

Dealing with the behaviour of the Rand



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For a South African investor our currency often seems like a burden we bear - and the price we pay for choosing a life at the bottom of

Africa. At any given time the rand appears to be devaluing, collapsing and generally behaving badly. This makes financial planning difficult because the future prospects of investing are not easy to gauge, and therefore plan for. There are very few money managers who will commit to a strong investment view in the rand. Why this aversion?

Part of the reason lies in understanding the nature of what a currency is. It is, in equal measure, a barometer (of the success of our economy), a release valve (to be used to protect our economy), an indicator of sentiment (SA relative to global market risk), and it is ultimately determined by the multitude of individual economic wins and losses occurring in our country, and offshore, every day. It's simply too complex to 'value' the rand. How then do we account for it in financial planning?

To start with, we make sure we understand the implications of having too much (or too little) offshore exposure at an individual investor level. Each investor is different, and a good planner will gauge this and set the right offshore strategy. Secondly, it's not all about the rand. When we invest offshore we're buying into investments which themselves have a value, and this presents an additional set of opportunities for a South African investor, who too often is hemmed in by a relatively small and undiversified equity market. Accessing global markets quite simply provides a much wider range of companies, countries and industries from which to build a portfolio.

There are a lot of good, common sense arguments to support a meaningful offshore allocation in any investors portfolio, so it's less about predicting (and agonizing) about the daily volatility in our currency, and more about making sure that your overall investment plan makes sense.

Many investors still bear the scars from the early 2000's when, for a reasonable spell, the rand decided to behave well and cost investors dearly as many had recently taken money offshore in a panic when the currency depreciated. There is one important difference between then and now: at that time the local economy was entering a very successful spell, where corporate earnings were coming off a low base, asset valuations were low, and there was a lot of upside across the economy (this extended right through from 2001 to 2007/8).

In that instance, the strong rand was simply playing its barometer role, reflecting the performance of our economy. Is now any different? Well, it seems it is. Our economic prospects appear to be inverse to 2001: lots of downside potential in corporate earnings, an underlying economy some way off its best, interest rates on the rise and expensive asset values across the board. In short there doesn't seem to be an obvious case for a strengthening rand, just yet. What to do then about offshore? Taking money offshore always feels like a bit of a guess, and in reality, that's just what it is. But that's a short term timing decision; longer term the real payoff for investors is making sure they have the right allocation to offshore in total. So if you are low on offshore, it shouldn't be a case of 'if', but 'when', and vice versa. A globally diversified portfolio offers real benefits to an investor exposed to the daily mood of the rand, and offers the opportunity to protect and grow wealth in hard currency terms.

31 July 2015



Spot Rates

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