



INVEST BETTER
with **BRENTHURST**
BUILDING WEALTH SINCE 2004

IN THIS ISSUE

Owning more investments doesn't guarantee true diversification. A well-diversified portfolio combines different asset classes, sectors, geographies and investment styles that behave differently, helping reduce concentration risk while improving resilience and long-term returns across changing market conditions.

INVESTING WITH SA'S

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HOW DIVERSIFIED IS YOUR PORTFOLIO ACTUALLY?

LLOYD UREN | FINANCIAL ADVISOR, BWM GRANGER BAY, CAPE TOWN

When investors sit down with us to review their portfolios, one word emerges more than any other: diversification. They point to a global fund here, a local equity tracker there, and feel reassured that their money is spread across diverse markets and asset classes.

That reassurance is understandable. In many cases, though, it isn't quite right. Part of the reason is how several portfolios are constructed. When performance is measured against a market index, there's a built-in pull towards owning what that index owns. The problem is that those indices are increasingly not what most people believe it to be.

Over the past decade, the world's major stock indices have become dominated by a small number of very large companies. The S&P 500, which many South Africans hold for global exposure, now has its top 10 holdings accounting for close to 40% of the index's total weight. That share was around 25% as recently as 2010.

As a result, seven US tech companies drove the majority of global returns in 2025.

What this means is that if you hold a global index fund, you're making a far more concentrated bet than the word 'diversified' suggests.

The JSE tells a similar story, and arguably a sharper one. Naspers and Prosus together account for close to 20% of the JSE Top 40. Plus, the top 10 names in that index constitute around two thirds of its total weight.

As a South African investor, when you buy 'broad local equity', you're actually buying significant exposure to Tencent, two or three banks, and a handful of resource counters. That's anything but a diversified portfolio.

WHAT YOU'RE ACTUALLY BUYING

Here's how this concentration works. Most major indices are weighted by market capitalisation: the bigger the company, the bigger its slice of the index. As share prices rise, the index automatically increases its exposure to that which has already increased. This works in your favour during a strong bull market, but creates a real problem when markets turn.

In effect, a market-cap-weighted index is a momentum vehicle. It amplifies gains on the way up and amplifies losses on the way down.

There's no governor on the risk; no mechanism to protect capital. The index simply tracks whatever happens, including the concentrated unwind when a handful of dominant stocks reverse sharply.

What we're describing isn't a forecast of what might go wrong. The concentration is already there, and it's measurable.



WHY THIS MATTERS FOR YOUR PORTFOLIO

Let's say you have R10 million in a global index fund. At first glance, this looks like global diversification. In reality, close to R7 million of it is weighted to a single country, and roughly R2.7 million sits in just 10 stocks.

If those 10 companies fall sharply, as concentrated positions tend to do when sentiment shifts, your portfolio takes a hit that broad diversification was supposed to prevent.

The deeper problem is the recovery maths. A portfolio that falls by 33% needs to rise 50% just to break even. The bigger the fall, the steeper the climb back.

If you're still building wealth over decades, time is a cushion that can help you recover from the knock. And if you're in the stage of your life where you're protecting what you've already built, that kind of loss is precisely what we're trying to avoid.



WHAT GENUINE PROTECTION LOOKS LIKE IN PRACTICE

The question that I suggest clients rather ask is:

IS YOUR PORTFOLIO ACTUALLY BUILT AROUND WHAT YOU'RE TRYING TO ACHIEVE?

Most investors are not trying to beat a benchmark. They're funding a retirement, preserving wealth built over a working lifetime, protecting against rand erosion, or managing income from a living annuity. For those goals, a benchmark tells you how you ranked, not whether you succeeded.

We build portfolios around absolute return targets, typically CPI plus 5%, with explicit limits on how much can be lost in a difficult year. We look at where concentration actually sits in your portfolio, not just where the label says it does.

And we have this conversation before a market correction forces it, not after.

The practical result could be a portfolio built to absorb a sharp correction in a handful of tech stocks, without taking the full hit. A portfolio that doesn't automatically increase your exposure to what's already expensive. And a portfolio that gives your wealth a realistic chance of staying intact when the narrow positions that drove the last rally eventually correct.

As with all investment decisions, the right structure depends on your specific situation. If you've been assuming your index exposure means you're genuinely diversified, it may be worth a closer look. We would love to sit down with you, walk through your current portfolio allocations, and ensure that the risk you're carrying aligns with the risk you intended.

LLOYD UREN | FINANCIAL ADVISOR, BRENTHURST GRANGER BAY, CAPE TOWN



Lloyd joined the Brenthurst Wealth Team in 2023 as a paraplanner/advisor and currently works under the direct supervision of Brian Butchart in our Stellenbosch office.

He obtained his BCom (Investment and Financial Management) degree from the University of Stellenbosch, as well as his Postgraduate Diploma in Financial Planning through the Stellenbosch Business School.

Lloyd previously worked in the IT Services industry as a data officer for Wyzetalk before beginning his career in financial services with Brenthurst. He is passionately driven to help individuals achieve their lifetime financial goals and, thus, is working towards earning his CFP® designation to enable him to provide advice on all financial matters.

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