



THE POWER
OF INDEPENDENT ADVICE

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**INVESTING WITH SA'S
LEADING BOUTIQUE
WEALTH MANAGER 2021**

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IS INVESTING IN THE MONEY MARKET WORTH IT?

By Aidan Freswick, financial advisor at Brenthurst Tyger Valley

If you were to consider yourself a long-term investor, you would expect some sort of capital appreciation when reviewing your investments over certain periods. You would expect that the impact of rising inflation is not eating away at the purchasing power of your wealth.

Historically, being invested in money market and cash type solutions would have given you peace of mind knowing that your wealth is not exposed to uncalculated risks, having no need to follow markets and assuming that you are keeping up with and possibly even outperforming the rate of inflation at a suitable level. This could not be further from the truth at current interest rate yields and if you review the returns on your money market account, you may be unpleasantly surprised.

CASH INVESTMENTS HAVE BECOME A RISK:

Recently, we have seen the consumer price index (which only measures the price of limited goods and services) hit a 14-month high of 4.4%, driven by rising fuel and transport prices. If you consider inflation in general, you will agree that inflation should be reflected as a much larger percentage, arguably more than 10%. Due to the well-familiar financial crisis because of COVID-19 and related aftereffects, the reserve bank lowered the interest rates to provide relief to indebted households and firms.

Reducing interest rates was aimed at discouraging savings and encouraging spending, to stimulate the economy in response to the pandemic. As a result, money market investments have not yielded returns as they used to in the past. If most of your wealth is invested in money market-type instruments, you will run the risk of capital depreciation in the current low-interest rate environment. Interest rates are expected to remain low for some time to come and certainly for the next 12 to 18 months despite the rising inflation environment.

RETURNS ON TOP 5 MONEY MARKET FUNDS:

Top 5 Money Market Funds	1 Month	1 Year	3 Years	5 Years
Cadiz BCI Money Market	0.40%	5.00%	6.70%	7.20%
Allan Gray Money Market	0.30%	4.60%	6.60%	7.10%
Hollard Prime Money Market	0.40%	4.60%	6.60%	7.10%
Cartesian BCI Money Market	0.30%	4.50%	6.10%	6.50%
Counterpoint SCI Money Market Fund – A	0.30%	4.50%	6.50%	7.00%

Source: Morningstar; Data as of 31 May 2021

The above returns are before inflation is taken into consideration. As it stands, this will deplete your wealth in real terms and even the average pensioner needs to consider added calculated risk to grow their wealth in real terms.

If you refer to the table below, this is the current published inflation rate (bearing in mind the likes of fuel, food, medical aid prices are not included in this inflation number).

THE LAST 5 YEARS' INFLATION STATISTICS:

CPI Daily Index	1 Year	3 Year Annualized	5 Year Annualized	10 Year Annualized
	5.16%	3.93%	4.31%	5.01%

Source: Profile Data 17 June 2021

With the above taken into consideration, taxation still needs to be factored into this equation making it even less desirable. Any interest earned over and above the exemption rate will be fully liable for taxation at the investors marginal tax rate:

INTEREST EXEMPTIONS

INTEREST FROM A SOUTH AFRICAN SOURCE EARNED BY ANY NATURAL PERSON IS EXEMPT, PER ANNUM, UP TO AN AMOUNT OF:

	2022	2021	2020	2019	2018	2017	2016	2015
Person younger than 65	R23 800	R23 800	R23 800	R23 800	R23 800	R23 800	R23 800	R23 800
Person 65 and older	R34 500	R34 500	R34 500	R34 500	R34 500	R34 500	R34 500	R34 500

Source: sars.gov.za 17 June 2021

WHERE A MONEY MARKET ACCOUNT IS SUITABLE:

