THE REASONS FOR INVESTING OFFSHORE: A SOUTH AFRICAN PERSPECTIVE

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Abstract

The value growth of some domestic investments have far exceeded that of offshore investments in recent years, which has led to some investors asking this question: What is the point of investing offshore? The long-term case for diversifying offshore seems to remain powerful even though the domestic currency might strengthen. Investing in multi-currency vehicles that diversify offshore risks across a range of currencies could be vital for offshore investors. As such, this paper aims to identify and rank in order of importance the reasons why South African investors invest in foreign countries. This paper will be based on a literature review as well as views and experiences of South African investment brokers registered with the Financial Services Board.

Key words: Risks, Reasons, Investors, Offshore Investments, Foreign Market, Investment Pitfalls, Diversification

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1. Introduction

Investments can be seen as a way of increasing wealth; however, there is generally no guarantee that investors will make a profit or even that they will get back the same amount invested in the first place. According to Rose and Hudgins (2005), investments are different from savings. They are typically designed for the longer term, and involve different types of risk. According to Kruger and Roper (2003), an offshore investment is an investment conducted in foreign countries. For example, a South African investor investing assets in an institution or fund based in other countries. According to Wikipedia (2009), an offshore investment is the allocation of assets in a jurisdiction other than the investor's country of residence.

Thakerse (2005) indicates that investing offshore became a common practice with many South African investors investing a portion of their investment assets in different foreign countries. This could have been influenced by the notion that diversifying investments globally would give investors a balanced exposure to different risks and returns as opposed to investments in domestic markets. Although this seems to be a good approach to investing, the level of offshore risk exposures and the type of investments chosen should be dependent on the investor's objectives and risk tolerance.

During the past decade, the South African economy has developed rapidly and has been affected by global market fluctuations. A number of South African investors are becoming global players by investing in foreign countries and markets. However, investors have different reasons for investing offshore. Thus, there are a number of reasons to consider when considering doing business or investing in foreign countries. This paper seeks to identify and rate, in order of importance, the reasons that should be considered when investing offshore. In support of this objective, the paper is divided into a brief literature review of the various reasons and pitfalls for investing offshore. This is followed by a methodology to determine the appropriate reasons in order of importance that should be considered by offshore investors.

2. Literature review

There are numerous reasons for investing offshore. According to Gough (1998), investors are motivated by a number of factors, but the main reason for investing offshore should be the protection of assets rather than making money. The reason for protecting assets is that the principles of sound investing stress that assets should be protected before measures to create more wealth are put in place. According to Swart (2013), it is logical that various investors will invest offshore and this may be fashionable for some, but for those living in emerging countries, with a secured job or financial means, it is an essential requirement. It is regarded as an essential requirement since diversification is a key principle of sound offshore investing (Ware and Roper, 2001. The reasons for investing offshore as well as investors' financial situations and investment objectives consequently differ. The next section will focus on the reasons for investing offshore.

2.1. Reasons for investing offshore

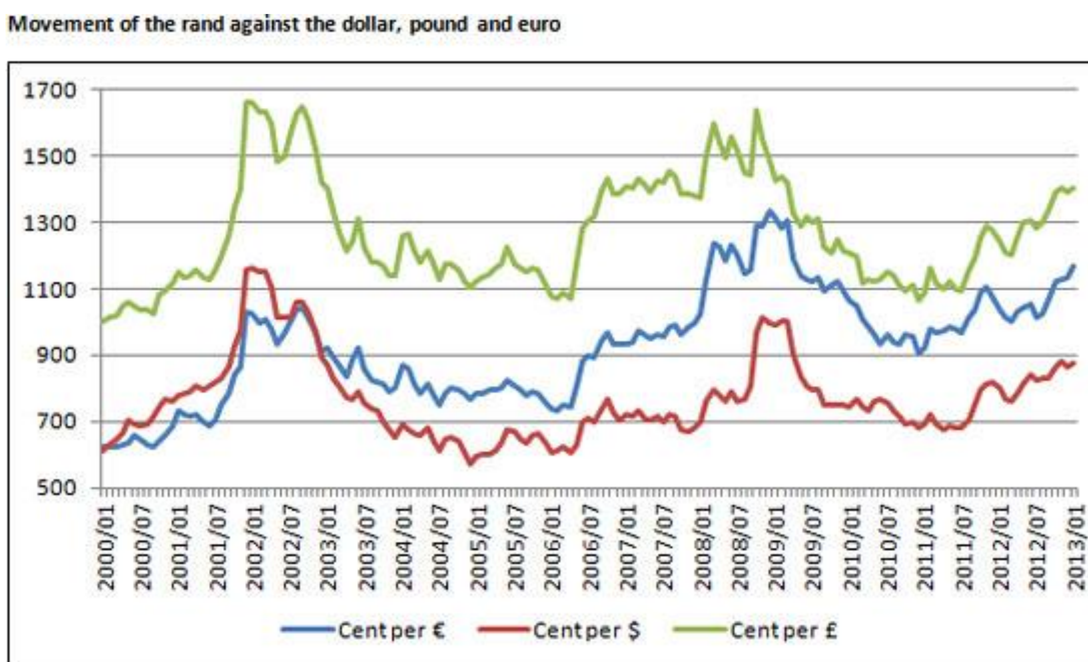
The following seven reasons are regarded as common reasons for investing offshore.

