2022 ISSUE 2

NFB PRIVATE WEALTH MANAGEMENT

PROFICIO

NFB FINANCIAL UPDATE

View from the **Chair**

With half of 2022 in our rear-view Mike guides us on how to keep our eyes on the long term prize despite the bumpy ride.

Well, 2022 has certainly not disappointed in delivering a dramatic series of events: turbulence in geopolitics, markets and most importantly inflation and the probable consequences this has already and will continue to trigger.

As an emerging market and resource-rich economy, we have enjoyed the tailwinds as inventories around the world get restocked. These tailwinds have been interrupted this year by the remarkable and scary invasion of Ukraine by Russia. This event has disrupted many aspects of the global economy, but mustn't be seen in isolation. It has focused the world's attention on inflation, but this inflation, until recently described as "a temporary blip until supply chains are re-established", is way more serious an issue. Central banks generally don't like upsetting apple carts. Their stated intention is the careful management and stabilisation of economic activity, and in so doing, avoiding policy shocks to which economies react negatively (read interest rate increases). When the apple cart is a somewhat vulnerable world economy, struggling to return to "normal" after the two-plus years of Covid-19 craziness, they would also be under pressure from their respective political masters to go easy on the narrative and any actions (such as raising rates!).

So, from a slow and gradual upward tilt to temper the bothersome inflation, brought on by a disturbed supply and a shortage of computer chips, reality has set in. It has been further impacted by the Ukraine crisis, which interestingly has the rest of the world, probably for the first time, realising the strategic importance of the Russia/Ukraine economies and their significance regarding foodstuff and energy output in Western Europe and, indeed, the world.

Back to the numbers. The US Fed has just announced a further increase in rates. This, however, is the thin edge of the wedge. The market is now contemplating a further 300bps before 2023 is done.

These corrections have been delayed, and without saying "I told you so", in my editorial in two of the late-2021 Proficios I opined that the longer the banks remain passive, the steeper the inevitable shape of interest rate increases. This is now playing out and, as is often the case, adding to the nervousness and material selloffs of many high-flying tech favourites and other equities.

Living, as many of our readers do on the Southern tip of Africa, where home-bias leads to an exaggerated sense of relevance, these developments are significant. NFB has, for as long as I can remember, supported global investment options in conjunction with our local propositions. Offshore, where cash hasn't offered any reasonable return, has had us focusing portfolios on growth. Usually, this has come from markets and real estate for typical investors, whilst private equity and venture capital-type investments (often geared) have typified large family offices. It is time for caution. Free lunches aren't as easily available, and with the already obvious increase in borrowing and lending rates becoming available, alternatives to pure equity, property and fully at-risk portfolio investments are returning.

continued on page 3

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Mike Estment CFP®
Executive Chairman: Johannesburg
NFB Private Wealth Management

Why your family's estate planning is an important part of you financial plan

If you wish to preserve and protect your assets for the benefit of subsequent generations, make estate planning your priority.

The loss of life as a result of the Covid-19 pandemic has forced people to seriously consider their own mortality. There is a growing realisation that life is fragile and can suddenly and unexpectedly change course, impacting those nearest and dearest to us. Therefore, planning and preparing for the worst eventuality with a will in place has become a no brainer, ensuring less impact on those left behind, during a very difficult time.

Estate planning is essential to preserve and protect your assets for the benefit of subsequent generations and to ensure that there is sufficient liquidity in the estate to cover estate duty, taxes, bequests, debts and administration costs.

An estate is fundamentally the sum of an individual's net worth. It is made up of personal possessions, real estate or property, investments and life insurance. There's misconception that only high net worth individuals (HNWIs) have to do estate planning. Given that most people have some possessions – be it a home, car, jewelry or investments that they may want to bequeath to certain family members - this requires estate planning. Having no process or plan in place to wind up an estate can cause unnecessary family stress.

The good news is that you don't need to do this alone and a trusted financial advisor or attorney can assist. There are five considerations that need to be factored in when managing an estate. Arguably the most important element is to have a will. More than a legal document, a will is a vital element of any estate plan. Ensure that your will is up to date and is reviewed on an ongoing basis with a specialist in this area.

