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Retirement planning - choosing a provider of Umbrella Funds - page 20

Three big financial blunders - page 21

Investing in a yacht - page 22
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HEDGE FUNDS

Coming into the fold

Declared to be collective investments

National Treasury declared hedge fund investments to be collective investment schemes (CISs), and would be regulated under CISCA (Collective Investment Schemes Control Act) just like any other unit trust portfolio. South Africa is the first in the world to offer these regulated hedge fund products as CISs. “Now, together with the FSB’s changes to Regulation 28, which governs the way pension funds invest, pension funds and retirement funds can invest up to 10% into a hedge fund of funds,” says Tatenda Chapinduka, Alternatives Portfolio Manager, Sanlam Investments.

A powerful diversification tool

He says hedge funds provide important diversification benefits in a portfolio. A number of international academic studies have shown that the overall risk/return characteristics of a diversified portfolio improve when hedge funds are included as part of a balanced portfolio (Schneeweis, Karava, Georgiev, 2002). In addition, leaders in asset liability management, US Endowments, have consistently increased their allocation to alternatives and, in particular, hedge funds over the last ten years. They cite the predictability of returns and consistency of alpha as the main considerations.

“Local research mirrors the international experience too. Domestic hedge fund returns have been impressive and their inclusion in a domestic balanced portfolio had a significant impact during the 2008/2009 global financial crisis. For example, in 2008 the equity market was down 23%, but some hedge funds were up. Their purpose is to hedge (protect) against downside risk, although some funds utilise other tools of modern finance, such as short selling and derivatives to manage downside risk.”

A history of consistent out-performance

Hedge funds first appeared in South Africa in the late 1990s, and have steadily grown to R57 billion in assets under management. This must be quite an achievement given unit trusts took 36 years to grow to R100 billion in assets under management.

Hedge funds have generated good performance over the period 2002 to 2014. For instance, the Blue Ink Long Short Aggressive Strategy Index, which tracks hedge funds with a higher equity market exposure, has outperformed the All Share Index. Overall hedge fund performance, as measured by the Blue Ink Hedge Fund Composite Index – an equally weighted Hedge Fund index – has outperformed cash and bonds, with a low correlation to these markets and at low levels of volatility.

Why the negative bias?

“So why have less than 4% of South African pension fund assets been allocated to hedge funds?” asks Chapinduka. Previously, hedge funds were not recognised under Regulation 28. However, in 2011 National Treasury and the FSB introduced changes that recognised hedge funds and alternative investments as an integral part of any diversified portfolio, and allowed allocations of up to 10% of a portfolio’s assets. However, the perception that hedge funds were ‘risky’ investments has persisted. The most cited reasons for not investing in hedge funds are that they are complex, expensive and...
lack transparency.

“Until now, institutional investors have felt that the challenges of navigating the hedge fund world are just too daunting, despite advantages in terms of attractive returns and diversification.”

Three myths dispelled

“There have always been misperceptions of the hedge fund industry, but these new regulations should help dispel some of the myths,” says Chapinduka.

Myth 1). Hedge funds are more risky than other types of investments.

Ye, by allowing hedge funds to be regulated under the CISCA framework, National Treasury acknowledges that hedge funds are no more risky than other investment products, and they can be made available to all investors. Hedge funds use sophisticated techniques to apply more effective risk management techniques to participate in falling markets and create a return profile which is uncorrelated to equity and bond markets.

Myth 2). Because hedge funds use leverage, there is a greater chance that I will lose more than my investment.

Well, in light of the new regulations, no investor can lose more than he/she invests into the fund. This is the concept of ‘limited liability’. Similarly, the new regulations ensure that proper risk management is instituted and risk exposure is limited.

Myth 3). Hedge funds are not transparent.

Actually, to the contrary, there are stringent reporting requirements in hedge fund regulations. There are specific disclosures and reporting requirements to investors. Currently the hedge fund industry offers daily see-through to investors and we expect this to continue.

“In the well-documented context of lower returns for longer, isn’t it time to think past the traditional asset classes and incorporate alternative investments into your asset allocation?” he says. “We have witnessed one of the longest bull markets across both equities and bonds, and one needs to start thinking about hedging investments against a possible environment of lower returns to help maximise retirement outcomes.

“If you don’t want to be penalised for taking on too much ‘risk’, the solution may be to diversify into assets such as hedge funds which offer relatively uncorrelated returns in comparison to traditional asset classes like equity, bonds and cash.” Hedge funds are designed to reduce market volatility for investors by applying specialist strategies and should be considered as one of the building blocks of a well-diversified investment portfolio.

SHORT TERM INSURANCE

Image issue

Record number of complaints

The Ombudsman for Short-Term Insurance received a record number of complaints against short-term insurers and returned more than R116m to consumers in 2014.

Speaking at the release of the office’s 2014 annual results, Ombudsman Dennis Jooste said 10 253 complaints against short-term companies, such as car and household insurers were received, an increase of 9.5% over the prior year. The highest numbers of complaints were related to motor insurance (46.9%); then, houseowner’s policies (20.9%); household’s cover (8.2%) and commercial insurance (6.6%).

