

GAP MAYNARD

Personalized Investment Advice

**TOPIC: Basic Information –
Why Invest Offshore?**

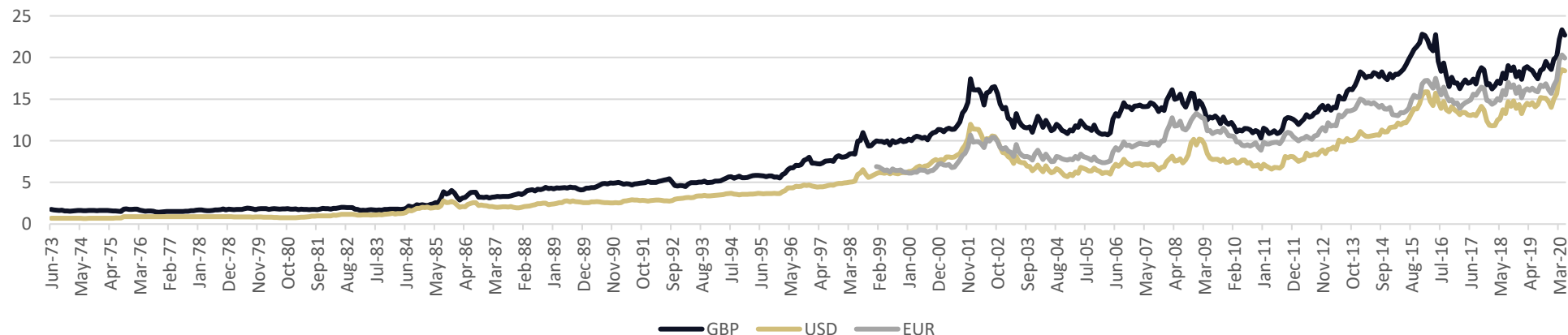


Investing offshore

Why invest offshore? Reason 1 : Currency Hedge

- One of the main reasons people invest offshore is that it means you invest in a different currency. The most popular investment currencies are GBP, USD or EUR. When you invest in currencies like these, you effectively remove the Rand (ZAR).
- The ZAR is one of the most volatile currencies in the world and this means that the value of your ZAR versus other currencies fluctuates drastically. The result is often a weakening of the ZAR versus other currencies.
- Historically, the ZAR is a depreciating currency and the graph below shows how the Rand has weakened against the USD, GBP and EUR over time. On average the rand has depreciated against the 3 currencies by between 6% to 8% a year.
- In simple terms, you need more ZAR every year to buy the same \$100 item.

GBP, USD & EUR Historic exchange rates vs ZAR



Investing Offshore

Why invest offshore? Reason 1 : Currency Hedge contd.

- You may think that you understand exchanges rates, however you're not sure of their benefit from an investment point of view.
- Let's say we take R1,5 million and convert it into USD at an exchange rate of R15.00 = \$1. This would mean we have \$100,000.00 to invest (R1,500,000 divided by 15 = \$100,000.00)
- Let's invest this \$100k for 5 years and assume we get a very conservative annual return of 5% on our investment in USD. This would mean that after 5 years we now have around \$127,600 ($\$100k \times (1.05)^5 = \$127,623.16$).
- If we decide to bring that money back to South Africa and the exchange rate is now R18,00 = \$1 then we'd have R2, 296,800.00.
- If we compared this R2,296,800.00 with what we originally sent offshore of R1,500,000.00, you'd see that you'd have made R796,800 or 53,12% gross ($R796,800k / R1,5m \times 100 = 53,12\%$). This equates then to an annual return of 10.62% ($53.12\% \text{ divided by } 5 \text{ years} = 10.62\%$).
- So after all that maths, by having your money offshore, you would have received a return, in South African Rand terms, of 10.62% a year and in USD terms 5% a year. Therefore just by having your investment in another currency you would have gained 5.62% more a year in Rand terms.
- Lastly, the risk a person would have to take to get a return in South Africa of around 10.5% would be classed as moderate to high whereas the risk required to get a return of 5% in USD would be considered cautious to moderate.
- If you live and have expenses in a currency that depreciates like the Rand, investing offshore is a smart idea.

Investing Offshore

Why Invest Offshore? Reason 2: Political & Economic Uncertainty

- Politics has a direct impact on the economy and the exchange rate, which in turn impacts your investments.
- Over the past few years, poor decision making and corruption have severely impacted the South African economy. As a result people's investment portfolios have suffered and companies within the country have struggled to grow.
- Furthermore, if investors from overseas cannot be assured that there are sound government policies in place to secure and protect their investment in the country, then they become hesitant to invest (this is called Foreign Direct Investment or FDI). Without investment from, and trade with, other countries, the economy suffers.
- By investing offshore you can eliminate the impact that local politics and economics have on your investments as these are linked to another country and its currency.
- However, you haven't eliminated **all** political or economic uncertainty. The USD is still subject to the effects of tweets from Donald Trump and the GBP is subject to what parliament and Boris Johnson say in the UK. The difference being that the effects of what these leaders do and say has a lesser effect on their FDI and exchange rate and therefore your investments.

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Why Invest Offshore? Reason 3: Diversification

- Diversification is necessary when constructing an investment portfolio in order to **reduce risk**. Having all your eggs in one basket can wipe out wealth very quickly. Think of a client who invested his life savings in a company like Steinhoff. From being one of the best performing shares listed on the JSE prior to December 2017, the company share price crashed spectacularly in early 2018, leaving its shareholders with close to nothing. Stories like these are few and far between but they illustrate the point.
- On the other hand, too much diversification can also be bad. If you have no conviction and invest in a bunch of different asset classes or funds without understanding why you are investing in them, then you may be well diversified but not in a position to drive any real growth.
- Here are two of my favourite quotes, from some gentlemen who know a thing or two about investing:

“Wide diversification is only required when investors do not understand what they are doing.”

