

PROFICIO

NFB FINANCIAL UPDATE

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FROM THE CEO'S DESK

When looking back a year or three and realising that South African equity markets have delivered scant returns to investors, it suggests that we should pause and reflect on who, what, where and when. When complex things like markets fail to deliver, it is sometimes good to go back to basics and try to understand.

A few stark realities strike and these include the ridiculous contribution that very few companies have had on the fairly material growth we've seen in the ALSI. Unsurprisingly, these include companies whose earnings are global. South African based companies, including stalwarts like our retail sector, banks and local industrial groups have been hammered. Since we became a true democracy, and with BEE suggesting that a remarkable middle class would result, things were looking up. However, quite the opposite has happened, with our banks on their knees after several changes in the finance ministry and regulation, retailers suffering from failing credit extension and an overextended customer base.

The rand has continued its volatile path, suffering some remarkable and record breaking weakness, only to surprise us with a return to a level around R13/\$1. This, interestingly, has made our SA bonds a seriously good investment if measured in dollars over the last year. The carry trade, where foreigners sell their home currency, buy yours and sit tight until it suits them to run for cover, has been active and we see loads of 'hot money' in our capital markets.

The problem with these flows is they can go as easily as they came. This is worth taking note of, and this serves as a warning, not a prediction.

Over the last twenty years, the trend in the rand has been obvious. Principally, as a result of the difference in our inflation to other trading partner countries, it has weakened steadily.

We are also vulnerable to the vagaries of global demand for basic goods. If you plot the South African economy and growth rate to Global growth, you will find a healthy positive correlation. So, when the world grows, it needs basic materials, agricultural produce and sends hordes of prosperous tourists abroad. We win! Turn this around, add some political mischief, fire the odd Finance Minister, introduce a Mining Charter



Taking a look at the graph, you see a steady trend emerging. However, when looking at the more accurate graph reflecting the actual exchange rate from month to month, the picture is rather chaotic. We are the victims of our own success to an extent. The efficient and sophisticated markets, banking and commercial systems in SA allow for rapid and effective trading, when compared to other so-called Emerging Markets (EMs). Add to this the political mischief of the current government and you have a perfect recipe for volatility.

to an industry already reeling from being old fashioned and faced with relatively poor prices for its goods, and you realise the tough place we find ourselves in.

Last week I was invited to an event. This was important as it was held at GIBS, one of our leading Business Schools. They hosted Trevor Manuel, Siphon Pityana and Mike Brown, respectively ex-Minister of Finance,

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“ When complex things like markets fail to deliver, it is sometimes good to go back to basics and try to understand. ”

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





WHAT JOB ARE YOU HIRING YOUR INVESTMENT TO DO?

When you enter into a new investment what is the real motivation for the action you have taken? (your 'why?') - in this case, saving or investing. That question may be tougher to answer than its simplicity implies... Perhaps the better way of defining your 'why' would be to try and figure out, What job are you wanting your investment to do?

Professor Clay M Christensen, Professor of Business Administration at the Harvard Business School (Harvard University) asked this question and explained how to come to your answer in the following way. He described a project that he and some others undertook for a popular and well known fast food chain that was trying to boost its milkshake sales. The fast food chain had conducted numerous and extensive studies to try and ascertain what the customers' preference was... more chocolate? ... did they want it thicker, chunkier, chewier? ... was price a factor? They had gone on to make changes to their recipes and listed menu items according to the findings of the survey and nothing had changed the volume of milkshake sales.

It would not have been beneficial for Christensen and his team to arrive and duplicate the same research already done. One of Christensen's colleagues then phrased the question differently. He asked: What job arises in peoples' lives that causes them to come to this restaurant to hire a milkshake? So they stood at the restaurant collecting very careful data. They observed what time the milkshake was purchased,

what the customers were wearing, whether they were alone, whether they bought other food with it, whether they drank it at the restaurant or drove off with it. As it turned out, just short of half of the day's milkshake sales occurred before 08h30 in the morning. The people who bought them this early in the morning were almost always alone, it was the only thing they bought and they always left with it rather than drink it at the restaurant.

“ Whatever your reason for investing, there is great room and use for financial advice in your decision making, in order to ensure that the investment does the job that you have hired it to do. ”

In order to figure out what job they were hiring the milkshake to do, the team returned the next day and spoke to the people as they were leaving, milkshakes in hand. They asked each milkshake customer, "What job did you hire the milkshake to do"? Of course they struggled to answer so the team asked more questions to assist their understanding. As they put all the answers together it emerged that the milkshakes had similar jobs to do in the morning... Each customer had a long boring drive to work and they needed

something to do while they drove to keep their commute interesting. They weren't quite hungry enough for a proper breakfast yet, but they knew they'd be hungry by 10am without the milkshake.

