



THE POWER
OF INDEPENDENT ADVICE

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I SEE A BAD MOON RISING EXPROPRIATION WITHOUT COMPENSATION A THREAT TO YOUR WEALTH

By Magnus Heystek, Director and Investment Strategist

There’s no doubt any more that the ruling ANC has embarked on a policy path of radical populism in order to stay in power in the next and possibly several more national elections. It has stolen most of the radical ideas from the Economic Freedom Fighters (EFF) leaving its leader Julius Malema with only pure and unadulterated racism towards all non-blacks as his only source of political oxygen.

The long-dormant policy of Radical Economic Transformation (RET) has, with the disappearance of Jacob Zuma from the levers of power in February, suddenly been resuscitated and injected with a new sense of urgency.

SO FAR WE HAVE HAD:

- ⇒ Promises of free tertiary education for the children of people earning a certain minimum salary, in effect almost 90% of the population.
- ⇒ The planned expropriation without compensation (EWC) of property.
- ⇒ The introduction of minimum wages.
- ⇒ The wages and salaries of government employees – after a short but cowardly showdown with the unions – have been increased more than planned for, leaving an unbudgeted hole of R30 billion in the budget.
- ⇒ Government also caved in to the radical demands of militant labour unions at Eskom, with minister in charge Pravin Gordhan scrapping the previously announced zero-increase for the bankrupt monopolist supplier of electricity, with negotiations now on the table again for increases around 9%. This in a time when inflation is below 5% and with wages at Eskom much higher than in the private sector.

- ⇒ The introduction of the long-threatened national health insurance scheme (NHI) which, together with proposed changes to medical aids, will radically overhaul and possibly destroy one of the few remaining pockets of excellence we still have left in the country.

If there is one thing that fills me with absolute dread, it's that the ANC government, with its proud record of spectacular failures in almost all spheres within its control, takes full control of the provision of medical services to the people of this country. Think Home Affairs on steroids. Think the Life Esidimeni disaster which led to the deaths of 168 patients – yet to this day no one has gone to jail or even paid a fine for this. Think Aarto, think e-tolls. Think our crumbling municipalities all around the country.

What's even more terrifying is the quote by health minister Dr Aaron Motsoaledi on Bloomberg:

"This is the first time in the world that this will be done. We don't know how we are going to do it, but we are going to do it."

When asked on Moneyweb Radio by journalist Ingé Lamprecht about mismanagement and corruption, Motsoaledi glibly batted these questions away. One would be forgiven for thinking that state capture, poor governance, fraud and corruption were just a bad dream, such was his dismissal of such concerns.

A short look at government's attempts at running essential services should serve as a warning that the NHI has a low level of success:

- ⇒ **SAA: A disaster year after year with total losses over the past seven years now in excess of R33 billion.**
- ⇒ **SA EXPRESS: Bankrupt but now grounded as a result of failing to adhere to internationally imposed safety and maintenance standards.**
- ⇒ **TRANSNET: In 2008 Transnet was profitable with 3.7 million passengers using its services daily. As the layers of fraud, corruption and mismanagement are peeled away, the rot is to be found in every nook and cranny.**

Not to mention that only about 1.8 million passengers use its services today.

- ⇒ **ESKOM - considered one of the biggest financial catastrophes to date, with its total debt of about R350 billion now guaranteed by government. Or should I say, taxpayers.**

Motsoaledi's comments about the high levels of reserves held by the country's medical aids – R60 billion, which represents a solvency ratio of 33% against a statutory 25% as described by law – reflect a poor understanding of the financial discipline required to operate a medical aid. Medical aid costs are greatly exposed to the vagaries of the rand.

Any sharp decline in the currency could easily wipe out these reserves. He also revealed a deep-seated ignorance of the business world when he indicated that medical aid brokers will be banned, on the basis that they earn R2 billion a year. If only he really knew how little medical aid brokers earn. It is the first sign, in my view, that government has its beady eye on these pots of money.



EXPROPRIATION WITHOUT COMPENSATION

The issue of EWC by itself, if handled poorly, could pose a possible economic risk to the country, despite the repeated assurances of president Cyril Ramaphosa that it will not affect the economy or food security.

It hasn't taken long for much of the Ramaphoria to fade into Ramareality. This can already be seen in the sharp decline of -2.2% in GDP in the first quarter (not foreseen by many institutional economists), a decline in the current account deficit to 4.8% in the first quarter (ditto) and the drop in the rand by almost 20% so far this year (ditto again), while the JSE remains one of the worst performing stock markets in the world so far this year.

So far this year the JSE has shown no growth in ZAR terms, while the MSCI Index is up 9.4%, the S&P 500 up by 12%, even the Emerging Market index is up 3.7%. What should one make of these initial, albeit early, signs that investors are not going to hang around to see what could happen?

In a previous column I pointed out that more than 20 000 farms and plots are currently on the market, almost all of them marked down, while the latest figures from FNB reflecting transactions at the deeds office indicate a decline of almost 8% in the number of bonded properties being registered at the deeds office in the first quarter of 2018. *I wonder why?*

These numbers indicate to me that the state of the residential property market has gone from bad to terrible. Properties now remain on the market for almost six months, and an increasing number are being sold for less than the purchase price.

The balance sheet of millions of middle to upper class property owners are being devastated by this slowly unfolding financial disaster.

The banks, acutely aware of the true state of the residential property market, have warned government that EWC could put the R1.6 trillion outstanding loan book to the property market in danger. We are talking solvency here, ladies and gentlemen.

At what stage does the normally secretive Bank for International Settlements (BIS) – the central bank of central bankers – issue warnings about the reserve levels of our banks, which are still a centre of excellence, but for how long?



