# PROFICIO
## NFB FINANCIAL UPDATE

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# FROM THE CEO's DESK

Greece is said to be slippery, but the stuff used for lubrication of automobiles has nothing on the country's politicians and its status within (or without) the Eurozone!

It finally seems as if a deal is being done and together with some level of underpin appearing in the Chinese markets, portfolio managers are breathing a sigh of relief. These two rather well covered issues on the economic radar are not alone. Other very important developments including the near term upward revision of US interest rates, developments in the Middle East and others can, and will, have material impact on the price of assets, most notably equities and property.

The volatility of markets over the last few months tells a few stories. Firstly, the obvious one is that generally markets are testing rather stretched valuations resulting in the nervous overreaction of investors. If you had exited the JSE a few days ago, you would have “realized” a loss of a few percent. Having stayed the course, the market would again have recovered a lot of what it had surrendered. This does not for a second imply that we are done with volatility or that the market will now resume a gentle inflation-beating trajectory. Quite the opposite, in fact, is probable. By definition, as the market tracks back its recent pull back, the greater the probability of further volatility.

The real bottom line is to get the allocation of one's assets correct at the start. This implies making appropriate provision for access to emergency or planned capital, income and perhaps a “just in case” reserve. Then stick to your guns. The other reality concerning money is to keep liquid funds just that - liquid! Risking a pull back in markets with funds which need to be spent in the next few weeks, months or perhaps even a year or so is foolhardy. Behavioural science claims that the fear of loss is greater than the fear of missing out. I'm not convinced either way, but one thing I do know is that there are few anecdotes as clichéd as ”I told you so” and few things irritate me more than being on the receiving end of this!

As we have always maintained, trying to time markets can have two very different outcomes. Firstly, you might get the timing of ins and outs correct. I have yet to see evidence of this and include my own, now rather dated attempts at this, ranging from the purchase of travellers cheques (when these were still available) to buying some or other penny stock (also many years back when Pennies were still around). It always seemed as if the Gods were angry, as whatever I did the market did the opposite!

The lesson to be learned is that “time” rather than “timing” is your friend. The upshot of this is the clear understanding of what an investor's needs are and the correct asset allocation being implemented. Once this has been done, the actual funds are then deployed either directly in the market, or where appropriate in investment products, which deliver on the mandate.

Over the last few Editorials I have commented on the access of investors to overseas investments through various channels. These include your own foreign investment allowance (FIA), asset swaps and through institutions own foreign “capacity”. The FIA was increased recently from R4 million per annum to R10 million per annum per taxpayer. Taking advantage of this generous increase by National Treasury resulted in an automatic audit by SARS of the applicant. This they said was simply a part of their policy of applying greater scrutiny to these transactions. The natural consequence was a delay for the applicant and the resultant risk of the Rand moving unfavourably in this downtime. We have been informed that this glitch has been overcome and we will ensure this is fact and report back to our clients.

Last, but certainly not least, much has been written and said about tax-free savings accounts (TFSA). Commentators have ranged from being dismissive to being highly enthused. We at NFB believe the product has a place in the savings matrix and when applied across a family of parents, children and perhaps grandchildren, will result in excellent long-term returns. The investment will offer certain tactical advantages, which makes it worth considering. I would encourage you to chat to us about this for use in your families' portfolios. ■

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NFB FINANCIAL SERVICES GROUP

# WHAT TO EXPECT WHEN CONSIDERING RISK COVER

**Many of us know in the back of our minds that we need to have risk assurance in place to protect ourselves and our families for death and the unknowns. We all know that death is inevitable – we just don't know when this will happen; however, it may take the sudden loss of a loved one, or someone close to you (even very young), being diagnosed with a dread disease before we actually take the step and look at our own risk assurance cover.**

We may put this vital exercise off as we reason 'nothing will happen to ME' or 'I am still young, I don't need to worry about that yet' or even 'I have enough investments and I am wealthy enough, I should be fine'. The reality is each of us needs to consider our risk assurance needs at all stages of our lives: young and just starting work, getting married, taking out a bond, having children, starting a business, planning for estate needs etc. You may wonder what to expect with regards to how much cover is needed and what it all entails.