2.1.1 Diversification

According to Ware and Roper (2001), diversification gives investors an opportunity to spread risks over more than one market with investments in both established and emerging markets. South Africa is considered a high risk because it is an emerging market, and emerging markets can often be very volatile, while established markets offer the prospect of steadier growth. A balance of both high-risk and low-risk market exposures can provide the growth investors need without excessive risks.

Any investment planning should involve diversification (spreading the risk), whether across currencies, investment vehicles or markets. In this regard, the risks associated with confining investments to the South African investment market alone should be carefully considered. The fluctuation of the rand relative to developed world counterparts is a motivation to invest in hard currencies (Rainbow, 2013). The relative strength of the rand over the past thirteen and half years (Figure 3.1 below) may well create an ideal opportunity to purchase hard currencies. When the domestic currency appreciates, it creates an opportunity to buy offshore investments relatively cheaper, exposing domestic investors to international markets.

Figure 2.1. The strength of the rand relative to a dollar, pound and euro from January 2000–January 2013



Source: SARB

Additionally, Rainbow (2013) warns that, as South Africa has been classified as an emerging market, no matter how solid South African political, economic and investment fundamentals are, difficulties in other emerging economies can have a negative effect on South African markets. Being part of the African market may also imply political risk, which can be minimised by investing part of the investor's wealth in more stable regions. Investing in an offshore portfolio means that the investment is not

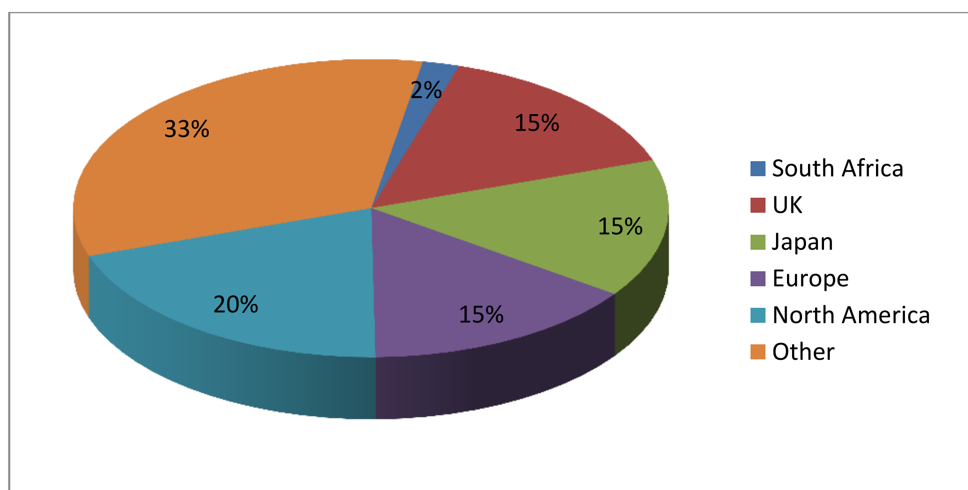
influenced by one country's political and economic stability alone. Should the rand decrease in value, the investor could actually expect a higher return on its investment (in rand terms), meaning that the investor is also diversifying currency risk.

