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TOO MUCH GLOBAL EXPOSURE CAN HURT YOUR RETIREMENT

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Until the early 2010s, South African investors had a strong bias towards investing in local markets. Offshore markets were generally perceived to be too far away and too inaccessible to consider. Data about performance and alternative investments was also not readily available until about a decade ago. In recent years, the tables seemed to have turned. Now, local investors want as much offshore exposure as possible. Some would-be financial experts even suggest taking all investable money offshore. These advisors and other service providers play on investors' recency bias and simply sell the story that clients want to hear, instead of educating them about long-term investment strategies and asset allocation decisions.

Our research, along with that of many other reputable asset managers, shows that inappropriately high global exposure can hurt an investor, especially if the entry price to gain that exposure was too high. Over the last five to ten years, equity markets in developed countries, aided by low interest rates and quantitative easing, outperformed emerging markets. Emerging economies like South Africa's, that lacked structural reforms severely underperformed compared to developed economies, and their markets followed suit.

Most investors do not have an investment strategy for 20+ years they only remember the last five to ten years. This is often detrimental to the success of their investment decisions. Investors often buy into the trend of global investing at the peak of a cycle, when monetary authorities have already started to increase interest rates and are reducing their liquidity and balance sheets.

For this reason, the South African Reserve Bank's decision to allow more global exposure in balanced funds could not have come at a worse time. It would have been much better if they changed the policy five or even ten years ago, when South African investors could have enjoyed the once-in-a-lifetime above-trend growth that the equity markets in developed markets produced.

It seems that investors are not getting the quality, holistic financial advice they need to make informed global investment decisions. For the everyday investor saving towards retirement, it's important to understand that you can have too much global exposure.

This applies particularly if you are already retired and are drawing an income from your investments. Global asset classes do not always outperform and are often quite volatile, especially if you consider global bonds and cash. And excessive volatility does not produce greater returns. In fact, it reduces a portfolio's long-term performance. Being overexposed to global markets at the wrong time can therefore hurt your investment portfolio.

Another common fallacy among investors is that the rand will always depreciate. Although this is true in the long term, it is not always the case in the short and medium term. The rand has depreciated over the last decade or two but has been getting stronger over the last five years. If you were invested in the wrong global asset class over the last five years, your portfolio would have been losing money in rand terms, which is exacerbated by fees and the effect of inflation. Once again, this is an unfortunate scenario if you are retired and drawing an income in rands.

Before making the strategic decision to allocate more of your investment portfolio to global assets, consider your long-term objectives. Speak to a financial advisor who can provide global investment advice that comes from subject area specialisation and expertise.

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