8 October 2019

Dear clients

Time to take all my money offshore?

This is the question which many South Africans are asking themselves.

Many of us are exhausted from the instability and are wondering what this means for our finances now and into the future.

Do we "cut losses" following 4 years of a sideways SA market and send the money offshore to join the US based boom?

First, we need to get objectives straight. A sound financial plan builds from the starting point of your objectives, for example:

1. Maximising income without the risk of running out of money
2. Emigration plans
3. Risk management through geographical diversification,
4. Seeking to maximise returns in the long term.

Each plan is unique and needs to be considered individually, but in broad terms, if you are retired, or approaching retirement, and your objective is, or needs to be, maximising your income, then the investment strategy that follows would need to include high yield investments. These would probably need to include South African based Listed Property and "Payers and Growers" equities with which most of our clients are familiar. This is because the yields in South Africa are typically higher than overseas. At current market levels, the below could be a guide as to what is available to you:

1. If you need 8% of your capital each year to cover your expenses, and you want to avoid the risk of selling units of investment each month, then SA Listed Property needs to be a significant part of the solution.
2. If you need 6% of your capital each year, SA based Equities can be introduced and perhaps some offshore exposure
3. At a 5% requirement, offshore can form a much larger component of your investment plan

If you are still working and your primary objective is to emigrate, then clearly offshore investments become a much more important part of your investment plan. Offshore objectives can include offshore tertiary education for children – we need to work out how much that might be and work backwards to how much needs to be invested (which depends on the time frames).

For those that don't fall into the maximising income objective, geographical diversification has great benefits as those who followed our advice to invest in our Credo portfolios have seen. If one accepts that offshore returns may not be as high as SA returns on average or from the current starting point, then we support this strongly, and would advise that a significant portion of your investments are offshore, especially if you have SA based capital tied up in a home or a business in SA. This has been our consistent advice over the last 5 years.

The most interesting of all the scenarios is the final one: maximising long-term returns. Here we have the psychological pitfalls of trend propagation to deal with.

Significant offshore exposure could in many cases be the long-term aim, but in the shorter term we need to keep a cool head and try and get the timing of investing offshore right.

There are 3 variables to consider:

1. The level of the SA market
2. The level of the overseas market
3. The exchange rates

Ideally, we need to try and get at least two out of three variables working in our favour.

1. Now we think the SA market is very low with many well-known SA-centric companies like Woolworths trading at half their price of 4 years ago. Ideally, we would want to see some recovery before selling local investments to move money offshore. This includes listed property – at current levels it makes a compelling investment case when you compound 10% yields over 20 years. We concede that the news in SA is very negative and concerning now, but even in long term downtrends, there are times of relative optimism which can lead to strong short to medium term equity market performance.
2. We also think the overseas markets, particularly the USA, could be on the expensive side. Europe less so. The tell-tale signs of market tops do not yet abound, so we think that there is a way to go in the US markets, and often the last up-leg is very steep, but history tells us that it won't go on forever and it is better to buy at the bottom of markets than near the top. A correction in overseas markets in the magnitude of more than 10%, could be a buying opportunity. A 20% correction would be an even better buying opportunity, despite the fear that would probably accompany such a fall.
3. A few weeks ago, at R13.9049/ USD, the exchange rate was looking much more like the kind of level at which we would want to transfer funds offshore but is now at a level where we think we should wait for a better opportunity.

A quick point – there is a difference between investing new money offshore and selling existing investments and sending it offshore. With new money we don't have to worry about variable 1. Cash is already by definition trading at fair value. Thus, for new money we only need to be concerned about getting variable 2 or 3 correct.

Tax and Estate Planning are also critical considerations in offshore investing. Many investors have dangerous exposures of which they are not aware.

In summary there definitely seem to be almost insurmountable issues in SA e.g. Eskom and unemployment levels and therefore, if it can be afforded, it is critical to consider having some offshore investment exposure. However, we think that investment strategy should be objective driven, and if the objective is long term maximising of returns, we should wait for a cyclical period of optimism leading to a recovery before transferring from local investments into offshore investments.

Any new funds that form part of a long-term geographical diversification strategy, other than retirement annuity contributions which give a critical tax deduction, should go offshore at reasonable exchange rates.

We continue to monitor a wide range of investment opportunities, and as relative valuation levels change, so could the execution of an investment strategy.

Many thanks

Kind regards

The Team at Plexus Wealth