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NFB PRIVATE WEALTH MANAGEMENT

PROFICIO

NFB FINANCIAL UPDATE

View from the **Chair**

Resilience is key when uncertainty abounds

A few issues come to mind as we negotiate our way out of a bleak and rather stressful couple of months. The extremely cold snap is being replaced by weather only Johannesburg can dish up. The incomprehensible behaviour of some of our politicians, desperate to stay out of jail, stirring up somewhat vulnerable people into creating a smokescreen for their very serious own agendas. This lent South Africa the opportunity to display what only SA can deliver. A response where all levels of society, all racial groups, all language and cultural groups bent their backs to protect and fix. Taxi organisations and organised labour stood to the defence of other people's property, realising the interdependence on each other.

We have our Olympians doing their thing for a country at the southern tip of Gondwanaland. Seeing the team SA celebration of our newest young super swimmer left me drying my eyes! I am rather happy that she could take her team "vellies" off before entering the pool.

We also must note that, through the recent unrest, our currency suffered very little weakness. Our stock market, likewise, continues to test new highs.

Turning to markets and global dynamics, a few obvious and a few less obvious points warrant noting. The world always changes. Recent events have probably just turbo-charged some of these. I, for one, have with the tireless support of my assistant, wife and sons, taken tech seriously: from buying goods online to finessing some rather sophisticated investments locally and abroad; conducting client-facing, institutional, board and committee meetings; to engaging in family chats with our grandchildren abroad and all perfectly capable of being conducted from the comfort of my patio.

Questions are being asked of us as to what will change for good. I think several things have and will continue to change. People are paying greater attention to their health. This is good and is to be applauded. People are also questioning their purpose, quality of life and work/life balance. Over the last few decades, much has been achieved in extending life expectancy. Recent developments, notably Covid, have impacted this, making people worry that this will be with us for a long time or perhaps forever! Not much is "forever" and as time passes, the horrible and far-reaching impact of Covid will pass. It has also been opined that the Warren Buffett approach to investments is also becoming a dinosaur.

Granted, the "Sage of Omaha" has largely missed the tech story and accordingly left loads of money on the table, but Berkshire has got lots right over time!

It seems logical that many well-established industries, such as retail, entertainment, learning and travel, to name a few, will require radical change to remain relevant. Much has been said about "WFH" (work from home for those not in the know). This is a major transition impacting development, existing properties and leases, service providers, public transport, cafes and restaurants that tenants patronise and city councils who rely on the rates and taxes to meet their budgets and so on.

This will impact the prices and popularity of homes and flats, previously most expensive close to where people worked. Most folk would live further out and suffer long commutes at least five days a week. This might change permanently, or in most cases, a few days a week, ultimately impacting supply and demand with the obvious effect on value.

Further considerations are the big changers and shapers in the next decade or three.

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> ***Markets and, more importantly, humans follow patterns. It's not 'different this time'.***

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It's never too early to start **teaching children about the value of money**

Take an activity-based approach to teaching your children about the importance of managing their money responsibly, and watch their development as they grasp fundamental concepts.

Most parents feel the need to leave a financial legacy for their children. To that end, they're on a constant quest to find better-paying jobs to provide an improved lifestyle for their progeny, with the ultimate goal of leaving them with a financial nest egg.

But are these parents barking up the wrong tree? While leaving children financially secure with a monetary legacy can be greatly beneficial and surely appreciated, arguably the most helpful legacy is instilling in them the principles of the value of money, how to manage their money responsibly, and setting goals so that they can solidify their own financial security.

As much as it is our responsibility as parents to feed, clothe, educate and love our children, to teach children how to value and manage money is just as important. Don't wait until your children are teenagers to start imparting these lessons. In fact, lessons about money should start as early as preschool and should not be limited to teaching them how to save, but also how to spend.

Spending within your means

How you spend has consequences beyond the immediate desire to acquire something. My personal mantra is to spend less than I earn and buy less than I can afford. This means I only spend on my credit card what I can afford to repay at the end of the month.

This mantra was put to the test earlier this year during a shopping trip with my children. Having seen an expensive Lego set that he desperately wanted, my son asked me to buy it for him. I declined his request saying it was too expensive. "Put it on your card", was his suggestion.

I explained that you still have to pay for whatever you spend on your credit card, and earn enough to cover that spend.

Using an adapted version of a children's story called *More than Enough*, distributed by Foord Asset Management, I explained that when squirrels get old they don't have as much energy as they did when they were young, and instead prefer to rest and enjoy the forest a little more. On the other hand, when they are young, they are full of energy and need to collect as many acorns as possible. This is so that they and their family have enough acorns to eat; they also need to collect acorns for the winter months when it might be more challenging to find food; and they need to collect acorns for when they are old and don't have the energy, or the ability, to go out and look for acorns.