2.1.2 Geographic spread

According to Du Preez (2005), geographic spread is investing in different countries at different stages of their growth cycles. Diversifying investments across several economies is regarded as a way of smoothing out returns. Smoothing out returns is done by combining investments from economies experiencing rapid growth with those that are growing slowly. There is a vast array of investment products available worldwide. Some of these products are not offered in South Africa; therefore, the offshore arena increases the range of investment opportunities available to the investor. When investing offshore, the investor is not limited to the domestic market but has a choice of investing in different currencies, investment vehicles and markets, where the best possible opportunities for a good return exists.

The South African stock market constitutes about 2% of the world stock market capitalisation. The total of all emerging markets is about 8%. It would, thus, probably be prudent to consider investing in more mature markets, other than emerging markets only. The following figure indicates the size of South African stock market relative to other stock markets.

Figure 2.2. World stock market capitalisation



Source: Adapted from Business Times, 2013

2.1.3 Enhancing returns

The diversification of an investor's portfolio across markets, structures and instruments could mean that the investor who makes informed choices could greatly increase the total return on an investment portfolio. According to Kruger and Roper (2003), investors should ensure that the investor's profile is considered before choosing an offshore investment portfolio. A balanced spread between equities, bonds, cash and other investments should be sought, based on the investor's risk profile, as well as short-, medium- and long-term needs. The performance of the offshore investment made should be considered in light of the envisaged time horizon. It should not be expected that a direct equity portfolio would show magnificent returns in the first few months or even a year. This is especially true if one considers that in the year 2000, equities had their worst performance year in the last 25 years. This has continued into 2001 and 2002, which emphasises the importance of appropriate planning and investment diversification between different asset classes. The availability of offshore investments could mean that the investor who makes careful and informed choices of offshore investments could enhance the return on the total investment portfolio as a result of a wider choice of investment options.

2.1.4 Rand hedging

According to Klein (1998), inflation has radically changed investors' attitude towards investments. However, diversifying globally could increase inflation-beating returns. When exchange controls were relaxed in 1997, the rate of exchange was R4,60 to the US dollar. At the end of 2001, the rand depreciated to almost R14 to the US dollar. The long-term trendline indicates that R10,1 as at December 2008 was consistent with the past performance and could have been foreseen. In that period, the rand had lost a compound 10% per annum by November 2008. This is a trend that appears likely to continue and the reasons provided for the rand's deterioration in the year 2007 included, inter alia, continuing emerging

market woes, the lack of domestic and international confidence in the South African market.

Higher potential earnings and higher potential capital gains with investments in foreign currencies that offset any decline in the values of the rand (and therefore the value of domestic investments) are likely to improve the risk-return ratio in any portfolio.

2.1.5 Confidentiality

Many offshore jurisdictions offer the complementary benefit of secrecy legislation. These countries have enacted laws establishing strict corporate and banking confidentiality. If this confidentiality is breached, there could be serious consequences. For example, a breach of banking confidentiality is regarded as divulging customer identities or disclosing shareholder's profile. This secrecy does not mean that only drug lords and other criminals invest offshore. Offshore laws will allow identity disclosure in clear instances of drug trafficking, money laundering or other illegal activity (Hyman, 2006).

2.1.6 Increased investment opportunities

The offshore investment arena provides increased opportunities, since investors can invest in various countries, products and industries. The opportunities range from foreign currency fixed-period bank deposits, foreign government and corporate bonds to shares on different stock markets and foreign venture capital. This spread will give a balanced exposure to different risks and returns. According to Morris (2007), internationalised investment has lower risk and higher returns over the long term. Investors can also protect themselves against a decrease in their real wealth by sourcing expert advice from offshore fund managers. With expert advice available, it is imperative that an acceptable level of risk be clearly defined and measured. The investment duration should also be considered as far as possible in order to simplify the investment decision and make the objectives more meaningful.

According to Swart (2013), several offshore investors who never planned their investment ended up being insolvent or suffering losses. The continued relaxation of exchange from R750 000.00 in 1997 to R4m per family unit in 2010 has led South Africans to embrace the offshore marketplace in greater numbers. Indeed, when the relaxation was originally introduced in July 1997, it was mooted in the press that all South Africans should have at least 20% to 30% of their investment portfolios invested offshore. An article by Sanlam (2008) advises that, in general, 25% to 30% of an investor's portfolio should be invested abroad. Those wishing to take a higher risk profile (a younger person) might take it up to 50%, while a pensioner would be well advised to restrict foreign investments to around 20% of the total portfolio.