It's estimated that as many as 70% of working South Africans don't have a will. Should someone die without a valid will, their estate will be administered in terms of the Intestate Succession Act 81 of 1987 and the estate will be divided up amongst the surviving spouse, parents and children according to a predetermined formula. It's a tedious and drawn-out process.

To avoid this, ensure that your will is regularly updated, particularly if your marital status changes, if an heir passes away, if property is purchased or sold, if an heir immigrates, or there are trust funds for children.

Another consideration is the cost of estate administration. This is set at a maximum of 3.5% (excluding vat) of the value of the estate. It is a good idea to agree this the cost upfront and have it recorded in the will as fees are negotiable. This boils down to personal preference.

Some financial institutions charge the maximum 3.5% in fees and may take an extended period of time to wind up an estate.

A local executor is something to consider. At a time of loss, family members might not know where to start and being able to walk into a physical office or call a pre-defined person and have a one-on-one meeting will make things easier.

Many financial institutions centralise the administration of deceased estates. This often results in the need for a number of meetings to clarify and resubmit documentation. Be aware that the person doing the initial interview, will most likely not be the appointed executor. Communication with the executor often happens vie email or telephone.

In these instances many people may feel like just a number. Access to a local executor will make it easier for family members to ask for advice and to receive individual attention.

The reality, however, is that even the most organised estate and up to date will does not remove the extensive administration required of a deceased estate. Your trusted advisor, who your family needs to know, can make this process easier by being present when meeting with the executor.

Another consideration is liquidity in a deceased estate. Liquidity is required for a number of reasons including any debt that might need to be settled such as bonds, credit cards and vehicle finance, as well as all the relevant taxes or estate duty (if applicable) and costs that need to be paid.

In the event of insufficient liquidity in the form of liquid investments or cash, the executor might be forced to sell assets to generate cash to meet the estate's financial obligations. This can result in assets being sold for less than their value rather than being transferred to beneficiaries. An executor should be able to advise on capital gains tax (CGT), which can have an impact on the amount of cash or assets that are distributed to heirs.

One way of alleviating liquidity issues is to have an income death benefit in place to make up for the potential loss of income in the event of the death of a bread winner. An income death benefit is not reserved for HNWIs only but is something that everyone who is contributing to a household should consider as it will allow beneficiary needs to be covered on a monthly basis in a tax effective way.

An income death benefit can be considered to cover income needed to maintain the household, addressing monthly cash flow requirements.

It is important to have a death or an estate file in a place that your next of kin know about. The file should contain things like bank accounts, online passwords, social media accounts and passwords, any investments you might have, who your attorney is, who your financial advisor is, where your will is housed, who handles your tax, car registration documents, anti-nuptial contracts (ANC), divorce orders and any savings or bank deposit boxes you may have. This will make handling your passing much easier for family left behind.

Estate planning needs to be looked at holistically and is part of an individual's overall financial planning. Other issues to consider include whether you have sufficient life cover in place to cover any outstanding debt as well as sufficient money to see your children through school and university; do you have medical aid; and is your will up to date? This also include discussion on trusts (if applicable), business succession planning and the minimisation of costs. Estate Duty, which is a tax that may be payable, needs to be factored in. This can be saved by limiting most of the growth in the actual estate. The considerations are many and multifaceted.

The executor's function is to effectively step into the shoes of the deceased, wind up their financial affairs and distribute their assets in accordance with the directions contained in the will. These tasks need to be done efficiently, tax effectively and timeously, in terms of the Administration of Estates Act, to ensure that inheritances are not unduly delayed.

Entrusting this responsibility to a local executor, with the inclusion of your trusted advisor can ensure the process is as efficient as possible, providing peace of mind to one's family at a time that they need it most.

Finally – remember the following:

Will - make sure you have an updated version and that the important people in your life know where to find it and who to contact.

"Death File" - this should contain records of or, originals of all the important documentation, as mentioned above.

Liquidity, liquidity, liquidity – make sure funds are available immediately to your spouse or next of kin.

