PROFICIO
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FROM THE CEO's DESK

Welcome back to what we hope will be a less troubled 2017 than its predecessor!

Before we begin, it gives me great pleasure to announce that NFB Asset Management received two accolades at this year's Raging Bull Awards; the “Oscars” of the investment management industry. The first, a certificate for Top Performance for a South African Multi-Asset Low Equity Fund, and the second, the Raging Bull itself for the Best South African Multi-Asset Equity Fund. Both awards were for the NFB Cautious Fund of Funds for the 5-year period to the end of 2016. Hearty congratulations to the NFB Asset Management team!

Markets and asset classes have certainly surprised, with 2016 ending with Resources leading the charge and Rand Hedges lagging materially as the GOOD seemed to prevail over the BAD politically. I have said before, and say again, that few free lunches are available in the investment universe. The most obvious one is diversification and this was again proven last year. But enough about the recent past; what about the coming year and more? I would like to take a look ahead both locally and offshore, ponder interest rates which, in my opinion, are the single greatest indicator of market direction and trend, and as always consider our local currency, which remains a hotly debated issue in portfolio construction.

On the local front SA Inc. is in relatively poor shape. Retail sales over what is traditionally a peak period were rather disappointing, the average consumer remains rather extended, asset prices (notably the JSE and real estate) remain under pressure, hardly keeping up with inflation and earnings expectations aren't stellar. The Rand has also not played ball, defying political gravity and strengthening, making offshore returns rather flat. This point, interestingly, creates an opportunity, which I would like to come back to later.

> “In most investments, including decisions about currency, time is your friend.”

Overseas, the two so called 'Black Swan' events of 2016, Brexit and Trump's trumping of the Democrats, led to the doomsday crew calling for an apocalyptic collapse in markets. Quite the opposite has happened and particularly after the dust had settled, these two specific markets are testing new highs. It is seldom smart to follow trends already established. We think that smart money backs appropriate exposures to assets and is rewarded over time for being both correct and patient. What is also true, is that Brexit and the Trump administration's yet to be determined impact is not 'in the price'. These still have to play out. A high probability scenario, given Mr Trump's surprise victory, is the changing of the guard from fairly liberal political control in other areas to more nationalistic (self-serving), neo-conservative leaders or at least big swings in Europe in the coming elections. The constituents are feeling unloved and vulnerable, creating opportunities for previously fringe back benchers to prevail. As in Greece, this is dangerous as pre-election rhetoric fast becomes an impossible agenda to implement and economic instability results.

Europe still has very serious issues it is dealing with in the banking sector. However, the weakness of the Euro currency and significant QE by the Central Bank has improved the prospects for several sectors of their economy. Interest rates, led by the US Fed's example are trending upward. Delayed by a few years from the original expected firming, the Fed has made the first move. Europe is uncorrelated and remains a few years behind, both in the need to firm rates and indeed in its support of financial markets to stimulate leverage and spending. The Eurozone, given this backdrop, is likely to offer up some interesting opportunities as time passes.

In SA, we are also suffering from consumers being over-extended, a generally weak industrial sector and we are troubled by restrictive employment laws, making it difficult for employers to create much needed jobs. However, the discussion at the SA Reserve Bank must encompass global and specifically US rates. Overall we remain focused around inflation targeting and consensus is that inflation in 2017 will trend downward. A few key issues are the end of the agricultural drought and a stronger Rand.

On the subject of currencies, the Rand has varied

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Mike Estment CFP® professional
BA / Chief Executive Officer
NFB Financial Services Group Gauteng

THE IMPORTANCE OF RETIREMENT PLANNING

Statistically, it is said that less than 10% of people reaching retirement age can actually afford to retire financially independent, while the remaining 90% are either state dependant or family dependant, or will have to continue working well into their later years.

Now that the Festive Season is well and truly behind us, I guess it's back to work for most of us and business as usual once again. It is hard to believe that 2016 is done and dusted and how quickly time passes us by. It is a time to reflect and not make the same mistakes as last year, but also to repeat the successful strategies when we look ahead.

It's also that time of year where one can optimise on the benefits of making final tax deductible contributions towards a Retirement Annuity, and still claim it against their taxable income for the close of the upcoming 2017 income tax year. **It is important to note that contributions have to be receipted before the close of business on 27th February 2017**. No late payments will be acknowledged for the 2017 tax year.

