



THE POWER
OF INDEPENDENT ADVICE

IN THIS ISSUE

*Regardless of the investor's risk profile and time frame, it is advisable to diversify the total portfolio to include exposure to asset classes not available in South Africa. This is important to ensure **DIVERSIFICATION** and **OPTIMISATION**.*

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THE PATH TO OFFSHORE INVESTING

By Maria Smit, Certified Financial Planner®, Brenthurst Wealth

It is one thing to say “take your savings offshore,” but what if you have been invested in South African assets for years or even decades? Is it still worth looking offshore in the hope of greater returns? Or does the grass merely look greener?

SO... WHERE DO YOU START?

The first thing the average South African investor needs to realise is that [investing offshore](#) comes with its own set of unique risks. This is exacerbated by the returns (or lack thereof) obtained from foreign income investments. The low dollar return on foreign cash and bonds is often negated by platform and advisory fees, giving you a small chance of a positive dollar return. In this instance your capital would likely be better deployed in South African money market or fixed income funds.

WHAT ARE THE ALTERNATIVES?

This leaves the average South African investor with foreign shares and real estate. Even if we assume that these assets currently offer good value for money, a portfolio consisting of only foreign equities and property can be far too complicated for investors to construct, let alone manage. It is daunting.

Take online shopping as an example. You have to buy products without physically seeing or touching them, thus there needs to be a level of trust that the quality of the product will be adequate. Now imagine that, for your portfolio, you have to choose 10 to 25 companies out of thousands of potential investments, most of which you have never heard of.

The South African market represents less than 1% of global investment opportunities, which means investors who restrict themselves by only investing in domestic assets miss out on more than 99% of available investment opportunities presented by listed assets all around the globe.

INFORMATION OVERLOAD!

Yes, there is a plethora of wonderful tools and information resources at your fingertips and information has never been as accessible. **Entering the market has also never been simpler, with powerful investment vehicles such as share portfolios, Exchange Traded Funds (ETFs) and unit trust funds.**

However, this mountain of information can more likely harm, rather than help, as investors spend precious time on unnecessary detailed money matters, when they could be spending it on other priorities such as their families and other personal goals.

Although many helpful online platforms exist for direct investments in shares, local and international, it presents a challenge as there are often too many shares and Exchange Traded Funds (ETFs) to choose from. **A Share Portfolio is certainly a powerful and cost effective tool, but it must be utilized properly and should always fit the investor's overall financial plan.**

WE ARE HERE TO HELP...

The ideal way to approach having your own share portfolio is to consult a qualified, experienced advisor in conjunction with an integrated share-trading service. That way the myriad of choices can be navigated to suit the investor's personal goals.

Quality wealth managers partner with share portfolio specialists to offer investors a combined service that can be tailored to meet the investor's financial goals, and in accordance with their financial strategy. The key is crafting a close working relationship between the advisor and their Discretionary Fund Manager (or DFM). Investors then receive a holistic, professional and customised service for their unique needs. This way plan meets execution, especially for offshore investing. An integrated solution provides the investor with real-time information flow, and it is devised to fit the investor's overall strategy.

Investing in shares or ETFs directly on a stock exchange could also result in significantly lower fees for the investor. The investment is registered in the investor's name and there is complete control and transparency.

WHAT'S HOLDING YOU BACK?

The process of investing offshore is easier (and cheaper) than expected and assistance is provided in every step of the process. Investors are often hesitant to open a new share portfolio or make changes to their current portfolios, mostly afraid of the unknown and not willing to ask the necessary questions, or they are simply not prepared to face the potential tax implications involved with implementing future changes. This is exactly where an experienced financial advisor can step in, creating a detailed plan of action.



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OK, I'M READY FOR OFFSHORE INVESTING

– CAN I USE MY EXISTING LOCAL SHARE PORTFOLIO?

Using the proceeds of an existing investment is possible. Once the investor has decided to sell their Johannesburg Stock Exchange (JSE) listed shares and allocate the proceeds towards international shares, aiming to achieve better returns or as part of a diversification strategy, capital gains may be realised.

A capital gains event is triggered only when the investor sells shares currently held (realised gains). If the price of the units has risen since the investment was made, this increase in value is known as a capital gain (or a capital loss, if the value has declined). The resulting tax liability may not be as bad as initially feared.

Currently, only 40% of this capital gain (not the total gain) is included in the investor's annual income. This translates to an effective maximum Capital Gains Tax (CGT) rate of 18% for individual with a 45% marginal tax rate (40% x 45%). Individual taxpayers also enjoy an annual capital gain exclusion of R40,000 every year, so CGT is only applicable to realised gains exceeding this amount.

This may be a difficult decision to make, but if the goal is long-term investing, then this is a small price to pay for well-structured plans.