At the core of our fiduciary service is an understanding of your need to provide for your family's future through a meaningful legacy. Working closely with your private wealth manager, we plan how best to manage and preserve your wealth for generations to come. ■

> ***"Estate planning is essential to preserve and protect your assets for the benefit of subsequent generations. The good news is that you don't need to do this alone a trusted financial advisor or attorney can assist."***

Jaco de Beer RFP™
Private Wealth Manager
NFB Private Wealth Management: ELS

View from the **Chair**

continued from page 1

NFB has access to what are termed structured products. Available both on and offshore, these combine bonds and indices to achieve different outcomes. These products might focus on guaranteeing capital, or most of one's capital, combined with an equity-like return should the markets deliver positive returns. The point I am making is that there are alternatives, and we would be delighted to discuss these. Where these products are still considered a little racy, cash and bonds are returning to levels where they offer an alternative.

I've been at NFB for 37 proud years. Having saved here and abroad, I have always believed in spreading the load. My family has always been tilted towards long-term equity, but as I approach retirement, I've begun to "leave the tree but trim the fruit". This implies leaving the original equity or growth investment in place and trimming the growth. (Be careful of CGT. Whilst I don't like paying tax, this is probably the most palatable! Notably, tax rates over time tend to trend UPWARD, making the benefit of "paying CGT later" worth reconsidering).

This also crystallises the profit, allowing us to seek a guaranteed product which protects the gain whilst leaving the original portfolio in place, weathering the volatility - but probable great outcome - if left in the hands of the equity portfolio manager for the longer term.

The last two years have been dramatic in their impact on countries and economies, but especially on people and their families. Please reach out if we can be of assistance. NFB remains most grateful for your custom and loyalty. ■

Keeping your head in times of crisis

Maintaining a state of calm during challenging, uncertain and volatile times, will stand you in good stead to capitalise on opportunities when they arise.

"If you can keep your head when all about you
Are losing theirs..."
"If you can meet with Triumph and Disaster
And treat those two impostors just the same..."

Excerpts from Rudyard Kipling's iconic poem, "If".

It is not the job of a financial advisor to make comments on geopolitical issues; instead, they are responsible for positioning a client's portfolio for the long-term according to their individual risk profile and income or growth needs, or a combination of the two. Intervening acts of a political nature obscure the long-term goal, and decisions taken in the heat of the moment can have adverse effects on overall portfolio performance.

It is challenging to keep your head when values drop rapidly and the triumph of last year's returns turns into disaster after a horrific late February and early March. I had a client ask if this was the start of World War III, while another asked if this was the beginning of Armageddon. Again, financial advisors are not qualified to answer such questions, but wars, rumours of wars, and rising inflation certainly validate those who question whether this may be the case.

I recently fielded questions regarding the non-payment of life policies where the deceased is vaccinated; a judge in France ruled that the company was entirely within its rights to rule that it was death by suicide as the deceased willingly took an experimental drug. The enquirer could not produce a case number, the name of the company rejecting the claim, the name of the deceased, the drug in question and other polite enquiries. When asked if this has been fact-checked: "Fact-checking is funded by people who don't want you to know the truth."'

In a Department of Defence news briefing on 12 February 2002, Donald Rumsfeld famously stated that "Reports that say that something hasn't happened are always interesting to me because, as we know, there are known knowns; these are things we know we know. We also know there are known unknowns; that is to say, we know that there are some things we do not know. But there are also unknown unknowns - the things that we don't know we don't know."

Fake news wasn't a concept known to many of us back then, but it certainly has complicated our lives, and the decisions we make, significantly since then.

So, how do we make sense of this all when considering our investment portfolios?
We can't pretend to know the future, but we can do our level best to thoroughly research appropriate options for our clients depending on their individual investment needs.
Be open with your advisor about your holdings. Make a decision, but don't keep second-guessing at every turn. Uncertainty and volatility are both on the increase. Accept that there can be wild fluctuations, and bear in mind that those who panicked in March 2020 certainly now wish they had not done so. ■

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