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Offshore investments not paying off so far

Over the past 12 months, in the wake of the Coronavirus market crash, many South African investors have opted to take more of their funds offshore – via both new investments and switches. The severity of the JSE’s drop and the rand’s depreciation during the worst of the crisis in March-April 2020 caused many to opt for perceived safer havens overseas, even as financial markets were recovering. Yet now that a full year has passed, we can see that, yet again, this has been a sub-optimal decision so far. Investors may have obtained some extra diversification, but it has come at a cost.

First of all, disregarding any underlying asset moves, the rand has appreciated substantially over the 12 months to 31 May against all three major global currencies, especially the US dollar, which has weakened for its own fundamental reasons: the rand is up some 22% against the greenback, more than 10% against the pound sterling and nearly 15% versus the euro. This would have necessarily undermined gains in any underlying offshore portfolio assets. As valuation-based managers, we at Prudential did anticipate some rand appreciation, given its extreme

undervaluation a year ago – albeit not the timing or extent – and this was an opportunity for Prudential to add to our rand exposure, which we did. At the same time, the MSCI All Country World Index has returned nearly 42% in US$ terms in the past 12 months, representing an impressive recovery in global equity markets. Yet in rand terms investors received only a 10.2% return from the same Index. Investing in the local FTSE/JSE All Share Index in rands over the same period would have yielded a total 38% return. Of course investing in equity-only would have been a highly risky strategy; a lower-risk option could have been a well-diversified SA balanced fund like the Prudential Balanced Fund, which returned 23.8% over the period.

In fact, we added to our SA equity and SA bond exposure in our multi-asset funds like the Balanced Fund in the aftermath of the market crash when others were selling, using the proceeds from the sale of some global equities. We followed our tried-and-tested valuations-based process, which indicated that SA equities were far more attractively valued than their developed market counterparts, and therefore had better upside prospects. Once again it has proved successful, helping us add value to our clients' returns.

In conclusion, many investors who deviated from their long-term investment plan in a bid to limit losses would have potentially benefited more by simply staying the course. The lessons here are clear: firstly, have an investment plan and stick to it. Unless your plan changes, neither should your investment. Secondly, when making investment decisions based on emotion, you run the risk of eroding the value of your investment over time. Instead, choose a fund manager with a sound track record to make your investment allocation decisions for you. These decisions are removed from emotion and based purely on fundamentals, a process that is far more likely to create wealth over the long term.

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