Our Weekly Paid Newsletter

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In our 37th year of service to the investing public of South Africa

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According to the Global migration advisory firm, Henley & Partners, a record 128,000 millionaires will relocate this year, smashing the record of 120,000 they set last year.

Some, Henley says, are seeking new countries because the ones they're in are trying to get more taxes from them. Meanwhile, as global wealth shifts, plenty of countries are willing to accept low taxes in order to attract the wealthy: Switzerland (22% to 45.5%) Cyprus (35%) Greece (9% to 45%) Italy (23% to 43%) Malta (0% to 35%) Portugal (13.25% to 48%) Spain (9.5% to 23.5%) and Singapore (2% to 24%) are among the countries with low tax programs aimed at enticing wealthy expats and, according to the Financial Times, Dubai even offers no income or capital taxes for individuals. And then there are the tax havens like the British Virgin Islands where there only effective taxation is VAT at 19 percent and a land ownership tax of $50 a year.

It's not difficult to understand why the "wealthy" are migrating. Instead of recognising and rewarding the entrepreneurial talents which have provided the wealthy with their riches and which were simultaneously the world's single most important employment creators, it has long been clear that leading governments and their central banks regard the wealthy at best as a necessary evil.

Of course the definition "Wealthy" means different things to different people. Given the R31 000 average monthly salary of employed people in South Africa, anyone with an income greater than that is by definition wealthy. However, the median salary, that is the largest single earnings grouping, is R5 417 a month, so for South Africa's masses anyone earning more than that is wealthy.

To be "Middle Class" in South Africa, the Bureau for Economic Research says you would need to earn between R5 000 and R20 000 a month. But you need only possess assets of more than R2.08-million or income of R160 000 a month to number among South Africa's Top One Percent. However you would need to earn more than $683 000 a year to be in the top one percent in the USA.

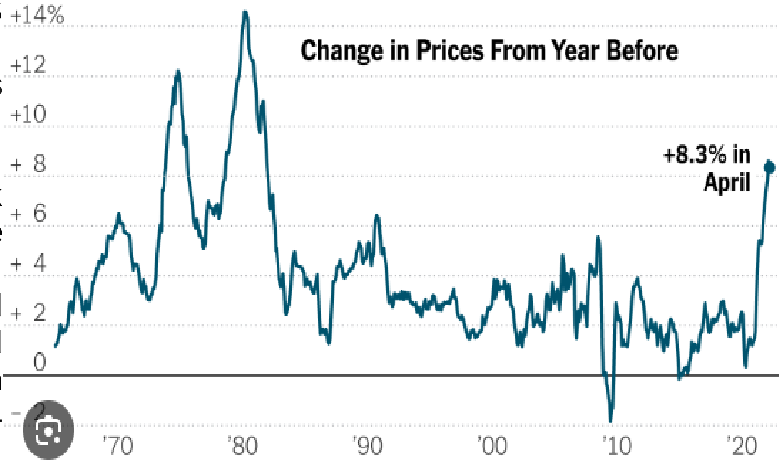
The butt of many a socialist politician's ire, the wealthy are at best tolerated, usually very over-taxed, and grossly unappreciated by politicians and bureaucrats whose job-creation records are, by comparison, abysmal. Can you thus blame the wealthy for moving in search of friendly states which recognise their value, particularly when the wealth-protection track record of the world's central banks, as custodians of the global monetary system, has bordered on the criminal since the Gold Standard was abandoned nearly a century ago?

If you doubt that statement, the following graph, courtesy of Trading Economics, says all you need to understand about the declining value of the US Dollar:

Fifty-one years ago this week - on August 15 1971 - US President Richard Nixon abandoned the fiction that the US Dollar was backed by gold at a valuation of $35 an ounce. Care to work out what has happened since as the gold price has soared, and has continued to do so to reach a peak of $2 454.20 in May this year, you might reasonably conclude that the erosion of US Dollar buying power has averaged 8.19 percent a year.

Yet the US Federal Reserve would have us believe that from 1960 to the present US inflation has averaged only 3.8 percent. Officially, an item which cost $100 dollars in 1960 now costs $1,045.29.

Here, in a graph provided by the New York Times, is the official inflation rate since the "Nixon shock." As you can plainly see, apart from the galloping inflation rate period of the 1970s and 1980s which followed Nixon's actions, the 'official' US inflation rate has mostly remained well below the 4 percent line on the graph....until Covid!



So how is it possible that the metal whose value underpinned currencies for most of mankind's civilised existence has risen by at OVER TWICE the official inflation rate? Logically, if the US Federal; Reserve were telling the truth, the two numbers should be identical!

So if money has in truth been losing value at more than twice the "official rate," can one really blame folk who have worked extremely hard throughout their lives in order to try and create retirement nest eggs if they now do not believe they can trust their government and who now see migration as the only way to preserve their wealth? Is this mistrust, moreover, also the reason that elections taking place in over half the nations of the world are producing such shocking overturns?

With the value of money fast eroding, the search for inflation hedges has not surprisingly become a major preoccupation of most financially-aware folk since President Nixon abdicated the fundamental promise of the 1944 Bretton Woods agreement that the dollar would always be backed by gold.

Meanwhile, ever since governments discovered that through the imposition of Capital Gains taxes they could tap into the effects of inflation upon the savings of individuals when, in truth inflation is entirely due to government economic mismanagement, one might say that trust in governments is a long forgotten ideal.

