Investors cash in abroad

The time is right after a good run in the local market, writes **Abdul Milazi**

DOWN BUT NOT OUT: The benchmark Shanghai Composite Index slipped 2.7% or 137.50 points to 4 958.04 on Thursday. But analysts say China was also still partially pegged to the US dollar, so continued greenback weakness again created a buying opportunity
Picture: EUGENE HOSHIKO/AP

RELATIVE rand resilience versus the US dollar has just made global diversification even more attractive for local investors.

The credit crisis is bad news for many international markets but good news for South Africans looking for offshore diversification as the local currency pushes towards the R7 to the dollar mark.

Ebrahim Ally, head of SA institutional client services at Oasis Group Holdings, said while the local economy and markets have enjoyed good growth over the past few years, there were still compelling reasons for local investors to diversify a greater portion of their portfolios offshore next year.

"The sharp depreciation of the rand in 2001 and its subsequent recovery has left many South African investors weary of investing offshore. With market returns in SA averaging almost 40% a year over the past three years, the average investor's portfolio exposure to the offshore markets has decreased considerably," said Ally.

He said given that local markets have had a good run and were now trading at comparable levels to developed markets, the time was ideal for investing offshore.

Any suggestion that local investors should diversify their investments would probably have fallen on deaf ears. After all, the JSE All Share Index has delivered exceptional returns over recent years.

Ally said while the US, European and Japanese economies all faced a number of challenges, the fundamentals for these regions remained sound and growth appeared to be sustainable, supported by lower unemployment rates and healthy consumer habits.

"In contrast, indicators are pointing to a slowdown of the strong consumer cycle experienced over the past five years in South Africa. For example, new vehicle sales have continued to surprise on the downside and the 6% year-on-year decline for October 2007 is now the seventh negative month, clearly indicating that the declining consumer trend is not of a short-term nature," said Ally.

OFFSHORE DEALS ARE NOW MORE ATTRACTIVE FOR SOUTH AFRICANS

GO OFFSHORE: Ebrahim Ally, head of SA institutional client services at Oasis Group Holdings

REDUCED EXPOSURE: Alan Noik, managing director of Credo, a London wealth management company

BETTING ON HONG KONG: Paul Hansen, Stanlib's director of retail investing

Alan Noik, managing director of Credo Capital, a London-based wealth management company, said there was currently talk about an economic slowdown and seasoned investors might be reducing their exposure to equities by selling and re-investing in cash, fixed income securities and alternative asset classes, such as hedge funds.

"Realistically, investors with visionary powers are thin on the ground, and many will hold their positions in the hope that a slowdown will not materialise. For these investors, this will be a tense time," said Noik.

He said if these investors were better diversified at the outset, they would be better hedged against such possible equity devaluations and, ultimately, would have less to worry about.

Noik said the approach should ensure that an investor's total portfolio, to some extent, should be exposed to offshore investments and major currencies. "This not only serves as an effective hedge but can have the effect of increasing returns through changes in currency valuations."

Following the release of higher-than-expected inflation on a number of occasions over the past six months it became clear that inflation was entrenched deeper in our economy than first thought.

"We have seen a very substantial increase in yields on the short end of the yield curve and a less pronounced shift on the longer end of the yield curve," said Ally.

Paul Hansen, Stanlib's director of retail investing, said: "We see value in the US, Europe and the UK where indices now approximate the level just before the technology bubble burst in the year 2000.

"If the US economy is not driven into recession by the credit crisis — and the IMF forecast is for lower US growth rather than a downturn — then all the big stock markets look undervalued," said Hansen.

He said Hong Kong was fully pegged to the US dollar, creating some opportunities in so-called Chinese H shares.

China was also still partially pegged to the dollar, so continued greenback weakness again created a buying opportunity.

'Realistically, investors with visionary powers are thin on the ground'

Analysts reckon many canny investors would be reassessing their portfolios after three-and-a-half years of strong growth, with the JSE up 350% since the lows of April 2003.

"Opportunities are certainly there for South African investors who have not diversified offshore or are looking for greater international exposure," said Hansen.

Investors should, however, take cognisance of the fact that markets move up as well as down, and should not let greed get the better of them.

"In this time of market volatility and sub-prime lending issues, investors should be seeking fund managers that protect their capital over the long term. This downside protection will lead to outperformance over the long term,' said Ally.