It is often said that "**Nobody plans to fail……, however…., many do fail to plan!**"

Proper financial planning will help to equip one for the many unexpected eventualities which may occur throughout their lifetimes, and more importantly, retirement planning is no different.Statistically, it is said that less than **10%** of people reaching retirement age can actually afford to retire financially independent, while the remaining **90%** are either state dependant or family dependant, or will have to continue working well into their later years.

For most working class people, it would seem they are burdened with the responsibility of holding down a reasonably paid job, are paying off on a vehicle and/or mortgage, while at the same time, are also trying to raise and educate a young family, which in these days is no easy feat!

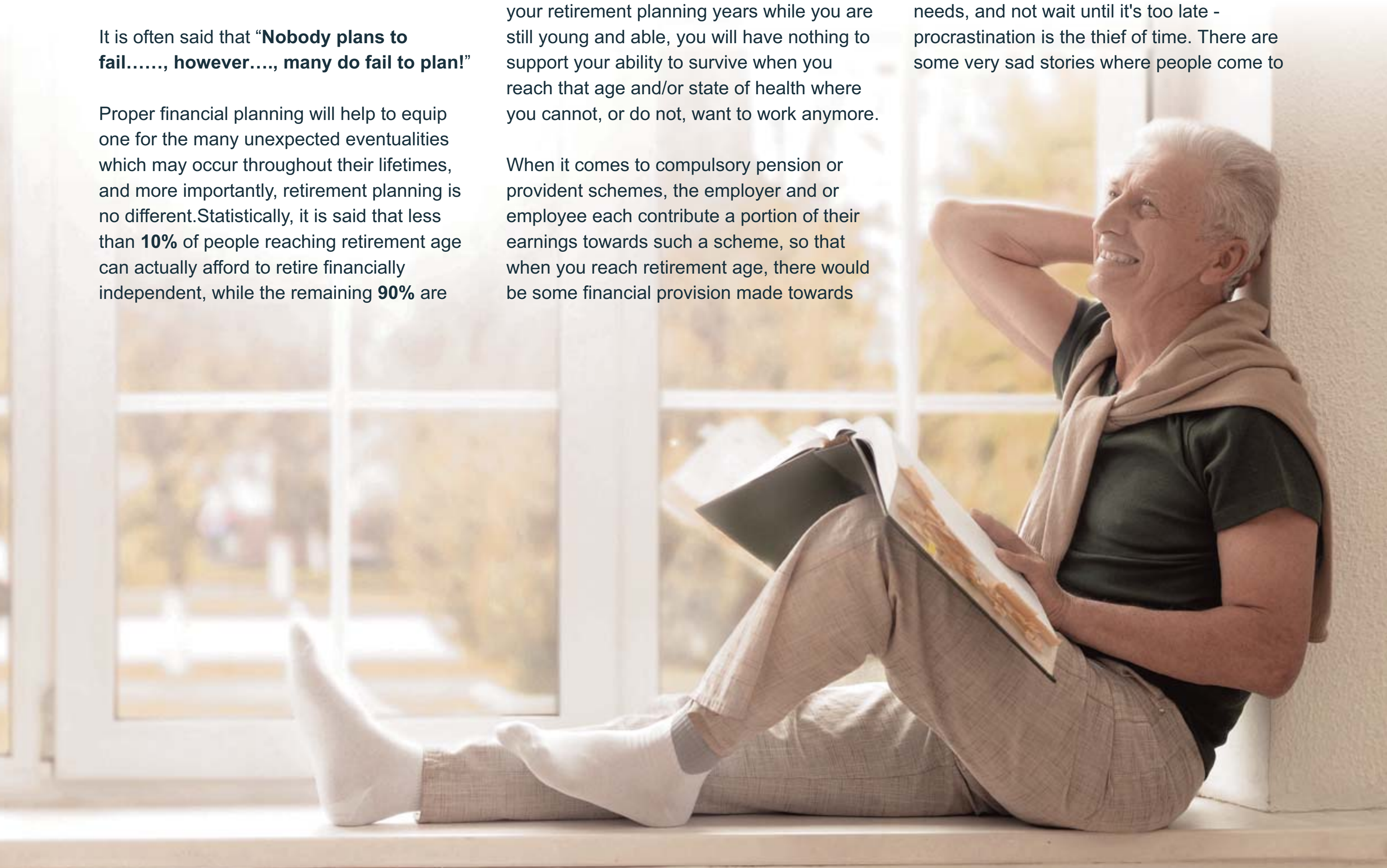
> “The earlier you begin saving, the more profound the effects of compound interest.”

