



THE POWER
OF INDEPENDENT ADVICE

IN THIS ISSUE

“Brenthurst is focused on delivering quality and appropriate independent advice that will deliver the best outcome for its clients.”

FOR MORE INFO CONTACT US
www.brenthurstwealth.co.za

BRENTHURST RANKED BEST
BOUTIQUE WEALTH MANAGER IN SA
2017 AND RUNNER-UP IN 2018
AT INTELLIDEX WEALTH MANAGER AND
PRIVATE BANKS AWARD

JHB (HQ)	+27 (0) 11 799 8100
JHB (SANDTON)	+27 (0) 10 035 1391
PTA	+27 (0) 12 347 8240
CAPE TOWN	+27 (0) 21 418 1236
BELLVILLE	+27 (0) 21 914 9646
CLAREMONT	+27 (0) 21 418 1236
STELLENBOSCH	+27 (0) 21 882 8706
MAURITIUS	+ 230 5843 5215

SA'S HISTORY OF BOOMS AND BUSTS

By Magnus Heystek , Investment Strategist at Brenthurst Wealth Management

MIDDLE-CLASS WIPE-OUT IN TEN SHORT YEARS From Baby Boomers to Ravaged Retirees

CAST your mind to the year 2010. It was two years after the Great Financial Crisis: the JSE, rand and the residential property market had recovered very quickly from the ashes of the downturn and - more importantly - South Africa was hosting the Soccer World Cup later in that year. The mood was high and a feeling of almost unrivalled euphoria was sweeping the country, accompanied by the sound of the ubiquitous vuvuzela ringing loudly in your ears.

You were part of the Baby Boomers-that generational grouping of people, fortunate enough, it seemed initially, to be born in the years 1946 to 1964. This was a group of people, swelled by the pent-up energy and victorious libidos of millions of man-soldiers returning home after years on the front line, doing, what man-soldiers do when they return from wars.

You were one of this age group, anything between 55 and 75, putting together the final stages of your long-awaited “care-free” retirement your financial advisor/broker has been promising for so long. After all, wasn't the JSE just the best place in the world to put your money, as it was one of the best stock markets in the world over 100 years, according to Swiss bank Credit Suisse.

Why bother with global equities? Local is lekker...

Most investment advisors couldn't be bothered to recommend any other investments apart from the JSE. As did the residential property broker, who convinced you that “Buy-to-Let” was the way to financial nirvana. Buy and rent to those who remain uninformed and wish to own residential property.

Ditto the pedlars of property syndications / exotic game farms / rare wines, stamps, coins etc. If it could be flogged to an unsuspecting public, often with too much money and not too much common sense, South Africa would have been the place to do it.

Today, ten years later, almost all of those carefully-crafted financial plans and strategies have been laid to waste. In fact, SA has probably experienced more Boom-Busts in a range of asset classes than any other country in the world.

Let's take the rand as an example. In 2010 the average rand/USD exchange rate was R7,54. It actually strengthened to an average of R6,77 a year later on the back of a rising global demand for commodities, which fortunately SA still managed to dig out of the ground reasonably efficiently and managed to get onto trains and trucks which took it to export harbours, notably Sishen and Richards Bay.

In 2010 it cost you R754,400 to purchase \$100 000 and R677,000 on average a year later. Those were the days my friend. That \$1million apartment in Mauritius would only have cost you R6,7million. To put it into context, today it would cost around R19 million for the same apartment, assuming no dollar-growth in the price. In short: buying offshore property has all but disappeared from the wish-list of many aspirant property investors. All those seminars marketing properties from England, Cyprus, Portugal and Malta have mostly been put on hold.

The decline in the rand since 2010 worked its way through the system, slowly at first but eternally relentless. You pay much more for anything imported today be it cellphones, cars, cameras, computers, printers, foreign foods and wine and, of course, foreign travel. A basic two-course meal at an Italian eatery in London with a bottle or two of Chianti will set you back say £240. At today's exchange rate that amounts to about R5 500.

Even if you think you can avoid all those items and won't be affected by the weak rand, it hurts you via the sharp increase in medical aid tariffs, which have been rising at between 10-13% per annum largely based on the cost of imported equipment and medicines. So, if your dreams were to travel the world during retirement, the only travelling you will be doing is to Margate over Christmas.

