INVESTMENT REPORT
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BRENTHURST
THE HOME OF WEALTH

THE POWER
OF INDEPENDENT ADVICE

IN THIS ISSUE

“Understanding asset allocation, risk, and time horizons are crucial to navigating sound financial decisions in uncertain times. If you do not possess these skills yourself, employ the services of a professional.”

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BRENTHURST RANKED BEST BOUTIQUE WEALTH MANAGER IN SA 2017 AND RUNNER-UP IN 2018 AT INTELLIDEX WEALTH MANAGER AND PRIVATE BANKS AWARD

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HOW THE JSE HAS DESTROYED YOUR WEALTH

– THE FACTS LAID BARE

As many who have saved and invested towards long-term financial independence will attest, it is incredibly difficult to make decisions that all stack up to ensuring your money consistently delivers a superior return. This is why investment advisers encourage us to have diversified investment portfolios, with a mix of asset classes - property, stocks, bonds, cash - and with variety within each asset class.

There are many extra considerations, ranging from exactly which underlying assets to choose, when to buy them, when to sell them and through which vehicle.

In this article, Brenthurst cofounder Magnus Heystek, sets out why it is essential to have an international outlook when developing your investment strategy. It’s a controversial stance, because there are many reasons that local financial services providers would like you to keep your money in SA assets.

– by Magnus Heystek, as published on BizNews

Article visited 50,185 times on BizNews

ISN’T it amazing how quickly one gets labelled, and once that happens, it’s very hard to shake off that particular label.

In the space of just two weeks I’ve been described as Dr. Doom by Felicity Duncan from Biznews, an Uber-bear (on the JSE) by Giuletta Talevi from the Financial Mail and “someone who makes money out of white fears” by Jan de Lange, political editor of Rapport.

Even these descriptions pale into insignificance when compared to being called a financial pornographer a few years ago by a well-known financial advisor who also appears in print, radio and television. Perhaps too often.

I write for a variety of publications which ranges from Biznews, Netwerk24, Politicsweb, The Daily Friend and other websites. I also formerly wrote for Moneyweb.

I wrote my last article for Moneyweb almost 18 months ago. This was after a “career” of almost 8 years doing so, in the process writing probably 50-60 articles on a wide range of topics, but mostly finance, the economy and investment markets.

You write articles and send it to these editors and if they like it, they publish it. No payment crosses hands but you get a little exposure and a lot of satisfaction when your work is published. Any writer will tell you that. Other people golf, write poetry or paint. I like writing.

Editors are also - mostly - very glad to publish some good articles, because, as everyone knows, there is very little money in media work today with paper thin margins the order of the day.

In the old days there were many columnists who made a good living writing columns for one or more of the large publications. But as circulation figures and advertising collapsed , so has the amount of money one could earn as a columnist. Another dying career.

INVESTMENT RETURNS

Being heavily entrenched in the world of finance and investments I naturally wrote about investments and investment returns.

Over the past 5 years I wrote many articles about the widening investment-return gap between local and offshore investments. At first the difference was marginal but over time it became this widening chasm in investment returns – as wide as the Grand Canyon and getting wider almost every month. I could understand that the large asset managers were not too impressed with my focus on the relative returns, but even more vicious was the reaction from other financial advisors and even the investing public.

It was like I was shining a torch into areas that many would have preferred to keep in the dark. Advising people to invest some money offshore was considered (and still is, it seems) to be a despicable act of heresy and betrayal. Unpatriotic in the extreme and for my sins I was told, more than once to go back where I came from. This would be difficult, as I only have one passport, consider SA to be my home and also consider myself extremely lucky that not one of my 6 children and 3 grandchildren have emigrated. And did I say, our family has been in SA for almost 170 years?

At first I recommended offshore exposure purely for the diversification benefits it offered into innovative industries such as technology, biotechnology and health care.

It was also the start of the FAANG (Facebook, Amazon, Alphabet, Netflix and Google) – explosion of extraordinary growth – which was hard to ignore - and I made it clear that investors who wished to participate in this generational boom of explosive wealth could only do so via offshore funds or asset swap funds.

