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NFB PRIVATE WEALTH MANAGEMENT

PROFICIO

NFB FINANCIAL UPDATE

Balancing a long-term investment view with short-term volatility

How can we navigate the squeeze while searching for the light at the end of the tunnel?

Interest rates are at multi-year highs, economic activity is at long-term lows, and inflation is above 7%.

Additionally, the prime lending rate is at 11.5%, the highest level in almost ten years, while the Rand is at its weakest level versus major currencies - R19.75 to the US Dollar at the time of writing.

Add to this structural issues such as load shedding and a crumbling infrastructure and South African consumers and investors are feeling the squeeze from all sides and are left wondering what to do.

As custodians of our client's finances, we are tasked with answering these questions. However, each client's challenges are unique, and therefore each should meet with their financial advisor to obtain advice tailored to their specific requirements.

What are some of the scenarios we should consider?

With interest rates at a multi-year high, placing short-term funds is relatively easy, with money market funds currently delivering 8% or more. It is, however, important for taxpayers with a marginal tax rate above 18% to note that this return is below inflation on an after-tax basis. This may be acceptable for short-term funds waiting to be used for other purposes.

The conundrum for clients with a long-term investment horizon is this: short-term rates are attractive, while the JSE Alsi has delivered reasonable returns over the past 12 months, primarily because of the weakening Rand on the multinationals. SA-focused companies offer good value at current levels, and bond yields also look attractive. With a long-term view, you should place funds into the bond and equity markets at these levels. However, the menacing dark clouds of the war in Ukraine, stubborn global inflation, and high interest rates continue to pose a risk to the local market, and if any of these surprise negatively, the results could be dire for the South African market.

There is also an ominous feeling that things could get a lot worse in South Africa, with the risk of more severe load shedding and the negative impact this will have on employment and inflation. These factors have seen the Rand at record lows against the major currencies, making it difficult for clients that wish to protect themselves against local risks to move funds offshore.

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> ***While there may be no perfect time to deploy capital into an investment, there is a strategy that can limit potential capital losses.***

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The role of **interest rates** and the need for a **balanced approach**

With long-term economic growth being the ultimate goal, enduring some short-term pain may be unavoidable.

The South African Reserve Bank (SARB) plays a crucial role in managing the country's monetary policy, including setting the benchmark repo rate, adjustments to which have far-reaching implications. Below we explore how rates decisions affect different demographics in South Africa, from homeowners and the property market, consumers and borrowers, and investors, and analyze the potential economic and social consequences.

Homeowners and the property market

Interest rates play a significant role in the property market. Higher interest rates can deter potential home buyers as home loan repayments would be too costly, thus reducing affordability. This reduced willingness to purchase can potentially lead to an overall decrease in property prices.

On the other hand, lower interest rates make homeownership more accessible, stimulating the property market and potentially driving up property prices. The impact of interest rates on the property market is not uniform across all regions. Urban areas with high demand may be less affected by interest rate adjustments, while rural and less affluent areas may experience enhanced fluctuations. These dynamics can contribute to disparities in homeownership and widen existing socioeconomic inequalities.

Consumers and borrowers

Interest rate adjustments have a direct impact on consumers and borrowers. Any upward adjustment to interest rates increases the cost of borrowing, affecting individuals with home loans, vehicle finance, and other forms of debt. Higher interest rates lead to reduced affordability and increased financial strain for borrowers. This can potentially hinder the purchasing power of consumers, especially among lower-income groups, who are already more vulnerable to economic fluctuations. On the other hand, when interest rates decrease, borrowers may experience some relief as their loan repayments become more manageable, freeing up disposable income for other purposes.

Investors

When the SARB raises the repo rate, banks and other financial institutions can offer higher interest rates on savings accounts and fixed deposit products, which benefits those who rely on interest income to grow their savings. The downside of higher interest rates is that it can potentially discourage risk-taking in primary equity markets, reducing the capital pool available to businesses and entrepreneurs. When the SARB lowers interest rates, investors in cash facilities may experience lower investment returns, prompting them to seek alternative investment options with potentially higher risk profiles, such as property and equity. Lower interest rates can also stimulate borrowing, as it becomes cheaper to access capital, potentially leading to increased economic activity and job creation.

It's evident that any interest rate adjustments made by the SARB will affect individuals and businesses regardless of social standing. Consumers and borrowers experience changes in affordability, while savers and investors face variable returns and investment opportunities. The property market, especially for homeowners, is significantly influenced by interest rate fluctuations. Therefore, policymakers must carefully consider the potential consequences of interest rate adjustments and implement measures to mitigate adverse effects on vulnerable groups.

A balanced approach that promotes economic growth while addressing social and economic inequalities is essential for a sustainable and inclusive financial landscape. ■

> ***"A balanced approach that promotes economic growth while addressing social and economic inequalities is essential..."***

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The Sandwich Generation: Financial planning tips to consider when supporting both parents and children

How can the sandwich generation successfully manage financial support for parents and children?

Have you taken on the responsibility of caring for your parents who require financial support in their old age? Do you often find yourself juggling the financial needs of both your parents and children? If so, there is a good chance that you are a part of what is called the "sandwich generation".