A financial needs analysis (FNA) is a tool used to give an indication of what cover is needed in your specific situation, taking into account the current provisions you have. You can expect to provide the following information in order for the FNA to be done:

- Income - in order to determine what protection is needed with regards to your ability to earn an income if you were sick for an extended period or disabled.
- What portion of your income would still be needed by the family unit if you were to pass away?
- Your bond details – how many years do you have left remaining on the bond, value of your property, etc.?
- You have to look at cover to provide for your family needs such as your everyday household needs which include groceries, utilities, day-to-day expenses if you were disabled or pass away, so you should have an idea of what these are.
- Medical aid – the monthly premium you pay for this.
- If you have children – educational needs – current and future. At school there are sporting activities, tours, uniforms, stationery needs. University costs would include housing, food, travel expenses, text books, etc.
- Debts – do you still owe on your car/s, personal loans, store accounts and credit cards?
- Estate duty and executors fees – there are exclusions, abatements and rollovers, but if applicable you may need to provide for this otherwise assets would need to be sold to cater for it.
- Funeral expenses.
- Cover for severe/critical illness/dread diseases – this is in addition to medical aid or gap cover as it provides you with a lump sum (usually severity based) in order to pay for additional expenses associated with a severe illness such as uncovered medical costs, modifications to home and car, travel and accommodation expenses for out of town treatment, hired help or even to tick off 'bucket list' items.

Taking into consideration your personal factors gathered from the FNA, quotes will be prepared for you, and these are based on the following: age, gender, marital status, smoker status, educational qualifications, income, occupation as well as your occupational split (the percentage of time during the day which you spend on the following duties: admin, supervising of staff in an office/in a factory, travelling for work, manual work, etc.).

Why are these needed? Life companies have different ratings based on these general risk factors. For example, statistically females have a longer life expectancy; educational level – some products are only available to a certain educational level; occupation - sitting behind a desk all day is less risky than travelling for 6 hours a day on the road; non-smokers are a much lower risk than smokers.

Once quotes are provided based on your financial needs analysis, we would then consider your needs versus the premium and affordability and work from there.

Premium patterns also need to be considered; this is how your benefits and premium will increase annually. Depending on the need of the cover you may opt for level premiums where your cover and premium remain constant; cover that is initially more cost effective and then increases with age over time; or set increases based on inflation or set percentages.

A product / product provider and premium pattern that would suit your needs and affordability is then chosen.

Once you have decided on the cover amounts and product provider, an application with medical questions would need to be completed. You can expect to answer questions regarding your current and past medical history, the doctor who treated you, dates of operations, etc. You would also need to provide details if you are currently on any medication, your habits, hazardous pursuits, as well as family medical history.

Once these are submitted to the chosen product provider, the underwriters then assess your application based on your questions and call for medical underwriting based on your factors.

The standard medical requirement across all providers is bloods for HIV. And there are providers who provide cover for HIV positive lives.

Other requirements may include

blood pressure, cholesterol, nicotine, sugar and Body Mass Index (BMI). Depending on your age and your medical history, the underwriters may require additional questionnaires to get more information related to a specific condition or require additional medicals such as an ECG or general medical.

For the bloods, usually a nurse can be sent to you to get these done, or you go to your doctor. The cost of this is covered by the insurance company.

If you have seen a doctor for something specific, a PMA (Personal Medical Attendants) report may be requested by the insurance company directly from your doctor.

Once all the information has been received, the underwriters assess the results, information and questionnaires – they do not diagnose, but rather look at the 'risk' and then decide to issue the cover at standard rates (what was quoted) or will issue a counter offer letter, which could:

- Decline the cover or a specific benefit.
- Exclusions (based on an existing condition) – this may be excluded from any future claim in this regard. These can be quite varied, but an example is: if you currently have 40% hearing loss in your right ear, future claims for hearing loss in that ear may be excluded.
- Loadings – there is an increase in premium originally quoted ('medical loading') due to higher risk.

Please note that exclusions and loadings may be reviewed at any stage; for example, if you are loaded because of your BMI, and this changes at any stage, the insurers may remove the loading.

You then have the option to accept the counter offer or decline it, or you could decide to adjust your cover to meet your affordable premium.

Once accepted, the policy will issue and cover will be in place from the selected start date. Various product providers may offer you free cover (full or accidental) from acceptance up until the start date.