The main objective of the office is to serve both insurers and consumers in an impartial manner in resolving issues between them. This is a free service to consumers.

<table>
<thead>
<tr>
<th>Insurer</th>
<th>Claims Received</th>
<th>Complaints received by OIST</th>
<th>Complaints Finalised OIST</th>
<th>Complaints Finalised benefited to Insured</th>
<th>Complaints per 1,000 claims received</th>
<th>Outturn rate</th>
<th>Complaints overturned per 10,000 claims</th>
</tr>
</thead>
<tbody>
<tr>
<td>Renasa Insurance Co. Ltd</td>
<td>41 036</td>
<td>38</td>
<td>6</td>
<td>4</td>
<td>1/1000</td>
<td>60.70%</td>
<td>1</td>
</tr>
<tr>
<td>Outsource Insurance Co. Ltd</td>
<td>296 010</td>
<td>493</td>
<td>499</td>
<td>69</td>
<td>2/1000</td>
<td>33.80%</td>
<td>2.4</td>
</tr>
<tr>
<td>Momentum STI</td>
<td>18 871</td>
<td>29</td>
<td>25</td>
<td>6</td>
<td>2/1000</td>
<td>24.00%</td>
<td>3.2</td>
</tr>
<tr>
<td>Santam Ltd</td>
<td>425 617</td>
<td>680</td>
<td>728</td>
<td>213</td>
<td>2/1000</td>
<td>29.30%</td>
<td>5</td>
</tr>
<tr>
<td>Hollard Insurance Company</td>
<td>831 825</td>
<td>612</td>
<td>607</td>
<td>187</td>
<td>2/1000</td>
<td>30.80%</td>
<td>5.6</td>
</tr>
<tr>
<td>Discovery Insure Ltd</td>
<td>53 015</td>
<td>170</td>
<td>149</td>
<td>34</td>
<td>3/1000</td>
<td>22.80%</td>
<td>6.4</td>
</tr>
<tr>
<td>Regent Insurance</td>
<td>55 743</td>
<td>172</td>
<td>170</td>
<td>39</td>
<td>3/1000</td>
<td>22.90%</td>
<td>7</td>
</tr>
<tr>
<td>Alexander Forbes Insurance Co. Ltd</td>
<td>52 519</td>
<td>179</td>
<td>168</td>
<td>45</td>
<td>3/1000</td>
<td>26.80%</td>
<td>8.6</td>
</tr>
<tr>
<td>Mutual and Federal Insurance Co. Ltd</td>
<td>35 598</td>
<td>599</td>
<td>602</td>
<td>160</td>
<td>4/1000</td>
<td>26.60%</td>
<td>10.8</td>
</tr>
<tr>
<td>Zurich Insurance SA Co. Ltd</td>
<td>35 269</td>
<td>165</td>
<td>181</td>
<td>43</td>
<td>5/1000</td>
<td>23.80%</td>
<td>12.2</td>
</tr>
<tr>
<td>Auto and General</td>
<td>109 450</td>
<td>408</td>
<td>442</td>
<td>147</td>
<td>4/1000</td>
<td>33.30%</td>
<td>13.4</td>
</tr>
<tr>
<td>Miway Insurance Co. Ltd</td>
<td>84 186</td>
<td>569</td>
<td>550</td>
<td>126</td>
<td>7/1000</td>
<td>22.60%</td>
<td>15</td>
</tr>
<tr>
<td>Absa Insurance Co. Ltd</td>
<td>275 588</td>
<td>1037</td>
<td>1091</td>
<td>424</td>
<td>4/1000</td>
<td>39.90%</td>
<td>15.4</td>
</tr>
<tr>
<td>First for Woman Insurance Co. Ltd</td>
<td>47 700</td>
<td>173</td>
<td>193</td>
<td>70</td>
<td>4/1000</td>
<td>39.40%</td>
<td>15.9</td>
</tr>
<tr>
<td>Dial Direct Insurance Co. Ltd</td>
<td>57 991</td>
<td>265</td>
<td>288</td>
<td>107</td>
<td>5/1000</td>
<td>37.20%</td>
<td>16.5</td>
</tr>
<tr>
<td>Budget Insurance Co. Ltd</td>
<td>65 555</td>
<td>362</td>
<td>376</td>
<td>125</td>
<td>6/1000</td>
<td>33.30%</td>
<td>19.1</td>
</tr>
<tr>
<td>King Price Insurance Co. Ltd</td>
<td>18 744</td>
<td>250</td>
<td>239</td>
<td>39</td>
<td>13/1000</td>
<td>16.30%</td>
<td>20.8</td>
</tr>
<tr>
<td>Oakhurst Insurance Co. Ltd</td>
<td>17 719</td>
<td>184</td>
<td>163</td>
<td>59</td>
<td>9/1000</td>
<td>36.20%</td>
<td>33.3</td>
</tr>
<tr>
<td>AIA SA Ltd</td>
<td>2 861</td>
<td>32</td>
<td>33</td>
<td>16</td>
<td>11/1000</td>
<td>43.70%</td>
<td>55.9</td>
</tr>
</tbody>
</table>

“There’s no doubt that consumers are under economic stress and in this type of environment file more complaints against insurers,” said Jooste. However, the number of complaints received by the office per 1,000 claims received by insurers, had remained a constant three complaints for every 1,000 claims submitted to insurers during 2014, said Jooste.