One customer admitted that he had previously hired a banana to do the same job, but it hadn't lasted the duration of the drive and he had been hungry by 07h30 the same morning. Another had hired a donut to do the same job, but it was more work to try and eat while he drove and besides leaving a mess of crumbs all over his car, whenever his phone rang there was a crisis as well as a shortage of hands... a milkshake was cleaner and easier and viscous enough to keep customers busy for most of their drive while being filling.

Some readers will look at my initial question and immediately think of behavioural finance, but to my mind, that determines HOW a person will choose to invest as well as HOW they may behave over the duration of the investment, but not WHY they choose to invest to begin with.

So back to the original question... To paraphrase Christensen: "What job arises in peoples' lives that cause them to go to a financial advisor to hire an investment? What is the job that you are hiring your investment to do?"

Has the investment been hired to make the investor feel like they are a good mother? Are they putting money aside for their childrens' future university costs, or giving them a head start on their RA savings? Did

“ Understanding your motivation may also increase your capacity to see your investment decision through. ”

your parents do the same for you? Or are you determined to do better because there was no provision of that kind made on your behalf?

Has the newly employed graduate hired the investment to make her parents proud and show them that she is capable and independent? Was she told for most of her high school life that she would never amount to much due to the irresponsibility that she showed during that time? Will the choice to invest leave her with a sense of self worth and accomplishment?

Will the investment milkshake make the purchaser feel like a good provider? Will the investment satisfy the need for security in the future and for retirement? Perhaps the investor saw his grandparents struggle as he grew up and overheard conversations between his parents concerning the amount

of help that the grandparents would require, and he does not ever want to be in that position. Has he hired the investment to ensure that no one ever has those conversations about him?

Perhaps his father was a spendthrift and there was no sum of money that he could not whittle down to nothing if left alone with it. Would such an investor hire an investment to reassure himself that he is not as irresponsible as his father? Would the investment provide the necessary pay off?

I'm certain that if we took the time we could come up with several more scenarios that would explain the motivation for 'hiring' any number of investments. In this day of multi-tasking, your investment may be hired to do more than just one job. One can go for the proverbial combo deal of reasons to hire the investment (with a side of therapy). One may also find that a prior bad experience with one type of investment, (perhaps one that was not properly explained by the broker selling the product), may lead to an aversion to that investment and influence the investor's decision to choose a different investment vehicle... the hiring of milkshake over a hot coffee that once left 2nd degree burns when it accidentally spilled in the lap.

Whatever your reason for investing, there is

great room and use for financial advice in your decision making, in order to ensure that the investment does the job that you have hired it to do. A qualified financial advisor will assist you in cutting through all the noise and work with you to tailor make a portfolio that will do the job you require. Understanding your motivation may also increase your capacity to see your investment decision through.

Should you wish to speak to one of our qualified financial advisors at NFB Private Wealth Management, please contact us on one of the following numbers:

EL 043-735 2000 PE 041-582 3990

CT 021-202 0001 JHB 011-895 8000 ■



"If we save a rock a year, by the time I'm ready to retire we'll have a lot of rocks."

Source: thefloat.typepad.com

“ Perhaps the better way of defining your 'why' would be to try and figure out, What job are you are wanting your investment to do? ”

Nonnie Canham CFP® professional
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FROM THE CEO'S DESK

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Non-Exec Chair of Anglo Ashanti and CEO of Nedbank. They, amongst hundreds of other business and leaders of society are saying "enough!" The message was clear. If society at large, community and business don't stand up to what is ailing South Africa now, we will fall into the abyss.

I took heart from this as it led me to believe that the bottom line was changing from a selfish 'eat what you kill' corporate approach, to a realisation that an inclusive South Africa is the only option. It also had a few brave leaders, also in need of a safety net created by numbers, expressing absolute outrage at the current goings on. I have a feeling that we might be in for a rough ride, but as has happened many times before in our country, we will bring it back from the brink.

Recent political results where the opposition won several key municipal elections were celebrated as great victories and the establishment of a trend. There is an old

saying that goes something like, "beware the caged lion". Desperate people do desperate things and politicians with their hands on the crown jewels must rank amongst the most potent.