This is a term that is used to describe middle-aged South Africans who slot between two generations (often parents and children) and who carry the financial responsibility to support both. Owing to several factors, your parents could find themselves on the receiving end of your financial aid despite having planned for retirement. When you have children and this happens, you are often sandwiched between the financial needs of your parents and those of your own children.

The responsibility of navigating the financial needs of parents and children whilst tending to your own can be a tricky task. In fact, without proper financial planning it could cause financial strain, which could lead to burnout.

This article talks about the sandwich generation, who they are and their role in families. It also discusses the important financial planning tips to consider when taking on the responsibility to support your parents' financial needs.

The need to support two generations at the same time is brought on by several factors. Parents who make plans around retirement but fail to include children in these plans could make poor decisions around the allocation of their retirement funds. This could later warrant the financial intervention of the child or children, who are already supporting their own families. Parents who have not saved enough money for retirement could run short and may need to either apply for a social grant and/or seek financial assistance from their children when the funds run out. With advancing age, comes increased fragility and a growing need for medical attention. Without medical aid, this could become extra tricky to deal with as the rising cost of medical care could exceed the parent's financial means, requiring an external financial contribution. The rising cost of food and fuel could place strain on the retirement income to a point where financial assistance from children is required. Instances where parents outlive their life savings also require children to assist financially. Although the bulk of these factors come through no fault of the sandwich generation, the necessary steps in mitigating their effects must be observed.

Although allocating your financial resources between the financial needs of your children and those of your parents isn't necessarily a bad thing, there are several pointers to consider when taking on this responsibility. Firstly, drawing up a monthly budget will assist you in understanding your financial obligations against your income. This will also paint a clear picture of the amount of money that is available to assist your family members. Understanding your parents' expenditure against their monthly income also gives a clear idea of their monthly obligations. Any financial shortfall can be addressed by either cutting down or eliminating unnecessary expenses. Not only will the outcome of the above exercise paint a realistic picture of your and your parents' financial standing, but it will also determine what expenses can be cut back and whether you are fit to assist your parents financially.

Encourage open conversations with your parents about their true financial position. Have these conversations earlier rather than later. Find out if there are any existing investments or savings that could assist in cases of financial distress. If there are savings in place, it is advisable to have a discussion with a financial advisor around the pay out of those funds. Parents often cancel their life cover as they get older as it becomes expensive to maintain over time, choosing to save the money instead.

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> ***"The responsibility of navigating the financial needs of parents and children whilst tending to your own can be a tricky task."***

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Balancing a long-term investment view with short-term volatility

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With what seems to be risks everywhere, what should we do now?

It is important to remember that you very seldom need to make significant, one-time decisions. In my experience, these usually lead to regret as invariably, after you have acted on these decisions, additional information comes to light that would have changed your decision, or some unforeseen event occurs and scuppers your plans.

I recommend using the “iterative decision-making process”, where you decide on the overarching plan, proceed with a small action in this direction, re-assess the results, and then repeat. This enables you to start moving in the desired direction without feeling overwhelmed or taking the risk of dire consequences should the timing be wrong.

While there may be no perfect time to deploy capital into an investment, there is a strategy that can limit potential capital losses. Instead of making a single, large investment, deploy the funds over several months. This strategy allows you to achieve an average of the market over the period.

The potential negative, however, would be if the market does well while you are not fully invested. However, being partially invested would be better than not being invested at all. Similarly, follow the same process when moving money offshore; don't try time foreign exchange rates. ■

The Sandwich Generation

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In lieu of this, children can take over the monthly premium as this will free up the parents' cashflow whilst guaranteeing a pay out on death. Not only would this exceed what would have been paid in premiums, it would also allow the parents to save some money in the process.

In an instance where parents do not have money and must be financially supported by their children, it is important to have honest discussions with your siblings around sharing the responsibility. All the details, including the sum of the contributions and the monthly dates must be agreed on to avoid unnecessary confusion or conflict.

It is not advisable to compromise any investments of your own, especially your retirement savings. People are often tempted to reduce their retirement savings. It is not advisable to do this as it could lead to negative consequences in the future.

The same is true with risk planning. Although it is possible to compromise on long term insurance provisions to save cash for the short term, the accompanying consequences can be catastrophic. If an incident occurs which could lead to your permanent disability, without risk planning, you would be left permanently disabled and unable to generate an income for yourself.

Under these circumstances, you would not be able to provide for yourself, your children and parents.

The decision to take on parents' financial needs must be carried out with sobriety and thorough financial planning. A good basis of the latter is a realistic monthly budget.

There must be full disclosure of your and your parents' financial standing prior to making and agreeing on any monthly financial commitments. This will encourage maximum cooperation from both parties.

If your parents are recently retired or are nearing retirement, I encourage you to involve yourself in their financial plans and to provide guidance where required. It is also wise to anticipate the extent to which your financial assistance might be required by your parents in their old age. For example, if your parents are not permanently employed or do not have a stable income, it is likely that you will be required to assist full-time. Considering this, it is advisable to start putting away some money as early as possible.

Assisting parents financially can be a huge privilege. However, without the requisite financial planning, it can culminate in stress and burnout. Therefore, if you are in the sandwich generation, I encourage you to start planning your finances accordingly. ■