



INVEST BETTER *with* BRENTHURST

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The ANC unintentionally did investors a favour by increasing offshore allowances in 2015, allowing many South Africans to move their wealth abroad while staying local. With the JSE underperforming against global markets, savvy investors have used these allowances to protect their purchasing power, reducing the urgency to emigrate.

INVESTING WITH SA'S

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THANK THE ANC FOR YOUR OFFSHORE NEST EGG

BY MAGNUS HEYSTEK | INVESTMENT STRATEGIST & DIRECTOR, BRENTHURST

It doesn't happen very often that the ANC receives praise from columnists such as me.

Indeed, much of what I have been writing and commentating on over the past 10 years, or so, has been harshly critical of the ruling party (and now only the dominant part in the Government of National Unity).

It's been easy to pick apart the ANC and its policies for more than a decade. In fact, there's been an avalanche of catastrophic decisions and implementations which have left the economy and society gutted, destroyed, neglected and, all-round, in a much poorer and sadder state.

Poorer, as in the gross domestic product per capita (the ultimate yardstick of whether a country is growing/prospering or declining) is now the same as in 2007.

Let that sink in: GDP per capita has not grown in 17 years.

And it shows. It shows in unemployment, which is at record levels, the country with the worst economic recovery rate since Covid, as well as the country now branded by the International Monetary Fund (IMF) as the most difficult country in which to set up and run a business.

And did I mention that our ports, harbours and railway lines are now considered to be the worst in the world?

At the same time, our major cities, such as Johannesburg, Durban and Bloemfontein, are slowly collapsing into a potholed, rat-invested sewerage dump. Even the ever denialist Cyril Ramaphosa was forced to admit that Jo’burg is a mere shadow of its former self, admitting that urgent steps need to be taken. But again, as is his tendency, he did not shine the torch where it needed to be shone – on corruption, mismanagement and theft within the inner machinations of the ANC-controlled city.

In all, the ANC’s mismanagement of the economy is now globally recognised and no spinning from the government will change that.

DEMOGRAPHIC TRENDS: SOUTH AND OUT!

During this time, there have been two major demographic trends, both which are still ongoing. One is the trend amongst wealthier South Africans moving to the only DA-controlled province in SA, the Western Cape, and the other is, more younger people and families upping and leaving our shores for better pastures elsewhere.

I write this after spending a week attending the Biznews 7 Investment Conference in glorious Hermanus, the town with eye-watering property prices, and overall, a fantastic place to live. But it is a bubble! No town in SA can be so clean, so orderly and so... almost European, considering the hordes of Dutch, German, Scandinavian and British tourists my wife and I saw wherever we went.

But it’s not only Hermanus. The golden triangle, as far as property is concerned, is Stellenbosch, Franschhoek and Paarl, which is equally booming with new developments, and likewise soaring property prices, both commercial and residential.

I was fortunate to get involved in the Val de Vie-property market in Paarl more than 10 years ago and have seen property values double in less than five years. There seems to be no end to the property boom in this town at the foothills of the Afrikaans language monument and, strangely enough, the town where the Great Trek started more than 180 years ago.

Now it’s called the Great Trek South.

During my presentation at the Biznews conference, I asked for a show of hands to indicate how many people in the 300 strong audience had made the move from the North to the South. Almost 25-30% raised their hands.

Then I conducted a second survey: I asked the audience how many have offshore investments. Almost 100% put up their hands.

Now this is not the answer our local asset managers want, but it reflects the massive demand for offshore assets over the last 10 years.

Despite the local asset managers beating the “local is lekker” and “JSE is cheap” drum, investors have been moving their money offshore in great volumes. I don’t know how much money has left South Africa via the SDA and AIT (approved international transfer), but last year the late Mike Schussler suggested it was more than R1,3 trillion. That also partially explains the sideways movement of assets under management for most large SA asset managers. For instance, over the past 10 years Coronation has seen the rand value of its assets under management (AUM) virtually unchanged, at around R620 billion. But in dollar terms, this AUM has declined by 38%!

I would suggest that this trend is prevalent at all the large local asset managers. Unless they were able to offer offshore assets to their clients, that money has gone to the global giants of the world, such as Vanguard, BlackRock, Franklin Templeton and Fundsmith. That's also why all the major financial players have somehow tied up with JP Morgan, Goldman Sachs, Threadneedle and others.

WHO DO WE THANK?

And that's when it occurred to me: Who do we thank for this offshore allowance? None other than the ANC, who 10 years ago, in the 2015 Budget, slipped in (unannounced) the increase in the Single Discretionary Allowance (SDA) to R1m and the investment allowance to R10m. Totally unannounced and with no prior discussion with banks and asset managers.

This ability to move money offshore has, in my view, discouraged many South Africans from emigrating. I know of many local investors who have used the offshore allowance to send 100% of their liquid assets offshore, remaining in SA with, perhaps, their family home, a car or two and some furniture. In doing so, they have (a) reduced the urgency to emigrate and (b) protected the global purchasing power of their investments.

However, it's very difficult for older people, with established roots in their communities, to up and leave. It's far better to send your money offshore (which is now legal) and remain in sunny SA, or better still, move to the Western Cape, which many people have done and are still doing.

Several people approached me after the seminar and admitted to the fact that, as they have most (if not all) of their assets offshore, it means the urgency to emigrate has somewhat reduced. Making use of the R1m investment allowance annually has also been a smart move, with returns in global funds/indices handsomely beating the JSE over each subsequent period to date, each year calculated from the 1st of April of that particular year. In some years, the outperformance has been as much as 40% over the nine periods I measured in my calculations.

The only period during which local markets outperformed offshore markets was over the last year, mainly due to the sharp downward correction in global markets and the strengthening of the rand from R19.40/USD to, currently, R18.20/USD.

I would go further to suggest that the SDA has now become the foremost discretionary investment for most people with disposable income to invest – not retirement annuities (RAs), local money market or anything else. ***Therefore, move your money offshore easily and without hassles and beyond the reach of the ANC!***

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