

# PROFICIO

## NFB FINANCIAL UPDATE

ISSUE 05 APRIL/MAY 2016

## FROM THE CEO'S DESK

Well now, welcome to the rather adventurous 2016! Since I left to climb Aconcagua, which by the way feels like a lifetime ago, much has happened. The Rand has dived to new depths, the JSE has displayed wild gyrations and the more this happens, the more I begin to believe in great manipulation theories. These are the ones which suggest the world is being manipulated for gain by a bunch of folk somewhere. Why else would we see stalwarts of old, like Anglos, which I mentioned in a previous editorial, swing between R500, R50 and back up to double this number in a few months? The Rand also comes to mind, with clients and commentators alike, suggesting we're on our way to Zimbabwe after Nene-gate, only to have it "bounce back" to current levels.

We are seldom bold enough to call markets. In the instance of the currency blowing out to R17/\$, I am on record to have said the following: "The trend of the rand is weaker. However, three times in the last decade and a bit, it has gone way outside reason. These radical swings normally correct, revert to the mean, and continue the long term trend." I concluded by saying, "the elastic band is overstretched" rapidly adding the caveat "all things being equal".

I have read Magnus Heystek's column on Moneyweb. This for two reasons: firstly, we are both practising professionals and I've known him for ages. Secondly, I get

really harassed clients referring to the "Heystek bible" and enquiring when we are opening a Perth office.

I hope they don't share their business between NFB and Magnus, or if they do, I would love to be a fly on the wall in the next review meeting discussing the funds rushed out before the Treasury took away our foreign investment allowance. These deals could have been settled, with fees and foreign exchange charges, at well above R17/\$.

Whilst I have some serious concerns about the current political goings on and behaviour amongst students, business people and labour organisations, we live in a vibrant, resilient country with a remarkable ability to leave things too late, and then come back from the brink of disaster.

The current Minister of Finance (second time around), Pravin Gordhan, is imminently qualified for the job. Not only has he surprised the nay-saying public, notably those of higher worth, with very little in the way of higher taxes, he has taken on the political establishment with especially ruthless cuts and limitations in the area of wages and largesse.

Watch this space carefully! If the amazing support Pravin has received from all quarters, excepting the ruling Cabal, holds and increases, we have lots to be heartened by. If it doesn't, I will see you in Perth!

On the subject of the Budget, more is being said about retirement savings, estate planning curbs and donations. We've also seen an increase in CGT (Capital Gains Tax) bringing this "wealth tax" closer to the levels of income tax. I would advocate investors to engage us on this important subject. We will offer advice and complement input you receive from your tax advisors or accountants. Our particular value-add would be to optimise investment structures around these developments.

NFB has as an ongoing challenge to find clients a source of tax efficient income. Recent developments on the economic and political fronts have combined to allow us to provide a very interesting guaranteed and tax free income to appropriate portfolios. This product needs clear understanding, but is very attractive for clients seeking income. I would ask that you engage with your advisor to find out if this might suit your needs.

I cannot wait to climb another mountain. The situation on the ground in South Africa requires a lot more positively inclined people. After a crazy adventure, like summiting Aconcagua or surviving South Africa in the last few hair-raising months, we firstly survive, forget the terrible bits and get on with it. That is why I've yet to be convinced that Perth even comes close to Cape Town. After all, a braai at Welgevonden is way better than a barbie at Bondi. ■

“Recent developments on the economic and political fronts have combined to allow us to provide a very interesting guaranteed and tax free income to appropriate portfolios.”

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





# INTESTATE SUCCESSION

## DO YOU HAVE A VALID WILL?

Are you aware that if you do not, your estate will be dealt with via the concept of intestacy and the estate will be devolved by succession per stirpes and by representation, meaning that the estate is divided into so many equal portions as there are children who survive the deceased and children who have predeceased him.

Through this article we will discuss the intestate succession rules as a number of avoidable problems can arise if an individual dies without a valid will in place. Some of these are, but are not limited to:

- The deceased's estate being distributed in a manner that is not in line with their wishes.
- Business succession - where the deceased owns business interests, if provision for these interests are not made by way of a will or 'business will' i.e. buy-and-sell agreements, this could result in problems arising.
- Where the descendants are minor children and provisions for testamentary trusts or nomination of guardians are not provided for.

If this is the case, the deceased estate will be distributed according to the rules set out in the Intestate Succession Act no. 81 of 1987.

The law of intestate succession determines the heirs to a deceased estate:

- When the deceased has failed to determine how and to whom his or her property must be awarded by will or antenuptial

contract; or

- Where it is impossible to carry out the wishes of the deceased because the beneficiaries are, for example, unable to inherit, or do not wish to inherit or are predeceased.

It is possible for an individual to die completely intestate or only partly intestate. An example of an instance where a testator specially bequeaths one portion of his or her estate in a valid will, but omits to deal with the rest of his or her assets. In this instance the portion that has been bequeathed by will, will devolve testate in terms of and subject to any conditions contained in the will, while the rest of the estate will devolve according to the rules of intestate succession.

