BRENTHURST
THE HOME OF WEALTH

THE POWER
OF INDEPENDENT ADVICE

THE LOST DECADE AND HOW YOUR WEALTH HAS EVAPORATED

By Magnus Heystek, Investment Strategist & Director of Brenthurst Wealth

It's hard to believe that slightly more than ten years ago SA hosted the Soccer World Cup of 2010. Who could ever forget the blaring sounds of vuvuzelas, our jam-packed sports stadiums and the national euphoria of hosting one of the most successful SWC's ever?

And, as the last of the hordes of soccer-mad tourists left our shores, travelling on our spanking new Gautrain to a recently revamped O.R. Tambo Airport, we would all be forgiven for thinking: This is our time. The next decade belongs to us! Tourism will boom and foreign investors who came for the love of soccer will, no doubt, return with their spreadsheets and cheque books to invest in this beautiful country.

But, it was not to be. In fact, ten years later the decade has been a financial wipe out for most South Africans, from the poor (who became increasingly poorer) to the middle class and even almost rich, who saw their relative wealth stagnate and drop precipitously when compared to most other countries in the world.

Most alert and well-informed South Africans are well aware of what happened, but do they truly comprehend the full extent of the financial catastrophe that has befallen them? It seems many don't and still cling to a belief that things are not that bad and that their collective financial fortunes will soon improve.

But it won't, in my view, and unless the ANC is somehow booted from power and replaced with a more modern, free enterprise based political collective, then the next ten years are bound to be a repeat of what has happened over the past decade.

In short, by almost all measures of wealth criteria, SA and the majority of its people have become very poor, with only a handful of rich who externalised their assets or who somehow managed to earn in foreign currency.

IN THIS ISSUE

"By almost all measures of wealth criteria, SA and the majority of its people have become very poor, with only a handful of rich who externalised their assets or who somehow managed to earn in foreign currency."

www.bwm.co.za

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
PAARL (VAL DE VIE)	+27 (0) 21 100 3901
MAURITIUS	+ 230 5843 5215

IN THE PAST TEN YEARS, FROM 2011 TO DATE, THE FOLLOWING HAS HAPPENED:

1. **The rand has dropped from below R7 to the USD to current levels of around R14 to R15.**
2. **SA's residential property market has declined by almost 25% in real terms. When compared to global property prices, SA property prices, when priced in USD, has declined by approximately 60 - 70%.**
3. **The JSE has been one of the worst performing stock markets in the world, with its average growth of 10% per annum over the years, well below the average growth rates earned in the US and global markets.**
4. **The average pension fund has shown very little real growth (after the deduction of all costs and taxes) over 8 years and only marginal growth over 10 years. This is mainly due to the restrictions of Regulation 28 of the Pension Funds Act which limits offshore exposure to only 30% of total assets.**

WARNINGS IGNORED

It's no secret that I have been writing and talking about this trend for many years. At first, from around 2010 to 2014, I alerted investors that there was a massive boom in technology and internet stocks taking place, mainly in the US, and that, in order to get exposure to these sectors, one needed to externalise some assets. There was no other way of getting exposure to these fast-growing sectors and companies unless one sent some money offshore. Since then, things have changed somewhat for the better.

And secondly, I tried warning that SA's fortunes are mainly determined by the ups and downs of the commodity cycle which started a very sharp correction in 2011 and only ended around 2020.