From a practical perspective, and pulling these views back to a 'So what?' for investors, we continue to note a few key points. Firstly, diversification across markets, asset classes and currency is smart. You might get lucky and call a winner or two, but Mr. Market is always the winner over time. Using foreign allowances has been made a little more administratively intense recently. Please let our team assist in dealing with this if you are advised and agree that increased hard currency exposure is appropriate. Secondly, please ensure that you understand the sometimes-roller-coaster volatility of growing investments like shares, property and importantly currency. We most often make losses when not really understanding the long-term nature of markets. "Staying the

Game" is a handy adage.

Last, but certainly not least, please discuss your changing needs, any concerns and uncertainties with your advisor. As much as we need to have you fully aware when making or changing investments, we benefit by knowing when your circumstances change. This adds markedly to the process and will support us in safely meeting your changing needs.

It is hard to believe that Wimbledon has already come and gone. Roger Federer has established another record and long may he go on. What a champion! I find it so frustrating that one of the world's best ever cyclists, Chris Froome, as well as arguably the world's best ever tennis player have South African roots. They just don't know the words of Nkosi Sikelele! iAfrika! ■

THE DOLLAR LIFE PLAN

As investors we are constantly reminded of the effects and influences that the exchange rate has on our investments. Most of the South African blue-chip companies are multi-national businesses with dual listings and foreign earnings. In addition to these rand-hedge equities, the Annual Offshore Allowance (R10 million limit) and the Annual Discretionary Allowance (R1 million limit) affords investors the ability to externalise their asset base. However, this does not apply to our risk cover. More than 20 years ago, a limited number of foreign life companies would underwrite South Africans in dollars or pounds. Sadly, these companies withdrew doing business from the African Continent.

The innovation by Discovery Life saw the birth of a dollar-based risk product in November 2014. Unfortunately, with the rand reaching all-time lows of R16.93 to the dollar in January 2016 and ranging between R14.50 and R15.50 for most of last year, the product did not receive much attention. At current exchange rate levels (and with the Limited Special Offer), the product is very well priced.

THE KEY FEATURES OF THE PRODUCT ARE:

- The policy is issued by Discovery Life International, a Guernsey branch of Discovery Life Limited.
- The policy can insure policy holders for Severe Illness Benefits, Disability Cover

or Life Cover.

- The policy does not meet the definition of a Domestic policy, and therefore falls outside of your South African Estate (saving your heirs 20% Estate Duty on Death Claims).
- The premiums are paid utilising your Discretionary Allowance (or your Capital Allowance if required) and must be paid from a South African bank account.
- Disability and Severe Illness Claims will be paid to a foreign bank account of the Life Assured.
- At inception, you can select the proceeds to be paid to a beneficiary's foreign bank account (Company, Trust or Individual). A South African beneficiary need not currently have a foreign bank account to receive the funds abroad.
- Discovery integration benefits and Cashback benefits will apply to this policy. The Cash paybacks are payable abroad.
- The cover will escalate by US Inflation.
- The minimum monthly premium is \$50.

LIMITED SPECIAL OFFER Currently all policies signed before 31 August 2017 with an inception date of 1 November 2017 or sooner, enjoy the fixed exchange rate of R10.90 / \$US1 for the first 3 years. Should the rand exceed R18.00 / \$US1, the exchange rate will be based on 80% of the prevailing forward exchange rate for the remaining period of the special offer. After the initial 3 year period the exchange rate will revert to the monthly forward exchange rate that Discovery can secure.

The Dollar Life Plan is a simple and secure way of creating a dollar-based legacy for your spouse, children or grandchildren. Protect against the rand weakness and insure part of your risk cover in US dollars.

Speak to your financial advisor or to our Life Specialists to find out more about this unique opportunity. Our contact telephone numbers are:

*EL 043-735 2000 PE 041-582 3990
CT 021-202 0001 JHB 011-895 8000 ■*

Examples of actual policies issued – Life Cover portion (all Non-Smokers) Premium at R10.90 and Benefits at R13.00 / \$US1

Sex	Age	\$ Premium	\$ Cover	ZAR Premium	ZAR Cover
Female	34	\$50.34	\$675,000	R548.71	R8,775,000
Female	39	\$50.67	\$450,000	R552.30	R5,850,000
Male	41	\$95.05	\$500,000	R1,036.05	R6,500,000
Male	42	\$55.58	\$350,000	R605.82	R4,550,000
Male	49	\$157.64	\$554,236	R1,718.28	R7,205,068

“ The Dollar Life Plan is a simple and secure way of creating a dollar-based legacy for your spouse, children or grandchildren. ”

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KNOWLEDGE INTO WEALTH

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