What is important to realise, is that without making these valuable contributions towards your retirement planning years while you are still young and able, you will have nothing to support your ability to survive when you reach that age and/or state of health where you cannot, or do not, want to work anymore.

When it comes to compulsory pension or provident schemes, the employer and or employee each contribute a portion of their earnings towards such a scheme, so that when you reach retirement age, there would be some financial provision made towards the employee's inevitable retirement. Firstly, one needs to begin saving early enough for their retirement in terms of joining a scheme, and secondly, the contributions would need to be significantly meaningful, in order to have the desired long term effect. The earlier you begin saving, the more profound the effects of compound interest.

What most people do, however, is to take on too much financial responsibility in terms of their lifestyle requirements, possibly excessively at times, and the end result is that they neglect their retirement planning needs until a much later time period in their lives, believing that they will eventually get to start saving once the cost of those luxuries has been settled, which of course, is by then too late!

What we are really trying to say here is that one needs to prioritise their financial planning needs, and not wait until it's too late - procrastination is the thief of time. There are some very sad stories where people come to



realise this very important fact, and suddenly they are faced with the prospect of being pensioned off, while not being able to retire at all!

Recently announced income tax legislation, effective from **1st March 2016** onwards, allows for individuals to make valuable contributions towards their retirement planning needs and to benefit from the tax deductibility of their total annual contributions made, by as much as 27.5% of their gross annual taxable income. Added to this benefit, are the facts that registered retirement planning vehicles are completely tax exempt investment portfolios, and are also protected from creditors, while allowing the investor the flexibility of determining their own preferred retirement date from **age 55** onwards.

The diversity and dynamics of owning a Retirement Annuity portfolio are endless. You have the choice to contribute either by way of regular monthly contributions or by way of making random single premium, once-off, ad-hoc lump sum payments whenever you decide. You can stop/start your contributions as you see fit, while at the same time, we would be able to assist you with the switching between the top performing funds and/or fund managers as the financial markets determine where best value and growth can be achieved. There is no specified term of investment; you get to decide how much and for how long you would prefer to invest, realising that the more you can afford, the better your retirement prospects would be.

At retirement date you are able to commute a portion of the investment portfolio as a tax free lump sum: **⅓rd** of its maturity value, of which only the first **R500 000.00** of this **⅓rd** would be considered as being tax free, while the remaining **⅔rds** of your retirement capital will be re-invested into a Fixed Pension Annuity or Living Annuity, and used to give you and or your surviving spouse a life pension. You would still have the choice of choosing the type of pension annuity you would prefer to receive, and we would be available to advise you when the time arises.

One of the other attractive benefits of choosing the correct Pension Annuity investment vehicle, is the fact that you will always be able to leave a legacy to your beneficiaries and loved ones. The remaining investment value in that investment portfolio at the time of your passing would be preserved and payable to them for their benefit.

> “The diversity and dynamics of owning a Retirement Annuity portfolio are endless.”

The roles that Medical Science and Technology are playing in our lives today cannot be underestimated. It has become increasingly common and accepted, that generally, people are living for longer; even people with severe medical conditions are now being kept alive for longer, which has highlighted a more important need for proper retirement planning.
And this need should not be taken lightly. There are far too many people out there who, if given the opportunity over again, would have done it differently.

At NFB we believe that through better education and proper awareness of the importance for retirement planning, we can make a huge difference in the lives of many unsuspecting, retiring individuals and their loved ones out there.

We truly believe that with investors making small financial sacrifices in their daily lives now, one could be better equipped for that inevitable day we either decide to, or are asked to, retire, with the knowledge and understanding that we had done our best to make the necessary provision for our golden years.

By the time you read this, January will be over - don't put off today what you will need for tomorrow. We all know we need to do it, we all know we want to do it, so be like Nike – “Just Do It”!!