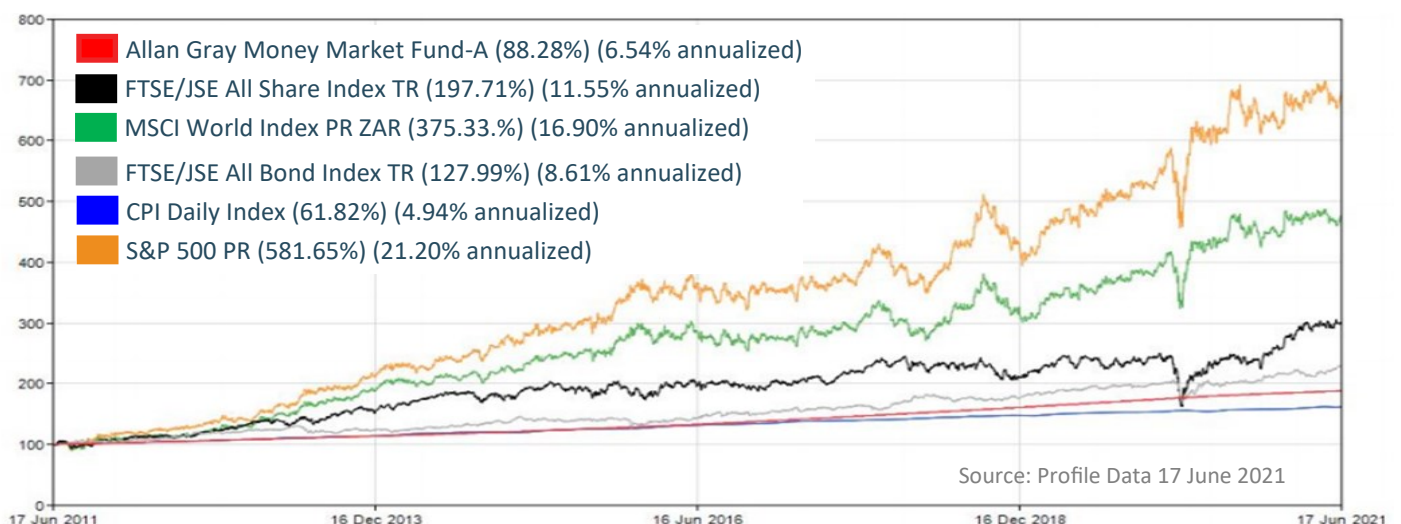
- ⇒ Money market and cash type investments are generally used for short-term objectives such as paying for a deposit on a property. The nature of cash investments is that the capital is generally secure and is somewhat guaranteed when you need to access the funds.
- ⇒ Cash is also used in a structured portfolio for capital preservation purposes. However, if you are a long-term investor who is seeking capital growth and inflation-beating returns, it may be a good time to revisit the cash allocation in your portfolio or seek alternative investment solutions if all your wealth is invested into cash-type investments.

MONEY MARKET ALTERNATIVES:

TYPES OF UNIT-TRUSTS & EXCHANGE-TRADED FUNDS

1. **INCOME FUNDS:** Generally a unit trust fund or exchange-traded fund, which is managed in a conservative manner, and used as a capital preservation strategy in a diversified portfolio. Bonds with an adjusted level of risk offer attractive yields and can be used to enhance the return in these types of funds.
2. **BALANCED FUNDS:** Generally a unit trust fund or exchange-traded fund which is managed in a balanced manner, which generally includes various asset classes such as cash, bonds, and equities.
3. **LOCAL EQUITIES:** Either can be held directly such as in a direct share portfolio, or through a unit trust and ETF structure. Equities are appropriate for an aggressive risk-profiled investor.
4. **OFFSHORE EQUITIES:** Invested directly offshore in a direct share portfolio, unit trust, or ETF. The portfolio can be held in foreign currency, or in ZAR via an asset swap capacity. Offshore investing is volatile by nature, and suitable for an investor who has a long-term investment horizon and high-risk tolerance.

Generally, the portfolios that are structured with balanced and aggressive funds aim to beat inflation as well as money market investment returns:



Carefully constructed portfolios are all aspects included in a sound financial plan. To enhance the possibility of achieving inflation beating returns, additional calculated risk needs to be taken within portfolios, including the decision of holding cash segments are best approached with the guidance of a financial advisor. Research by global company Vanguard has found that using professional advice has proved to be beneficial over time.

CONTACT ANY OF OUR HIGHLY QUALIFIED FINANCIAL ADVISORS AT OUR OFFICES COUNTRYWIDE TO DISCUSS YOUR INVESTMENT STRATEGY READ >> BRENTHURST INVESTMENT PLANNERS

ADVISORS PROFILE: AIDAN FRESWICK, FINANCIAL ADVISOR AT BRENTHURST TYGER VALLEY



AIDAN joined Brenthurst Wealth in August 2020 as a Financial Planner. He is under the direct Supervision of Suzean Haumann CFP® and is based in Brenthurst's Tyger-valley and Yacht Club offices.

Aidan was a foreign exchange consultant at Incompass Forex for 3 years, where he served the forex needs of his clients.

Wealth Management has always been Aidan's career passion. He has completed a National Certificate in Wealth Management with Moonstone Business School, and he is currently in process of completing his BCom in Financial Planning at Milpark. Aidan will continue to pursue his part-time studies until he completes the CFP designation.

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BRENTHURST WEALTH STILL ON TOP

INVESTING WITH SA'S

LEADING BOUTIQUE WEALTH MANAGER*

**TOP 3 2021, WINNER 2020 & 2017,
RUNNER UP 2018 & TOP 4 2019**



CONSISTENCY SETS US APART

After being a winner in 2017 and 2020 runner up in 2018 & top 4 in 2019 Brenthurst Wealth places in the TOP 3 BOUTIQUE WEALTH MANAGERS of 2021.

"This is a powerful endorsement from our clients and exceptionally proud of the consistent value and service delivery from the team!"

Brian Butchart

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