VERDICT: BUST



Brenthurst Wealth continues to move more funds offshore as the combination of the recent downgrades by Moody's and Fitch, as well as the economic devastation being wreaked on the SA economy, does not augur well for the local market and property sector. We still find safety in local high income and bond funds while at the same time searching for growth opportunities in global markets.

Global companies operating in the technology, internet, health and safety sectors in our view offer the best opportunities to long-term investors.

JOHANNESBURG STOCK EXCHANGE:

For years, even generations, the JSE was the fulcrum of your long-term wealth planning in SA, either directly but also indirectly via unit trusts, endowments, life assurance policies and exchange traded funds.

As mentioned earlier, the Credit Suisse research indicated that the JSE, alongside Australian and US stock exchanges was the best place to put your money over periods up to 100 years, up to 2011. Based on these historical returns, what could go wrong? Your pension fund was roaring ahead, as were your share options and discretionary portfolios.

All your retirement calculations were showing a healthy income-replacement factor, which allowed you to consider being a swallow, spending six months in Gauteng and six months at the coast or in the Bushveld to get away from the winter’s cold.

The longer-term returns up to 2010 were excellent, if not spectacular. It was not uncommon for the best equity funds to boast inflation+ 6% returns, sometimes in excess of that.

However, to the horror of JSE investors, the last 10 years have seen a collapse in the real and relative returns. Real against inflation and relative against foreign markets.

PERFORMANCE OF THE JSE ALL SHARE INDEX OVER THE PAST 10 YEARS HAS SHOWN THE FOLLOWING DECLINE IN ANNUAL RETURNS.



VERDICT: BUST

The trend here is quite clear, ever diminishing real returns over ten years and over the past 5 years negative returns. This comes despite the stellar performance of global media and internet company Naspers, which at one time represented about 22% of the market capitalization of the JSE. Stripping out the [performance of Naspers](#), the returns would have looked even worse. Very few mid- and small cap shares have made any money for investors over the past 5 to 7 years.

Even worse, repriced into US dollars, the JSE has given no real return and since the peak in the market in December/January 2018 at the time of Ramaphoria, the JSE lost you 58% in USD terms.

Over the same period of time, global equity funds have delivered returns at an average of 12-15% in rand terms. So much for the argument that the JSE is a proxy for global markets. This was marketing hype which we now know is rubbish. The JSE has disconnected from the rest of the world in terms of performance, even emerging markets, where for many decades it was a front runner of note. How things have changed.

MIDDLE-CLASS WEALTH

Most middle-class wealth in South Africa is to be found in (a) pension/retirement funds and also residential property. Here also we are witness to, not one train wreck, but several, all at the same time. Let's take a more detailed look at the various asset classes which define middle-class wealth.

PENSION FUNDS:

Pension funds invest in more than just listed equities. They can invest (within the guidelines of Regulation 28 of the Pensions Funds Act) not only 30% offshore and an additional 5% in Africa, but also in cash, bonds, listed property and alternative investments such as hedge funds. Despite this greater latitude the returns of SA's pension funds have also not beaten inflation over any period up to 10 years, especially not when investment and advisory costs are taken into consideration.

MEDIAN RETURNS OF THE SA MULTI ASSET (MEDIUM EQUITY) FUNDS OVER THE PAST 10 YEARS ACCORDING TO THE LATEST MONEY MATE SURVEY (30/03/2020).									
10 YEARS	9 YEARS	8YEARS	7 YEARS	6 YEARS	5 YEARS	4 YEARS	3 YEARS	2 YEARS	1 YEAR
6,54% PA	6,26% PA	6,06% PA	4,71% PA	3,24% PA	1,64% PA	0,92% PA	1,19% PA	-1,20% PA.	-7,78% PA

The other two categories of pension funds, high equity and low equity, have similar returns: on average now over 5-7 years well under the inflation rate.

RESIDENTIAL PROPERTY:

Who will ever forget the rip-roaring residential property market, roughly from around 2003 to 2008, after which it all came crashing down to a shuddering halt. SA was awash with wanna-be landowners, property developers, banks, agents, builders and bond originators all touting the next hot thing in the residential property market. Banks threw caution to the wind, extending loans to newby landlords who should never have been allowed near these developments, never mind the mountains of credit extended to them.