Needham (2007) warns offshore investors to invest in a diversified portfolio. However, the reasons and percentage of an investment portfolio that should be invested offshore depends on the investor's individual circumstances. Offshore investors should not invest more than 30% of their assets oversees if they have expenses to pay in South African Rand (ZAR). Apart from this, the rules for investing abroad should be the same as investors would apply when investing domestically.

2.1.7 A balanced portfolio

According to Solnik and McLeavey (2003), offshore investments do not necessary always outperform a domestic investment portfolio in the short term. However, in the long term, an investment portfolio with adequate offshore exposure should always outperform a portfolio with pure domestic exposure. A five-year comparison would show the offshore portfolio to mostly outperform a South African-only portfolio. A factor that could contribute to an offshore portfolio outperforming a domestic portfolio could be the rand's depreciation against other major currencies. Additionally, over the five years before the World Trade Centre attack on the 11 September 2001, the rand depreciated by 15% per year against the US dollar, 13% against the British pound and 9% against the euro. If this trend continued, the cost of a US dollar in 2011 would have been R32.

Domestic investors could suffer a loss or realise low returns due to a single disaster, while in the case of an offshore investor, a disaster in Switzerland may be offset by gains in the United Kingdom. Moreover, foreign investors benefit from the cycles of different asset classes and economies. Keeping all assets in one currency is hard to justify in a world where traditional barriers are being broken down (Swart, 2013). Investors who make informed choices when investing offshore could enhance the return of their total investment portfolio, while simultaneously reducing the overall risk. The right choice of currency, market segment, geographical region and asset class could lead to a balanced portfolio (Du Preez, 2005).

Irrespective of the financial situation, risk profile and the reasons for investing offshore, offshore investors need to be knowledgeable about facts and underlying risk factors pertaining to offshore investments. As such, no investment alternative is entirely without risk. Therefore, potential investors should predetermine the risks and the potential return in order to ensure that the investment is aligned with their objectives. Each investor has an own unique attitude towards risk and return, and the degree of risk an investor is willing to accept should be a derivative of its investment objectives. This section focused on the reasons for investing offshore in relation to investing domestically. As no investment is entirely without risks and disadvantages, the next section is dedicated to offshore investment pitfalls that investors

should be mindful of before making an offshore investment decision.

2.2. Offshore investment pitfalls

South African offshore investors are relatively newcomers to the offshore investment arena. If the South African investment arena is perceived as complex, this is so much more the case in the offshore marketplace. As such, it is crucial that certain offshore investment pitfalls that may be encountered are highlighted. Milazi (2009) warns against these offshore investment pitfalls.

2.2.1. High returns expectations

The main purpose of investing offshore should be to diversify an investment portfolio by gaining exposure to world markets and currencies which may be more stable and mature than the domestic market. The South African market is classified as an emerging market and performances of these markets are normally more volatile than those of mature markets. In good times (bull market), the domestic securities exchange can outperform many other markets, but in the case of a crash (bear market), the effect is often more severe and the recovery slower. A financial adviser who sells an offshore investment on the grounds that the rate of return of offshore investments is always superior to that of the domestic market could have difficulty explaining a year like 1999 and the first quarter of 2001 when the JSE performed well and the rand was stable relative to most hard currencies.

This pitfall can be eliminated by positioning the offshore investment correctly. A stable investment could offer consistent returns which, over the long term, will be enhanced by the depreciation of the rand against other major currencies.

2.2.2. Monitoring offshore investments

Offshore investment funds are normally transferred from the authorised dealer to the offshore bank account of the product provider. A problem may arise if the funds are already in an offshore bank account. In such a case, the particular bank has to be notified of the transfer of funds to the product provider who may be an unknown entity to the foreign bank. In these circumstances, it may well happen that the funds are not matched immediately by the product provider. It could be very frustrating to have made a transfer of funds if the product provider or the offshore trust created fails to make an investment in time.

The best solution to this pitfall is to diarise it and hand it in against a signature from the product provider and the authorised dealer. Monitoring offshore investments should be closely monitored and continuously followed up via phone calls and e-mails to all the relevant parties. As far as possible, cross-references should be made on all documentation as far as the investor's details and the application numbers are concerned. This will enable administrators to match the funds and application forms, especially if covering letters explaining the details of the investment are also attached to the original forms. As an alternative, the investor could request the transfer of funds out of the relevant bank account, thus obviating the need for the product provider to deal with the bank at all.

