



INVEST BETTER with BRENTHURST

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HOW THE ANC DESTROYED THE SA ECONOMY & YOUR WEALTH

MAGNUS HEYSTEK | INVESTMENT STRATEGIST & DIRECTOR, BRENTHURST

But more of the same to come, says Ramaphosa

KEY TOPICS:

- **SA economy underperforms by 43%** compared to emerging markets.
- **Ramaphosa's policies worsen poverty** and unemployment.
- **ANC mismanagement** leads to economic collapse since 2010.

Perhaps US President Donald Trump should not have ambushed Cyril Ramaphosa with a video clip of Julius Malema singing "Kill the Boer" in the White House early last month, but instead put up a slide showing how the SA economy has underperformed by an astonishing 43% against its emerging market peers over the past 15 years.

He could even have called it "Kill the economy. Kill the wealthy".

But then again, Cyril's response would probably have been the same: "I haven't seen this before," feigning ignorance as he normally tends to do. Just like he wasn't aware that the inner-city of Johannesburg has collapsed, for example. "I wasn't aware of that," he reportedly said about the city he lives in.



This is what you get when you, as president of a country, have never held an open question press conference, like DJT has done about twice a week since he stepped into the Oval Office.

The mismanagement of the SA economy over the past 15 years, when compared to historical trends and against its peers in the emerging markets (not even developed markets), is a crime of much greater impact on millions of people in SA, when compared to the hateful rhetoric of a desperate radical politician overseeing the implosion of his soon-to-be fringe party.



I have spent some time looking at the economic trajectories of mostly free-market economies in the 20th and 21st centuries, and I battled to find an economy so badly mismanaged, so badly destroyed, as SA under ANC rule since 2010.

Argentina, after the 1st World War, was one of the largest economies in the world, but since then a succession of socialist governments pushed Argentina into several debt defaults and a collapse of its previously modern infrastructure. Other countries that come to mind would be Cuba (after Castro took over in 1958) and, more recently, Venezuela.

There are examples of economies that have collapsed, but they would include countries mostly at war or undergoing civil unrest, such as Libya, Syria and Eritrea which were all involved in wars and take-overs by opposing forces. But nothing comes close to economic destruction so relentlessly pursued by a government in power than the ANC, first under Jacob Zuma and, since 2018, under Cyril Ramaphosa.

And if there is not a dramatic turnaround in the management of the economy, of which I see very little signs, the collapse will accelerate over the next 10-15 years. With perhaps the exception of the Western Cape, the rest of the country will end up looking increasingly like all other post-colonialist African countries: poor, ungovernable, with Mafia-type cartels running large parts of the economy. And with most of the investable capital – and bright young minds of all races – rushing for the exits in search of a better life. By that time, foreign exchange controls will have been reintroduced a long time ago.

TWO PHASES: FIRST THE BOOM AND THEN THE BUST

The performance of the SA economy this century can be divided into two very distinct phases. From about 2002 to 2008 the SA economy grew at an average rate of 4.5% per annum, the rand strengthened from R13 to around R6.50 per USD, while government debt was a mere 25% of GDP at the end of this period.

Unemployment was in the low 20%, and real wealth was being created.

In short: SA was a booming economy and with a rapid increase in GDP per capita. Things were looking extremely well. Truly, the Rainbow Nation.

This boom, however, was not the consequence of some brilliant long-term economic plan by the ANC and its cadres being deployed into all spheres of government control. It was mainly the result of China joining the World Trade Organisation (WTO), and with it a surge in demand (and prices) for the raw materials SA had plenty of. It was pure luck, and it was a typical commodity boom, which ended in 2008 with the Great Financial Crisis.