The SA landscape is today, almost 12 years after this market came crashing down, still dotted with half-built and unfinished gated communities and golfing estates, testimony to this period of madness. Buy-To-Rent was the latest buzzword and almost everyone became an instant landowner with skin in the game. I attended several of these *Get Rich With Property* seminars and it was astounding to see how gullible people allowed themselves to be swept up in this property feeding frenzy.

The peak of the residential property market was actually May 2008, according to figures from FNB, after which growth first collapsed and then went into a 12-year sideways movement. Today the average residential property is worth 23% less in real terms than at the peak of 2008.

For those still hanging on to the rental properties, the real yields have been drifting downwards to zero for a long time. Rentals are not rising faster than inflation like it used to, while rates and taxes and upkeep are. Even in the Western Cape - which for a while marched to its own drum - prices, turnover and rental levels have all but collapsed.

Here's an example: a colleague of mine is renting a fancy sea-facing apartment in Bantry Bay, Cape Town at a rental which provides the owner with a yield of not more than 3% based on the initial purchase price. After the owner's expenses and costs, the real yield is closer to 1%. In one word: madness, and a short-cut to penury if this property was financed.

VERDICT: BUST

VERDICT: BUST

PROPERTY SYNDICATIONS:

The market for property syndication, mainly driven by two major players, Sharemax and Picvest, boomed for about 10 years to around 2011, when all of these schemes collapsed, the one after the other. No-one really knows how much money was lost in these schemes, but just Sharemax and Picvest lost investors an estimated R8 billion. All around the country much smaller but equally dangerous property syndications sprung up and closed down, with major losses to unsophisticated investors who joined the feeding frenzy. Commentators who warned about these schemes, including Deon Basson, Vic de Klerk and myself were either threatened with legal action or described as being stupid.

Today, ten years later, the process to try and recover some money is still ongoing. Yet not a single person has been criminally charged for these fraudulent schemes.

EXOTIC GAME, BUFFALOES AND OTHER CAPITAL TRAPS

Who can forget the uproar when the story broke about our own president getting involved in the trade of disease-free [African buffalo](#), allegedly paying R20m for one such beast. Here too was a highly manipulated market which sucked in countless wannabe-breeders, especially in the Afrikaans community. I personally attended one such exotic game auction in August 2015, roughly around its peak. I watched in absolute astonishment how 400 or so more khaki-clad farmers forked out millions of rands for disease-free buffaloes, in addition to crazy prices for sable, kudu, giraffes and rhino.

After the auction, which by the way was opened by the local *dominee*, I found myself in some verbal altercations about the investment merits of what I had just witnessed.

Today that market has gone deathly quiet and the losses for those who got involved at the peak must run into the hundreds of millions of rands.

ASSET CLASSES THAT PROTECTED YOUR WEALTH

Although some asset managers love to describe cash as 'trash', it has been a safe and reliable asset class, with returns over the past 10 years averaging just over 7% per annum, as did SA bonds, which have been producing even better returns, closer to 9% per annum.

The other asset class was SA's own unique gold coin, Kruger rands, as we call them. The combination of a slowly rising gold price since 2011 plus the weakening of the exchange rate has produced very good returns to local investors, averaging around 15% per annum. At the time of writing the price of a Kruger rand which was close to R30 000 a coin while a one-kilogram bar of gold was worth a cool million, give or take a couple of cents.

One of the attractions of owning physical gold is (a) it is gold that has already been mined and (b) is unrelated to the political and economic events unfolding in South Africa. A further attraction is that it is legal tender and does not attract VAT when purchased.

VERDICT: BUST

VERDICT: BUST

VERDICT: BOOM

OFFSHORE EQUITIES

Offshore equities, especially companies listed on the Nasdaq and Wall Street exchanges, have been a primary driver of wealth creation over the past decade. The Nasdaq, driven by shares such as Netflix, Amazon, Tesla, Facebook and others, have been the outstanding performers, with compounded all-in growth in excess of 1 000% in rand terms over 10 years.

The Dow Jones Industrial Index (DJ) over the same time returned 637% while the MSCI Global Index was up 457% per annum over the same time.