The following is an indication of how an estate will be distributed in the event of intestate succession according to the rules of intestate succession:

### 1. Deceased is survived by a spouse or spouses, but not by a descendant/s.

The spouse or spouses will inherit the intestate estate. In the case where the deceased was a husband in a polygamous marriage the surviving spouses will inherit in equal shares.

### 2. Deceased is survived by a descendant or descendants, but not by a spouse.

The descendant or descendants will inherit the intestate estate.

### 3. Deceased is survived by a spouse or spouses, as well as a descendant/s.

Each spouse will inherit R250 000,00 or a child's share, whichever is the greater

and the children the balance of the estate. A child's share is determined by dividing the intestate estate through the number of surviving children of the deceased and deceased children who have predeceased him, plus the number of spouses who have survived such deceased.

In case of a marriage in community of property, one half of the estate belongs to the surviving spouse or spouses and although it forms part of the joint estate, it will not devolve according to the rules of intestate succession.

The following two examples will illustrate what is said above about the child's share:

#### Example 1:

Value of intestate estate is R325,000.

The deceased is survived by a spouse and 3 children.

A child's share amounts to R81,250 (R325,000 divided by 4 (3 children plus spouse)).

The child's share is less than R250,000. Therefore, the spouse will inherit R250,000 and each child will inherit R25,000 (R325,000 less R250,000 to spouse, divided by 3).

#### Example 2:

Value of intestate estate is R1,100,000.

The deceased is survived by a spouse and 3 children.

A child's share amounts to R275,000 (R1,100,000 divided by 4 (3 children plus spouse)).

The child's share is greater than R250 000,00. Therefore the spouse will inherit R275,000 and each child will also inherit R275,000 (R1,100,000 less R275,000 to spouse, divided by 3).

*continued to page 4 (top)*



Xolisa Funani,  
B.Comm, PGDFP  
Financial Paraplanner  
NFB Port Elizabeth

“ The only way to circumvent any of the problems which may crop up due to intestate succession is with proper estate planning and having a valid will in place. ”



# STAYING THE COURSE

## ACTING RATIONALLY IN IRRATIONAL MARKETS

**A**fter nearly five years of almost mono-directional, upward market movement, December 2015 through to February 2016, has provided investors (in both local and foreign markets) a reality check. The disconnect between economic realities and market levels, caused by loose global monetary policy and stimulus, has been brought into sharp focus, with significant sell-offs in equity markets and a rout in emerging market currencies. The fact that risk and return are related, and that there actually is a downside to risk, was reinforced in no uncertain terms. South Africans have had the added dynamic of added uncertainty (and associated volatility) resulting from South Africa's specific issues – namely “Nene-gate”, constitutional court challenges, budgetary issues and the dark looming cloud of a credit rating downgrade.

The result of a reality check, such as the one recently experienced by markets, is the understandable desire to act – to do something. This desire to act often results in irrational behaviour from investors and market participants. In times of uncertainty it is certainly difficult to be philosophical, but at times like these, it is wise to revisit certain fundamentals of investing before making rash decisions and having knee-jerk reactions.

An interesting framework to use to do this is provided by some of the constructs of behavioural finance, which deal with some of the myths and truths of investing, and how they impact on investor psychology and ultimately behaviour.

Given current market conditions and investor uncertainty it is worth considering some of these myths and truths:

### INVESTMENT MYTHS

#### 1. We can predict the future

The behaviour of the market over the past few years has had the effect of making many investors overconfident. In reality, it is very difficult (if not impossible) to predict the future. The converse is also true, in that during times of volatility, losses can make investors overly pessimistic about the future. Both of these dynamics influence our behaviour.

#### 2. We can time markets

All investors would like to be able to buy low and sell high every time that they make an investment decision. The reality is, however, very different. It is only with hind sight that we can see where the peaks and troughs of markets are. Investors should not focus on timing the market, but rather time in the market. During times of extreme volatility, the temptation to try and sell out and wait for the market to drop further so that one can time the bottom is very much an exercise in futility.

#### 3. Investing is a competition

People tend to compare themselves to others and often behave in response to the behaviour of others. Thus, people are prone to making the mistake of “herding”. Investing is an individual exercise.

#### 4. Past performance is an indicator of future performance

In many cases, investors make decisions based on what has happened in the past, but not on the fundamentals that are going to drive performance going forward.

#### 5. Market commentaries are useful

Everyone is entitled to have a view. And almost everyone does. The result is often

that because a plethora of views, theories, and “tips” are forced on the investor by various forms of media, it becomes difficult to separate “noise” from useful information.

“ As information doubles, knowledge halves and wisdom quarters. ” ~ (source unknown)

### INVESTMENT TRUTHS

#### 1. We can't predict the future

Investors must understand that they can't predict or always correctly time the market. Following a rational, pre-determined investment framework, over a sustained period of time, will invariably result in more favourable investment outcomes than speculatively buying and selling to catch peaks and troughs in the market.

#### 2. Investing is a means to an end

Investing should not be looked at in isolation. Investing should be one part of a comprehensive financial plan. By understanding the eventual outcome that an investor is trying to reach, the likelihood of making rational and appropriate decisions will be maximised.

