PSG Wealth

RANDS AND SENSE

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PERSONAL FINANCE FOR ORDINARY PEOPLE

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Domestic and offshore diversification is key

The debilitating effect of load shedding, horrendous revelations about state-capture and utterances by populist politicians may cause even the most patriotic South Africans to invest as much of their wealth as possible offshore rather than in the local economy.

However, when it comes to investing offshore, there are other serious challenges to consider such as trade wars, Brexit and the possibility of the Coronavirus becoming a global pandemic. The correct approach is to try to remove emotion from any investment decision and instead focus on growing a suitably diversified portfolio of investments.

A question often asked is what percentage of your total investment portfolio should you invest offshore. In most cases, this percentage should range from 30% to 50% depending on certain factors such as age, risk profile and cash flow requirements.

The JSE accounts for less than 1% of the global economy and the range and quality of shares available to local asset managers and investors is relatively limited. By investing offshore, you are able to gain exposure to wider investment options and have access to blue chip companies such as Microsoft, Apple, Facebook, Amazon, Visa and Nestle which are not listed on the JSE.

There are various ways for you to invest your money offshore. Firstly, you can physically transfer funds into an investment located and managed offshore using your foreign exchange investment allowance. Performance would then be reported to you in a foreign currency such as the US Dollar, British Pound or Euro.

The administration process associated with such an investment involves the physical transfer of funds via the Foreign Exchange department of a commercial bank into an offshore investment. Alternatively, you could invest in a Rand denominated offshore investment domiciled in South Africa.

In this instance, you would not need to utilise your exchange control allowance as the funds would remain in South Africa. In both instances, the investments are in the form of direct interests in entities located outside South Africa. You would benefit from any growth, or be exposed to loss in the value of the underlying assets, as well as from the strengthening or weakening of the exchange rate.

The decision as to where you invest your funds can be extremely challenging due to the vast number of offshore investment products, asset classes and service providers available. A decision you should avoid is attempting to time the currency or equity market, as this can often be a futile exercise. Waiting for the rand to strengthen, or waiting for the global equity markets to pull back, will only make reaching your investment goals more difficult. Spending time in the market, rather than trying to time the market, is a far more effective investment strategy.

South African investors currently have a great deal of choice and access to offshore investments and this provides an excellent opportunity to invest legitimately and successfully in this asset class. An experienced Certified Financial Planner can assist you to navigate through the rules and regulations associated with offshore investing and help you make sound decisions.

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