You will then be sent your policy document which contains all the terms and conditions. Some important things to remember:

- All cover contains a 2 year suicide clause.
- Premiums are paid in advance. If a payment is missed, the insurer will try deducting again and if payment is missed for a second time, your cover is suspended and you may have to sign a declaration of health. After 3 missed payments, cover is cancelled and in order to re-instate it, you may have to undergo the whole underwriting process again. Remember that a new 2 year suicide clause applies if you re-instate the cover.
- If you change your occupation or occupational duties you are required to inform the life assurer; also if your smoker status changes or you decide to take up hazardous pursuits, such as skydiving, motor cross, aviation or bungee jumping.
- Companies usually have a guaranteed term where they guarantee the premium increases going forward for say 10 years, thereafter they may review this – based on actual claims.

Remember that once your cover is place, it doesn't mean you can forget about it – your life cover needs to be reviewed regularly, and especially when your circumstances change.
Should you require further information or have any questions regarding life cover, please do not hesitate to contact an NFB financial advisor at any one of the NFB offices in Johannesburg, East London, Port Elizabeth, Stellenbosch or Cape Town. ■

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# BUY QUALITY AND STAY INVESTED

My introduction to investment management was growing up on a vegetable farm in the Eastern Cape. As a young boy I was exposed to the business of farming – one of mankind's earliest forms of business. Modern farms are far more sophisticated with the benefits of technology, mechanisation and modern farming techniques. Despite these modern techniques the goal has remained the same: to produce the best quality crops for a reasonable profit, whilst minimising the known risks as far as possible.

The farmer would determine the following:

- What soil preparation was needed for a specific crop
- The correct time to sow the seeds
- Spraying for insects at the appropriate time
- Irrigation requirements taking into account rainfall, etc.
- When to harvest the crop

Unfortunately, certain factors such as floods, hail, droughts, etc. remain beyond the control of the farmer. Furthermore, despite the best quality product, the return is not always assured as the price is determined by the fresh produce market.

According to Wikipedia, Investment Management is the professional asset management of various securities (shares, bonds and other securities) and other assets (e.g. real estate) in order to meet specified investment goals for the benefit of the investors.

As a Wealth Management business, NFB plays the role of the farmer in the management of your wealth. We constantly research investment opportunities for our clients, looking for appropriate products and funds that are most likely to achieve the investment goals of our clients. The initial investment plan would include the following:

- Understanding your risk profile and risk tolerance
- Agreeing the investment needs or goals e.g. growth vs income
- Considering your broader tax position and the influence this may have on the nature of the products suitable to you
- Creating investment diversity to reduce investment risks
- Selecting a solution or blend of funds that will achieve these objectives

The year 2015 has not been an easy year for investors. A heavy focus remains on the European Quantitative Easing Programme by the European Central Bank that commenced on the 9th March 2015, the outcome of the Greek debt deal and how the Eurozone will pull through their struggling economies. China has shown massive volatility in the past 6 months with a 30% rise and fall in their stock market. Emerging Markets have all struggled in 2015 and the flight of capital to the US economy and to the dollar, in particular, has made South African investors more and more aware of the need for currency hedging and offshore investment products.

The US successfully ended Quantitative Easing in October 2014 and we have seen their equity markets rally over the past 5 years. The S&P 500 Index has increased from 1,100 points to 2,100 points equating to a 13% annual return. The US dollar and the euro remained closely aligned for roughly 4 years, but the euro has suffered a massive 19% fall in value against the dollar over the past 12 months. This could well be the reason that many investment products have been structured around the Euro Stoxx 50 Index. This index comprises 50 blue-chip companies from 12 Eurozone countries and is already up 17.2% in the first 6 months of the year with 47 of the 50 stocks positive.

Where does this leave South African investors? Let's try not focus on the political failures of the ruling party, the power shortages, massive increases in the cost of electricity, unemployment figures, crime and corruption, etc. As investors we need to be astute farmers. Where are those greener investment pastures? How do we protect our portfolios from the return drought? We do have a selection of quality money managers, multi-managers and top equity managers that can use the market volatility to optimise returns, buying quality shares that offer good, long-term growth in both local and international markets.

Now is not the time to retreat from investing. Continue to be invested in quality companies that can survive through a season, with or without rainfall and deliver reasonable profits for the risk you are prepared to take. Investing is after all – *time in* the market and not timing the market.

Should you require assistance with your investment crop, please do not hesitate to contact an NFB financial advisor at any one of the NFB offices in Johannesburg, East London, Port Elizabeth, Stellenbosch or Cape Town. ■

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