



THE POWER
OF INDEPENDENT ADVICE

IN THIS ISSUE

At Brenthurst we are actively looking for solutions and portfolios to combat inflation. This is one of the big reasons why we have been moving capital to offshore equity holdings for about 10 years apart from long term rand depreciation.

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HIDDEN INFLATION RISKS FOR YOUR INVESTMENTS

By Gustav Reinach, Financial Planner at Brenthurst Wealth Management

Understanding inflation is an important factor when it comes to financial success. If you do not factor inflation in when deciding where to put your money – whether that's savings accounts or investing – you could find your pot shrinking over time.

The inflation statistic is one economic metric many people are familiar with, but potentially misunderstand. Inflation is often used as a key benchmark to review investment returns. Beat inflation, and you are doing well. Not so fast, as there are layers to inflation.

PAST 10 YEARS OF INFLATION IN SA:

CPI	1 Month	3 Month	1 Year	3 Year	1 Year annualised	5 Year	5 Year annualised	10 Year	10 Year annualised
Daily Index	0.55%	0.81%	3.09%	12.15%	3.90%	24.43%	4.47%	63.88%	5.07%

Source: Profile Data 11 February 2021

The 10 year annualised inflation rate is calculated at 5.07%.

The prices of a variety of goods – food, fuel, utilities (electricity especially) and medical aid – go up by much more than the median rate and these pose a risk to investment returns. There are a lot of debates that inflation is a lot closer to 10% in South Africa if it is not more.

The long-term effects of inflation can cause crippling financial pain in the course of your lifetime, but particularly at the point of retirement if you fail to plan sufficiently.

On an inflation rate of 5.07%, today you will need R1,640 to buy the equivalent in essential goods and services you may have bought for R1,000 in 2011.

But as mentioned above let us do an example of inflation rate at 10%.

On an inflation rate of 10% that indirectly sounds more realistic for an average income household, today you will need R2,594 to buy the equivalent in essential goods and services you may have bought for R1 000 in 2011.

More than double. The purchasing value of your investments, savings and pensions are therefore, essentially being eroded.

THE GRAPH BELOW SHOWS FOUR OF THE BIGGEST BALANCED FUNDS IN SA THE PAST 5 YEARS:

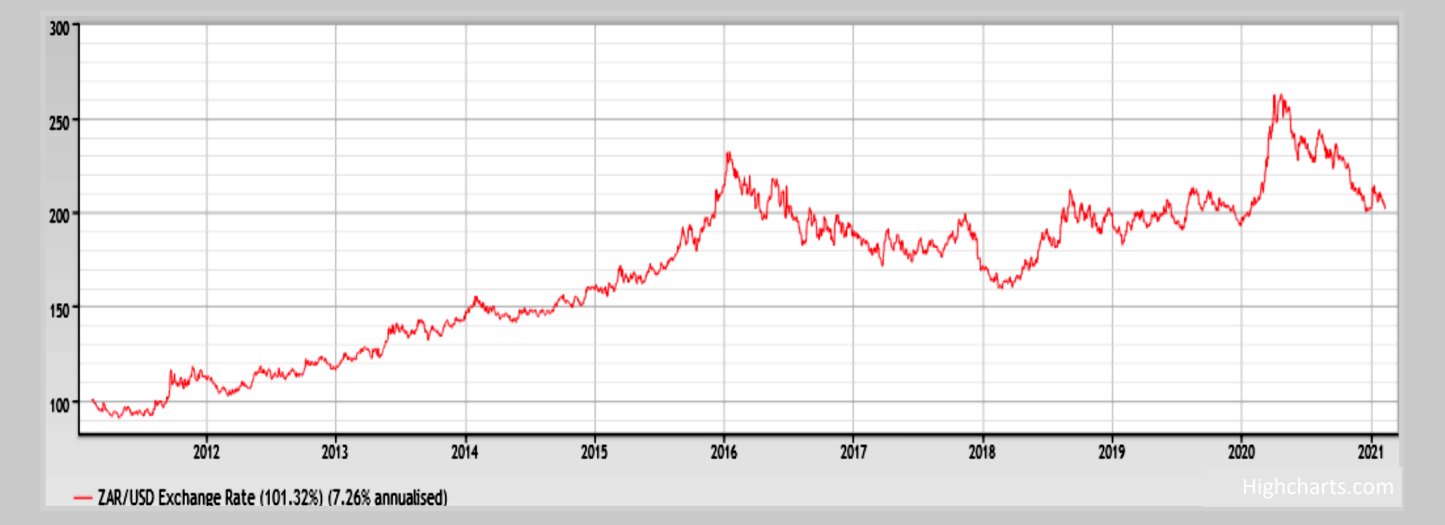


A South African Balanced fund would normally try and achieve a return of inflation +4% (CPI+4%). This would mean on an inflation rate of 4.47% annualised (refer to the CPI index table illustrated earlier), balanced funds would have wanted to achieve a return of 8.47% per year.