2.2.3. Investing in products without a South African presence

Offshore investors should invest in products that they are conversant with to avoid unnecessary administrative problems. Logistically, it will become a burden to always have to communicate a query to an offshore office. It may become an unnecessary expense. There are many offshore scams told about South African investors who invested in offshore sham companies and lost a lot of assets invested through these offshore scams. This could have resulted from the fact that these transactions were concluded illegally in the time when offshore investments were not permissible in South Africa.

The investors had to deal in secrecy without properly investigating the investment house. These investors are often left to fend for themselves against ruthless exploiters as the South African authorities do not know about these product providers and they have not been approved by the FSB. The investors also did not have any legal recourse, as they did not want the authorities to know about their contravention of exchange control regulations.

The worst case is that offshore investors could struggle to get information about their investments. All investors should be satisfied that the product they are investing in is suitable to their needs and that there is administrative backing provided from within South Africa. If the product provider does not have an intermediary in South Africa, it should at least have an arrangement with a South African provider to distribute its products.

2.2.4. Trading in foreign language

English is generally the accepted language for most international transactions. However, it may happen that the investor has funds in a bank of a country where English is not a formal business language, for example Germany, France and Switzerland. Offshore investors with investments in such countries may give an instruction to transfer the funds to the product provider or the bank in English. The pitfall can be the possibility that the fund manager at that office might not understand the instruction and therefore does not act in time. The instruction may be sent to a translator once received to verify the contents. Then the translated letter is sent back to the investor for acceptance.

All of the aforesaid may waste time and delay the completion of the transaction. In cases like these, an investor should hire a translator who writes all the instructions and covering letters in the appropriate language on the investor's behalf to speed up the process.

2.2.5. Timing the currency

The fluctuations of the rand against other strong currencies seem to form a pattern where the rand remains stable for few months and then suddenly fluctuates in a high trend in another month. This is normally due to a monetary crisis or financial market instability, or an attack on the rand by speculators. If an investor has decided to make an offshore investment during a stable period (where the fluctuation of the rand is stable for few months), it does not make sense to time the small currency movements. The time and date of the next big depreciation is unpredictable, and playing around to make a small gain might not be worth it.

2.2.6. Registering all family members as taxpayers

Due to the possible tax implications of offshore investments, SARS has an active interest in the performance and the income earned from offshore investments. In some cases, an investor may donate or lend money to his or her spouse and children over the age of 18 years who are not taxpayers in their own right, for example students and housewives, to increase the amount of investments offshore. In most cases, SARS will only grant a tax clearance for these persons in respect of offshore investments once these investors have completed a tax form (IT12). This form can accompany the clearance application to SARS for an offshore investment. If this is ignored, SARS is unlikely to give these persons the necessary permission. If a wealthy investor does this, the amount of his family's exposure to offshore investments can be extended. However, the extension has the following downside:

- these individuals will have to submit annual tax returns; and
- in certain circumstances, their investment income will be deemed to be their own income as a result of the application of section 7 of the Income Tax Act, as stated (South Africa, 1962).

Wealthy offshore investors face this challenge more often than other investors. The pros and cons of registering all family members as taxpayers should be taken into account before taking this action.

2.2.7. Restrictions on the value of offshore investments

Certain investors are biased towards offshore investment or their assets are so vast that the R4m offshore allowance is insufficient to balance their portfolio. If the investor is married, he or she could donate an amount to his or her spouse and children over the age of 18 years, who could utilise such funds for offshore investments. The added advantage is that such a donation is exempted from donations tax in terms of section 56 of the Income Tax Act. The income that accrues to or is received by the spouses from the investment could, however, be deemed to be that of the donor spouse in terms of section 7(2) of the same Act.

Donations to children are, however, not exempt from donation tax. All donations above R30 000 per taxpayer per tax year are taxable at the rate of 20%. If an investor has children of 18 years and older, such investors could lend their children money on condition that they utilise it to make an offshore investment. There should not be a problem if such investment is structured as an interest-free national transaction; thus, section 31(2) of the Income Tax Act is not applicable as long as the family members are all residents of South Africa. An investor, who is not married or does not have children above the age of 18 years or other suitable family members, may utilise institutional offshore investments and containers to invest offshore.