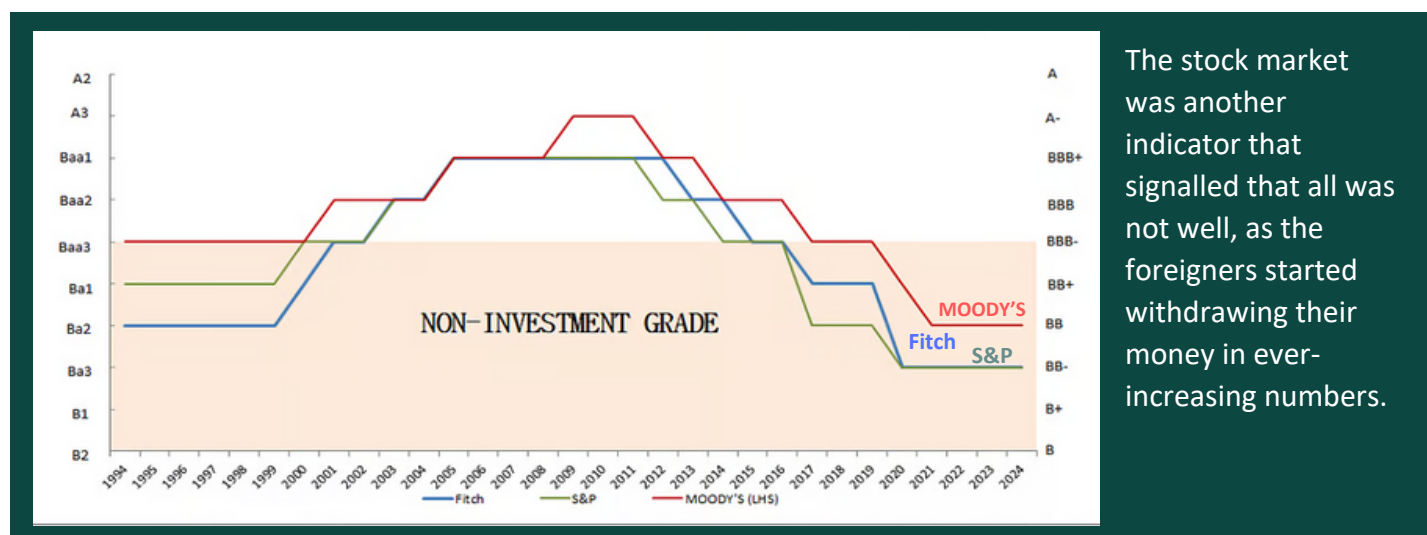
But SA had some added luck on its side. It was the venue for the 2010 Soccer World Cup which, for a while, kept the economic momentum in SA going, as a result of major infra-structure projects that were required to host the World Cup.

2010: THE TURNING POINT

Since 2010, the performance of the SA economy has been showing regressive signs, slowly but surely. This period from 2010 to 2017 was one where the full impact of the Zuma-administration started popping up in key economic indicators. Slowly and almost imperceptible at first, but it was there for those doing deep-dive analysis into the emerging trends – like the global ratings agencies, who do not allow feelings of patriotism to cloud their judgement.

The chart below shows global credit history in its full glory: from junk status to investment grade and back to junk status in just over 20 years! That takes some doing.

SOUTH AFRICA'S LONG-TERM FOREIGN CURRENCY RATINGS HISTORY (1994-2024)

