PROFICIO

NFB FINANCIAL UPDATE

NFB PRIVATE WEALTH MANAGEMENT

FROM THE CEO's DESK

Nightmares, I was told by my Granny when I was a lot younger, were the result of over indulging - the later in the day, the greater the gravity. So, too, I trust, will be the pain felt by participants in the Gravy Train which South Africa's SEO's, certain Retirement Funds, Corporates and Professional Firms have funded over the last ten or so years which I've called "Decennium Horribilis". The amazing truth is that we've seen this movie before, we can sort this out, but desperately need to change the culture which has allowed this to occur. We really do live in exciting times and are well into a rather important year in the life of our country and importantly our democracy.

We have left behind a very troubled year, including when contemplating markets and investments, the general state of the economy and employment, loads of negative sentiment caused by a worried population and also the imminent election, coupled with the political mischief that normally accompanies this. Whilst believing I am a 'glass half full' kind of guy, I need to acknowledge a degree of angst I cannot recall feeling before. This one is crucial, and the outcome has to allow the new president to change mode from careful and smart change and censure, to full blown fixing, hiring and firing and clearly describing policy and process. The willingness for big business to engage and play a role is stated and should also be monitored. South Africa is at a very critical inflection point and given we have largely missed out on the remarkable growth led by the USA, and also the other major economies over the last decade, we need to manage perceptions and reality both at home and abroad.

What excites me is that the outcome can be the re-establishment of an opportunity to build what the world desperately wants and celebrated 25 years back, i.e. The Rainbow Nation. What worries me is that recent local and global political outcomes aren't what were expected. Look no further than the USA's Presidential Elections and Brexit outcomes.

It is a point made often by NFB and our advisory teams, directly to investors, by way of editorial such as this and through our Asset Management and Securities businesses, that staying committed and invested is the smartest strategy we know. Recent turbulence and the recovery thereafter are testimony to this. A few of our clients were particularly spooked by correspondence received over the year end, noting a downward correction in investment values. This was particular to fairly aggressively invested equity funds. Whilst this report was accurate, these very same funds have benefitted in the last few weeks by a strong positive correction. Although this is an anecdotal and rather short-term example of the point, it remains relevant and describes our very human bias. We worry twice as much about loss in value when compared to gains! So, don't feel awkward when this happens to you. We would encourage healthy discussion with your advisors at any point you either feel vulnerable, unsure or should an event such as changing employment, retrenchment, retirement, a death of a bread winner, or suchlike occur.

With regards the year ahead, we have some real events worthy of understanding and watching unfold. Some we can influence, others will unfold irrespective of our opinion or hopes. Being positive and acting positively is a great starting point. Respecting and indeed relishing 'wins' achieved needs to become part of our psyche. I dislike a rather crazy South African trait which has many of us dismissing wonderful results, great achievements, acts of remarkable kindness, etc. worst of all by folk involved in politic! It is not a fluke that the USA has in a few short centuries become the real Global leader. They celebrate from early childhood at every possible event, from sport, to academics and other spheres of life. They breed a can-do culture. We all have it - we simply need to learn how to display it.

With a little luck, sanity and what we in markets call tailwinds, 2019 can deliver a good foundation for a resumption in growth: Cyril wins the election, the DA gains some ground (if they can stop their inhouse mischief), the NEW ANC delivers a business, tourism and, therefore, economy friendly platform. Prosecutions of crooks start in earnest, making the tide change where temptation no doubt still exists. Notably, the crooks don't only work in government! Overseas, we need to keep a beady eye on Brexit, Trump and the Chinese and Europe's finances and economies.

Here's wishing you all well in the year and years ahead. Many thanks for your custom and to those who have introduced us to new clients. We look forward to delivering professional and friendly advice and service to suit your particular needs. ■

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PLANNING FOR YOUR RETIREMENT LIFESTYLE

When I was in my early twenties, I thought I would be dead by the time I was 50. This is not because I was ill or living dangerously, but it simply seemed so far away. My parents, who were in their forties, seemed so old. So, here I am, in my fifties, wishing I could slap my twenty-year-old self.

In my 13 years as a financial adviser I have met so many people who have left their retirement planning too late. It's not like they didn't have the opportunity to save because most were on a company retirement benefit scheme for a large part of their working lives. So where did they go wrong? And then, how do you fix it before it really is too late?