Where SA had one Naspers the US could offer 10-20 companies offering the same or better returns. For the record: over the decade from 2010 to 2020 the rand returns of the Nasdaq was in excess of 1,000%. The rand returns of the JSE over the same period a mere 200%.

But as the years went on and particularly from 2015 onwards it became clear to me that the underperformance of the JSE relative to the world was not a short-term aberration of underperformance against the S&P500, the MSCI World Index and also the MSCI Emerging market index, but that it was becoming entrenched and more pronounced.

I started tracking and reporting on this ever-widening trend in relative performance which increased the shrieking from those with different view.

After the sacking of finance minister Nhlanhla Nene by former pres. Jacob Zuma in 2015 this trend accelerated and the widening gap between local and offshore performance became even more pronounced and acute. It was not cyclical anymore (as many fund managers had suggested); it now became structural, which was far more damaging and far more difficult to reverse. I became quite vocal about these structural issues in print, on radio and the many seminars Brenthurst hosted in 2015, 2016 and 2017.

There was a vicious spiral at play which included, amongst others, state capture, collapse of the state owned enterprises, increased regulation and interference, BEE-issues and a collapse of infrastructure as can be witnessed at Eskom, Prasa, water boards and municipalities. Throw all these issues into one pot against a collapse of the mining and manufacturing sector and you had a recipe for disaster. At the same time SA's government debt started spiralling out of control-mainly under Pravin Gordhan – from around 24% to 55% of GDP even before the Covid-19 crisis hit earlier this year. It could now even reach 75-80% of GDP, based on current information leaking out of Treasury.

INVESTMENT MESSAGE
- FINANCIAL TSUNAMI ON ITS WAY

You see, I became so determined to get this message across that I personally paid more than a million rands to finance a series of seminars – called *SA Quo Vadis?* over three years which were held in the major centres of the country in 2016, 2017 and 2018. At first, my warnings about the "financial tsunami" were greeted with suspicion. "It's just a short term trend which will soon reverse," I was often told.

Seminar speakers included Ryk van Niekerk from MW, Dr Frans Cronje from the Institute of Race Relations, Magda Wierzycka from Sygnia, Clem Sunter, Mike Schussler and Ralph Mathekga, amongst others. Brenthurst included the widest range of speakers to allow for diverse views to be shared.

For a short while, in the run up to ANC-leadership contest in December 2017 it looked as if my fears were unfounded. For several months pre and post the elective conference – foreign capital flowed into the country, the rand strengthened and the stock market rose to new record levels.

But my analysis about the true state of the economy did not seem to quite pick up the same positive mood that prevailed in the country, and I said as much, which enraged the commentariat even more.

Some large asset managers kept on with the pretence that all is well. In March 2019 Old Mutual went round the country speaking to its thousands of advisors, telling them the "The JSE is set to be the best investment market over the next 5 years". That was reported in the Business Day at the time. I still have the article for my records. Another investment giant PSG was in my office at around the same time, basically saying the same thing.

UNDERPERFORMANCE SPREADING WIDER

BUT HERE WE ARE 5 YEARS LATER, AND THE RESULTS

The SA economy and financial markets (rand, JSE) have experienced a decade of underperformance relative to the rest of the world, and over the past 5 years, a total collapse of growth, which is now being felt across all portfolios linked to the JSE. The three pillars of traditional wealth creation (property, equity and interest rates have all collapsed), and there has been no place to hide, apart from the cash/bonds-combo as well as offshore equities.

SA residential property prices (before the Covid-19 collapse currently underway) had already dropped in real terms over 12 years by more than 24%. Another 10-20% decline is not out of the question, even from these depressed levels, by the time the property market recovers from the current crash.

Equity portfolios on the JSE too have, on average, not produced any growth over the past 5 years. Strip out Naspers – basically a foreign company – and the rest of the JSE has given you a negative return of between 10-25% over this 5 year period.