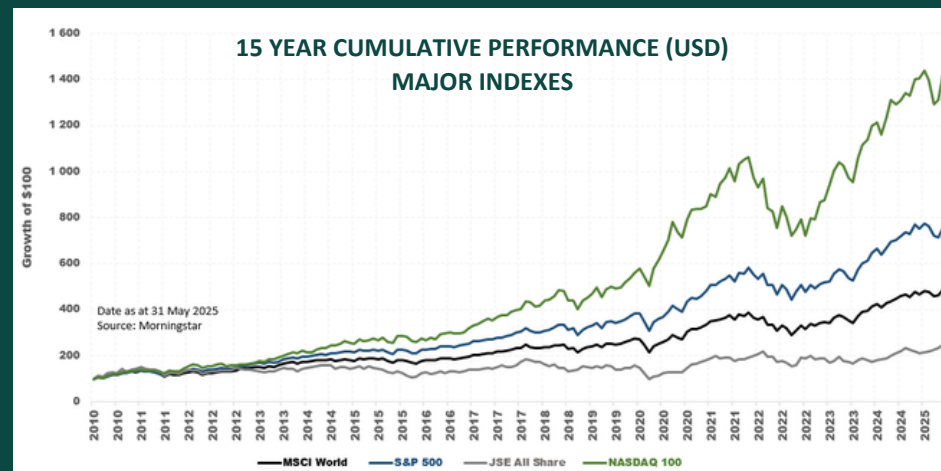


From investment grade rating in 2011 to junk status in 2015, when Zuma fired former finance minister Pravin Gordhan while on a plane to London – seeking foreign investments, nugal.

Since 2010, the JSE has compared very poorly against the major stock markets of the world, notably the S&P500, DJ Industrial Index and also Morgan Stanley Capital World Index. While the rest of the world was getting rich, and seriously rich in the case of investors on the Nasdaq, South Africans were getting very poor.

This was a combination of a declining currency, a stock market not keeping pace with its global rivals and a collapsing residential and commercial property market. At the same time, government debt has been rising – a claim on future growth as more than 20% of all taxes are used to repay debt. By some estimate, government debt is headed to above 80% of GDP within two years.

THE JSE HAS TRAILED GLOBAL MARKETS BY A LARGE MARGIN



THE UNDERPERFORMANCE OF THE JSE STARTED AS LONG AGO AS 2010.

The Nasdaq is up 1,400% in USD terms over this period, the S&P500 by 800%, World Markets by 400% with the returns of the JSE less than 200% over this period. Just think about the relative wealth creation (or not) which this reflects.

It seems as if global investors – judging by their relentless withdrawal from the JSE even long before the downgrades – sensed the looming financial tsunami years before local market commentators starting writing about it. I have written numerous articles about our looming economic tsunami, as I called it on various websites. A simple Google search will produce many articles along these lines.

As a small, but independent financial advisory company, I felt strongly about alerting the investing public to these catastrophic underlying trends, and hosted several seminars across the country in 2016, calling it ‘SA Quo Vadis?’

Speakers included Dr Frans Cronje and the late Mike Schüssler, an independent economist whose deep analysis into SA trends were loathed by the mainstream media, asset managers and economists. Many attendees were shocked at some of our conclusions and were downright condescending, rejecting our views outright.

Any commentator who did not support the mainstream message - it was all Zuma’s fault, under Ramaphosa all will be well - was condemned and commentators holding such views were banished into the wilderness and roundly criticised.

As early as 2014, I found myself the subject of an article in the now defunct Rapport newspaper - “Magnus, hoekom so negatief?” - wherein my views were considered to be heretical.

My first article using the analogy of a “financial tsunami”, published in 2017, was met with derision and contempt from one of our foremost sunshine economists, Dr Roelof Botha, who basically said I’m a real **shole, and don’t know anything about economics. In the same article he described Pravin Gordhan, a devout communist, “as the best finance minister SA has ever had”.

In April 2017, Moneyweb ran a long and hard-hitting editorial under the title “There is no financial tsunami on the horizon”, after yet another of my articles was published, again warning about the economist trends I was seeing. Again, the message was: It was Zuma who messed up the economy, not the ANC. Under Ramaphosa things will get better...”. We know how that story turned out...

