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THE NATIONAL BUDGET & YOUR INVESTMENTS

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INVESTMENT OPPORTUNITIES WITHOUT BORDERS

By Magnus Heystek, Investment Strategist & Director, Brenthurst Wealth

AMONGST investors and even commentators in the media, the decision to recommend greater offshore investments is often seen to be based solely on the rand dollar view. And while the strength or weakness of the local currency plays an important role in the final outcomes, it might surprise many people that the rand played virtually NO role in the substantial outperformance of offshore over local investments over the past five years. The rand, despite its volatility and gyrations, is virtually where it was in January 2015.

This ominously means the reasons for the lacklustre performance of the local market over this period needs to be sought somewhere else. And more so, if these factors are not somehow improved or removed, the next period of sustained rand weakness may lead to even greater underperformance.

The rand is currently at roughly the same level against the USD where it was five years ago, after being as weak as R19,35 at one stage last year during the Covid-19 pandemic panic in financial markets.

If rand weakness was not the cause of the JSE's underperformance against world markets, what then was? More about that later.

Most investors and even ordinary people on the street seem to be aware of the weak performance of the JSE versus world markets, especially the high flying sectors of the Nasdaq and the US markets. I often meet strangers who say to me "Are you the offshore guy?", such is the power of social media to brand someone.

I have been described as Dr Doom by the Financial Mail for my predilection for recommending offshore equities above SA equities, while fellow financial advisor Warren Ingram called me quite ridiculous things such as being a “financial pornographer” and “click-baiter” for warning local investors about the slowly unfolding financial disaster in South Africa.

But investors themselves, large and small, are now taking the matter into their own hands by ordering their advisors to move some money offshore, or, if these advisors (in many cases) refuse to do so, do it themselves.

SA’s equity and even balanced funds are experiencing massive withdrawals. Allan Gray Balanced fund suffered withdrawals of R14 billion in 2020 while Coronation bled R8bn as private investors, either moved to cash or moved money offshore. These are massive numbers and most equity funds and high-equity balanced funds have been suffering from very high rates of withdrawals. My guess is that most of the withdrawals are either moving to cash or to offshore markets.

I had dinner with one of the CEO’s of one of the largest international investment platforms the other day and according to her, business has jumped by 50% over the past year. At Brenthurst we have experienced the same.

But the shrill voices of criticism and personal attacks on my views of preferring offshore investments have gone very quiet. It has become simply impossible to argue on the facts anymore.

GLOBAL EQUITIES HAVE NOW RETURNED ALMOST DOUBLE WHAT THE JSE HAS OFFERED ITS INVESTORS OVER 15 YEARS. OVER 10, 7, 5 AND 3 YEARS IT IS MORE THAN DOUBLE.

As far as it comes to investment returns, the past five years (and more so over three and one) have been an absolute bloodbath as far as the local equity market is concerned. On average very few investors have made money when inflation, costs and all fees are taken into consideration.

At the same time investments into virtually any global equity market have made real money and in some cases trebled your money in certain sectors.

Despite this the mainstream media remain hesitant to report these comparative figures. Headlines about how “cheap” the JSE is and how the “market is set to revert to mean” in the next couple of years appear almost daily.

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THE NATIONAL BUDGET & YOUR INVESTMENTS



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ANALYST

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“JSE THE BEST INVESTMENT MARKET IN THE WORLD”

About three years ago the massive Old Mutual group went countrywide to its thousands of brokers and the media with the confident prediction that the “JSE would be the best market in the world over the coming five years.” This prediction, by fund manager Zane Wilson, made the front page of the normally excellent Business Day and was carried by almost every other financial publication, website, podcast or whatever.

Today, three years later, most of the large Old Mutual equity funds have not made any money for their clients. The Investors Fund has actually lost 3 % per year over this period.

How could a large and well-resourced financial services company get it so wrong? Just a pity it is their clients who are paying the price for this over-confidence by its fund managers. Alarming the local media make no effort to interrogate such predictions.

In the US you have [Hulbert's Newsletter](#) which tracks the forecasts made by analysts, fund managers and investment companies and publicly praises or exposes over-optimistic forecasts. It would be great to have such analysis in SA. But financial constraints in the media generally will probably prevent this.

For here is the thing: asset management companies cannot, by law, render investment advice. Only registered financial advisors can. But - and this applies to almost all asset managers - they often cross the line between generally communicating and giving financial advice. And it is also true that most investors - by and large - either trust their financial companies or suffer from inertia which prevents them from doing something about the poor returns they have been achieving.

Or to use the quote from Lord Reece-Mogg, author of The Sovereign Individual: “Those who are ignorant will not know that they are being abused”.

Normally, in an active and vibrant financial media, these over-confident forecasts and predictions would become the subject of deeper analysis and commentary, holding these over-exuberant fund managers to account for misleading the investing public.

The following tables compare the investment returns of some of SA's top equity funds with a range of popular global equity funds in rand and not percentage terms.

All these offshore funds have been available to SA investors for many years locally and can be found on any of the offshore investment platforms advisors use.

