOUND GLOBALLY, NOT IN SA – US MARKETS & TECH

Some of the most innovative businesses are listed in the US and Europe; think of names such as Amazon, Nvidia, ASML and Tesla, to name a few. They are not listed or dual-listed on the JSE; therefore, you won't catch them here by fishing in local waters. Industries such as global tech, cybersecurity and artificial intelligence are also found in offshore markets.

IF YOU WANT EXPOSURE TO THESE DRIVING THEMES, YOU MUST LOOK ABROAD.

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Diversifying exposure across a global opportunity set should help to reduce the overall risk of portfolios by providing better protection against unexpected events that may negatively affect a specific country or region.

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STRONGEST BALANCE SHEETS

Investing in well-established companies with strong and healthy balance sheets is a great way to build a robust portfolio. These companies have a diversified earnings base and make money worldwide, even if listed in the US, Europe or other territories. They access other markets such as India, Asia & Latin America. Names such as Visa, Mastercard, Microsoft, Estee Lauder and Nestlé come to mind. These companies are global and can grow earnings steadily over time – they form the backbone of a global portfolio.

CHEAP OFFSHORE MARKETS ALSO EXIST – EUROPE, THE UK, ETC

Some local commentators argue not to invest in offshore markets because they are expensive. Sure, there are global companies that are currently trading at expensive levels. On the other hand, we also find some stocks that trade cheaply for those that look in "less crowded" areas, such as the UK, Europe and Japan. By including assets from these jurisdictions, you also include other currencies such as the pound, euro and yen. This is important, should the US Dollar weaken during specific cycles.

UNCORRELATED MARKETS EXIST – JAPAN

Speaking of Japan, it is one of those markets that blend well within a global portfolio. Historically, Japanese shares have a low correlation with the world index and US markets. This means that they can perform well when others don't and, therefore, increase the diversification in a portfolio.

DIVERSIFICATION

This leads me to one of the most important elements called "the only free lunch in investing". Diversification helps reduce the volatility in portfolios and reduces the specific risk attached to one investment, style or jurisdiction. Investing in equity (offshore included) will come with volatility, but when an investor knows their portfolio is adequately diversified, it helps them ride out the wave when tough times arise (and not sell at the worst possible time).

PROTECTION AGAINST LOCAL FACTORS

ADDITIONAL BENEFITS OF INCLUDING OFFSHORE EXPOSURE FOR LOCAL INVESTORS INCLUDE:

- **Most investors already have significant exposure to local assets. Global exposure makes sense when you include your property's value – a primary residence, farm or second property. When you invest in local property, you carry the risk of that specific municipality and how well it is run, or not.**
- **Protection against a failing state.**
- **Protection against the weakening rand – long-term trend.**
- **The uncorrelated link between exchange rates and equity markets.**

When something on a global scale scares investors, they usually flee to US Dollar cash and sell all other currencies that appear risky – mostly that of all emerging markets. The rand is one of the most efficient and liquid emerging market currencies and usually "sells off" and weakens against the USD. This helps your global portfolio, when measured in rands – theoretically, offshore share prices drop, but the rand weakens. This buffers offshore equity exposure.

SUMMARY

Selective stocks on the JSE can be included in your portfolio; certain fund managers have shown over time that they are able to make money on local markets. However, offshore markets provide a lot more for investors and can add a lot of value, for the right reasons.

Local investors can take R1 million directly offshore on an annual basis without requiring clearance from the SA Reserve Bank. Thereafter, one can apply to take an additional R10 million offshore per annum. Investors with ZAR savings can acquire offshore exposure in the following ZAR-denominated structures: retirement annuities, pension and provident funds, which are all limited to 45% offshore exposure, and living annuities, endowments and discretionary investments.

ADVISOR PROFILE: ANDRÉ BASSON, CERTIFIED FINANCIAL PLANNER™

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ANDRÉ joined Brenthurst Wealth in 2018 and is head of the Val de Vie Estate office. In 2020 he was awarded as one of South Africa's top three relationship managers in SA's Intellidex Wealth Manager and Private Banks Awards. He also won the Brenthurst Wealth Excellence Award 2022.

André obtained his BCom degree from Stellenbosch University, finishing top of his financial planning class. His postgraduate studies include a BCom (Hons) degree and a Postgraduate Diploma in Financial Planning, also from Stellenbosch University. He obtained his Advanced Postgraduate Diploma in Financial Planning (Cum Laude) from the University of the Free State.

He is a member of the Financial Planning Institute of SA and is fully qualified to give advice on all investment matters.

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