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WHY YOUR RETIREMENT DREAMS ARE CRASHING AROUND YOU

A PERFECT STORM THAT CAN LEAVE AN INVESTOR UNDER-FUNDED FOR LIFE

By Magnus Heystek, Director and Investment Strategist

On paper, all retirement planning is perfect. You punch in a couple of numbers into a computer, make some assumptions on contributions, time period and growth on your investments and voila!, the answer comes back in an instant: you are on track or if you are not, the computer programme will tell you how to fix it by making additional investments or working longer.

All retirement planning programmes that I have ever done or seen, assumes an inflation-beating rate of return, depending on how bullish you might have felt about the future performance of your particular investment strategy. Most assume inflation plus 3, 4 or 5% in making these calculations.

Many of these assumptions are also backward-looking. We extrapolate what happened in the past and assume these performances will repeat in the future. But what happens when these projections turn out to be incorrect? Even worse, when a great number of investors do not even realize this is happening?

Until about 2015 the returns of traditional investments such as pension funds, RAs and other types of non-discretionary investment did, on the whole, offer these kinds of returns.

Something changed in 2015, particularly towards the end of it, at a time when former President Jacob Zuma fired the finance minister Nhlanhla Nene.

This particular event and what followed over those four dramatic days in December 2015 when Pravin Gordhan was re-appointed as finance minister, seems to have been the catalyst for the start of a severe and substantial under-performance of the JSE, not only against global markets, but also against its peers in the emerging market space.

Big capital, local and foreign, didn't take kindly to this open and brazen take-over attempt on SA's finance department, and hence the National Treasury and possibly at a later stage the South African Reserve Bank. The outflow of capital from the SA market has been very significant.

Now, if your money is in a discretionary portfolio, there is a lot you or your advisor can do (or should have done) by either switching to asset swap funds or making use of your offshore investment allowance and investing it offshore.

Even if you invested your money on the worst day for the currency in December 2015, your subsequent performance in either a global or preferably the S&P index since then still has been better than had you left it behind in the JSE. Over five, seven and even ten years it's been a no-brainer where your money should have been invested.

The poor performance of equities on the JSE since 2015, together with restrictions imposed on pension funds by Regulation 28, has further combined to produce below inflation returns over one, three years and possibly over five years should this trend should continue. If you don't believe me, get a statement on your pension, or preservation fund. Prepare to be shocked.

Reg 28, as it's known in the industry, determines how much of your money can be invested in the major asset classes. Not more than 25% of can be invested in property (the best asset class over 15 years), or in offshore equities (the best asset class over 10, 7, 5, 3 and 1 years).

In many other parts of the world, members of a pension fund are allowed the freedom to invest in any asset class in any part of the world. It's their money and they can take the risk. *But why is it not the same here in SA?*

We are still clinging to the patriarchal notion that a regulator somehow knows what is good for investors, even if it impoverishes them over time. That is the real elephant in the retirement room, not a fixation on fees and the role of advisors as some players in the industry would like us to believe.

THE LATEST THREE-YEAR FIGURES FROM THE ASSOCIATION FOR SAVINGS AND INVESTMENT SA SHOW HOW POORLY RETIREMENT FUNDS ARE DOING.

Over three years (to end June 2018) the CPI index is up by 16.3%. Cumulative average growth for high equity multi-asset funds came to 12.8%, for medium equity funds 13.4% while low equity funds fared best with cumulative growth of 17.6%. When costs are deducted from these numbers, all three categories of retirement funds are under water compared to inflation.

ANNUALISED ASSET CLASS RETURNS (ZAR) TO END JUNE 2018

	3 YEARS	5 YEARS	10 YEARS	15 YEARS
LOCAL EQUITIES	6.69%	11.05%	9.80%	17.08%
LOCAL BONDS	7.76%	7.39%	9.76%	8.73%
LOCAL CASH	7.27%	6.71%	15.965	
LOCAL PROPERTY	0.93%	6.71%	15.96%	
GLOBAL EQUITIES	10.73%	15.15%	10.9%	10.39%
EMERGING MARKET EQUITIES	7.45%	9.58%	5.61%	12.57%
GLOBAL BONDS	6.78%	8.39%	8.52%	7.97%
SA CPI (AVERAGES)	5.39%	5.48%	5.90%	5.42%

Source: Bloomberg

In other countries this type of underperformance reaches the front pages of newspapers and is debated in parliament. Back at home however, not a word is uttered, partly due to the cozy arrangement between the asset management industry and Treasury. The asset management industry gets handsome tax relief on contributions to RAs and pension funds. In exchange, it acts as part of the revenue collection industry on behalf of Sars and also plays an important role in maintaining exchange control.

Those in SA who have money invested in a non-discretionary portfolio are paying the price for this current confluence of factors. An increasing number of high net-worth investors are cashing out their pensions/preservation funds, opting to pay the steep taxes now, rather than risking their retirement capital in underperforming funds. Most of the money extracted this way finds its way to offshore markets. Maybe that's why the pensions industry is so quiet about this issue.