2.2.8. Hidden trust and product costs

Offshore product providers are normally transparent about the cost of setting up and investing in their products. Initial investment advice fees are similar for most products. The financial adviser may often reduce this fee by forfeiting some upfront commission. For every percentage the financial advisors forfeits, the product becomes a percentage cheaper. The hidden costs are normally not so apparent, for example if the investor withdraws funds from the investment, he or she may have to pay an early withdrawal penalty. Switches between funds, requests for valuations and transfers from bank accounts may also appear more expensive in the offshore environment than in the South African environment.

2.2.9. Tax pitfalls

Tax issues may be attributable to choice of jurisdiction or choice of investment. The choice of investment is extremely important but this is heightened by virtue of the fact that there are more than 60 tax jurisdictions. The mistake most prospective investors make, is that jurisdictions are selected where taxes are deducted, rather than investing in tax havens that do not deduct source-based taxes. Once paid, relief has to be sought in terms of the appropriate double taxation agreement (DTA) or, failing a DTA, in terms of section 6 of the South African Income Tax Act. Tax considerations based on choice of investment are also important. Care should be taken in structuring an investment or offshore structure so as not to invoke the transfer pricing provisions in section 31 of the Act.

2.2.10. Selecting a jurisdiction

The choice of jurisdiction must be considered cognisant of a developed system of law and comprehensive trust law. Other considerations include:

- political and economic stability;
- taxes on income or capital;
- activeness of banking sector;
- effectiveness of communications;
- logistics and time variances; and
- professional, corporate and banking services.

The above factors will ensure that the appropriate offshore trust is set up. A jurisdiction where investments are channelled is important as the costs of setting up and administering offshore trusts vary considerably. Offshore investors need to understand the type of trust and what it could be used for, and this should be reflected in the price.

2.2.11. Selecting a currency

Investors should carefully consider the currency in which the investment is denominated, taking into account the fluctuations of the currency in relation to other currencies. The main objective when selecting a currency should be to align the objectives of the investment with the currency that will guide the investment to the intended results.

2.2.12. Trust pitfalls

According to an article by Sanlam (2008), a trust is an agreement between an owner of assets and trustees. In terms of this agreement, the trustees undertake that they will administer the assets of the trust with the necessary care to the benefit of the beneficiaries. It is an efficient and flexible way to ensure that assets are looked after. It also ensures that assets are objectively managed and controlled by appointed trustees in the best interests of the beneficiaries. In this case, the offshore investor will be the beneficiary in the trust.

Offshore investors should be aware that a trust is not appropriate for every single investor and careful analysis is necessary to balance the benefits of trust structuring with the associated charges. An investor must consider the benefits of the proposed trust from an income and inheritance tax perspective, as well as other possible advantages that the creation of the trust may hold.

2.2.13. Not divesting from trust assets

Trusts and other offshore structures could be expensive in rand terms and as a result, the investment should be for the long term, if estate-planning objectives are to be met. Investors often make the mistake of creating a trust and then they include these assets in their immediate South African financial planning. Remitting the capital to South Africa before at least 5 years have expired is often not worth the additional cost. The transfer of income or interest back to South Africa after few years is expensive due to the cost of converting currencies, taxes and fees by the trustees. According to Hill (2007), offshore investments must be long term in nature, allowing movements in the different investment phases and maturity.

The placement of assets as collateral security in an offshore trust for a debt with a domestic institution could be complicated and expensive. This may involve the issuing of a Letter of Comfort by the offshore trustee (Hill, 2007). South African institutions are hesitant to place high security value on these investments due to the complications of legal actions.

All of the foregoing are examples of problems which could be prevented with a proper financial plan. In all of these instances, some of the tax and other benefits of a trust are lost and the settler (a person who settles property on trust law for the benefit of beneficiaries) does not divest from the trust assets. The divestment of the settler control must be fully conversed with the trust parties before a trust is set up in the first instance.

2.2.14. Taking money belonging to another person offshore

A wealthy person would often need to invest more than the R4m offshore, which a family unit is allowed to invest. A close friend or family member could be approached to utilise his or her offshore allowance and travel allowance to transfer money offshore on behalf of the wealthy person.