Less than 30% of employed people in their forties know how much they will need to live comfortably when they retire.

Research shows that the average retiree needs approximately R21,000 after tax to afford to live in a middle of the range retirement village. This amount includes rent, levies, three meals a day, a hospital plan and 24-hour frail care nursing. This does not include any other expenses such as telephone, entertainment, holidays and other extras.

The latest findings by Member Watch™ states that a forty-year-old person should have approximately 3.2 times their annual salary saved for retirement at this stage in order to retire at 75% of their final salary.

Their research also tells us that over 50% of retirement fund members will retire on 20% or less of their final salaries at retirement, which means a considerably lower monthly income after they stop working. To provide an income of R25 000 per month before tax for 30 years you will need approximately R5.8 million in today's value. The assumptions are that inflation remains at 6%, the investment growth rate is 10% net of unit trust fees and the income draw down is approximately 5.2%. On the basis of this calculation the capital will be largely depleted at age 95. This also assumes that you're no longer paying off a house or car and are not supporting children, etc.

It is never too early to start planning for the rest of your life. If you feel that you have left it too late, it becomes even more important to start doing something sooner rather than later by:

- Saving more;
- Adjusting your lifestyle;
- Taking on the appropriate risk in your investment portfolio;
- Working for longer (ie. past the usual retirement age).

SAVE MORE

Younger clients often tell me they cannot save more than their company fund contributions. When we go through their budgets and separate the needs from the wants, it becomes clear that there is capacity to save. By removing or cutting down on luxuries such as pay-for television, eating out, take-away meals, entertainment, smoking, shoes, handbags, etc., there is a lot of fat in the budget. For example, quitting smoking can save about R1,200 per month if you smoke a packet of cigarettes a day at R40 a packet; that's approximately R14,600 a year.

The old saying by Warren Buffet, “Pay yourself first.” Is a very important lesson. Saving for your retirement should be treated like another bill you have to pay, not something you do at the end of the month, if you have left over cash.

Preserve your pension or provident fund when you leave your company. Taking this money to pay off your car or other debts is one

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of the biggest financial mistakes members make. If you think about it, where will that car be by the time you retire? How much will it be worth? Was it worth sacrificing your retirement savings for improved short-term cashflow?

Live within your means. Save before you start spending. Buy a house or car you can easily afford not what you can only just afford.

ADJUST YOUR LIFESTYLE

Nobody likes to hear it, but the fastest way to save more is to spend less. Trimming your lifestyle to one that costs a little less will allow you to save more.

Before you can start saving you have to find out where your money is going. By drawing up a budget of my monthly expenses I found that I was spending money on the top of the range DStv package, iTunes subscription (for what I do not know), private security, and my cell phone contract was never renewed, but I was still paying the same amount. This means I was still paying for the hardware which should have been paid off after two years. I called my cell phone provider and renegotiated my package. The saving was about R550 per month. I renegotiated my monthly private security costs as I found out that a new client will pay approximately R250 a month less than I do. My premiums kept going up because I have been a loyal client for over 20 years. I was also paying for stock market research I was not using. I exchanged my DStv for Netflix and cancelled the iTunes subscription. In total I cut out R2,645 per month just from the budget items mentioned here. That is R31,740 a year.

If you know that you will have to cut back on your costs during retirement, you should ideally start cutting back before that time. Adjust your lifestyle while you are still working and accumulate your savings. Add to your retirement savings as you go. You will be amazed how it adds up.

TAKE ON THE APPROPRIATE RISK IN YOUR INVESTMENT PORTFOLIO

As an investor, you should have completed a risk profile questionnaire at some stage. The questionnaire asks about your age, when you plan to retire, what you would like your investment to do: provide an income, preserve capital, maximum capital growth, etc., how much volatility you are prepared to take should the value of your investment drop in the short term and what you think your risk profile is: low risk, medium or high risk. Often clients want maximum growth with no market volatility.

The risk profile gives us financial planners a guideline on how you feel about investing and the risks that go with it, so we can curate a solution that best fits your comfort zone with the best possible returns.

Fear and greed are the biggest detractors from wealth. Fear keeps you safe and investing in low risk investments such as cash. The interest earned on cash, generally, will not keep up with inflation, so you erode the buying power of your investment over time. Greed, on the other hand, sees investors jumping into the next best thing at the highest price because this is what everyone is talking about.