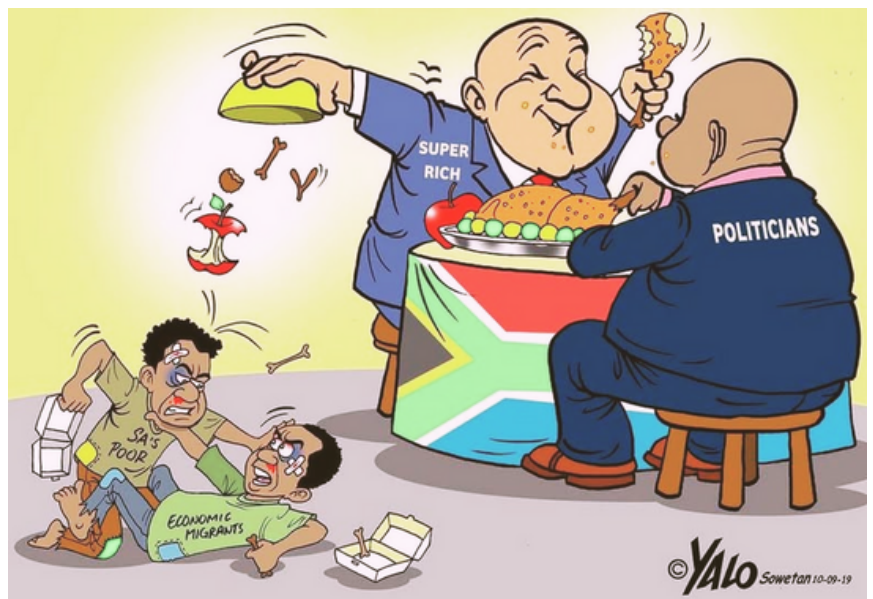
Certain captains of industry, no doubt seeing the same trends and how it could impact their businesses, embarked on very extensive campaigns, trying to convince South Africans – middle- and upper-class South Africans in particular – that all was well with the SA economy and there was no need to panic. Adrian Gore from Discovery and Paul Harris from RMB both come to mind, both trying to convince SA and the world that things are not “that bad” in South Africa.

I can understand that Gore, who runs Discovery Medical Aid and Discovery Life (both excellent businesses, by the way, whose products I use extensively), would try to protect his business (medical aid, life insurance, investment and now banking). But what Paul Harris is trying to achieve with his self-righteous and smug “We are alright here in SA” articles, I simply don’t know. What is a billionaire banker and hotel owner (Ellerman House in Cape Town), with an art collection rumoured to be worth more than a billion rand, trying to achieve with his “Look at me. I’m all right, Jack” articles?

Harris has exposure to exactly the same facts and figures I have, and I can state without fear of contradiction: Things are not OK in SA!

The poor have become poorer (and substantially more so), middle-class people have been pushed down very close to the poverty line, while the ever-decreasing so-called “wealthy” in SA (now not much more than 3,000 people, according to SARS), have externalised as much as they can to protect their living standards in SA.

That’s not me saying so, that’s what SARS says.



Sales of premium car brands, such as BMW, Mercedes Benz and Audi, have declined to a third of what they were 10 years ago. This is a sign of two things: the rich who could afford these premium-priced cars are gone, and many of those wannabe Merc-owners simply can’t afford them anymore.

THIS IS WHAT THE TSUNAMI LOOKS LIKE

About a month ago, Hendrik du Toit, enigmatic CEO of Ninety One Asset Management (SA’s largest asset manager, with a massive global footprint) finally broke ranks with other SA financial institutions and said, “The state of the economy is an emergency”, in an attempt (in my view) to alert the ANC to the unfolding economic disaster.

No more sugar-coating, no more “Alles sal regkom” approach. It is indeed an emergency and needs an urgent response from the government, which is not going to happen.

Contrast this to the comments from Old Mutual’s chief economist Johann Els, as recently as February this year, when he said that the SA economy would grow at 2.5% this year, it’s credit rating would be revised upwards and, by the way, the rand will be R13.50 against the USD by the end of the year.

Els is notoriously bullish on the SA economy, but in an interview with a journalist (who asked about his ever-optimistic views), he admitted it was to prevent more clients withdrawing money from the assurer and moving it offshore. It doesn't get more blatant than that!

Last week, Investec Wealth and Asset Management released a report which calculated the effects of the financial tsunami in rands and cents – the SA economy is 37% smaller than it could have been, had SA just kept pace with its peers over the past 15 years. This could have generated almost R800bn more in tax revenue annually.