This is a contravention of regulation 10 (i) (c) of the Exchange Control Regulations (Act No. 9 of 1933). Such a person could thus be liable for penalties for helping direct or indirect exportation of capital without the approval of SARS. According to the South African Income Tax Act (1962) as amended, the burden of proof as to the whereabouts of and income produced by those funds lies with the taxpayers if these funds and income are never disclosed on an income tax return. SARS can assess the individual on an assumed interest rate on the relevant amount. Even if these funds were transferred directly into an offshore trust for the benefit of another person, it could lead to contraventions of exchange controls and negative tax consequences for the transferor of the funds.

In conclusion, the decision to invest offshore is not one to be taken lightly, as there are many pitfalls that need to be considered, which could be detrimental to an offshore investment plan. According to the discussions of each reason and pitfalls associated with offshore investments, it is apparent that offshore investments are not risk free. Thus, offshore investors need to assess each and every pitfall individually, to determine the extent of the risk exposure before making an investment. The next

section will focus on the research methodology used for the gathering and analysis of data for this paper.

3. Research methodology

The aim of the paper is to determine and rank, in order of importance, the reasons that should be considered before investing offshore. As such the investment brokers registered with the Financial Services Board (FSB) and licensed to trade offshore were selected as the target population to respond to a closed structured questionnaire. A web-based questionnaire using LimeSurvey was used to collate data from the respondents. The SPSS statistical methodology was used for the analysis from where recommendations and conclusions were drawn.

According to the data obtained from the FSB, the investment industry in South Africa consisted of fifty-two (52) investment brokers in July 2013. However, it was confirmed that only twenty-eight (28) investment brokers were registered and licensed to trade offshore. A response rate of 44% was achieved which was regarded as sufficient to make reliable and valid conclusions.

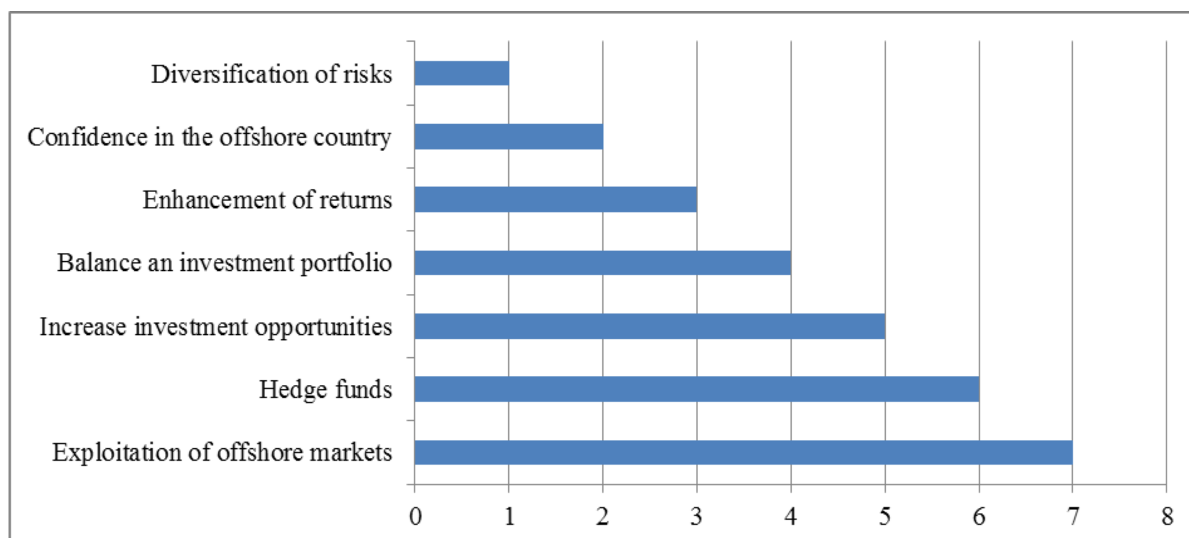
4. Discussion of findings

The response was subjected to a descriptive statistical analysis process and focused only on the identified respondents, which has been at the forefront of offshore investments and plays a key role in the South African offshore investment market. According to empirical evidence obtained from the respondents, there are seven common reasons for investing offshore. The respondents were asked to rate their level of agreement from **strongly disagree** to **strongly agree** using the Likert scale below. Each reason was assigned a value from 1 for **strongly disagree** to 5 for **strongly agree** and the weighted average per reason was computed.