Please speak to one of our qualified team members at NFB Private Wealth Management should you require assistance with setting up your financial plan. ■

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> “One needs to prioritise their financial planning needs, and not wait until it's too late - procrastination is the thief of time.”

Rob Masters AFP™
MIFM Commissioner of Oaths
Private Wealth Manager
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FROM THE CEO’s DESK

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significantly over the last few years and decade. When it blew out post Nenegate we confidently suggested it was oversold. Fortunately for our forecasting skills (seldom in play) we were correct. However, using certain metrics, at its current levels around R13,50/$1, this is no longer the case. Timing is always problematic and accordingly, NFB's preferred approach is to make two suggestions. Firstly, if the portfolio is simply underweight foreign exposure, do something about it, i.e. externalise. This is a strategic call. If the Rand has strengthened, as is currently the case, use this as an opportunity to trade, favouring a single trade if this forms part of a medium-term strategy, or cost average (act, but in tranches) if it represents a material change. In most investments, including decisions about currency, time is your friend. In my introduction, I spoke of the important effect interest rates have on markets.

By way of explanation, the following points might help in explaining my view:

- Prime bank rates (typically referred to as 'the risk-free rate', represent a benchmark for other investments, i.e. what could I earn without taking market risk, or the risk of the share NOT paying a dividend.
- The higher the rates (remembering that inflation needs to be factored in), the higher the performance (including dividends) of the share needs to be, to mitigate the risk.
- Higher rates make companies less inclined to borrow, making deals and investment tricky, potentially disrupting earnings growth.

NFB remains committed to providing top class service and advice to its clients. I would, on behalf of our team, like to thank our clients both for their support and loyalty, and importantly, for the many referrals to friends and family we have received over the last year. ■

SEVERE ILLNESS COVER

What is it and why this benefit should be enhanced regularly

Severe Illness is often over-looked due to the fact that it is a relatively expensive benefit, which is unfortunately due to the high probability of claiming.

Severe Illness cover typically pays out a lump sum if you are diagnosed with a specifically listed, potentially life threatening condition.

The purpose of Severe Illness cover is to make up for the potential loss of income when you need to make lifestyle adjustments, such as slowing down your career, cutting back on your responsibilities at home, or employing someone to help you, or when you incur expenses related to your condition that are not covered by your medical scheme, such as adjustments to your home or rehabilitation costs.

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Statistics show that 1 out of every 6 men and 1 out of every 7 women will be diagnosed with cancer in their lifetime, with a large majority of Severe Illness claims being paid from this category.

Medical advances and increasing longevity is making Severe Illness cover an essential part of your financial plan safe guarding against serious illnesses or medical conditions, such as heart attacks, cancers and strokes.

YOU MAY BE ASKED TO UPGRADE YOUR POLICY

Life companies are constantly changing and enhancing their Severe Illness benefits, which can leave you feeling powerless when choosing a policy or deciding whether or not to accept enhanced cover on your existing policy.

As medicine advances, Severe Illness cover is advancing and you, as policyholder, are likely to get a letter from your assurer at some stage advising you of an upgrade of your policy.

Your Severe Illness benefit may in some instances be automatically upgraded to include new illnesses and medical definitions at no additional cost, and you will receive a notification that this has been done.

However, where benefits are upgraded significantly, you will be presented with an offer to upgrade your cover for an increased premium. This enhancement in benefit may or may not include medical underwriting depending on whether your health is more or less the same as when you took out the cover.

Any changes in your health will, however, not affect the cover you already have in place.

It is important to note that whilst these benefit upgrades are completely optional, it is always advisable to enhance your Severe Illness benefit when presented with the opportunity to do so, to make sure that you have the most comprehensive cover in place. These enhancements often mean claimable events which are now payable at lower severity levels, the difference between single and multiple claims and claim definitions not previously considered.

In a nutshell, the more comprehensive your Severe Illness benefit, the more likely you will be able to claim.

Should you require additional information on Severe Illness cover, please do not hesitate to contact one of our Private Wealth Managers at one of our NFB offices in Johannesburg, East London, Port Elizabeth, Stellenbosch or Cape Town. ■

Sources: The Independent on Saturday & Old Mutual

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Xintol Schoeman
Higher Certificate in Wealth Management
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KNOWLEDGE INTO **WEALTH**

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