ANC POLICIES TO BLAME

Many years ago, redoubtable BizNews columnists, RW Johnson, wrote that “the ANC simply doesn't have the skills to manage a sophisticated economy such as South Africa”. No truer words have ever been spoken.

The governing party, through its cadre deployment (and guess who has been in charge of this since 2011: Cyril Ramaphosa), BEE, affirmative action and other socialist-distributive economic policies, has completely gutted the SA economy, infrastructure, towns and cities. Add to that the wholesale looting and theft of virtually every entity with a bank account and some tenders, and one realises just how deep the rot is. I, personally, don't think it can be fixed.

And, whatever happened to the R1bn Zondo Commission which recommended criminal prosecution of countless ANC cadres caught with their hands in the till? No one has been charged and, most probably, never will be.

The latest figures from Statistics SA show just how bad the situation is. Average growth in the economy in the first quarter this year was a mere 0.1%, with many sectors of the economy in a recession.



But the big, hairy monster in these numbers is the collapse (trend over many years now) in fixed investment and capital formation. Fixed domestic investment, a vital part of capital formation, has virtually collapsed over the past several years, as investors and companies pack up and head somewhere else, mostly to other jurisdictions.

CAN THINGS GET BETTER?

My simple answer is: While the ANC is in power things will not improve. In fact, listening to Ramaphosa's views earlier last week about BEE (we are going to get more, not less), I simply don't see it getting better.

In the face of overwhelming criticism by commentators such as Moeletsi Mbeki – BEE is a massive fraud – and Prof William Gumede from Wits – BEE must be scrapped – the ANC under the Cyril Ramaphosa will damage the economy even further in search of political advantages. Over the years that I have been following and reading anything CR says about economic growth, never have I seen any particular economic insight which impressed me.

Some two weeks ago, Prof William Gumede, WITS University professor in governance, had the following to say: “Black Economic Empowerment has led to increased poverty, unemployment and inequality in South Africa. Over R1 trillion has moved between less than 100 (politically connected) people since 1994. For decades, the same people have been empowered over and over again.”

And it’s not some whitey-organization, such as AfriForum or Solidarity, making these claims – it is part of the black intelligentsia who now refuse to look the other way and remain silent....

What was Ramaphosa’s reply: “We need MORE BEE and affirmative action.”

But his comment this week that MORE BEE will increase economic growth, just revealed a very poor understanding of the dynamics of what drives the SA economy. He is now clearly setting the economy up for greater failure, poverty and unemployment in the years to come. And still the ANC dreams of national health insurance, a basic income grant, smart cities and bullet trains, and a host of other pipe-dream projects, which are all aimed at extracting more from a shrinking economy. The smart money has been looking at and watching this trend for many years, and they have acted by moving their money, their children and sometimes themselves offshore.

In April, SARS commissioner Edward Kieswetter revealed a very welcome dose of reality when he warned in Parliament that a wealth tax for the so-called “rich” would not only be unworkable, but unwelcome as well.

“SA already has many wealth taxes,” he said, and he would advise government not to introduce another wealth tax. As it is, 3.5% of taxpayers pay more than half of all personal income tax. About 570,000 earn more than R1m annually, and that segment contributes about 48% of all personal income tax.

Tax them more, and more will take their money and run....

Kieswetter, no doubt, has access to SA Reserve Bank figures of how many people are emigrating every year. The Bank refuses to disclose these numbers (I have tried), but judging from the number of webinars and podcasts on this issue I see on Facebook and social media, the numbers must be huge, particularly among younger and well-educated professionals. In our business, we don’t see a great number of older people emigrating, but their children are leaving in droves.



In the same commentary, he revealed why – in itself an astonishing admission – “SA only has 2,750 ultra-high-net-worth individuals with assets of \$2 million or more!”

“What!” I thought to myself, when I read these numbers.

In Switzerland, one in five taxpayers are dollar-millionaires and in the US more than six million people are liquid millionaires – up 68% over the past decade.

This is a consequence of a rising residential property market and a roaring bull market in the Nasdaq and Wall Street markets.

