



THE POWER
OF INDEPENDENT ADVICE

IN THIS ISSUE

“A ‘quality’ approach aims to provide low-volatility returns by investing in attractively priced, high-quality global businesses and investment products.”

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HOW TO INVEST IN VOLATILE TIMES

By Johan Burger CFP®, Brenthurst Wealth Management

Many investors get spooked during volatile times and begin to question their investment strategies and portfolios. Some are even tempted to pull out of the market altogether and wait on the side lines until it seems safe to dive back in. The thing is, volatility is inevitable. It's the nature of the beast. It moves up and down over the short term.

Trying to time or read the market perfectly or avoid most of the risk is impossible. Many have tried and failed. Part of the solution is to maintain a long-term horizon and ignore the short-term fluctuations.

For most investors this is a solid strategy, but even long-term investors should know about volatile markets and the steps that can help them to better weather erratic market behaviour – especially now that market experts predict an increasingly bumpier ride in the near future.

I am sure you have read that several international experts have warned about a global economic slowdown – the International Monetary Fund included – and there is even talk about a recession in the US. Trade tensions continue between the US and China; political risk is on the increase and debt levels remain elevated across global governments.

These challenges and the uncertainty it brings has led to volatility in world-wide equity, commodity and currency markets and falling bond yields, and the rising threat of interest rate hikes.

A high-quality approach is one of those investment strategies that seems smart, but only works well in certain occasions. It seems that occasion has arisen. Quality has no single, strict definition. But the common traits are sturdy businesses or industries not reliant on a strong economy; high and resilient profitability; and strong balance sheets unburdened by debt.

Locally, Brenthurst Wealth has opted for the use of more conservative asset classes. We have been reducing SA equity exposure and increased bond exposure in the form of income funds. **Two major funds that Brenthurst has been using are the COUNTERPOINT SCI ENHANCED INCOME FUND and THE MI-PLAN IP ENHANCED INCOME FUND.**

We also have a low-equity cautious fund namely the **BRENTHURST CAUTIOUS FUND OF FUNDS**, where the local equity exposure is less than 10%. These funds are suited for investors with a low risk tolerance, who are redeeming income from their investments and the objective is to preserve capital with very low volatility.

REGULATION 28 FUNDS have underperformed severely over the last five years, due to the slow growth in South Africa's economy. Investors with retirement annuities and preservation funds could consider the following options:

1. Either move their exposure into the above-mentioned income funds or more conservative asset classes, *or*
2. In certain cases to redeem and retire from these funds after the age of 55. This option should be considered only by certain investors. Aspects such as taxable income, total overall offshore exposure in their personal portfolios and tax consequences should be taken into account.

Offshore, there are several exchange-traded funds (ETFs) built to isolate quality stocks, here and abroad. Brenthurst Wealth launched its **GLOBAL EQUITY ETF FUND** late last year – the first SA-approved fund offering local investors exposure to the top index trackers in the world, including Vanguard, Black Rock and other global giants. It offers investors exposure to global stock markets at the lowest possible cost. The fund will become a central building block of our global investment portfolios.

In a dynamic investment universe, with increased global volatility and a stagnant local economy, Brenthurst Wealth is continuously adapting and innovating its investment offering to ensure we continue to offer value and new investment opportunities to investors, at competitive prices.

We have been advocating a healthy exposure to foreign markets to local investors for more than eight years now and it continues to be a cornerstone of our investment strategy.

Depending on individual circumstances, we are strategically advising between 50% and 80% offshore allocation across discretionary portfolios, and in some cases more. Once again, this will vary from one investor to another, based on their personal circumstances, risk profile and objectives.

The primary reason for this bullish push abroad is the concentration risk the South African market poses to portfolios. The JSE is a tiny market, representing less than 1% of the global investable universe. Only ten shares listed on the local bourse make up between 50% and 60% of the JSE All Share Index.

Taking money offshore offers access to a multitude of diverse industries, listed stocks, geographies and themes not available back home. There is thus access to many more quality companies and related investment schemes.

This 'quality' approach aims to provide low-volatility returns by investing in attractively priced, high-quality global businesses and investment products.

We aim to locate investment options with exposure to companies with strong and consistent track records with embedded identifiable strategies, low levels of leverage, strong management teams and good governance structures.

These are companies that have clear and trusted brands, are income-oriented and have high free cash flows, which we believe can compound shareholder wealth through many market cycles.

In times of uncertainty, the quality attributes we seek do not change. Rather, they provide the necessary ingredients for our companies to continue to compound shareholder wealth and weather the storms the market will bring.

Brenthurst Wealth also launched a worldwide flexible portfolio in 2017: The Brenthurst BCI Worldwide Flexible Fund of Funds. This fund is ideal for investors who want to increase their offshore exposure in local portfolios. This portfolio consists of a wide variety of asset-swap funds and key holdings include the Global Ip Opportunity fund, Investec Global Franchise fund and the Sygnia 4th Industrial Revolution Global Equity Fund. This is a very easy way to gain access to companies not available in SA including, but not limited to, companies such as Amazon, Apple and Google.

There's no way to know what the future holds for stocks or a particular segment, but becoming more cautious could be the best strategy of all after the run-up of the past decade. Markets are confusing and the investment universe is vast. It remains highly advisable to consult an experienced, qualified financial advisor to devise a strategy suited to an investor's personal circumstances.

INVESTING IN MAURITIUS - SEMINAR INVITATION

MAURITIUS, THE 'SINGAPORE OF AFRICA' OFFERS ONE OF THE MOST PROGRESSIVE INVESTMENT ENVIRONMENTS ON THE CONTINENT. 'INVEST MAURITIUS' will be presented in Johannesburg on 1 October 2019, starting at 16:00. If you are interested to know more about investment opportunities on the island, to diversify away from the risks prevalent in the South African market, including property investment, or want to know more about residency, do not miss this event.

BOOK HERE: <http://www.bwm.co.za/seminars/>

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