GOT ANY OFFSHORE INVESTMENTS?

JOHANNESBURG: By any measure, South African investors who bought overseas shares 10 years ago have lost a bundle. By contrast the local market has performed well over that time, this has caused these investors to reconsider their overseas investments. Many of them are wondering whether it would not be better to switch back to SA in an attempt to recoup their losses. It is very difficult to tell these investors to take a longer term view. By any definition, 10 years is the "long term" and these investors are right to be fed up with their overseas investments. The issue for them is what should they do with these funds now.

HOW BAD WAS IT?

Most international stock markets performed very well in 2009 - the JSE grew by 28% and even the US & UK markets returned more than 20%. The table below shows the average annual returns of the SA, UK and US markets over the last 1,3 and 10 years. As we can see, all three markets had a great year in 2009 but this was not enough to save the US and UK markets from posting losses over the last 3 & 10 year periods.

TABLE A: Average Annualised Returns of ALSI, S&P, FTSE

YEAR	ALSI	S&P 500	FTSE 100
1 year	28.6%	23.5%	22.1%
3 years	3.6%	-7.7%	-4.5%
10 years	12.7%	-2.7%	-2.4%

Compiled by Nedgroup Investments, Source I-Net. shows the index movement.

If you had invested $100,000 in the S&P 500 index on 1 January 2000, you would only have $78,165 ten years later – assuming you did not reinvest the dividends. The situation would be even worse when you consider that inflation would have eroded the purchasing power of your money and the rand did not decline against the US $. By contrast, if you had invested R100,000 in the All Share Index over the same time you would have more than R230,000 now. This is the first time since 1927 that S&P500 investors have lost money over a ten year period. Those investors who invested after 2000 could be in a far worse position. The Nasdaq index is 55% off its highs from March 2000. The Dow Jones & S&P 500 are both more than 25% off their highs from October 2007.

By any measure, foreign equities have performed very poorly for a long period of time and this has caused many investors to lose faith in these investments. This is commonly described as the "capitulation" phase of a stock market cycle.

NOW WHAT?

If you have already taken massive losses on overseas investments, it is understandable if you are tempted to cut your losses and bring the money "home" or to transfer it to international fixed deposit accounts. Many investors are considering this route as they no longer have faith in international markets. A common theme among these investors is that they "cannot afford to lose any more". This is a normal reaction to a period of sustained losses but it may not be the right course of action. What you have to decide is whether you will do better by selling these investments and investing in something else or whether you should remain invested to allow them to recover. My sense of this situation is that markets do eventually recover from NORMAL losses. However there are times when MARKETS will not recover losses but these are after ABNORMAL situations.

My best example of an ABNORMAL situation is the Nasdaq index during the Y2K bubble which burst in 2000. The technology market was in an absolute frenzy leading up to the Millennium. Tech business managers had forgotten about profits and were only focussing on revenue or the number of “views” their business had. Websites were considered businesses if they had high volumes of “views” irrespective of whether these “views” generated revenue or not. When the real world eventually caught up with these dreamers, the bubble burst. The market crash of 2007/08 was similar in that Financial Services companies had started to create massive profits from “investments” that were not sustainable. However, the S&P 500 and FTSE 100 indices are not pure financial services indices. There are many different companies from a range of different industries that are not in financial services. Whilst these companies were affected by the contagion, it is not correct to think that they all have flawed business models. As an example Coca-Cola and Microsoft will continue making real profits in future.

Can’t afford to lose any more BUT can you afford to sell?

If you are thinking that you cannot afford to lose any more money on your international investments and are considering cashing in, perhaps you need to reconsider. Shares are still one of the few asset classes that provides protection against inflation. Even after a dramatic period of losses shares still offer you the best chance for beating inflation in the FUTURE. If you sell them and move to cash, you are simply guaranteeing that you will never recover your losses nor will you ever beat inflation.

HOW MUCH LONGER MUST YOU WAIT?

I can’t really tell you with any certainty when you can expect to start making profits again. No one can, that is the problem with investing – by definition it is uncertain. If we had certainty with shares the returns would be the same as interest on cash in the bank i.e. dreadful. What I can tell you, is that the world has not ended, people are still drinking Coke and using Windows. At some point, unemployment will start reducing and people will develop confidence in their financial futures again. As that happens, the markets will be recovering from their hangover – where will you be; “safe” or participating in the recovery?