RED FLAGS GALORE

It's been a while since I've listened to scenario-planner CLEM SUNTER who, with his concept of warning flags, tries to identify danger areas – flags – that people and investors in particular need to look out for. Many are global, such as the rise of Isis, a possible Korean conflict and so on, but many are local. Surely by now several red flags must be flapping furiously in the wind.

I have in several columns in the past written about one of my own personal red flags, the brain drain and the capital drain.

ACCORDING TO A RECENT REPORT FROM THE PEW INSTITUTE, AN AMERICAN THINK TANK, MORE THAN 900 000 PEOPLE HAVE EMIGRATED FROM SOUTH AFRICA SINCE 1990. COUNTRIES OF CHOICE WERE THE UNITED KINGDOM, AUSTRALIA, CANADA AND NEW ZEALAND.

You can only get into these countries if you have historical family ties, certain qualifications and/or money, lots of it.

At the same time, a total of 4 040 000 people have immigrated to SA, mostly from Mozambique, Zimbabwe, Malawi, Kenya and the DRC.

The majority of people from these countries have left their homes and families in search of a better life. Although there are some wealthy people settling in SA from other African countries, notably Angola I am told, would it be fair to say that most people in this grouping bring only their limited skills and determination to improve their lives.

The introduction of a national health scheme is just another tax to be added to the already crushing tax burden on ordinary South Africans.

Government seems to think the tax base is like a never-ending font of money. The tax base is already incredibly small, with only 102 000 taxpayers paying almost 36% of all personal income taxes. How much more can this grouping be taxed before they react negatively? Some two weeks ago the New York Times published an article on its website about how Sars officials were so desperate about their revenue targets for the year ending February 28 2018, that they started cold-calling from a list of high-earning taxpayers, literally begging them to pay their taxes on time.

RUSH FOR THE EXIT

The old saying that money is a coward partially explains the sharp rise in the number of high net worth individuals (HNWIs) who are leaving the country.

A research company called New World Wealth (NWW) published a lot of data about the HNWIs in SA, which according to NWW totalled 43 800 at the end of 2017, and conveniently compared this to a number of 43 600 some 10 years ago.

What it didn't publish was that at the end of 2014 its own numbers reflected the total number of HNWIs in SA at 46 800, which means there was a rush to the exit doors at OR Tambo by people in this category – 5 000 in total.

This was counterbalanced by an inflow of 1 800 HNWIs from Africa, mostly Angola and Mozambique, according to Andrew Amoils from NWW.

Any serious attempt to push through land reform – which will entail the confiscation of commercially valuable land from persons, companies or trusts – will have serious effects, notwithstanding Cyril Ramaphosa's regular mantra that it will happen without affecting the economy or food supply.

He needs to spell out how his four emissaries, who have been tasked with raising \$100 billion worth of foreign investments over the next five years, will convince foreign investors to overlook this threat to property rights. With great difficulty, I would suggest as the western world places great emphasis on property rights.

RUSH FOR THE EXIT_{CONT.}

You will find very few analysts or commentators speaking about these rising threat in our media. There are the exceptions such as Mike Schüssler (economists.co.za), Dawie Roodt (Efficient Group) and Frans Cronje from the Institute of Race Relations.

Cronje has just returned from delivering a lecture at the Cato Institute in Washington where he addressed a grouping of business people and academics, warning about SA's slide into a socialist utopia, along the lines of Venezuela. Having listened to him a few years ago at the annual SA Quo Vadis? seminars hosted by Moneyweb and Brenthurst Wealth, I can state that Cronje's views on SA's future have deteriorated significantly.

The 2018 series of SA Quo Vadis seminars have just been held countrywide. The focal issue was land reform and its potential impact on property values, the rand, the JSE and the state of the country generally.

I have never experienced such sell-out crowds, where white and black were fearful of the future of this country. Not one of the attendees in Pretoria, Johannesburg and Cape Town, would – publicly at least – get up and say that *“Alles sal regkom, moenie worry nie.”*

DENIAL IS NOT AN INVESTMENT OPTION ANYMORE.

I repeat for the benefit of Brenthurst clients what I said at all of these seminars:

“If government is prepared to take the populist route in expropriating your property without compensation and dismantling your current entitlement to world-class medical care, how long will it be before it realises that too much money is leaving the country (which it is) and cancels your foreign investment allowance?”

Please note that a link to the SA QUO VADIS? 2018 recording will be available on our website <http://www.bwm.co.za/> as from Monday 9 July 2018.

IT HAS LONG BEEN A BRENTHURST RECOMMENDATION THAT INVESTORS INCREASE THEIR OFFSHORE EXPOSURE.

RETURNS ON OFFSHORE INVESTMENTS HAVE BEEN DOUBLE AND IN SOME CASES TREBLE THE RETURNS ON SA INVESTMENTS.

THIS STRATEGY HAS BEEN VERY SUCCESSFUL IN LIGHT OF THE MANY UNCERTAINTIES CREATED BY EWC AND OTHER ISSUES FACING THE LOCAL ECONOMY.

BRENTHURST INVESTMENT ADVISORS WILL BE REVIEWING ALL PORTFOLIOS IN ORDER TO INCREASE OFFSHORE EXPOSURE EVEN FURTHER.

EXPECT UPDATED COMMUNICATION FROM YOUR FINANCIAL ADVISOR IN THIS REGARD VERY SOON.

IT IS HIGHLY ADVISABLE TO CONSULT AN ACCREDITED FINANCIAL ADVISOR TO DEVISE AN INVESTMENT PLAN SUITED TO INDIVIDUAL REQUIREMENTS & GOALS.

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