#### 3. Investing principles are enduring

In markets, abnormalities are normal. Markets will go up and markets will go down. Decisions must not be made on the basis of emotional, knee-jerk reactions, but rather on the principles and truths of investing.

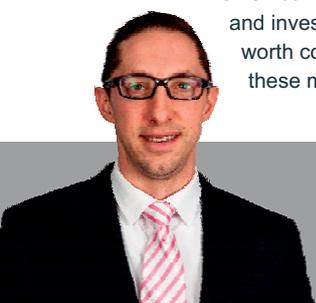
#### 4. Understanding investment risk helps decision making

Towards the end of a bull run, investors tend to lose sight of the relationship between risk and return. By having a clear understanding of the risks involved in a specific investment or strategy, the investor improves the likelihood of making rational decisions.

#### 5. Investor behaviour is the greatest determinant of future performance

The investment decisions that one makes

*continued to page 4 (bottom)*



Andrew Duvenage CFP® professional  
MBA, B.Com. Hons  
MD/Private Wealth Manager,  
NFB Gauteng

“ Probably the most significant and pervasive characteristic of the human pleasure machine is that people are much more responsive to negative than positive stimuli. ” ~ Amos Tversky, 1990

# INTESTATE SUCCESSION

continued from page 2

#### 4. Deceased leaves no spouse or descendants, but both parents who are alive.

His/her parents will inherit the intestate estate in equal shares.

#### 5. Deceased leaves no spouse and no descendants, but leaves one parent, while the deceased parent left descendants (brothers/sisters of the deceased).

The surviving parent will inherit one half of the intestate estate and the descendants of the deceased parent the other half.

#### 6. Deceased leaves no spouse or descendants, but leaves one surviving parent, while the deceased parent did not leave any other descendants.

The surviving parent will inherit the whole estate.

#### 7. Deceased does not leave a spouse or descendants or parents, but both his parents left descendants.

The intestate estate will be split into equal parts. One half of the estate is then

divided among the descendants related to the deceased through the predeceased mother and the other half among the descendants related to the deceased through the predeceased father.

#### 8. Deceased does not leave a spouse, descendant or parents, and only one of the predeceased parents left descendants.

The descendants of the predeceased parent who left descendants, will inherit the entire intestate estate.

#### 9. If the deceased does not leave a spouse or descendants or parents or descendants of his parents.

The nearest blood relation inherits the entire intestate estate.

#### With regards to an illegitimate child of the deceased the following will apply:

An illegitimate child can inherit from both blood relations, the same as a legitimate child.

#### With regards to an adopted child of the deceased the following will apply:

An adopted child will be deemed:

- to be a descendant of his adoptive parent or parents.
- not to be a descendant of his natural parent or parents, except in the case of a natural parent who is also the adoptive parent of that child or was, at the time of the adoption, married to the adoptive parent of the child.

#### 10. The deceased is not survived by any relative.

Only in this instance will the proceeds of the estate devolve on the state. This is, however, after an expiry of 30 years.

The only way to circumvent any of the problems which may crop up due to intestate succession is with proper estate planning and having a valid will in place.

Should you require assistance in drawing up a will or updating your current will, please contact one of our NFB Private Wealth Managers at one of our NFB offices in Johannesburg, East London, Port Elizabeth, Stellenbosch or Cape Town. ■

## STAYING THE COURSE

### ACTING RATIONALLY IN IRRATIONAL MARKETS

continued from page 3

now, and the process through which these decisions are arrived at, are the most important factors that will determine future performance. Being rational in irrational times is vital.

#### 6. Time frame is vital

In times of volatility, "short term-ism" is a real danger. The desire to focus on short term market moves is understandable, but ill-advised.

### EASIER SAID THAN DONE?

Whilst the myths and truths discussed

above may seem great in theory, how does one implement them in a practical investment strategy?

1. Set your financial goals;
2. Calculate the required real rate of return required to achieve these goals;
3. Examine the asset allocation that would be required to reach this rate of return;
4. Assess the risk attached to this asset allocation; and
5. Adopt the investment strategy or adjust your financial goals.

“ The irony of obsessive loss aversion is that our worst fears become realised in our attempts to manage them. ”

~ Daniel Crosby

Should you require assistance in formulating your financial plan, please contact one of our Private Wealth Managers at one of our NFB offices in Johannesburg, East London, Port Elizabeth, Stellenbosch or Cape Town. ■

This article was recently featured on Moneyweb.

**Author's note:** the above is an update of a 2006 article – what is interesting, and why I think it is worth redoing it, is that human behaviour results in similar behaviour whenever we see market conditions like these (i.e. 2006 and now).



## KNOWLEDGE INTO WEALTH

NFB House 108 Albertyn Avenue  
Wierda Valley 2196,

P O Box 32462 Braamfontein 2017,

Tel: (011) 895-8000 Fax: (011) 784-8831 E-mail: nfb@nfb.co.za

[www.nfb.co.za](http://www.nfb.co.za)

A licensed Financial Services Provider