PROPERTY SPECULATORS PAYING THE PRICE

The other leg to your retirement planning, which is now much shorter than it should be, is exposure to the residential property market. This is particularly true if you bought one or more residential property many years ago to serve as a source of income for your retirement.

The residential property market has been the place where dreams come to die for investors in most parts in the country for some time now, with the Western Cape the only exception. Latest reports, however, seem to indicate that the handbrake is about to be pulled up there very quickly.

Average property prices today are about 22% lower in real terms than they were in 2008. You might be somewhat better off if you bought after the crash in say 2010 or 2011, but even these properties haven't

beaten the inflation rate over the last five years. It is taking longer and longer to sell a house – on average more than 4 months now – while upmarket homes over R4 million can remain on the market for longer.

Ten years ago the average house in SA was worth about 80% of the average house in the USA. Now you can only afford one room at best, or about 35% of the average house in the USA.

Rentals too, from personal experience, which is backed up by the research done by Tenant Profile Network, shows that (a) rentals are escalating by between 2 and 3% per annum, on average, while (b) only 82% of all tenants pay their rent on time. In certain parts of the country rentals are actually declining in nominal terms. The economists and analysts have a nice way to describe such a state of affairs, namely "negative equity". When your bond is worth more than the property.

Maintenance, rates and taxes – on the other hand – are rising by between 10-12% per annum, as per the latest FNB Property barometer.



The ten years of rule under the Zuma-led ANC has done more damage to the economy than most people are aware of.

HOW TO GET OUT OF THIS MESS? WHAT TO DO?

First, I think investors should put aside a good two to three hours aside for a long and honest discussion with a financial advisor, if you have one.

SEE WHERE IN YOUR OVERALL PORTFOLIO YOU CAN SOMEHOW INCREASE YOUR EXPOSURE TO FOREIGN ASSETS, EITHER WITHIN THE PERMISSIBLE RULES OF THE FUND, OR TO GET MONEY OFFSHORE DIRECTLY WITH SOME AVAILABLE CASH.

The ten years of rule under the Zuma-led ANC has done more damage to the economy than most people are aware of. It is going to take up to ten years for this damage to be repaired, and only if government starts with radical new economic ideas to boost economic growth.

Ever since the beginning of the year, the choir of “captured economists” has been spinning a good news story with growth rates forecast between 2 and 3% for 2018 and even better next year. Goldman Sachs, whose SA chairman happens to be Trevor Manuel, tried hard to portray SA as its “emerging market pick of the year”. Good luck with that one, as the market is down 6% for the year, growth rates have plunged by -2.2% in the first quarter, the rand is weaker by 18% and according to Mike Schussler, the economy could be in recession already. How do forecasters get it so wrong?

The Zuma years have done incredible damage to retirement planning. Your greatest danger is doing nothing on the advice of institutional funds managers/economist who are paid to placate the investing populace.

WHY A FUND OF FUND OPTION MAKES SENSE IN ANY INVESTMENT PLAN

APART FROM SIGNIFICANT DIVERSIFICATION BENEFITS FUNDS OF FUNDS INVESTMENT OPTIONS OFFER A PARTICULAR ADVANTAGE FOR INVESTORS SEEKING TAX EFFICIENCY.

South Africans have been burdened with a wide range of higher taxes – from increased fuel levies to higher VAT and personal income tax – this year. Tax efficiency is a key consideration for any sound investment strategy and this is exactly what our FUND OF FUND OFFERING DELIVERS.

Any changes made within a fund of funds investment DOES NOT TRIGGER CAPITAL GAINS TAX, as the redemptions or sale of assets take place within the fund. It's the same premise as a single Unit Trust fund redeeming shares within a fund; it simply does not trigger any Capital Gains Tax. This is a huge benefit to investors as it minimizes CGT implications in the long run.

Brenthurst partnered with **BOUTIQUE COLLECTIVE INVESTMENTS (BCI)** and its subsidiary, **BOUTIQUE INVESTMENT PARTNERS (BIP)**, to introduce a Fund of Funds (FoF) offering in 2016. We established three FoF structures, each with a different level of risk.



Speak to your advisor about a fund best suited to your financial plan and investment goals.

For more about this click here:

<https://www.moneyweb.co.za/financial-advisor-views/why-a-fund-of-funds-offerings-makes-sense/>

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JOHANNESBURG
(FOURWAYS)

Tel: +27 (0) 11 799 8100

JOHANNESBURG
(SANDTON)

Tel: +27 (0) 10 035 1391

PRETORIA
(ERASMUSKLOOF)

Tel: +27 (0) 12 347 8240

CAPE TOWN
(NEWLANDS)

Tel: +27 (0) 21 418 1236

BELLVILLE
(TYGERVALLEY)

Tel: +27 (0) 21 914 9646

STELLENBOSCH
(CENTRAL)

Tel: +27 (0) 21 882 8706

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