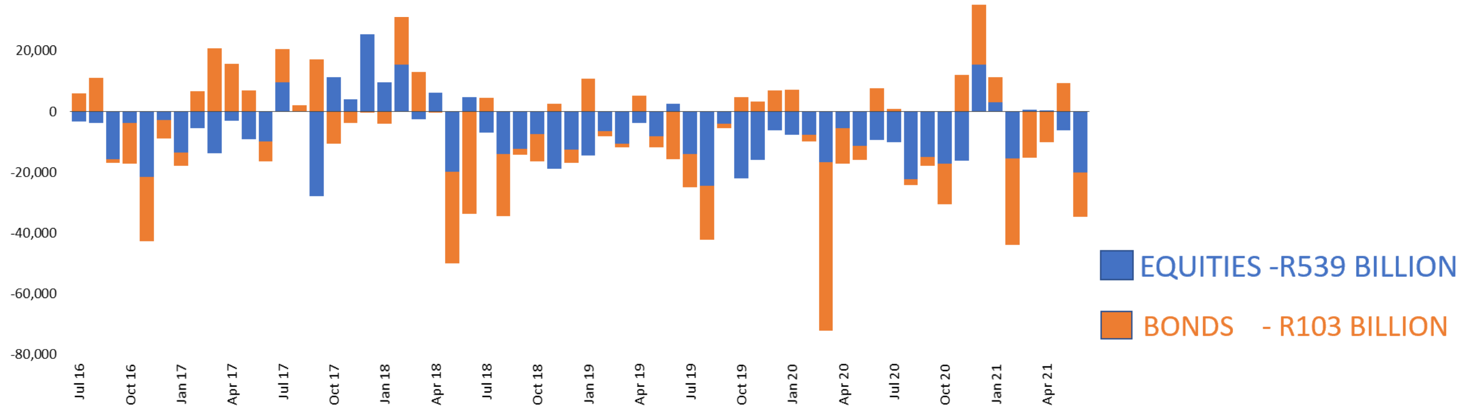
These initial recommendations were met with outright hostility from the local asset management industry.

From 2015 onwards these warnings took on a more strident tone and I wrote many articles warning about the financial tsunami (as I referred to it) heading our way, with middle to upper class South Africans firmly in the path of this destructive force.

From 2016 our company also sponsored 3 annual countrywide seminars, called "SA Quo Vadis?", in partnership with business and financial news media website. Many attendees were openly sceptical and even hostile towards these suggestions of externalising some assets. How things have changed!

On the internet I was called many things, mostly nasty and vicious. The Financial Mail called me Dr. Doom, the editor of Beeld newspaper called me a "pedlar of doom, prying on white fears", while fellow financial advisor, Warren Ingram, called me a financial pornographer and a clickbaiter that must be ignored, as the outcomes were bound to be poor.

OUTFLOW OF CAPITAL OUT OF JSE 2016-2021



RUFFLING FEATHERS

It didn't take me very long to realise that my comments were not only ruffling a few feathers, but were also a threat to very large and powerful industries – that of the local asset management industry as well as the residential property market.

But the local asset industry is battling with its own existential troubles. Money is flowing out of the JSE at an enormous rate – more than R560bn of foreign equity investors since 2015.

But wealthy South Africans have also been sending their capital offshore at unprecedented rates.

