

HOW TO TRADE AND INVEST OFFSHORE

Before you part with your hard-earned cash, learn how to spot foreign exchange scams and invest wisely overseas



AT THE beginning of this month, we looked at investments and how you can make your money work for you (How to invest wisely, 1 October). We looked at different investments and now, as promised, we take a more in-depth look at two areas where people are putting their money.

This year, much has been said about how the rand has lost over 30 % of its value against the US dollar, Euro and British pound, resulting in higher import costs. When one saves and invests all their money in SA, all this capital is affected by changes in the value of the rand over time.

As a result, people are looking at other ways to make their money grow. One such way is trading in foreign currencies and another is investing overseas.

Here's more about both options:

FRAUDULENT FOREX TRADERS

With the decline in the value of the rand, we've seen many "free foreign exchange (forex) trading training schools" popping up. These are often advertised in malls.

I've been to one of these sessions and found that some of them invite groups of people to training sessions at fancy hotels, where people are impressed by how "easy" it is to become a millionaire in a few months. These schools then offer candidates a chance to trade on a "demo software programme" before buying the real software and being able to trade.

I tested the "demo software", making virtual transactions, and found that no matter what I did, I made a huge amount of profit daily – up to R140 000 a day if the money had been real. These "demo profits" entice new traders to immediately buy the "live system" at a cost of R5 000. I've even assisted an individual who paid R15 000 for trading software.

However, once you're actually trading live, it quickly dawns on a user that it's not so easy. Huge losses soon follow. You can't report the software seller to the Financial Services Board (FSB) since you were "trained" and agreed to the risks.

In fact, the sellers are "millionaires" due to sales from the software, not forex

trading. Selling a R5 000 software package to 1 000 people yields R5 million profit.

ABOUT OFFSHORE INVESTMENTS

Many local investors are now considering keeping up to 10 % of their portfolios outside the country in foreign currencies. These investments are called offshore investments.

They help to maintain the value of the investor's portfolio because, when the rand loses value locally, their value in rand terms increases.

For example, if you pay R10 for a US dollar, and the rand drops to R15 a dollar, your investment will be worth R5 more for every dollar you bought.

This provides a "hedge" of protection against the rand losing value. Therefore, when investing offshore, one is often said to have hedged against the rand losing value.

WHO CAN INVEST OFFSHORE?

Offshore investment expert David Iraka, CEO of Ancestry Capital, says, "Any South African citizen can utilise their R10 million annual allowance to invest offshore. Offshore unit trusts can be purchased with as little as R500 per month."

He adds that there are various reasons for investing offshore: "Storing your investments in a stable economy, diversification into hard currency (US dollar, pound sterling) and hedging yourself against a depreciating currency".

Or you might simply want a credit card or bank account in another country, perhaps to fund university fees for your children if you plan for them to study overseas.

You might also be a frequent traveller who needs forex. Even businesses that import many goods typically hold money offshore to also make transactions easier and plan better against losses in the value of the rand.

On African investments, David says, "Most African economies have strong GDP growth and many opportunities but lack efficient investment vehicles to invest in, so it's recommended you speak to an experienced adviser before investing."