Five reasons why South African residents should invest offshore

By Ross Pennell

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South Africa is currently the largest economy and the most attractive for foreign investment in Africa - but for how long?

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South Africa's share of the continent's total gross domestic product (GDP) continues to diminish as growth in the frontier economies of West Africa, in particular Nigeria, significantly outpaces the relatively stagnant levels, recorded and forecast, for South Africa. Labour discord, high unemployment, inequality, crime, a failing education system and poor healthcare pose the strongest headwinds.

Despite this socio-economic backdrop, South Africa remains a popular place to live, study, holiday, work, and retire. It would however, appear prudent to avoid keeping all of one's eggs in the proverbial South African basket, and residents should consider investing a portion of their asset base offshore.

Diversification

Arguably the worst mistake a rational investor can make is not to properly diversify their portfolio, as one piece of bad news could result in irrecoverable financial losses. South Africa is just one of 54 countries in Africa, representing less than 25% of Africa's GDP and less than 1% of global GDP. A truly diversified portfolio spreads risk across geographies and currencies, as well as asset class (eg. cash, bonds, equities, and property), industry sector (eg. retail, resources, and pharmaceuticals) and asset manager.

Value

Valuations, measured in terms of price-to-earnings (PE) ratios show how cheap or expensive a share or an index is, relative to its earnings. From the mid-1990s until the early 2000s, South African equities were characterised by poor returns, whereas global equities produced stellar returns when measured in either USD or ZAR. South African equities were attractively valued during the 2000s which led to a strong bull-run and, coupled with emerging markets coming into favour post the financial crisis, the JSE Top 40 is now at all-time highs. Currently, the South African market is more expensive than global equity markets; the principle of mean reversion implies that the great returns of South African equities throughout the last decade are unlikely to repeat themselves over the next decade, and the poor returns of global equities are similarly unlikely to repeat themselves.

Choice

Investing offshore enables South African residents to leverage the resources and expertise of some of the world's largest, reputable global asset managers and financial services providers who may elect not to have a business focus or presence in South Africa itself. Global providers bring not only enhanced investment returns but also certain tax efficiencies that come hand-in-hand with structuring one's financial affairs in the offshore space.

Risk mitigation

Take your pick: Zuma? Malema? Corruption? Slowing economic growth, accelerating inflation, ZAR volatility and the resultant effect on purchasing power parity? An overtaxed population and a massively redistributive tax system? The list goes on!

Opportunity

Exchange controls were first introduced in South Africa in 1939; incredibly they still exist today, although they have now been relaxed to such an extent that South African resident individuals have the opportunity to externalise an annual foreign investment allowance totalling ZAR5m, and additional allowances are also available on application. The amount of these additional allowances can be significant and, provided the applicant can get a tax clearance certificate, they are readily granted. Furthermore, the prospect of trust reform as announced by the Treasury in the 2013 Budget Review means South African residents who are party to such arrangements may seek to explore alternative offshore estate planning solutions, in order to avoid any potentially punitive changes to South African tax legislation.

The views and opinions expressed in this article are those of the author and do not necessarily reflect those of deVere Investments South Africa (Pty) Ltd or the deVere Group.

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Ross is the founding CEO of Advent Wealth. Following a Business, Economics and Finance Honours degree at Loughborough University, Ross qualified as a Chartered Certified Accountant whilst working in Investment Banking in London. Ross' advisory experience covers the full spectrum of financial products and services including, inter alia, Insurance, Brokerage, Private Equity, Real Estate and Tax Structuring.

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