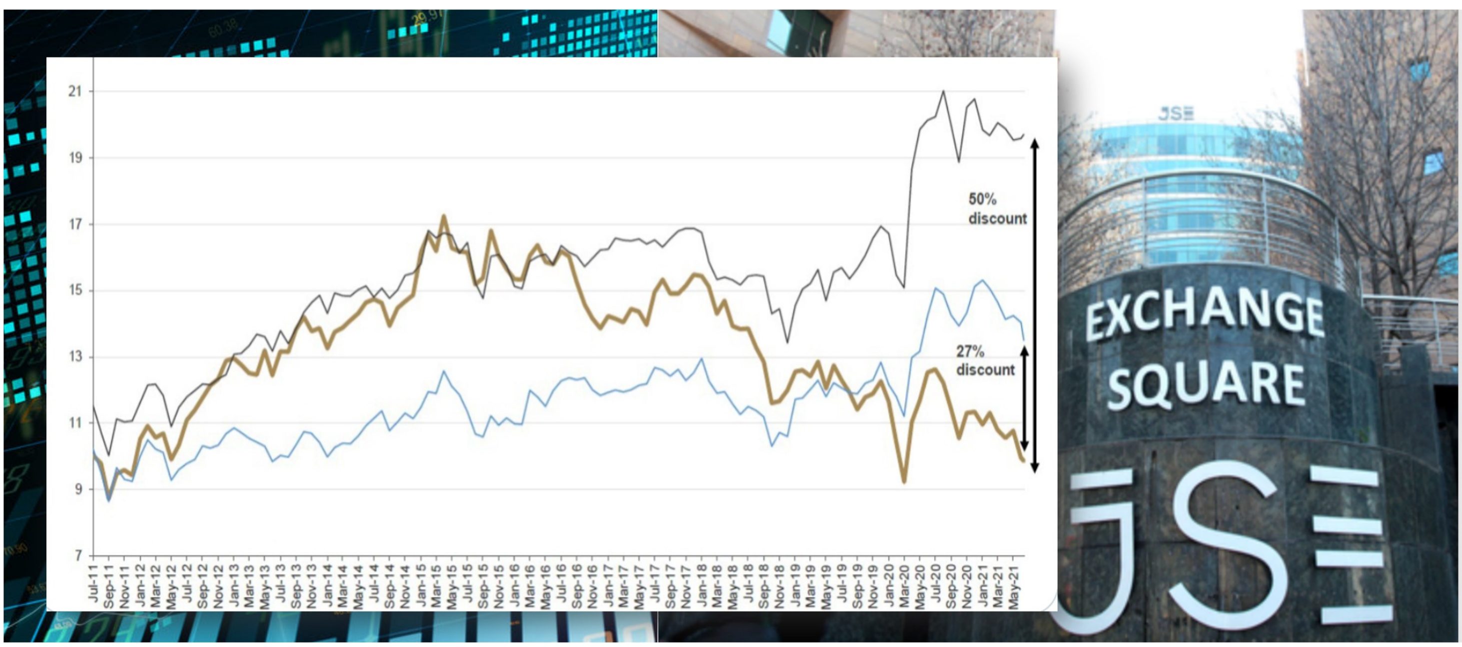
Brenthurst Wealth's consulting economist, Mike Schüssler, estimates this outflow to be more than R1trillion since 2014. This is money that is not being invested with SA managers, but with the global giants such as Vanguard, BlackRock, Franklin Templeton and Fundsmith, to name just a few.

Local asset managers have not seen much real growth over the past 5-6 years. For instance, the assets under management of listed Coronation has barely moved from R588bn in 2014 to its current levels of around R630bn. Many mid-sized and smaller asset managers are battling to survive, and mergers (and even closures) are the order of the day.

But the freedom of being independent and being my own boss allowed me to continue highlighting these very worrying trends, and I find comfort in knowing that I managed to convince a great number of people to build up some kind of global nest egg, either in the form of offshore portfolios or property in Mauritius and London, which made it all worthwhile.

Today most investors are aware of the vast difference in returns between the local and global markets, but the following hypothetical story (perhaps not all that hypothetical) will illustrate the vast difference in personal wealth accumulation between a local investment portfolio and an offshore investment portfolio, over the past decade.

JSE AT MASSIVE DISCOUNT



Brenthurst Wealth Management (PTY) LTD FSP No. 7833

THE STORY OF LOCAL LENNY AND OFFSHORE OTTO

Let's assume, for the sake of illustration, twin brothers Lenny and Otto were fortunate enough to inherit exactly R10m each ten years ago.

