PROFICIO

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FROM THE CEO's DESK

We seem to have come out of the blocks rather fast this year. Often one hears, particularly from older people, that time seems to pass ever faster. I'm obviously old, as this certainly seems to be my sense of things. As technology continues to impact our lives in so many ways, I have a feeling that it is not all good. One reads more and more about the 'addiction' of young people to their devices, mainly cellphones, and looking around, this is very obvious. However, I wonder if it is only the young that are vulnerable.

Many years back, an author by the name of Alvin Toffler wrote a book called “Future Shock”. In this, he asserted that computers and technology generally would cause us difficulties. I don't believe he saw beyond PC's. If you think about it, cellphones, which in themselves have become much more than a means to talk wirelessly, have projected the device into a game arcade, photo taking, editing, sending and album setup, computer, word processor, timer, alarm clock, encyclopedia, etc. It also allows for the jockey to become permanently engaged with other people, information and for instance, and particular to our industry, markets, pricing, economic and other data. This is scary, as this overload does have an effect, and given many people are rather introverted, offers an alternative to engaging with people, becoming ever more dependent on the device as a 'partner' and almost compulsively pressing buttons more and more frequently. I am sure I am married to one of the more tolerant souls around as Lisa has endless trouble contacting me as I have taken heed of this risk and often have to excuse the fact that my phone was left in the bedroom, garage, car, or at the office.

There is no doubting the utility, nor should one fail to note the impact this industry must have on watchmakers, photographic competitors, book stores and all sorts of industries. Just think of the impact on banking. Do you remember when last you met your bank manager? And it is moving so fast that Central banks are studying Bitcoin, Block chain technology, and other means of exchange. What this will do to current economics, fiscal structure and sovereign countries and currencies will fast become obvious. Like UBER, look out for this as a major disruptor in the years ahead!

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What is true is technology is not going away, and unlike the last few massive changes in the world including the discovery of the internal combustion engine and electricity, tech is re-inventing itself, getting ever more capable, to a point where AI or Artificial Intelligence is a reality. AI has been around for a long while and we have experienced it as a smart computer which beats a Chess Grand Master. This has moved on at the speed of light and is set in many ways to radically change our lives. As noted there are many extreme positives, from education, to communication, to medicine and remote treatment and many more. It will also replace, at this point, human intervention in many processes. What it can't do is feel, but computing power has come so far that we need to watch this space. A word of very general advice, to all of us, is to manage the relationship with technology carefully. It is like a drug!

With regard NFB and investments, domestic markets remain in a confused state. The stability which is apparent across global mainstream economies, including the United States, Japan, Emerging Asia and more recently Europe is having a positive endowment on Emerging Markets. South Africa is one, and notwithstanding the political shenanigans, our economy is set to benefit from this global tailwind. The recent strengthening of the currency and asset prices, post the cabinet reshuffle is testament to this. Should there be a significant positive political development, I feel we might see a material improvement in our markets, both debt and equity, as this element has been a material headwind over the last few years.

On the Stockbroking front, we

continued on page 3...

> “Our preference based alternative pays mainly dividends (tax free) and can play an interesting role in lowering tax for wealthy retirees who draw income from pensions.”

Mike Estment CFP® professional
BA / Chief Executive Officer
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THE **POST RETIREMENT** LANDSCAPE IN SOUTH AFRICA

Older members of our society fondly cast their minds back to an era when the word INFLATION was mostly to be found in dictionaries instead of being faced with its nasty effects on a day-to-day basis, most notably in vital needs such as food and medical aid which takes massive chunks out of their monthly income provision. I well remember my own first encounter with inflation in the mid-seventies when a small packet of Simba chips and a Coke after a round of golf went up from 10 cents to 12 cents and I could not understand why this could be so. For pensioners, their daily concerns are how to stretch the rands and cents to meet expenses that are avalanching out of control.

Income provision sources have also changed significantly with the times. Gone are the days when employees stayed with the same company for their entire career and retired on a DEFINED BENEFIT pension where their retirement income was based on a formula taking into account their number of years of service, along with an average of their income in the years immediately preceding their retirement date. Most pension funds came to realise that the light at the end of the tunnel was in fact an oncoming train, and incentivised their members to move to a DEFINED CONTRIBUTION, where the risk of funds being depleted shifted from the pension fund to the individual member.

One would thus automatically think that defined benefit schemes are preferable to defined contribution ones, but this is not necessarily always the case. There have been rumblings for a while from various quarters that state controlled retirement funds will be forced to invest in certain assets reminiscent of the National Party policy in this regard. Strange how the more things change, the more they stay the same. The likelihood is that private pension funds may also be subject to the same prescriptive investment protocols, but that is a story for another article and another day. We certainly hope that this regressive policy will not see the light of day.

