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HOW TO STATE-PROOF YOURSELF FROM A FAILING STATE

By Magnus Heystek | Director and Investment Strategist, Brenthurst Wealth

You may know the name David Ansara. If not, he is the newly appointed CEO of the Free Market Foundation. He made news headlines recently when he addressed a large audience at the Rand Club and spoke on how South Africans should protect themselves from a failing state.

"SA is not a failed state," he said, "but it is slowly, but surely, failing... little by little, one power station, one railway station, one water pump station, one crooked tender at a time."

At the same time, he offered some investment advice: "Try and pay as little or no tax as possible."

He couldn't advocate people to stop paying taxes – that would be foolish and perhaps dangerous – but he did advise people to try and reduce taxes "as much as legally possible".

And he's right. It still amazes me how many wealthy people still fail to make use of perfectly legal structures to reduce the tax on interest, for instance, by making use of endowment structures. This can reduce both capital gains tax and tax on interest very substantially. Or making use of donations to spouses and/or children in order to reduce estate duty oneday.

But what caught my attention is the fact that Ansara specifically referred to making use of Mauritian holding structures to offshore all or part of your wealth, if you happen to be a businessman.

IN THIS ISSUE

UPCOMING WEBINAR

PROTECTING YOUR FINANCES AGAINST STATE FAILURE

SA's worsening state finances take center stage in business news ahead of the upcoming mid-term budget announcement.

Join our webinar for insights on how to protect your finances.
Date: Oct 19, 2023 at 02:00 PM

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I can only agree 100%, but I felt Ansara could have gone a little further. **I think all wealthy South Africans should “offshore” as much of their wealth as possible — a financial get-off-the-grid strategy — in order to protect their lifestyle in South Africa.**

South Africans have increasingly been getting off the grid with their water and electricity supply. We have seen a massive surge in the imports of solar panels over the past number of years, while the borehole business has been a good place to be for a very long time — and about to get much better, if one judges from the reports of a growing water crisis in many parts of the country.

OFFSHORE IS NOW MAINSTREAM

It is well-known that I have been a strong advocate of offshore investments for a very long time, long before it became as mainstream as it is now — despite the regular refrain from local fund managers that “SA assets are cheap and will outperform world markets”, as the CIO of M&G (formerly Prudential), David Knee, tried on the local investment community again last week.

Offshore investing has now become mainstream. Only this week I found three major asset management companies — Momentum, Allan Gray and Ninety One — offering offshore structuring and planning master classes and webinars. There’s no point trying to offer clients something they don’t want anymore. They will simply get it somewhere else.

My early advice to take some money offshore — around 2011/12 — on platforms such as Moneweb and RSG (the Afrikaans radio show) was met with absolute derision and hostility, mainly from the local asset management industry and tied local advisors who were hell-bent on flogging expensive local funds to their unsuspecting clients.

Remember, there is an old saying: “hell hath no fury than a vested interest scorned”, or something to that effect.

Long before the cancel-culture spread across the world, it was being practiced in the SA investment world.

Nico van Gijsen, fellow investment advisor who writes a normally good weekly column in Rapport, lambasted me as a “verraaier” and a “bittterbek” in 2017 and said that my advice should be ignored.

Warren Ingram, also an investment advisor, called me a “financial pornographer” some years back because, apparently, I was using scare tactics to get more clicks on my articles. He even blocked me on X (formerly known as Twitter). He subsequently wrote a book on offshore investing…..!

Some years ago, I was in an audience down in Cape Town where Charles de Kock, fund manager from Coronation, openly called me a name that cannot be repeated on a family-orientated website, but it rhymes with Koos.

OFFSHORE VERSUS LOCAL RETURNS

A simple analysis of the investment returns of offshore versus local investments over the past 10 to 15 years shows that anyone without some kind of offshore assets has become substantially poorer in global terms, whether it be property (listed and residential), shares or pension funds.

Over all periods from 1 to 15 years, offshore equity markets have vastly outperform the local market. The Biznews offshore investment portfolio, for instance, has shown growth of 18.3% per annum over the past ten years. Compare that to the JSE, where the returns over the same period of time was half that, at under 9% per annum. R1m invested in the JSE ten years ago is now worth R2,26m – 8.6% per annum. In the MSCI World Index it would now be worth R4,37m – 16%per annum, and R5,7m in the S&P500 – 19.5% per annum.

If you had the same cojones as Ansara and invested on the Nasdaq ten years ago, your R1m would now be worth an astonishing R9,7m – 23% per annum. So, who is better protected from the failing state? The local or offshore investor? The reporting on these comparative returns is often "cancelled" by most mainstream media outlets. They simply refuse to publish comparative investment figures when offered. Trust me, I've tried.

FIRING LINE

But back to Ansara. No doubt, he is going to find himself in the firing line from the many vested interests he now threatens. But he should have gone further, I feel.