LOCAL LENNY - R10M STRATEGY

Local Lenny decided he was not going anywhere with his money and invested his inheritance as follows, all in local currency and local assets:

R5m in a multi-asset portfolio consisting of the following funds:

Allan Gray Balanced	**40%**
Prudential Div. Maximiser	**25%**
Ninety One Equity	**25%**
Ninety One Emerging Companies	**10%**

Current value: **R12,004,000**
Weighted average return: **10,36%**

R4m was used to purchase a very **sizeable house** on a golf course estate (Dainfern/Pecanwood/Silver Lakes);
Current value: **R6,000,000**

And R1m invested in a **cash portfolio** with interest earned reinvested Ninety One Diversified Income
Current value: **R1,730,000**

Nothing unusual and very standard for someone with such a large amount of money to invest.

For the benefit of this example, I am assuming he lived in his property, but have excluded rates and taxes, levies and upkeep.

TOTAL CURRENT VALUE 2021: R19,300,000

THE TALE OF TWO R10M STRATEGIES | LOCAL LENNY

R10M INVESTED

SHARE PORTFOLIO (R5M):	
ALLAN GRAY BALANCED	40%
PRUDENTIAL DIV. MAXIMISER	25%
NINETY ONE EQUITY FUND	25%
NINETY ONE EMERGING CO'S	10%

CURRENT VALUE TODAY **R12 004 000**
(all dividends reinvested)

HOUSE IN DAINFERN (R4m):	
FULLY RENTED: MINUS COSTS, RATES & TAXES ETC.	
CURRENT VALUE:	R6 000 000
CASH PORTFOLIO: R1M (NINETYONE INCOME FUND)	R1 730 000

VALUE TODAY: **R19 300 000**

OFFSHORE OTTO - R10M STRATEGY

Otto decided to spread his financial wings and wanted to create a global portfolio with his inheritance. Not that he didn't love his country, he just preferred the idea of diversifying his risk and investing in global investment opportunities.

In order to do so he converted his R10m into dollars at an exchange rate of R7/$ and invested the proceeds of $1,428,000 as follows:

$714,000 in an offshore global portfolio in the same ratios as above:

Brenthurst Global Balanced Fund	**40%**
Fidelity Health Care	**25%**
Franklin US Opportunities	**25%**
Fidelity Emerging Markets	**10%**

Current value:	**R29,276,000**
Weighted average return of:	**19,31%**

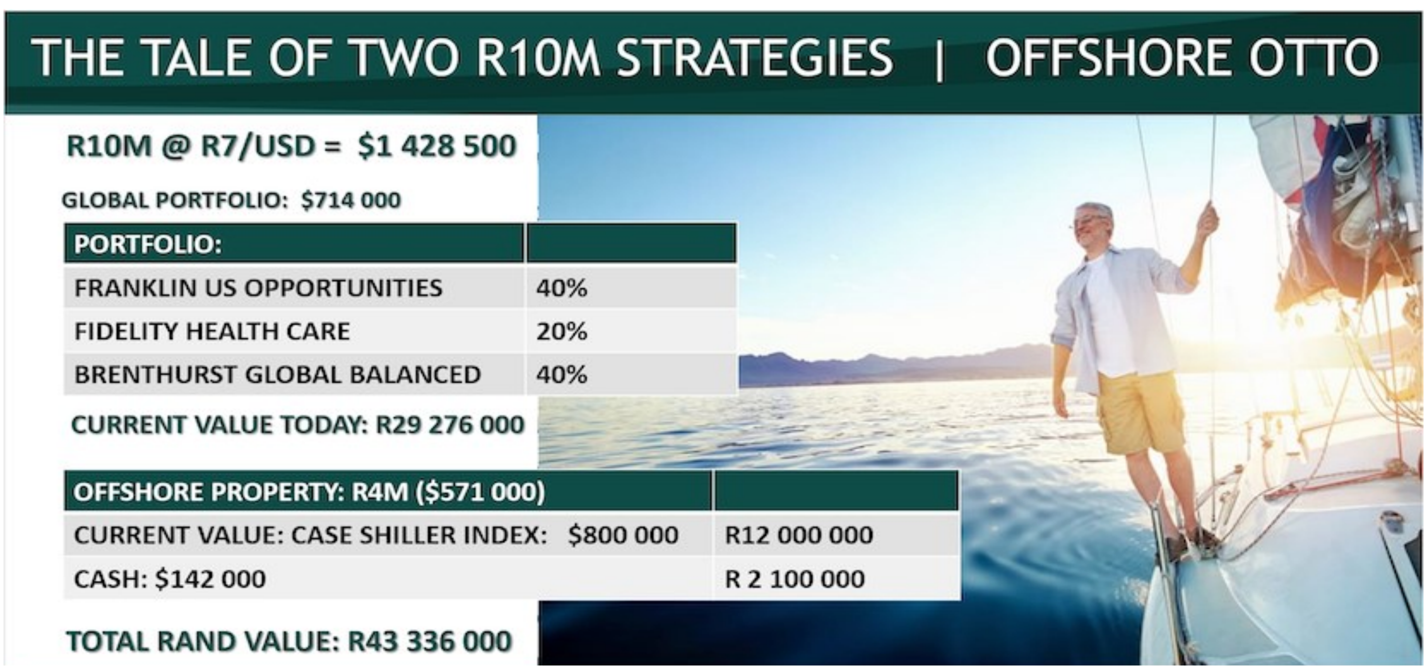
(These funds were not picked with the benefit of hindsight. These were funds in Brenthurst's global portfolios basket for more than 10 years, including our own fund, which is now more than a decade old).