> “I always ask clients to not merely focus on the capital value, but more specifically on whether the units that they hold in the funds themselves are being increased, maintained or eroded.”

Another very real problem facing defined benefit funds is clearly highlighted in the ongoing plight of members of the Transnet Pension Fund and the Transnet Second Defined Benefit Fund in litigation that has been dragging on for years in the highest courts in the land. Members of this have been impoverished over the years where these particular retirement funds have increased the pensions of the members by a rate of a mere 2% per annum. The Class Action suit by members of the fund against the two afore-mentioned funds relates to the stripping of assets by the decision makers of the fund by selling off prized assets at values well below market rates. Such assets would also have been in a position to increase revenues at an anticipated much higher rate than that of the assets purchased to replace them; in this case shares that often did not pay a dividend or that were later sold at prices significantly less than the original purchase price. Spare a thought for some pensioners who are said to receive an income of R1 ONLY (Legal Brief 08 May 2017). One can only hope that judgement will be delivered soon in favour of the estimated 62 000 pensioners affected by these actions.

Most readers of this article will probably not fall into the category of defined benefit funds, but will either be existing members of defined contribution funds, Retirement Annuity funds or will already be invested in Living Annuities or the similarly named life annuities (which offer fixed or increasing incomes as long as the client lives, but the income terminates either on his/her death or that of their spouse if applicable). Whilst the latter offers certainty on income, the loss of the opportunity to leave a legacy to one's descendants often makes this a rather unpalatable option to most retirees. Another problem that we as financial advisors are forced to deal with is that income offered by life annuities seldom meet the income needs and expectations of the client or potential client. Ideally, we prefer to have our clients in a situation where the income drawdown from an Investment Linked Living Annuities (ILLA) is at 4-5% per annum in order to allow the capital values and units invested in to grow over time.

For the purposes of this article I want to focus on important aspects relating to Investment Linked Living Annuities (ILLA's). It is true that we are living in turbulent times and occurrences in the Global Village in which we find ourselves have a significant impact on the capital values of these ILLA's. No-one likes to see the capital value of their retirement provision being eroded due to seemingly irrelevant incidents taking place in countries far away or due to investor confidence being eroded by rampant corruption and incompetence of elected officials. I always ask clients to not merely focus on the capital value, but more specifically on whether the units that they hold in the funds themselves are being

> Key to one's approach with ILLA's should be the awareness that the potential loss of capital is a realistic possibility if the pre-retirement provision has not been sufficient. If sufficient provision has not been made, then the only realistic option would be to go the route of a fixed income or one that escalates at a certain percentage over the course of one's life if the "sleep at night factor" is the overriding concern.

increased, maintained or eroded.

The analogy that I like to draw is that the ILLA is compared to a herd of dairy cattle and the client is the dairy farmer dependant on the milk production of the herd. Farmers, as we all know, face many challenges on a day-to-day basis such as drought and the pricing of their product being determined to a large extent by other entities amongst other things. As long as your herd is producing sufficient milk to meet your needs and your herd numbers stay constant or increase over time, all is well. Unfortunately though, we are often faced with a situation where the values/herd that has been accumulated in the pre-retirement years is insufficient and we have to consider selling off part of the herd to meet the income requirement. That is a slippery slope, but as the Americans are fond of saying, "it is what it is". Rather than labelling ILLA's as an evil object, I try to place this in context by comparing the defined benefit and defined contribution options. ILLA clients can become fixated on the idea of leaving a legacy by way of their capital balances, but it is true to say that defined benefit funds were based on the life expectancy of the members and, once they passed away, any unused capital would have been used from those whose lives ended prematurely to fund the needs of those who lived beyond their expected mortality date. Similarly, one should view the ILLA in the same context although the investor would obviously do all within their power not to deplete the capital along the same lines.

Key to one's approach with ILLA's should be the awareness that the potential loss of capital is a realistic possibility if the pre-retirement provision has not been sufficient. If sufficient provision has not been made, then the only realistic option would be to go the route of a fixed income or one that escalates at a certain percentage over the course of one's life if the "sleep at night factor" is the overriding concern. If you do choose the ILLA route, or it is already the option you have chosen, it is vitally important that you do not lose sight of the primary reason you elected that option in the first place. Events such as the destruction of the Twin Towers, the Global Financial Crisis of 2008 and the turbulence that has evidenced itself in the past two years will have an impact on the valuation of those units. While the underlying funds would most likely be biased towards income producing assets, there would likely also be exposure to, amongst other things, offshore asset classes if there is scope to try and grow the capital within the structure of the investment. Such exposure makes sense as inflation by itself is an important factor to consider. Our currency loses, on average, 6% per year to inflation, whereas hard currencies such as the dollar depreciate at a far slower rate, making such inclusion within the ILLA an important consideration.

