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WHY OFFSHORE DIVERSIFICATION IS CRUCIAL

By Aidan James Freswick, Registered Financial Practitioner™ Brenthurst Bellville

THE SOUTH AFRICAN ECONOMY IS FRAGILE AND THE STOCK MARKET HAS SEEN AN INCREASE IN DELISTINGS.

Over the last 10 years, SA investors have not been rewarded for taking equity-type risks where most of their wealth was invested in the JSE. Smart investors have started considering alternatives and offshore markets, seeking better opportunities for long-term investments.

The number of delistings on the JSE is increasing, and local fund managers could be under pressure to perform for their investors, with fewer stocks available to buy.

You could argue that if you track the returns of the JSE over a period longer than 10 years, you'd discover some sort of "acceptable" return to compensate a long-term investor. **However, an annualised return of 1.74% from the JSE over 10 years should irk investors who have committed to remaining invested for long periods of time and have accepted the levels of risk associated with equities.**

The bull run during the Covid-19 pandemic was mainly due to strong performance from commodity stocks. These stocks benefited from rising commodity prices during the pandemic, as demand for commodities from China and other emerging markets increased.

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Investors should carefully evaluate diversifying away from the vulnerable South African economy and stock market in pursuit of more promising opportunities, particularly for long-term capital that isn't needed to support lifestyle expenses.

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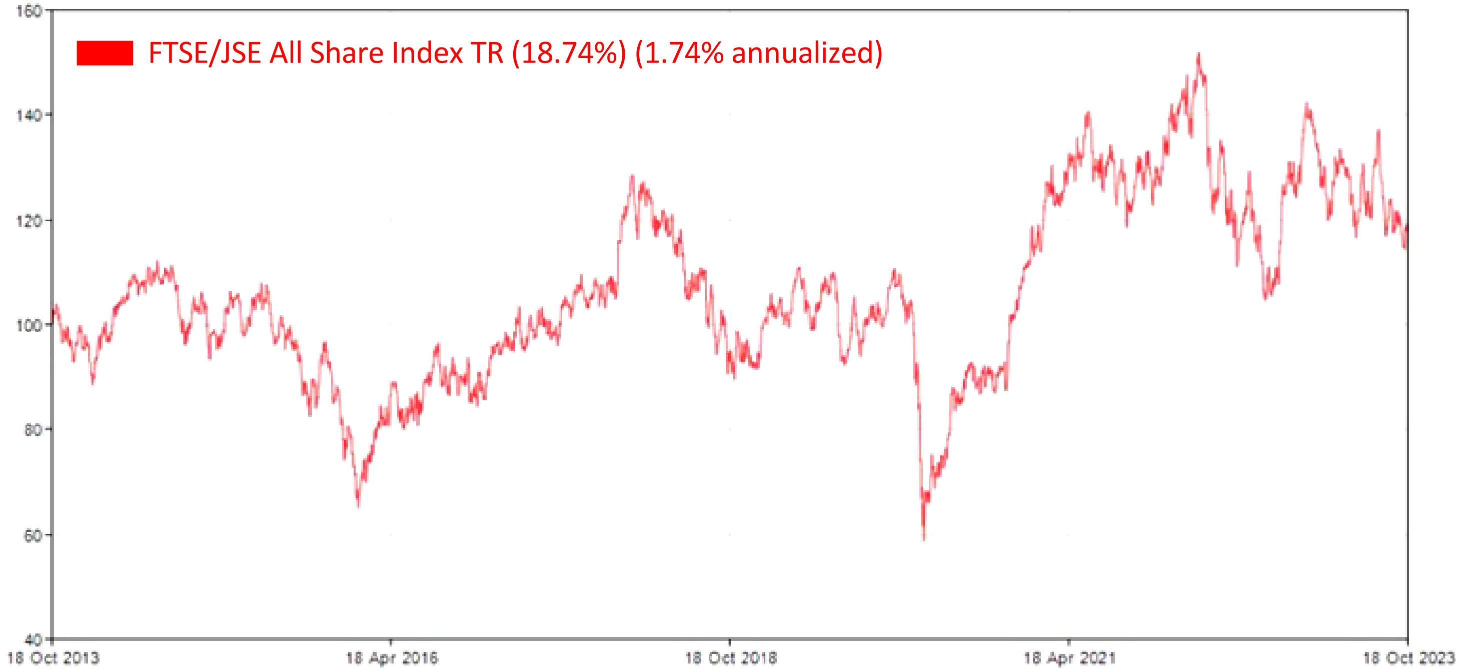
RETURNS FROM THE JSE OVER 10 YEARS:
UNABLE TO BEAT INFLATION. THE RISK TAKEN WAS NOT REWARDED WITH RETURNS.