Scale Value	Scale name	Scale description
1	Strongly disagree	Indicates that the respondents strongly disagree with the statement when making an offshore investment decision according to their views and experiences.
2	Disagree	Indicates that the respondents disagree with the statement when making an offshore investment decision according to their views and experiences.
3	Neutral	Indicates that the respondents are neutral regarding the statement when making an offshore investment decision according to their views and experiences.
4	Agree	Indicates that the respondents strongly agree with the statement when making an offshore investment decision according to their views and experiences.
5	Strongly agree	Indicates that the respondents strongly agree with the statement when making an offshore investment decision according to their views and experiences.

The seven reasons identified in the literature review were confirmed as reasons that are important to consider when making an offshore investment decision. However, the respondents rated the reasons' level of importance differently as indicated in the figure below.

Figure 4.1. Reasons for investing offshore



The above figure indicates that diversification of risks should be the main reason that investors should invest in foreign countries. All respondents strongly agreed that diversification of risk is or should be the main reason for investing offshore. Confidence in the offshore country was rated as the second most important reason for investing offshore by 83% of the respondents. Generally, investor would prefer to invest in a country that has a proven track record of market stability and investment friendly policies.

Seventy-five per cent of the respondents strongly agreed that enhancement of returns is a third most important reason to invest offshore. However, before investing offshore, investors need to consider why they are making this investment decision as it could sometimes do more harm than good to their investment portfolio. Seventy per cent of the respondents strongly agree that balancing an investment portfolio is the fourth most important reason for investing offshore.

Increasing investment opportunities was regarded as the fifth most important reason to invest offshore. Recently, local markets have performed well in relation to offshore markets, which has resulted in the price-to-earning ration of local assets rising to a point where finding shares that offer value is more difficult. This trend is good for local market, however, it's not likely to continue in the long term. Sixty per cent of the respondents strongly agree that hedging funds is the sixth most important reason to consider when investing offshore. When making a tactical asset allocation, investors adjust their investment portfolio to accommodate current market conditions and allocate money to markets which are offering better value and are more likely to perform well in the future.

Exploitation of offshore markets was rated as the seventh most important reason to invest offshore. It must, however, be emphasised that these reasons cannot be exclusively regarded as the only reasons for investing offshore. Regardless of the reasons for investing offshore, offshore investors should ensure that a proper research has been conducted before investing offshore. There are different investment types and each has its own level of risk. There is generally no guarantee that investors will generate returns or even that investors will get back the same amount invested in the first place.

Before investing, it is usually a good idea to have sorted out all debts, ensuring that protection against unforeseen events and a proper investment plan are in place. There are different pitfall types involved in investing. Therefore, it is important for investors to identify such pitfalls and to consider their willingness to take on these pitfalls. Pitfalls should be considered per investment plan as pitfalls might be right for some investors and too risky for others. The reasons for investing offshore should be directly proportional to the pitfalls of investing offshore (Gough, 1998).

5. Conclusion

The aim of this paper was to identify and rank in order of importance, the reasons why investors invest offshore. The literature review discussed reasons to be considered when investing offshore and pitfalls that could be detrimental to an offshore investment. This was followed by a research methodology which was used in this paper. Then the findings were discussed, which ranked the reasons in order of importance according to the views and experiences of the respondents. Offshore investments are based on the freedom to trade in other countries, freedom to invest where the profits are favourable, and generally speaking the freedom to do business in any part of the world. However, to exploit these international flows in profitability and safety conditions, it is necessary for investors to invest offshore for the right reasons and only when they are ready to take on the offshore markets.

Offshore investors have different reasons for investing offshore. Consequently, the common reasons of investing offshore were discussed. It was evident that, regardless of the reasons for going offshore, a thorough offshore investment plan must be in place before investing offshore. This was followed by a discussion of offshore investment pitfalls that could negatively influence an offshore investment plan. The reasons were considered individually to assess the possible impact on offshore investments and thereafter ranked, amongst others, in terms of importance. Diversification of risk was rated as the most important risk to consider when investing offshore, while exploitation of foreign markets was rated the least important.

In order of importance, the reasons that should receive the highest attention from most important to the least important were ranked as follows:

- Diversification of risks
- Confidence in the offshore country
- Enhancement of returns
- Balance an investment portfolio
- Increase investment opportunities
- Hedge funds
- Exploitation of offshore markets

The above priority list is not exclusive to all offshore investors. However, it can be used as a guideline when considering reasons of investing offshore.

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