It has often been said that diversification within an investment portfolio is your only free lunch and it should rightly be considered an essential part of the consideration when structuring the components of the ILLA. One should, however, never lose sight of the fact that the primary purpose is to make sure that the capital lasts for the duration of your life and you may just have to opt for funds within the portfolio that are not as "sexy" as you'd like them to be in order to achieve that goal.

For more information on this subject or other aspects relating to retirement or investment planning, please contact your nearest NFB office. ■

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FROM THE CEO's DESK

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are very pleased to announce that two senior appointments have been made since we last communicated. In Johannesburg, Liston Meintjes has joined the team. Liston is a legend in the Fund Management industry and is a qualified actuary. In East London, we have welcomed Greg Farland, another experienced stockbroker and portfolio manager.

I thought I would conclude by noting NFB's treasury (cash management) services. I have had some research done by our team and find that savings accounts and liquid call deposit rates on offer from the big banks are rather poor. For all clients around South Africa, we offer top interest rates as well as a Preference Share based alternative for those who are vulnerable to Income Tax on interest. Both the call deposit and the Pref based product are very liquid (24 hrs.) The Pref based product pays mainly dividends (tax free) and can play an interesting role in lowering tax for wealthy retirees who draw income from pensions.

Please contact your NFB advisor or the author to discuss. We manage monies ranging from small balances for very conservative clients all the way up to portfolios of institutional clients with enormous balances and would be thrilled to offer this premium service to you. The interest rate offered, which is from Investec Bank, is free of any charges for activity, statements and they have offered, where clients require a bank guarantee against the deposit, to process this free of charge. I have used both of these for my own use, and that of my kids, as they built up savings. It really is both efficient and effective. ■

FINANCIAL PLANNING IN AN UNCERTAIN SOUTH AFRICA AND WORLD

There is no doubt that South Africa is at a crossroad where the forces of patronage and state capture more generally are locked against those of nation building.

The latest cabinet re-shuffle shows a President who is desperate to hold on to power and negotiate freedom from prosecution. Against this the courts, civil society and opposition political parties have rallied together calling a halt to this madness. These uncertain times are not peculiar to South Africa with the general theme having emerged of voters standing up against the status quo, demanding change and a greater share of the economic pie.

There is a need and opportunity, both locally and internationally, for radical, economic transformation. The question arises as to what this means? If it means a world that leads to greater justice and a more even distribution of wealth, then this is a change worth fighting for and it is a change that can bring peace to us and to generations who follow.

South Africa can be at the forefront of change. We are a young nation, at the tip of this vast continent with enormous potential both here and the rest of Africa, but we need visionary leadership and participation to galvanize this opportunity. Just as in 1994, when South Africa was described as the 'miracle nation' or just as our 'truth and justice commission' has been used as a tool for reconciliation in many parts of the world, so we can be a leader in this change, but this requires leadership and resolve. Over the decades South Africa has produced such leadership although right now there appears to be a vacuum. These thoughts are echoed by many South Africans and much is beyond our individual control – this is true in part, but we can't hide behind this as we all have a role to play in influencing a better South Africa and a better world.

While this may sound idealistic and appear to be unrelated to financial planning we would stress that financial planning is all about getting the basics right to achieving long term goals and aiming to create a legacy through wealth accumulation. In this regard, there are tried and tested tools which aid to keep us focused and on track; amongst others, these can include:

1. Having a current financial plan that is written and is referred to whenever you meet with your financial planner. This is your blueprint to build wealth and manage risk;
2. When setting your financial planning goals try to think 'outside the box'; this could include goals that extend beyond your needs and those of your immediate family;
3. Central to any financial plan is the need to diversify your assets across asset classes be they equity, property, bond, cash and, in some cases, alternatives. Diversification should be geographic, remembering that South Africa accounts for less than 1% of global equity market capitalization;
4. Think long term and don't be all consumed by immediate news;
5. Have a budget and;
6. Stick to your plan as mistakes are often made when one chops and changes. Chopping and changing is often driven by anxiety, and anxiety seldom creates any value, just added stress.

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

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