Offshore property: $571,000 (UK, USA or Mauritius)
Current value: $800,000 = R12,000,000 (using several averages-UK/USA market/Case Schiller index)

Again, to standardise the comparison, I have excluded any potential rental income as well as maintenance and property taxes. If one were to assume that both properties were rented out during the 10 years, it would not have made any difference to the general outcome.

Cash deposit: $142,000 @ 2% per annum.
Current value: R2,060,000

TOTAL CURRENT VALUE: R43,336,000



Offshore Otto has no plans of leaving South Africa, he simply followed a globally diversified portfolio in order to reduce risk and benefit from economic and financial opportunities elsewhere in the world.

While this exercise will, no doubt, attract criticism from some quarters, it clearly shows what effects the ANC's wealth destruction policies are having on almost every South African who has some modicum of assets.

Today most middle class and even wealthy South Africans are starting to feel the pinch, unless they have expatriated at least some of their assets and investments.

If you were like Local Lenny and stuck to the false belief that "local is lekker" and only focused on SA investments, you have become substantially poorer in a relatively short period of time. Even I was shocked at the actual numbers when I did the comparison and found myself having to double and triple check my numbers.

Furthermore, all imported items have become almost unaffordable: new motor cars, cell phones, laptops and even overseas holidays. Purchases of these and other items are, therefore, merely postponed or simply don't materialise anymore.

Certain top-end motor manufacturers (Mercedes Benz) have stopped disclosing local retail sales. I suspect the declining trend in sales (as opposed to booming exports) has something to do with this.

I do not have any special insight into the future, however, what I can say is that if the ANC continues with its economically destructive policies for the next ten years, the middle class, as we have known it for many decades, will almost be wiped out. And perhaps, after all, that is the objective.

"For the better part of the last decade, South Africa has been a dire investment destination relative to global peers. Brenthurst Wealth Management founder Magnus Heystek has been beating the drum on offshore diversification and exposure to global equity markets for a similar period of time. Despite his calls being on the money, he's been criticised by many in the South African investment circles for his negative outlook on the local economy, which have been justified by poor returns – both from a nominal and real growth perspective. ***Offshore equities, on the other hand, particularly US tech and related innovative industries have had a phenomenal decade, outperforming on every investment return metric."***

-Justin Rowe-Roberts

Magnus Heystek is investment strategist at Brenthurst Wealth, SA's Top Boutique Wealth Manager in 2017 and 2020. Enquiries can be sent to Magnush@brenthurstwealth.co.za