This simple story translates well into our daily lives, providing motivation to both earn and save. Firstly, we earn money so that we can afford to buy food and clothes, pay the rent or a bond, own a car, pay school fees and, if there is sufficient money, perhaps go on holiday.

At the same time, we need to create an emergency fund in the event that something goes wrong: to repair the car should it unexpectedly break down, provide for an unexpected health emergency, or cover expenses should we lose our job and our income stream. An essential part of this emergency fund is long-term insurance, which will provide for you and your family in the event of death or disability.

Lastly, we all need to save for retirement - that time when we're too old to work and no longer have the energy or ability to "go out and look for acorns".

Understanding the difference between needs and wants

Teaching children how to distinguish between their needs and wants is a difficult but important lesson, and a critical first step towards self-control and financial discipline. It teaches the tough life lesson that you can't have everything you want, but ultimately helps children see the world more pragmatically. My son, for example, "wanted" the expensive Lego set, but he didn't "need" it.

Show them how to spend

As much as it is important to teach children how to save, if all they are doing is learning how to save they are losing out on an opportunity to learn how to spend their money. Providing children with regular pocket money presents the chance to learn a valuable money lesson if they are taught to save a portion and are only allowed to spend the balance. The amount of pocket money you decide on is less important than the principle.

I started giving my children pocket money and allowed them to manage their own debit cards, on the condition that half the pocket money goes into a "spending account" for whatever purchases they wanted, while the other half goes into a "savings account", not to be touched until they turn 18. To start with, I put R50 per month into each spending and savings account.

It was soon evident that the spending lesson was paying dividends as my children's spending habits started to change. After initially spending their money on sweets, they now understand that if they save for a few months they can afford something more expensive – something that they really want. They even sometimes ask me how much money they have accumulated in their savings account. They have each had a birthday since we started this money project and cash gifts have been deposited into their spending account. They're learning that their savings accounts earn interest and how compound interest is earned if they leave their savings pot untouched.

Financial security

Financial security is within most people's reach, although this will mean different things to different people. If you earn R30 000 per month, for example, you won't be able to afford to own a Ferrari and enjoy an annual overseas holiday, but you can afford to put something away to secure your future. The reality is that very few of us will ever boast a personal fortune the size of Jeff Bezos'. However, financial freedom is in reach of most gainfully employed people.

In his book, *The Psychology of Money: Timeless lessons on wealth, greed, and happiness*, award-winning author Morgan Housel relates the story of Ronald James Read, a gas station attendant and janitor. Read lived a humble life. When he died, aged 92, his net worth was approximately $8 million. There are several valuable money lessons we can all learn from the real-life story of Read.

The first lesson is that no amount is too small to save – even if you can only save a very small amount initially, don't delay starting.

The second lesson is that you need to start saving as early as you can and for as long as you can.

The third lesson is to live humbly. Your lifestyle increases must be well below your salary increases. Don't be tempted to spend additional income. Instead, maintain a comfortable but not excessive lifestyle. As important as saving is, so is how you spend your money. Don't be wasteful and don't make impulse purchases.

The fourth lesson – and an issue that could be the subject of its own article – is the benefit of long-term compound interest. There is a huge advantage to long-term compound interest, as long-term investors like Warren Buffet can confirm. Buffet started investing when he was 10 years old. By the age of 30, he had amassed a net worth of $1 million. Had he stopped investing at age 60, instead of carrying on, his net worth would be just under $12 million, as opposed to the more than $81 billion he is currently worth at age 90. That's a staggering difference and shows just how powerful compounding is.

As parents and caregivers, we have a duty to teach our children about money as early as possible. It's arguably one of the most important lessons we can provide, setting them up for their own financial security. ■

> ***"Teaching children how to distinguish between their needs and wants is a difficult but important lesson."***

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View from the **Chair**

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It is essential to ensure, where appropriate, that these are factored into portfolios where investors seek diverse, growth-focused returns. Together with our asset management and stockbroking teams, we remain attentive to these significant trends and will continue seeking out opportunities both locally and abroad.

Finally, interest rates, inflation and the next period. While the US Fed defends current price increases and the fear of inflation being more than a flash in the pan, I am of the opinion that it is more serious than that. Realising that the flow of money into the system is likely to be sustained as a consequence of policymakers' dovish response and that the US is yet to put its big cashflow into the system, leads me to believe that we will see a change to a more hawkish message in time. The later this happens, the steeper the curve. If yields firm enough, investors will have fixed rates as an alternative to shares and risky assets. This is when watching from the sidelines is recommended.

We, at NFB, favour long-term, steady commitment to growth investments. There is also room for what I like to term a "tree and fruit" approach, where you leave the capital deployed but consider switching some profit to less aggressive investments, in a way, banking the gain. Whenever this is done, we recommend carefully considering the tax issues and ensuring the overall portfolio strategy is maintained. We also watch for signs of so-called bubbles developing. Look no further than the US in 2006-8. It is incredible how history has a habit of repeating itself! Housing prices, DIY costs and the value of people's portfolios, further fuelled by loads of cash in bank accounts not spent during lockdowns, and the feel-good impact of vaccination rollouts are taking us closer to another similar event. Markets and, more importantly, humans follow patterns. It's not "different this time".