Source: Profile Data/Highcharts.com

SA'S DEBT CRISIS:
GOVERNMENT'S INABILITY TO CREATE ECONOMIC GROWTH PROSPECTS.

In recent weeks, news headlines have dominated the financial media over the ever-rising fiscal debt crisis in SA, and a further $1 billion is being negotiated at the World Bank for investment into the failing energy sector. A recent publication in Business Day suggests that SA's widening budget deficit raises the prospect of a fiscal crisis.

Although developed economies such as the US, too, have high fiscal debt levels, unemployment is low and, therefore, the economy still thrives as consumer demand remains resilient. This is not the same for South Africa, as the country's unemployment rate is one of the highest in the world.

How does a possible fiscal crisis impact the South African economy?

The crisp and short answer is that, besides the borrowing cost of this debt exceeding R1 billion per day, it means that the government cannot allocate finances to stimulus projects to create employment and economic growth opportunities. This, too, poses a risk of wealth tax, exchange control tightening and higher taxes, which will be felt by businesses and consumers.

SOUTH AFRICA AND THE REST OF THE WORLD:
WE NEED FOREIGN INVESTMENT INFLOWS AND HIGHER EXPORT NUMBERS.

South Africa is a commodity-producing economy, and being an open economy, the reliance on the rest of the world for stability and growth is big. Recent numbers indicate that foreigners are net sellers of South African equities and bonds. This creates less demand for the rand and more demand for other developed market currencies, overall contributing to gradual rand weakness over time. This, together with slowed-down exports of SA commodities to major trading partners such as China, places pressure on fiscal revenue collection, negatively impacts commodity prices and again contributes to a weaker rand.

HERE IS HOW THE RAND HAS WEAKENED OVER TIME:
RAND DEPRECIATION IS NOT GOOD FOR FOREIGN INVESTORS.

On average, the rand weakened against the USD over the long term. This is unfavourable for foreign investors, as they earn less in USD or in their equivalent foreign currency terms.

Source: Bloomberg

OFFSHORE INVESTING REMAINS A CRUCIAL PART OF A <u>DIVERSIFICATION STRATEGY</u>.

Investors should take careful consideration of diversification away from the fragile SA economy and stock market in search of better opportunities, especially for long-term capital that is not required to service lifestyle needs.

ADVISOR PROFILE: AIDAN FRESWICK | REGISTERED FINANCIAL PRACTITIONER™

Aidan is a Registered Financial Practitioner™ and is a registered member of the Financial Planning Institute of SA (FPI).

He has been active in the financial services industry since 2017 and joined the Brenthurst Wealth team in August 2020.

Aidan has experience in various aspects of financial planning, including offshore investing, foreign exchange, investments and retirement planning. He successfully completed the First Level Regulatory Examination for Representatives, permitting him to provide advice to clients on a wide range of investment-related matters.

Wealth management has always been Aidan's career passion and he is currently pursuing a BCom Financial Planning degree and working towards earning his CFP® designation. He is currently based in our Tyger Valley office, where he assists clients from across the Cape Region.

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CONTACT ANY OF OUR HIGHLY QUALIFIED FINANCIAL ADVISORS AT OUR 9 OFFICES COUNTRYWIDE TO DISCUSS YOUR INVESTMENT STRATEGY

Wealth managers are highly skilled and competent and can help you navigate the complexities of the investment landscape to build a well-diversified portfolio. The DIY approach can work for some, but research shows that investors who use the expertise of professionals achieve better results over the long term.

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