According to Chase Shiller, the US residential property market rose 148% (in USD terms) on average over the past decade.

Contrast this to the SA residential property market, where average prices have dropped (based on my own calculation) by about 30-40% in USD terms, over the same period.

Your Pam Golding trophy mansion in Hyde Park or Bantry Bay is not going to buy you much in the USA today.

WHAT TO DO, WHAT TO DO?

MY RECOMMENDATION TO THOSE PEOPLE – THOSE WHO STILL HAVE MONEY – HAS BEEN VERY CONSISTENT OVER MANY YEARS:



Don't buy property – residential or commercial – in any town or city controlled by the ANC. It will be a money trap, and you will not make money. Municipalities have become an enormous recruitment agency for connected ANC cadres. I read in Business Day recently that in Johannesburg salaries consume more than 82% of all income. No wonder the infrastructure is collapsing. That money is being consumed in ever-increasing numbers, while the city burns.



Rather rent than buy, which gives you control over your future. I have seen this dynamic play out in my own family. One adult child did not take my advice and invested heavily in Pretoria. The other rented and built up offshore capital. Today the Pretoria property is unsellable while rates and taxes keep on destroying any capital in the property. The offshore capital on the other hand, is offshore....



I have clients, friends and even my lovely wife who have properties in great locations that have not increased in value by ONE CENT over 10 to 15 years. Fortunately, they do have offshore investments which have been growing at 15-20% percent per annum for many years.



If you want to buy property, consider the Western Cape. This market, governed by the DA, is functioning well and returns have been good to great in certain areas.



Seriously reconsider putting money into a retirement annuity (RA) and if you do, try and find one with the maximum offshore exposure. However, if emigration is even remotely a consideration in your future, don't put money into an RA. I am expecting some pushback from colleagues, but the downside risks of RAs are almost never discussed in the media.



IT TAKES MORE THAN THREE YEARS TO GET YOUR MONEY OUT OF AN RA WHEN YOU EMIGRATE, AND THEN WITH A GREAT DEGREE OF DIFFICULTY.



If you haven't opened an offshore investment account yet, do so soonest. The regulation that allows individuals to remit R1m and a further R10m offshore – R1m single discretionary allowance; R10m- authorised international transfers – is still regulation, and can be revoked overnight.



Ah! You might ask what about the JSE doing so well this year, beating most global markets? It is pleasant to experience a very nice uplift in values over the past 12 months, but (a) it comes off a low base, and (b) it needs a growing economy to sustain the earnings of companies exposed to the domestic market. The JSE has also been heavily influenced by the performance of Prosus and Naspers, together about 20% of the market, and the sharp rally in gold shares, which falls outside the influence of the ANC. I don't think this is the beginning of a period of global outperformance by the JSE – not by a long shot. In fact, it represents a very good time to make use of higher equity values locally, as well as a stronger rand, to move more money offshore.



The big risk is also that, if the GNU falls apart (one can never say never), then there will be a financial bloodbath. SA is not a safe and predictable investment market anymore.

MAGNUS HEYSTEK | INVESTMENT STRATEGIST & DIRECTOR, BRENTHURST WEALTH

Magnus Heystek is a well-known investment strategist and wealth manager. He is the co-founder and director of Brenthurst Wealth, where he oversees investment strategies, research and client communication. Heystek is also a published author, having written several books on investments and retirement planning. His expertise in offshore investing has made him a respected thought leader in the financial industry.

Phone: +27 (0) 11 799 8100 | **Email:** magnush@brenthurstwealth.co.za

CONTACT ANY OF OUR HIGHLY QUALIFIED FINANCIAL ADVISORS AT OUR NINE OFFICES COUNTRYWIDE TO DISCUSS YOUR INVESTMENT STRATEGY.

EMAIL US:
invest@brenthurstwealth.co.za

Johannesburg	+27 (0) 11 799 8100	Claremont	+27 (0) 21 100 3901	SATELLITE OFFICES:	
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