INVEST OFFSHORE - REALLY?

Many top fund managers and market commentators are urging South African investors to invest more money overseas because the offshore markets are “cheaper” and therefore offer potentially better returns than the JSE. One cannot argue that some offshore markets are cheap but this does not mean the returns for SA investors will be better if they invest offshore. As history shows, South Africa’s stock market has been one of the very best for achieving real (inflation beating) growth over long periods of time - far better than the ones being punted by the experts.

SOUTH AFRICAN EQUITY RETURNS VS THE WORLD

If you are looking for the best possible investment growth above inflation, you would be well advised to consider investing in the JSE. Since 1900, the JSE has beaten inflation by a larger amount than the US, European and Global stock markets. In fact, only Australia has proved more rewarding for investors and this was only by a very small margin.

Table: Stock market growth from 1900 to 2011 for South Africa, USA, Europe and the World

	Nominal Growth	Real Growth per year
South Africa	12.5%	7.2%
The World	8.5%	5.4%
USA	9.3%	6.2%
Europe	7.7%	4.6%

Source: Elroy Dimson, Paul Marsh, and Mike Staunton, Credit Suisse Global Investment Returns Sourcebook 2012

Despite our very difficult history, South Africa has proved to be a great investment destination even in hard currency terms. According to Investec, in the 10 years to June 2011, if you had invested R100 in the JSE, you would have grown your capital to R400 whilst your R100 invested in the Global stock markets would have been worth R94. All equity unit trusts in SA that invest overseas grew by an average of 0.3% per year in the 10 years to February 2012 whilst over the same time; SA equity unit trusts have averaged 16.9% per year.

This is the context to remember when listening to market commentators who are trying to convince you to invest overseas because offshore shares are “cheap”. In my view, if you are planning to spend your capital in South Africa then you need to judge your growth in rands. This is where I differ dramatically from local fund managers who only look at the relative “cheapness” of our market vs. the international markets. When the international markets perform well, the rand strengthens which erodes your stock market growth when you calculate it in rands. In my experience and as the unit trust numbers show, the rand usually neutralises the growth of the international stock markets.

WHY SHOULD YOU INVEST OVERSEAS?

There are some good reasons to invest money overseas. Firstly, it always makes sense to have diversification in your portfolio. Global shares, bonds and property do grow at different times to SA assets and your overall growth will be better with a limited amount of overseas investments e.g. 15% to 25% of your portfolio. In addition, you can benefit from the rand depreciation when it occurs via a currency investment. This means that you might consider investing in offshore cash with a small amount of overseas equity exposure (to track offshore inflation). If you are planning to live overseas or if you are concerned about how your capital will be taxed in SA, then it might be wise to invest a greater amount offshore.

I certainly would not make a long term commitment to offshore shares simply because they are currently cheap.