

PERSONAL FINANCE - 1

Park it carefully

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SA investors face some tough decisions for 2011. They need to carefully consider the current economic conditions and review their asset allocation for the year ahead. Some of the key investment indicators make for interesting reading. For example, SA interest rates are at 30-year lows, the JSE Alsi is a mere 4,8% off the May 2008 high, inflation is back within the Reserve Bank target range

and despite our currency weakening to R11,58/US\$ in October 2008, we are back at the levels (R6,80-R6,90) we enjoyed four years ago.

The local equity market and the listed property market have enjoyed significant returns over the past two years and investors need to exercise caution at these levels, particularly if investing new funds into these asset classes. The p:e ratio of the Alsi is currently at 16,96 — well above the 10-year historical average of 13,82 — and the current dividend yield is 2,23% (see graph).

The best money market funds are yielding around 6,4% (or after a 40% tax deduction a yield of 3,84% — marginally above inflation). Investors therefore need

to find more tax-efficient, low-risk alternatives or be prepared to take on more risk in order to outperform inflation.

One of the low-risk alternatives for a money market fund would be a dividend income fund, such as the Sanlam Alternative Income Fund (SAIF). This fund is particularly attractive as the price remains at R1 and therefore your capital value is protected. Investors seeking higher dividend yields can invest in directly listed preference shares, but their capital can be at risk, particularly if interest rates were to rise.

Property remains a good long-term inflation-beating investment option. With interest rates at such low levels, strategically geared rental properties remain attractive for the astute investor. The usual risk of rising interest rates, vacancies, rental defaults and of course the property sector need to be understood and managed. Investors can also

participate in the property sector via life companies that offer unlisted (less volatile) property portfolios — the largest of such funds is Liberty Life's property portfolio, which owns blue chip properties such as Sandton City and Eastgate shopping centre.

2010 will be remembered as a year when the emerging markets and the commodity markets outperformed the developed markets. Gold has also featured as a currency proxy and the gold funds have yielded handsome returns in the short term, but these returns are not necessarily sustainable.

Much has been written about the Bric (Brazil, Russia, India and China) countries leading the global recovery while the developed markets continue to struggle with their debt burden. However, if we believe in the eventual turnaround of the US and eurozone countries, these equity markets must be considered for long-term growth. The p:e ratios and dividend yields in the developed markets are more in

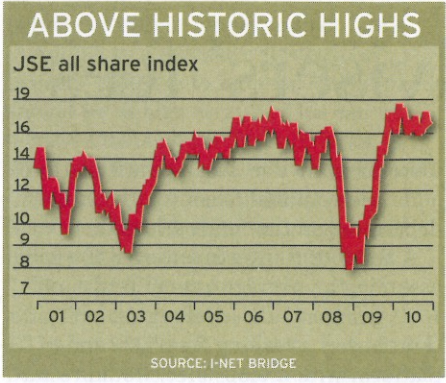
Laurie Wiid Offshore looks attractive



Robbie Tshabalala

line with historical averages. This should present global fund managers with more opportunities to acquire quality shares at low levels.

The recent exchange control relaxation by the Reserve Bank now gives investors a R4m/year offshore investment allowance. When taking into account the relatively strong rand, the potentially overvalued local market and the undervalued offshore market, investors must seriously consider increasing their offshore holdings. The alternative to applying for tax



clearance and sending funds offshore would be to invest in the locally denominated asset swap funds.

In conclusion, investors need to review their existing portfolios carefully and understand the risk factors associated with each asset class within each geographic region. Most of the local unit trust funds have been acquiring quality offshore equities over the past few years and it is advisable to consult with your financial adviser before making any changes. ■