In print, on radio and at seminars I kept on repeating that the JSE is in real trouble and that our financial media, for a variety of reasons, are not reporting this accurately.

I was often asked to name some offshore companies and asset classes when I was on RSG. And I gave this advice away for free – I even often mentioned names such as Franklin Templeton Biotechnology fund, Investec Global Franchise and the MI Plan Opportunity fund amongst others.

MI-what? would often be the reaction from potential investors, preferring instead to stick with the big brand names to hold their money.

I know it was impossible to forecast at the time, but I was very impressed by the way Tony Bell from Mi–Plan was managing offshore portfolios 5 years ago and said so, many times. For his rewards he has <u>won the Raging Bull award four years in a row</u>, yet fails to attract the billions of the rands the large brand names still attract irrespective of poorer performance and much higher fees.

Time and space does not permit me produce charts and tables about how poorly the JSE has been performing, lagging developed markets by a country mile, and even against its own peers, the countries in the MSCI-Emerging markets universe. Historically the JSE has been by far the outstanding emerging market to invest in, largely due to its treasure trove of gold, diamonds, silver, manganese and platinum. The latter still brings in much-needed foreign exchange and foreign investment, but for the rest, the glory days are mostly over. And the results show.

Over 10 years the MSCI Emerging Market index returned 11.8%pa versus the JSE which returned 10.1%pa. Over 5 years the situation changes dramatically, with the EM returning 8.03%pa versus the JSE at 3.03%pa and over 3 years 8.99% pa versus 3.09%pa.

Even if there is a massive switch of capital back to emerging markets, there is a valid argument that the EM market will probably be a better choice than the JSE.