I have long been a fan of William Reece-Mogg, author of The Sovereign Individual, a book which could almost be the handbook for the Free Market Foundation here in SA. Greater freedom creates greater wealth. **I firmly believe that the best way to "state proof" yourself and your family is to create structures in a place, such as Mauritius, by setting up trusts, companies or foundations, whenever such structures are applicable to your personal situation. The more you can break the hold the state has, or could have, over your financial affairs, the better. I have been doing it in my personal life and have also been advising this to anyone who cared to listen over the past 15 years.**

In our practice, we have been advising our clients in this regard for many years, but the stream of investors heading to the island state forced me to set up our own trust management company on the island, called **BRENT CONSULTA.** This strategy is often seen as a precursor to emigration, but that is not the case. Very few of these clients have actually emigrated or plan to emigrate, but their assets have "emigrated" and they have prospered as a result.

I remember taking out my first major tranche of capital in order to buy a property in Mauritius in 2012, when the rand was R6.80 to the USD. Dollar growth on the property, plus the weakening of the rand, means the value of the property has risen 4-5 fold in rand terms. Had I invested that money in the S&P500, that money would have grown by almost 1000% over the same period of time.

The advice to externalise assets over the past 10-15 years has not only state proofed investors/owners of that capital against the collapsing ANC state, but also protected their family's wealth from the effects of the ANC's plunder and looting.

Very few of these individuals have emigrated, but they are in a position to do so if the collapse of affairs in SA becomes untenable and risky.

STATE-PROOF STRATEGY

HEREWITH STRATEGIES TO "STATE PROOF" YOURSELF FROM THE ANC'S MISMANAGEMENT.

1. **Sell down your local property assets as far and as soon as you can.** The exception being certain pockets in the Western Cape. Property, both residential and commercial, has become a dreadful investment – a capital trap, with all the risks for the account of the owner and all the reward to the ANC-controlled city councils, simply raping owners with above-inflation increases in rates and taxes. While salaries are soaring, services have become non-existent.

2. **Consider renting rather than buying, especially when retiring.** I know this will rankle in certain circles, but renting is cheap and the owner of the property is most probably subsidising your lifestyle. A colleague of mine rents a wonderful apartment in Cape Town. We calculated that the owner of the apartment is showing a return of about 2-3% on his capital invested. Any increase in capital values (on paper) is negated by the above-inflation increase of rates and taxes. Is this smart?

3. **Move all your discretionary investments offshore, while you still can.** For two reasons: One, the weakening of the rand over time reduces the amount of foreign currency you can buy. On 1st April 2015, when the offshore allowance was last adjusted, the rand was R12/USD. It's now R19, which means your R1m which bought $83,000 in 2015, now only buys you $53,000. This is a tightening of forex controls, in my view. Second, the recent adjustments to the qualifying requirements in applying for the annual offshore investment allowance has seen a major delay in obtaining permission and, in many more instances, being turned down. And remember, this route to getting money offshore can be cancelled overnight.

4. **These things normally happen overnight and without warning.** Remember the old saying from Jack Welsh, former head of General Electric: "Only the paranoid survive." Trust no-one in SA, especially not an ANC politician.

5. **Consider moving your offshore assets/investment portfolio into a Mauritian trust to further put distance between your assets and the ANC in SA.**

6. **If you have a business which can offshore some of its operations, do it.** As Ansara says, set up a holding company in Mauritius and run some of your operations from there. There are enough able and capable South Africans willing to run your operations on your behalf. Try and earn as much in USD as you possibly can.

7. **Obtain a retirement visa, if you are older than 50 years, which is valid for ten years.** That means you can come and go to Mauritius when it suits you. You can stay as long as you like, should the need arise. The annual transfer, in order to maintain your retirement visa, is $18,000 per annum, which is very low.

8. **Open a bank account in Mauritius and link this account to your offshore investment portfolio.** Any withdrawal from your portfolio can be paid into this account. You can use your Mauritian debit card anywhere in the world with no problem whatsoever.

9. **If you decide to buy property in Mauritius, do so in the name of a trust with your children as beneficiaries.** As a result, they will obtain permanent residency, while you use the retirement visa to obtain your residency. Many SA families have used this route to get residency for the whole family on the island.

Investing in USD is also a way to reduce your taxes payable in SA, as capital gains tax is only levied on your USD profits and not as a result of the rand weakening. This is another powerful strategy investors can follow to reduce taxes and state-proof themselves from the ANC and our looming catastrophe — our soaring national debt which shows no signs of abating. Who knows how that is going to end? Time to be a Boy Scout.

UPCOMING WEBINAR | PROTECTING YOUR FINANCES AGAINST STATE FAILURE

The deterioration of South Africa's state finances is dominating business news ahead of the announcement of the mid-term budget in weeks ahead. There is growing speculation about new or increased taxes and investors and communities are concerned about what lies ahead. Join our webinar for the insights of four expert speakers on how to protect your finances. **https://www.bwm.co.za/webinars-2023/**

MAGNUS HEYSTEK | CO-FOUNDER, DIRECTOR AND INVESTMENT STRATEGIST AT BRENTHURST

MAGNUS HEYSTEK is a co-founder, director and investment strategist at Brenthurst Wealth Management. The company was established in 2004 and manages more than R18bn on behalf of its clients. It has nine offices across Gauteng and the Western Cape in South Africa, as well as an office in Mauritius. Heystek is the author of several books on investing, retirement and personal finance and an established public speaker regarding money and investment-related topics. **Tel:** +27 (0) 11 799 8100 | **Email:** **magnush@brenthurstwealth.co.za**

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