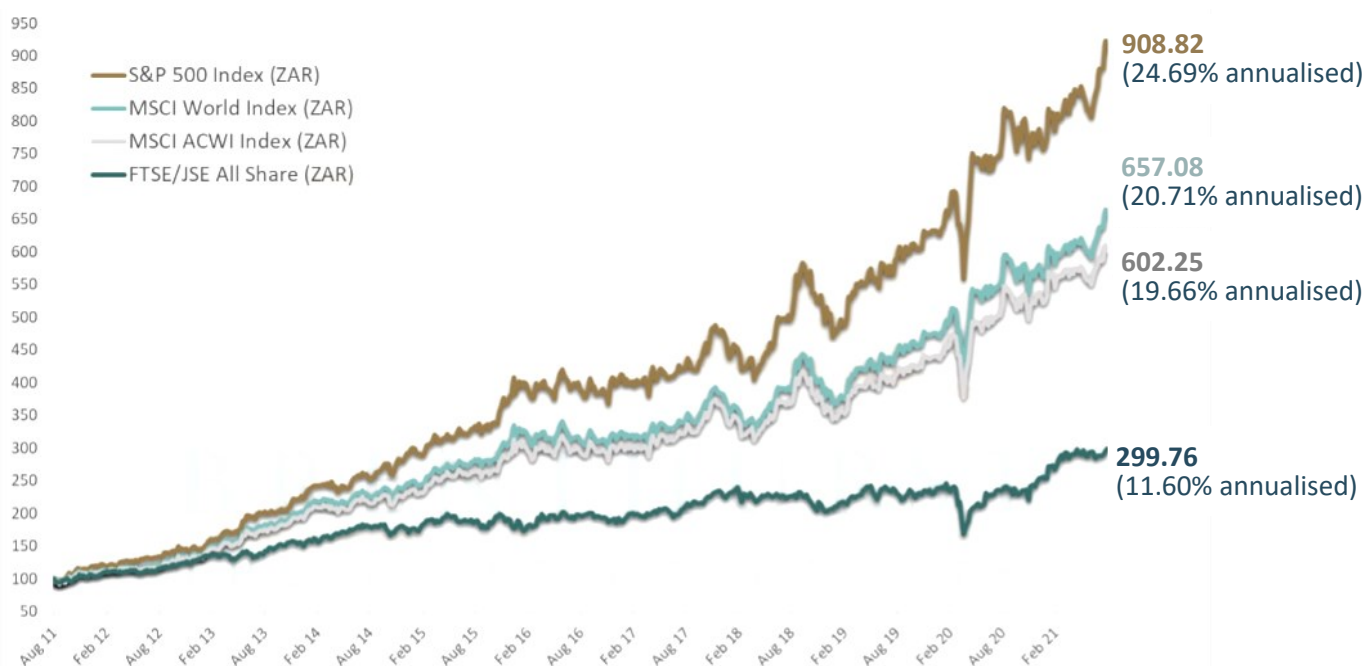
Let's look at an example

The following fictional portfolio is based on the macro-observations of the market and conditions in which we currently find ourselves.

If you invested into the following indices 10 years ago, the investment would have looked like this:

1. **Johannesburg Stock Exchange All Share Index**
2. **S&P 500 Index**
3. **MSCI All Country World Index (ACWI)**

GROWTH OF 100 ZAR (10 YEARS)



Source: Morningstar, Data as at 31 July 2021

Let us now assume that a local investment of R1 million will be liquidated to invest in an offshore share portfolio. In this example the portfolio has R500,000 accumulated gains. Using the R40,000 annual capital gains allowance results in R460,000 taxable gains at a maximum rate of 18%. The calculated Capital Gains Tax (CGT) is therefore R82,800.

Using the annualised returns shown in the chart, let’s determine the long-term impact for the following options:

- Option 1:** The investor does not want to pay the CGT and keeps the investment unchanged in local shares.
- Option 2:** The investor pays the CGT and invests the proceeds offshore.