This was hardly the fact in SA. If this example were done with the debated inflation rate of 10% the outcome looks even worse.

At Brenthurst we are very aware of this dilemma that South Africans are facing. We are actively looking for solutions and portfolios to combat this elephant in the room. This is one of the big reasons why we have been moving capital to offshore equity holdings for about 10 years apart from long term rand depreciation.

RAND DEPRECIATION OVER 10 YEARS (7.26% ANNUALISED):



It is essential to invest intelligently and ultimately, not simply relying on cash deposits for 'inflation-proofing'. Maintaining a standard of living is critical for all of us, and according to research, a significant percentage of people actually underestimate the future cost of being able to afford and provide the essentials, at different points in their lives.

Although it is difficult to identify the impact of inflation, for example, in your monthly outgoings, it is inevitable that the price of your lifestyle will increase. This increase in prices can be damaging if, for any type of reason, you stop working and have to resort to living off your life savings.

A long period of inflation means many household staples cost considerably more now than they did 10 years ago, meaning your money has to work a lot harder to buy the same things. The cost of some foods, for example, has rocketed.

The latest research from the Pietermaritzburg Economic Justice and Dignity Group (PEJDG) shows that food prices rose by 17% over the course of 2020, spiking much higher than inflation for the year.

In December 2020, the total price of a basket of food to feed a family in a month was at R4,002.42, marginally lower than the same basket in November (R4,018.22). However, when comparing a like-for-like basket of goods between December 2020 and December 2019, a family would be paying almost R520 more. That is roughly a 14.93% increase year-on-year.

Worryingly, the price hikes are being driven by a number of staple and 'core' foods in the basket. These are food items which are purchased first by most families in South Africa, which take priority over more 'luxury' items. Here, items like sugar beans, rice, bread and flour have seen price hikes between 31% and 68%. Fresh fruit and vegetables – necessary for a nutritionally complete diet – have also seen major price increases.

As with any investment decision, changes to portfolios or asset class selection must fit the individual investor's risk profile, investment goals and long-term financial planning strategy.

Please do not hesitate to contact any of our highly qualified financial advisors at our offices country-wide. [READ MORE >> WEALTH MANAGERS](#)

ADVISOR PROFILE: GUSTAV REINACH, FINANCIAL PLANNER



GUSTAV joined Brenthurst Wealth in 2018 and is currently based in Pretoria (Gauteng) as a Financial Advisor.

He obtained a B.Com Economics degree from the University of the Free State with a focus on key subjects such as Investment Management & International Economics.

Gustav successfully completed his First Level Regulatory Examination for Representatives, which enables him to furnish advice to clients on all investment-related matters.

Gustav's previous experience includes the analysis of white label and hedge funds, as well as financial planning for individual clients focusing on their investment portfolios.

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AWARD WINNING ECONOMIST JOINS BRENTHURST



AWARD WINNING ECONOMIST, MIKE SCHÜSSLER JOINED 2020 TOP WEALTH MANAGER BRENTHURST WEALTH AS A CONSULTING ECONOMIST TO PROVIDE HIS EXPERT ECONOMIC INSIGHT AND ANALYSIS TO THE COMPANY'S CLIENTS AND ADVISORY TEAM.

Mike's innovative research on employment and household issues has earned him much praise. He is the most quoted and endorsed economist in SA for his insights from Academia to Analysts the world over. His innovative approach has led to new economic measurement indices and management tools such as Transport cost adjustment and logistics indices, the BankservAfrica transaction index and the ABSA SMME Index. Mike has won the Economist of the Year competition twice; one of only three economists to have won this competition more than once in the past 25 years.



INVEST WITH SA'S
TOP BOUTIQUE WEALTH MANAGER 2020

CREATING WEALTH
WITHOUT BORDERS

INSIGHTS INTO THE 2021 BUDGET SPEECH

The highly anticipated National Budget announced by the Minister of Finance on 24 February 2021 gave South Africans some idea of the government's plans to revive the economy and address the poor state of the government's finances. The response to the budget was mixed but the concern about the road ahead is universal. What does the Minister's approach mean for investors?

Speakers Magnus Heystek, Mike Schüssler and Phumlani M Majozi reviewed the budget and shared their analysis in the Brenthurst Wealth 2021 National Budget Webinar. **If you missed the event, or attended and want to view it again, find the recording here: [2021 Brenthurst Wealth Budget Webinar](#)**

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