Vigilance, appropriate diversification and adjusting portfolios, particularly where gains have been material and losses aren't affordable, are recommended. If you are seeking advice or a sounding board to discuss these issues, it is both NFB and our advisory team's duty and privilege to assist. Please reach out if in need.

Stay warm and safe, and thank you all for your custom and referrals to NFB. ■

Mind your **language**

The language we use is not only responsible for shaping our perception of the world; instead, it too has a significant impact on our financial habits.

If you watched *The Matrix*, you know that there is no reality - there is only perception. What we don't all know, however, is the fact that the language we use shapes our perception of the world.

I'm Ndebele. That's the first language I spoke. I then learnt English. In high school, I did French. Due to an interest in a boy, I learnt a smattering of Tswana. While I studied law, I learnt enough Latin to do well in my exams. Because of the people I've worked with, I also learnt enough Afrikaans to participate in meetings, and I'm now fluent in Xhosa. With this broad exposure to languages, I knew I had a communication advantage but recently found it interesting to learn that, amongst other skills, it also gave me a "thinking" advantage.

Edward Sapir and Benjamin Whorf introduced the theory of linguistic relativism. According to their theory, language determines our perception of reality and even influences our behaviour. Simply put, the theory states that the way people think of the world is influenced directly by the language that they use to talk about that world.

Professor Lera Boroditsky spoke of the Kuuk Thaayorre people. In their language, instead of referring to left and right, everything is referred to in terms of the cardinal directions on a compass. They refer to "your south-west leg", or they would ask you to "move slightly to the north-north-east". As a result, they have a strong sense of direction and stay oriented better than humans were thought capable of, purely because their language has trained them to be.

Language influences our perception. Where in one language it would be normal to say, "I broke my arm"; in another language that sentence would be absurd, as it would imply that a person actively and intentionally took part in breaking their own arm. The correct construction would be, "my arm broke". In the second language, the difference is the removal of perceived blame and the guilt that comes with it.

In French, I was introduced to the concept of objects having a gender. A study was conducted where both German and Spanish speakers were asked to describe a bridge. The Spanish speakers referred to the bridge as tall, long, and powerful (in Spanish, a bridge is male). The German speakers used adjectives such as slender, elegant, and pretty (in German, a bridge is female). The gender assigned to the bridge in the speaker's language affected how they saw it.

Bearing all this in mind, how is your language affecting your finances?

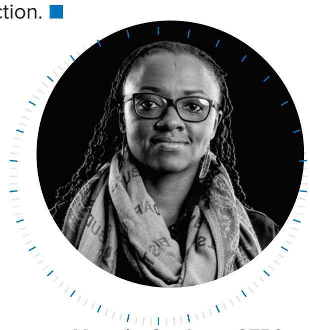
Keith Chen, an expert in behavioural economics, discovered that we approach financial and economic issues differently depending on the language we use. In German, one can speak of the future in the present tense - "It rains tomorrow". A language like English demands a future marker such as "will" or "is going to" - "It will rain tomorrow". English forces its speakers to habitually separate the present and future. Chen found that languages requiring separation can make the future seem too far away to plan for. People who speak these languages will less naturally save for a distant future that may never come, especially since saving involves an immediate sacrifice for future rewards. He says that being required to speak distinctly about future events leads speakers to disassociate the future from the present, leading them to take fewer future-oriented actions. According to Chen, people who speak "timeless" languages, like Mandarin or German, are more likely to save. This was true on many levels: from an individual's propensity to save, to long-term effects on retirement wealth, and national savings rates (where the countries in which those languages are spoken were managing to save 6% per annum more of their GDP). Their languages naturally equate the present and future, making the future appear closer and thus easier to willingly sacrifice for. Speakers of those languages that do not require a strong distinction between the present and the future were found to be 31% more likely to save in any given year, had accumulated 39% more wealth by retirement, were 24% less likely to smoke, were 29% more likely to be physically active, and were 13% less likely to be medically obese.

Where does that leave us - the ones reading this article in English right now?

All is not lost. All skills can be acquired or learnt - inherent disadvantages notwithstanding. In the same way that behavioural finance makes us aware of our investment biases so that we can manage them rather than be limited by them, understanding the effect our language has on how we unwittingly perceive the world does not need to be an impediment. Instead, it can be another lens through which we weigh our decision making and, in that way, become more "rational" beings, and possibly better investors.

As we overcome the propensity for instant gratification and start to be pointedly more future-oriented in our actions, I paraphrase Langston Hughes: *We, too, can sing "savings"*.

Speak to an NFB advisor to get you firmly on the right path and heading in the right direction. ■



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