The high flying technology sector funds have deliberately not been selected, which would have further outperformed the local market. Our objective is compare apples with apples. Brenthurst planners have been using some of these funds with great success in client offshore portfolio for over 10 years.

HOW MUCH DO YOU HAVE AFTER INVESTING R10 000 OVER 5 YEARS?

5 YEARS PERFORMANCE

Franklin U.S. Opportunities Fund (FTIF).	ZAR	25,147.00
Fundsmith Equity Fund	ZAR	20,930.00
Sarasin Global Equity	ZAR	18,075.00
iShares World Equity Index Fund	ZAR	17,979.00
Ninety One Global Franchise Fund	ZAR	17,165.00
Allan Gray Global Equity Feeder Fund	ZAR	16,879.00
Dodge & Cox Worldwide Funds	ZAR	16,818.00
Fidelity Select Health Care Portfolio	ZAR	16,586.00
Coronation Global Capital Fund	ZAR	12,148.00
Allan Gray Equity Fund	ZAR	12,007.00

HOW MUCH IS DO YOU HAVE AFTER INVESTING R10 000 OVER 3 YEARS?

3 YEARS PERFORMANCE

Franklin U.S. Opportunities Fund (FTIF).	ZAR	21,864.00
Fidelity Select Health Care Portfolio	ZAR	18,815.00
Fundsmith Equity Fund	ZAR	17,996.00
Ninety One Global Franchise Fund	ZAR	17,155.00
iShares World Equity Index Fund	ZAR	16,582.00
Sarasin Global Equity	ZAR	15,422.00
Coronation Global Capital Fund	ZAR	13,986.00
Dodge & Cox Worldwide Funds	ZAR	13,493.00
Allan Gray Global Equity Feeder Fund	ZAR	13,098.00
Allan Gray Equity Fund	ZAR	10,145.00

Source: Brenthurst Research Feb 2021

The difference in rand and cents at the end of these respective periods is not marginal, they are massive and could mean the difference between retiring very comfortably or not retiring at all.

Investors are picking up on this as more and more move their funds either into local asset swap/feeder funds or directly offshore.

Brenthurst deals with investors in pension or retirement funds daily, which complain that they have had no growth over the past 5 to 7 years, resulting in a downscaled retirement, or as a retiring engineer said to us just this week, "I can't afford to retire. I will need to carry on working for another couple of years."

OFFSHORE IS CHEAPER

And here is another thing. All the offshore funds, even the active ones, have a much lower total expense ratio than most local equity fund managers. Dividends are not taxed on the offshore platforms while advice fees do not attract VAT.

I think the local asset management industry has some massive challenges ahead. Smaller funds are starting to close or merge in line with the shrinking of the JSE itself. The JSE had more than 600 listed companies 20 years ago. Today the number is down to 330 with a host of companies who have given notice to delist. This has reduced investor-choice and increased risk. As it is, about 24% of the market capitalization of the JSE comes from only two shares - Naspers and Prosus.

But the local market and its investors therein remain the bread and butter of the local asset management industry. I would say about 80% and more of all the assets of local managers are invested/tied to the local market. Do not expect local asset managers to promote offshore investments. There are one or two managers - for instance [Ninety One](#) who do, but the rest, with most of their assets in SA, will not. It will hurt their lucrative local assets.

At the same time Wall Street and the Nasdaq in particular has experienced a massive bull market since 2008, driven mainly by earth-shattering and life-changing innovations and technological advances. For the most part, South Africans have missed this massive bull market by restricting themselves to the local market, which only really has one global tech company - namely Naspers which recently hived off its Tencent investment into Amsterdam-listed Prosus.

The end result is that investors in the local markets have by and large trundled along over the past 10 to 15 years with returns stuck in the doldrums. I now often come across 5 year returns for local equity funds with zero returns for their investments.

I have always thought that the role and duty of an independent investment advisor was to give the best advice possible to his/her clients. There are some equity funds in SA which have not made any money for their clients in over 5 years and more.

The outlook for the local market is clouded by many factors, including lack of confidence, a tough business environment, declining profitability of listed companies on the JSE and the outflow of massive amounts of foreign capital over the past 4 years.

Without foreign capital the JSE is doomed to move sideways or drift further downward. While there was a welcome jump of foreign capital into the JSE in December last year (and possibly also January) is it small compared to the outflow of almost R350 billion in the three years since Cyril Ramaphosa became president of SA in 2018.

Since 2015 more than R500bn has flowed out the JSE equity market by foreign investors.

What probably saved the rand, and the balance of payments was the high yields on SA bonds attracting sufficient inflows to counteract these outflows.

THE NATIONAL BUDGET & YOUR INVESTMENTS

The South African economy continues to worsen. The deterioration of government finances provides little room to address the many challenges facing the country. In addition, there is significant political pressure on Finance Minister Tito Mboweni to announce a budget that will serve vague strategy plans while ignoring the country's ballooning debt. What does this mean for investors?

Director and investment strategist of Brenthurst Wealth, Magnus Heystek, with Brenthurst consulting economist, Mike Schüssler, and business and macroeconomic analyst Phumlani Majozi will analyse the 2021 budget and share their insights.



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