– Warren Buffet

“Many financial advisors recommend that you diversify for your own protection. What they fail to tell you is that it is also for their protection. Since most financial advisors cannot tell you exactly which stock or mutual fund is a great investment, they tell you to buy a bunch of them.”

– Robert Kiyosaki

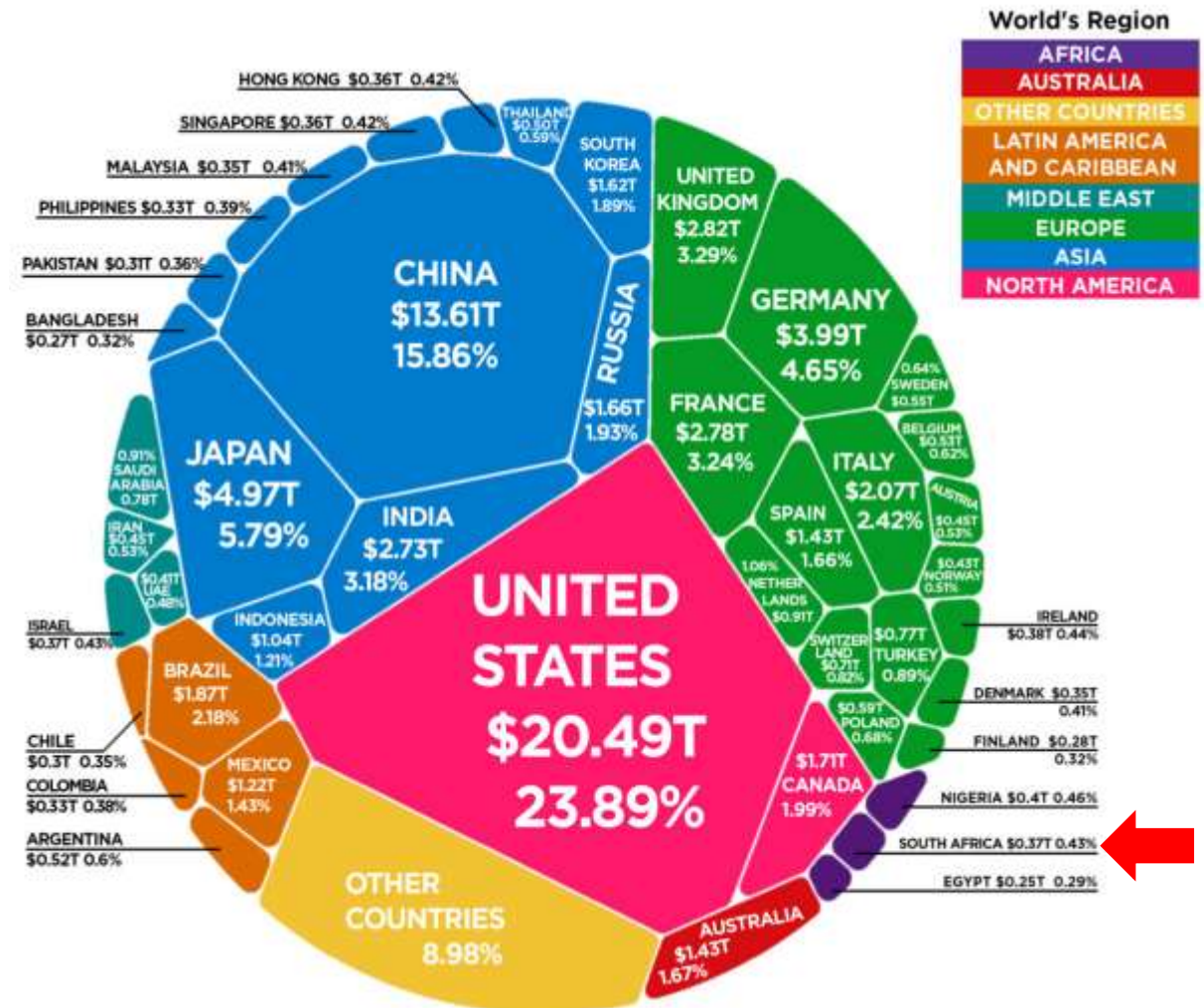
- The main take-away here is that offshore investing provides a great way to diversify from having all your assets sitting in one currency and country. If you have an astute investment adviser they will be able to recommend some good investment strategies that align to your financial goals.

Investing Offshore



Why Invest Offshore? Reason 4 : Investment Opportunity

- South Africa makes up less than 1% of all the investment opportunities that exist in the world.
- There are not many people who would be happy in limiting themselves to 1% of anything, let alone investment opportunities.
- Certainly you live and have expenses in ZAR, but when it comes to getting the best returns on your hard-earned cash, having it all in South Africa would be foolish.
- People often ask what the optimal ratio of onshore to offshore investments should be. The answer is that it is very personal. I feel somewhere between 30% to 70% of your wealth should be invested abroad, but that is dependent on other factors.
- The infographic to the right basically says that of all the money in the world (measured by Gross Domestic Product or GDP) South Africa has 0.43% (see red arrow) whereas the USA has 23.89% - crazy I know!



Article & Sources:

<https://howmuch.net/articles/the-world-economy-2018>
<https://databank.worldbank.org>



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