That failure of government policy is the key cause of inflation and to then tax it – and in the US case to lie about its true percentage – and to then in turn to tax that largely illusionary gain in the value of people's savings, is a breach of public trust.

I would argue that it should lead to a class action against governments - and impeachment - but then most folk do not have much grasp of economics. All they know is that it is becoming increasingly difficult to earn a living wage in return for honest labour. But even the functionally illiterate understand that their incomes are buying steadily less and less......and they are voting with their feet ...everywhere!

Governments are falling and seemingly not grasping why. Well I can tolerate most things about government but I cannot tolerate government thinking I am too stupid to realise it is not looking after my interests! And most of all I cannot tolerate being lied to by government!

So let's turn to South Africa to see what our government's track record has been in looking after the savings of its citizens. Thus if the US Dollar has been losing value at an annual rate of 8.19 percent relative to the price of gold and the Rand has, on average been losing value at six percent annually relative to the US Dollar, surely that means the authorities charged with protecting the savings of ordinary South Africans have been failing them at an incredible 14.9 percent annually! That's a devastating number and it tells you completely why the ANC lost the election!

My next graph illustrates the point entirely. Though the blue trace records the day-to-day value of the Rand relative to the US Dollar, the red line represents the long-term mean, and the slope of that line is a constant six percent:

So the net conclusion of that combined figure of 14.9 percent is that the life savings of ordinary South Africans are HALVING every 58 months! If the average human life-span is 73 years currently, that means the average South Africans' savings will halve and halve again a total of 15 times.

Now let's contrast that with the investment most South Africans employ for their wealth-preservation, the six times winner of the People's Choice Award which is decided by an annual poll: the R14.5 billion Sanlam Satrix40 exchange traded fund. By Sanlam's own publicity, since inception this investment has offered an annual average return of 5.5 percent.

Subtract 5,5 percent from 14.9 percent and it is clear that those who are putting their savings into South Africa's most popular investment are thus LOSING 9.4 percent a year!

But it gets far worse than that. Had you bought the Satrix40 ten years ago on August 18 2014 you would have paid R46.55 a share which would today be worth R74.56. Thus your gain, if you needed to realise the money would be a net R28.01.

Now smart investors have long known that the best means of preserving wealth is to create a family trust because that lives on after you and thus prevents the State from claiming an additional chunk of your savings in the form of death duties. So, within a trust, 80 percent of that Satrix gain would be subject to Capital gains Tax at 36 percent.

So instead of receiving your R74.56 per ETF share, SARS would claim R8.07 per share and so you would only receive R66,49. If you care to calculate it, the actual return after tax would thus be just three percent compound!

How is it possible to save for your retirement in a country like South Africa where money is depreciating at 14.9 percent annually and the best you can hope for from the nation's most popular investment is 3 percent?

That's why people are leaving. According to the Henley Private Wealth Migration report, South Africa is expected to lose 600 dollar millionaires this year. And it is not that we have a lot of them. Henley figures suggest there are just 37 400 left. A total of 18 700 have left Africa in the past decade.

There are still 12 300 in Johannesburg and 7 400 in Cape Town, another 2 900 in Paarl, Franschhoek and Stellenbosch, 3 500 in Durban and another 200 in the Natal Midlands, 2 100 in Pretoria and 3 200 living somewhere along the Garden Route leaving 5 800 thinly scattered in the rest of the country.

But there is hope in store. The folk at ShareFinder have been hard at work and have come up with the basis for a global ETF that should remove all your wealth-preservation stress! I will provide more details in future columns.

The month ahead:

New York's SP500: I got it wrong when I predicted that weakness would continue but at a slower pace until around August 21 followed by gains until the end of October when another six months of losses seems likely. After the massive collapse a sharp recovery was inevitable but ShareFinder is uncertain of where to from now. In the short term it sees weakness until mid-September. Longer-term however it sees gains until October.

Nasdaq: I also correctly predicted declines likely until early September and then a volatile recovery to the end of October. But next year looks to be downward for a long time.

London's Footsie: I also correctly said the recovery could last until mid-month presaging a lengthy decline well into the New Year.

France's Cac 40: I correctly predicted gains until early-September and then another sharp dip, another recovery to early November and then a crash to the New Year.

HongKong's Hangsen: I wrongly saw another month of declines. Now I see a few more days of gains and then it is down-hill until the end of the month. Longer-term I see gains to the end of November, a weak December and then more gains to a March peak.

Japan's Nikkei: I correctly saw gains which are likely to continue to the end of November.

Australia's All Ordinaries: I did not anticipate the current brief recovery but I do not expect it to last beyond the end of the month. October should, however, see some fresh gains but then it is likely to be weak until February.

JSE Top 40 Index: I correctly called gains into mid-August followed by volatile declines until next April.

ShareFinder JSE Blue Chip Index: I correctly saw weakness continuing to mid-September and then gains to early October followed by declines to the end of the year.

Rand/Dollar: I correctly predicted brief weakness within a longer-term recovery well into the New Year.

Rand/Euro: I wrongly warned that most of August would be weak. But I do not expect strength to last beyond August 20.

The Predicts accuracy rate on a running average basis since January 2001 has been 87.36 percent. For the past 12 months it has been 94.86 percent.