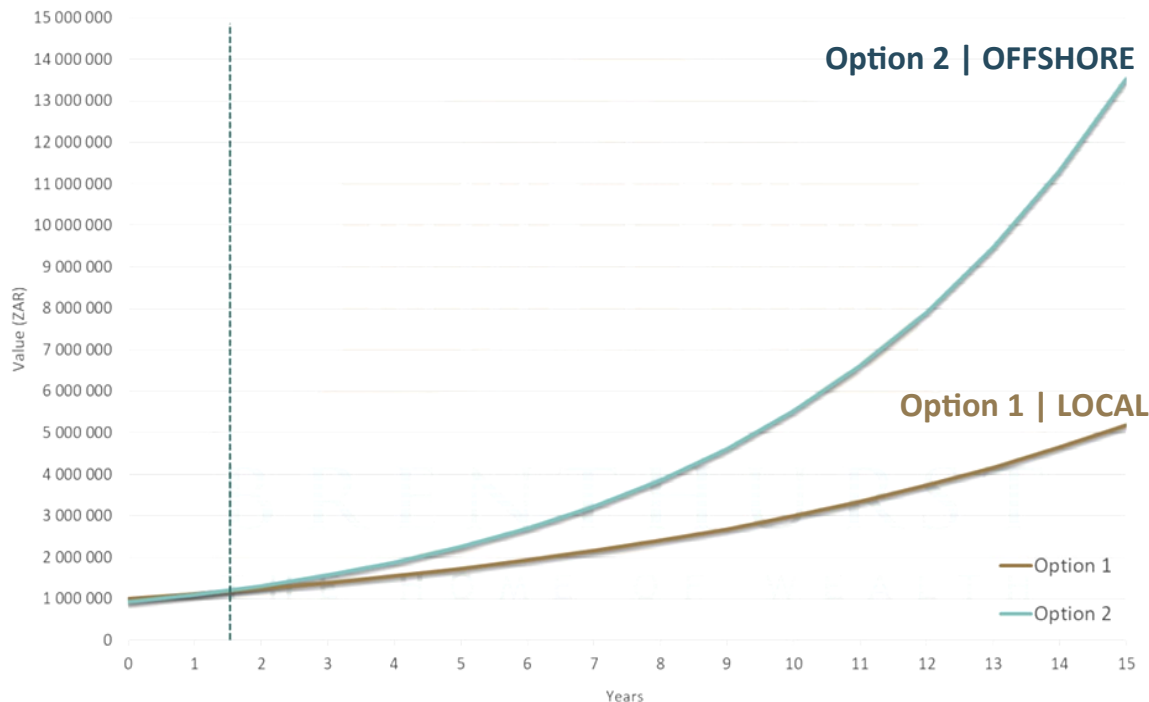
Information	Option 1	Option 2
Share Portfolio Benchmark	LOCAL CPI+ 5%	OFFSHORE CPI + 5%
Investment value	R 1,000,000	R 1,000,000
Capital Gains Tax	R -	R 82,800
Net value	R 1,000,000 *	R 917,200

Motivation	JSE All Share Index	MSCI ACWI
(1) Returns		
Performance	11.60%	19.66%
(2) Fees		
Total annual costs	2.50%	2.50%
No of years before breakeven		1.5

Note:

Option 1 still carries a CGT liability, while **Option 2** already paid the tax and starts off a higher CGT Cost price for future purposes.

CUMULATIVE GROWTH OF OPTION1 VS OPTION2



Regardless of the investor’s risk profile and time frame, it is advisable to diversify the total portfolio to include exposure to asset classes not available in South Africa. This is important for these reasons:

1. DIVERSIFICATION

The South African market represents less than 1% of global investment opportunities, which means investors who restrict themselves to only investing in domestic assets miss out on more than 99% of available investment opportunities presented by listed assets all around the globe. The investor would also gain access to industries that are not present in South Africa (e.g., information technology, biotechnology, electronics, and pharmaceuticals, to name a few) that have been identified as [key investment themes](#).

In addition to a much wider opportunity set, a widely used and preferred global equity benchmark, the MSCI All Country World Index [ACWI], currently comprises of approximately 2 500 investable companies compared to roughly 120 that drive the returns of the local market. By diversifying an investment portfolio to include offshore assets, the investor gains access to growth regions that benefit from mega-drivers such as industrialisation, urbanisation, digital advances, and growing infrastructure and consumerism.

2. OPTIMISATION

An [offshore allocation](#) provides the attractive feature of reducing the level of risk required to achieve a specific rate of expected return. Studies on optimal portfolios recommend a minimum offshore allocation of 20% to 30% through the cycle for long-term investors requiring a return of inflation plus 4% to 5% in Rand terms.

This is the classic recommendation for retirement savers aiming to optimise outcomes for their future pension with which they would need to buy a basket of local goods and services. Investors with more diverse spending requirements, including a larger share of foreign currency denominated spending, or bequest motives (where multiple generations may live on different continents), can typically justify a larger offshore allocation.

Whatever the decision regarding a strategic asset allocation “range” or weighting is, it is recommended that investors have an offshore allocation at the higher end of their appropriate strategic weighting, given the elevated level of economic and political risks facing South Africa at present.

It starts by taking the first step, towards a new angle in approaching an investment strategy. This involves detailed analysis and discussions with an advisor and implementing the carefully crafted plan in a professional and cost-efficient manner.

Brenthurst has partnered with DFM Global to enhance its share portfolio product service provided to investors. Additional information provided by JC Louw, CEO of DFM Global. Read more [Personal Share Portfolios](#).

**CONTACT ANY OF OUR HIGHLY QUALIFIED FINANCIAL ADVISORS
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