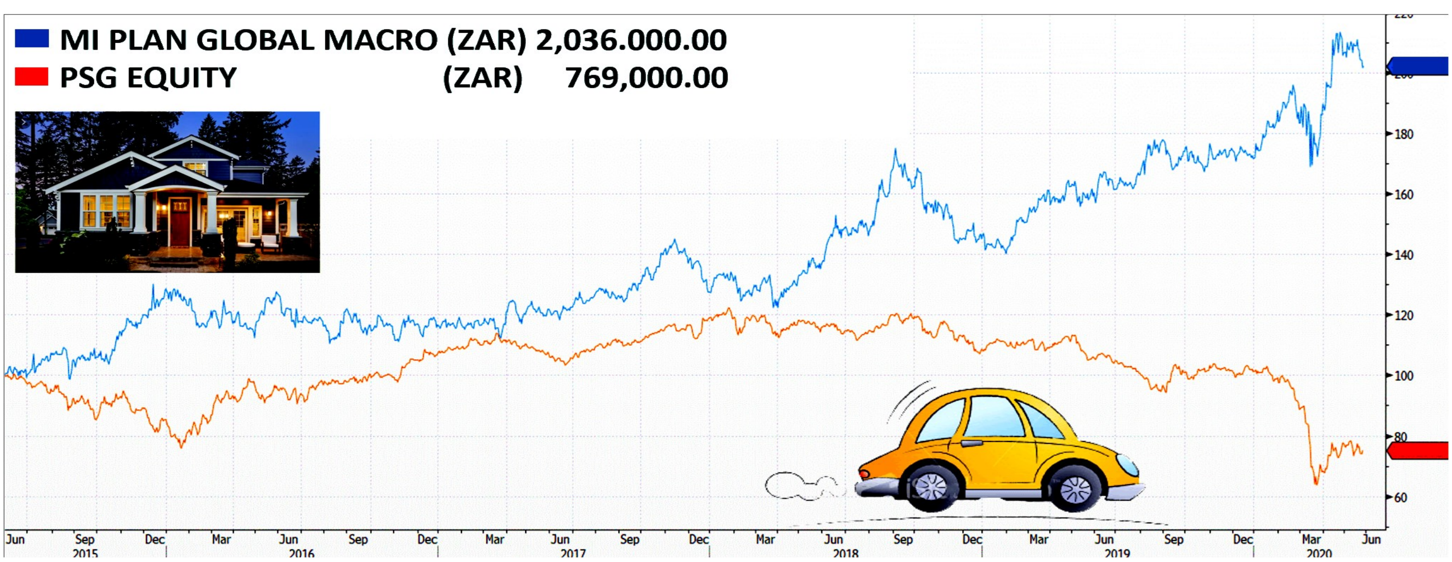
THE DIFFERENCE - A HOUSE AND A CAR

In conclusion, herewith a real-life example, which will bring home the enormous wealth destruction which has taken place for South Africans who kept their money at home and did not feast at the table of offshore diversification.

In this example I've calculated the rand value of R1m invested in (a) the Mi-Plan Global Macro fund versus the rand value of the PSG Equity fund. I selected the PSG fund as it's the only fund in the top 10 of the largest equity fund in SA which does not have any Naspers in its portfolio. It therefore, represents the performance of SA Inc.

In June 2020 the rand value in the Mi-Plan was R2,036,000 and the PSG value a mere R769,000.

IN A MERE 5 YEARS AN INVESTMENT OF R1M, THE DIFFERENCE OF MORE THAN R1,267,000 EQUATES TO A MODEST HOUSE AND BRAND NEW BUT ALSO SMALLISH CAR AND YOU ARE STILL LEFT WITH THE SAME CAPITAL AS IN THE PSG.



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I'm not picking on PSG and I could have used a number of other pure equity funds and even balanced funds over the same period of time, and the results would have been broadly the same. The Old Mutual Investors fund – the largest and oldest fund in the OM stable – equally destroyed value over the 5 year period in question and ended with a value of R810,000, not much better and still a massive destruction in nominal terms and also in real terms. So, I am an equal offender here: no discrimination.

I don't know what the next year and even 10 years hold. But do I see the JSE suddenly bolt forward like a racehorse from the rear of the field burning its way past the leaders and ending first over the winning line? No, I don't. I can see some recovery in bombed out sections such as listed property, but on the whole I don't see the JSE offering the wealth-generating opportunities it used to over more than a century.

It comes down to two very important words: cyclical or structural. If it is structural (which I think it is), we are all in trouble. If its cyclical (which I hope it is) we still have a chance.

PLEASE DO NOT HESITATE TO CONTACT ANY OF OUR HIGHLY QUALIFIED FINANCIAL ADVISORS AT OUR OFFICES COUNTRYWIDE. https://www.bwm.co.za/about-us/

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MAGNUS HEYSTEK - INVESTMENT STRATEGIST & DIRECTOR OF BRENTHURST WEALTH

Magnus Heystek is a co-founder, Director, and Investment Strategist at Brenthurst Wealth Management. The company was established in 2004 and manages more than R8bn on behalf of its clients. It has seven offices in Gauteng and the Western Cape in South Africa and an office in Mauritius. Heystek is the author of several books about investing, retirement and personal finance and an established public speaker about money and investment related topics.

He holds a BA (Hons) Degree from the University of Johannesburg (RAU at the time) and had a distinguished career as a financial and business journalist before establishing his own companies. He founded one of the first investor clubs in South Africa while at The Star and has been involved in investment, financial planning, and personal finance for individuals since 1994.

He has won several awards including the prestigious Sanlam Financial Journalist of the Year in 1983 and 1984, the PMR Magazine most respected financial advisor awards in 1998 and 1999 and a Momentum Elite Diamond Award in 1998. Brenthurst Wealth was recognised as the Top Boutique Wealth Manager in South Africa in 2017 and was the runner-up in 2018. Brenthurst Wealth was ranked as the top Boutique Wealth Manager in SA in 2017 in the Intellidex Wealth Managers and Private Banks Awards, was the runner-up on 2018 and ranked in the top four in 2019.
Brenthurst Wealth was recognised as the Top Boutique Wealth Manager in South Africa in 2017, runner-up in 2018 and in the top 4 in 2019.

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