Your ideal plan is one which looks at your current situation and future ambitions and how you are going to fill the gap between them. Consistent returns over time need to ensure that your investment keeps pace with inflation at a minimum. To provide for your needs, you may require an inflation plus 2, 3, 4 or more return. The higher the return you require, the higher the equity allocation in your portfolio. This is where your comfort level is tested. Once I have established your goals and put your investment into place, I leave the portfolio management to the expert asset managers. From then on, I manage my clients' behaviour around their investments, reminding them why they are doing this and realigning their portfolio strategy with their changing needs.

WORK LONGER

For many people working longer at their current employer is not an option. If you have crunched the numbers and found that you will have to supplement your retirement income, it's better to get that side business you have always dreamt of up and running.

They say it takes a thousand days to start reaping the rewards of a new business. That is about three years. Learn a new skill, go on a small business course, find out what your community needs and get going. A little idea can turn into a great business. Who knows, maybe you decide to give up the corporate life long before the company gives up on you.

This might seem like a lot to do, but a small change here, cutting back there and a new opportunity could change everything.
The secret is to start by having a very frank discussion with your financial adviser.

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INVEST TAX-FREE
HERE'S HOW

Like all of you, I pay my taxes diligently, although, sometimes uttering a few profanities under my breath. However, when I can legitimately save some tax either by reducing my tax bill, or negating some taxable income altogether, I see this as a win.

There are investment products that offer tax benefits. By taking advantage of these the win is twofold - you get to bolster your savings and pay a little less tax. *Caveat Emptor*: I've been involved in wealth management for 16 years and have found that investing only for a tax benefit is likely to lead to disappointment. So, you should first always consider the merit of an investment product itself and only thereafter assess the tax advantages, if any.

TAX FREE SAVINGS ACCOUNT (TFSA)

The TFSA provides tax benefits so that all growth in savings, no matter the source – income, capital or dividends – is tax free, and subsequent withdrawals are free of tax.

The product offers a broad range of investment options ranging from local cash to offshore equity. The annual contribution limit is R33,000, with a lifetime limit of R500,000. It is, however, subject to estate duty on death.

RETIREMENT ANNUITIES (RA)

RA's have received more than their fair share of bad press, but this is unwarranted for linked retirement annuities, which can add great value to your investment portfolio.

An RA is, simply put, an individual pension fund – which can be held in addition to an employer fund – that allows people who are not part of a group scheme, or want additional savings, to enjoy the benefits of investing in a retirement fund.

From the point of view of tax benefits, these contributions are tax deductible up to the lesser of R350,000 per annum, or 27.5% of the greater of remuneration or taxable income including any taxable capital gain, but prior to the deduction for donations.

If you can afford to contribute, say, R50,000 per annum and have an average tax rate of 30% you will save R15,000 a year in tax. You can contribute R50,000, but physically invest R65,000 if you re-invest your tax refund from your RA contribution!

All growth, no matter the source, is tax-free. There are no estate duties or executor fees on death. However, in terms of Prudential Investment Guidelines no more than 75% can be invested in equity and no more than 30% offshore.

Many financial commentators condemn the tax value of RA's, but I beg to differ. I urge you to get one if you don't already have one. It is, however, important to have a balance of discretionary and non-discretionary savings in your portfolio so that you create different tax and liquidity profiles.

SECTION 12J INVESTMENTS

A section 12J investment is a tax incentive for individuals, trusts or small business corporations through tax-deductible investments into Section 12J venture capital companies. Section 12J companies must be licensed with the Financial Sector Conduct Authority and registered with SARS.

While contributions to a Section 12J investment are useful for high-income earners, the bulk of support for the sector has come from investors looking to reduce the effect of CGT.

This is an investment category where you must look closely at the underlying investments, the investment strategy and issuer compliance before getting too excited about the potential tax saving.

From a tax benefit point of view, you can make unlimited contributions, which are deductible against taxable income. Don't contribute too much though as the contribution is deducted before that of an RA and you may not get the full tax benefit of your RA contribution. You must stay invested for at least five years, otherwise your tax saving will be recouped by SARS. On exit, your base cost in determining CGT will be taken as zero.

You have until end-February to make your tax-free investments, so get onto it immediately, there is no time to waste! ■

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