Emerging market equities lagged quite badly with a return of 273% while the JSE Allshare Index was stone last with a return of 206% over the same period of time. This was one of the weakest periods of growth for the JSE ever on record, both in relative terms and real terms.

For every R1 you made on the JSE over this 10 year period, the Nasdaq returned you R5 and Wall Street R3. Even a stock standard global index more than doubled the returns on the JSE.

Please look carefully at the chart below, a chart local asset managers desperately do not want you to see.

HOW THE JSE HAS UNDERPERFORMED - A TRULY HORRIFIC CHART



Sadly, most South African investors had the bulk of their money, either directly or via retirement funds, invested in one of the world's poorest-performing stock markets.

AS FAR AS OFFSHORE EQUITIES ARE CONCERNED, THE VERDICT IS: BOOM!

VERDICT: BOOM

SUMMARY:

The collapse of personal middle to upper middle class wealth over the past 10 years is already noticeable in many areas, especially amongst Baby Boomers, who are now 10 years older and in most cases much poorer than they ever thought they would be. Car sales are down, as are the memberships of medical aids and golf clubs, and even foreign travel has declined.

Retirement plans - long ago shown to be worthless - are hastily being redrawn with many people extending their working life for another couple of years, if at all possible. But corporate South Africa still has, in many cases, almost archaic retirement fund rules, which requires most people to retire at age 60. Many senior executives will be heading back to work with freshly-polished and updated CVs.

How many dollar millionaires do we have left in SA? Last year New World Wealth estimated the number at around 44 000. Already down from 48 000 a couple of years ago.

My own estimate is a serious culling amongst our dollar millionaires to levels well below 40 000, unless they took good advice to externalize a great deal of their assets timeously. What does the next 10 years hold? Perhaps that is the subject of a next article.

PLEASE DO NOT HESITATE TO CONTACT ANY OF OUR HIGHLY QUALIFIED FINANCIAL ADVISORS AT OUR OFFICES COUNTRYWIDE. <https://www.bwm.co.za/about-us/>

BRENTHURST SERVICE OFFERING:

INVESTMENT PLANNING
RETIREMENT PLANNING
OFFSHORE INVESTMENTS

WILLS & ESTATE PLANNING
TAX PLANNING
FOREX SERVICES

LIFE / BUSINESS INSURANCE
EMPLOYEE BENEFITS
GLOBAL PROPERTY

MAGNUS HEYSTEK - INVESTMENT STRATEGIST & DIRECTOR OF BRENTHURST WEALTH



Magnus Heystek has spent a life time sharing his personal finance wisdom. He has co-authored many books on how to improve your odds of making money in investing, from Making Money Made Simple to a series on unit trusts and retirement. Often, he has come under criticism and even attack for his views, including from senior executives at companies such as Old Mutual who did not like him unpacking the excessive and hidden costs in products marketed to individuals looking for an income in retirement. A journalist who started his own investment advice company, Brenthurst Wealth Management, Heystek highlights how very wrong it has been to keep all your money in South African assets, in particular Johannesburg stocks.

Brenthurst Wealth was recognised as the Top Boutique Wealth Manager in South Africa in 2017, runner-up in 2018 and in the top 4 in 2019.

Email: magnush@brenthurstwealth.co.za

Mobile: +27 83 692 8635

Johannesburg +27 (0) 11 799 8100
Sandton +27 (0) 10 035 1391
Pretoria +27 (0) 12 347 8240

Cape Town +27 (0) 21 418 1236
Bellville +27 (0) 21 914 9646
Stellenbosch +27 (0) 21 882 8706

Claremont +27 (0) 21 418 1236
Mauritius 00 230 5843 5215
www.brenthurstwealth.co.za

Brenthurst Wealth Management is an authorised financial services provider (Reg No: 2004/012998/07) FSP No.7833. This e-mail and any file attachments transmitted with it are intended solely for the addressee(s) and may be legally privileged and/or confidential. If you have received this e-mail in error please destroy it. If you are not the addressee you may not disclose, copy, distribute or take any action based on the contents hereof. Any unauthorised use or disclosure is prohibited and may be unlawful. The view and opinions expressed in this e-mail message may not necessarily be those of the management of Brenthurst Wealth Management (Pty) Limited.