Furthermore, complaints resolved with some additional benefit to the consumer reduced to 31% of total complaints, showing a continuing decline over the past few years. In relation to the decline in what is known as the outturn ratio, it was interesting to note that the Ombudsman for Long-term Insurance last week reported a similar trend.

Initiatives such as insurers implementing Treating Customers Fairly principles and the publication of insurer statistics identifying insurers who attract a disproportionate number of complaints probably also had a positive impact on the way insurers deal with complaints from their customers.

Despite the increase in the number of complaints, the average turnaround time - the period taken to resolve a dispute was reduced to 89 days - a pleasing declining trend. Complaints unresolved after six months totalled only 54 at year end.

An Appeal Mechanism, which be-
came effective in 2013, to enable insur-
ers and consumers dissatisfied with a Fi-
nal Ruling made by the Ombudsman to seek redress from an Appeal Tribunal, had not been used at all.

“The Appeal Mechanism has been widely publicised and the lack of use of the facility hopefully reflects a high level of acceptance of rulings made by the office,’ said Jooste.

Jooste added that the Ombudsman had worked with other Ombud schemes in the financial sector to comment on the second draft of the Financial Sector Regulation Bill, which was published in December 2014. The Bill is likely to be placed before parliament during 2015 and contains important amendments to the way voluntary Ombud Schemes will operate in future. This includes additional oversight by the regulatory au-
thority, but Jooste said the legislation would not affect the independence of the Ombudsman.

During 2014, the terms of reference of the Short-Term Insurance Ombudsman were changed, with jurisdiction to deal immediately with a complaint rather than enquire whether the complain-
ant had tried unsuccessfully to resolve a dispute through the insurer first.

“There were no serious objections to these amendments from the industry,” he added.

Jooste said the office of the Om-
budsman would continue to focus on its primary function which was to resolve consumer complaints informally by applying the law and equity where appro-

Comment

This report does little to commend the insurance industry, whose image is as bad as ever. Despite the adoption of various ombudsmen, consumer initia-
tives such as Treating Customers Fairly, and throwing money at self-appointed consumer panels, it’s all been a waste of time really. Go back 30 years and any articles about consumer complaints read like today’s news.

ECONOMY

Big roll

Load shedding sheds activity

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(BETI) shows a de-

pressed economy but the year-on-

year number is still positive, growing by

1.6% in May. The impact of disruptive elec-
tricity supplies and slower world economic growth is evident in the num-

bers, which show the sharpest decline on a quarterly basis since October 2014, and the biggest monthly drop since Au-
gust 2014.

With electricity interruptions an al-
most daily occurrence in April and May this year, the number of electronic transactions declined (taking into con-

sideration seasonal adjustments and smoothing).

“At present the actual monthly de-

cline of 1% is worrisome as it is rather

sharp and sudden. One can only hope that most of the load shedding is now something of the past, or at the very least that the frequency is not going to be repeated, as it is clear that load shedding has a dire impact on economic transactions,” says Dr Caroline Belrose, Head of Fraud and Data Analytics at BankservAfrica.

The 5.9% decline in transaction vol-

umes is the biggest in more than a dec-

da, and the first time that – for two months in a row –the actual number of transactions declined while the average values increased to greater than inflation. This is probably indicative of businesses combining transactions and ensuring that these are completed dur-
ing periods of stable electricity supply.

“The quarter-on-quarter decline of

0.6% is less severe than the monthly decline, however the strong April num-

bers serve to highlight how weak the South African economy was in March and May this year,” explains Belrose.

“With consumer inflation likely to

move higher, large increases in the BETI will be unlikely – but it does seem that load shedding is playing a much bigger role at present. If load shedding can be kept to a minimum it is likely that the BETI will at least continue to rise marginally,” says Mike Schüssler, Chief Economist at Economists dotcoza.

Another interesting aspect from this month’s BETI is that it appears that many consumers are no longer signing debit orders, as the household debt-to-

income ratio continues to decline.

“With both consumer and business confidence down, the decline in eco-

nomic transactions, as represented by

the BETI, indicates the economy is under duress rather than expanding. Perhaps winter has also arrived for the economy,” concludes Schüssler.

FINANCIAL SERVICES

More transparent

Creating an advantage for low-income earners

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(FSB) released the Retail Distribu-
tion Review (RDR) with intending to protect retail financial services cus-
tomers, particularly those in the lower-

end of the market, by ensuring that they are treated fairly by their financial advisors.

Explains James Alt, Risk Advisory Senior Manager at Deloitte, “Critical
The RDR therefore recommends that commission still be charged on investment products aimed at the lower-end of the South African market as well. This supports the financial inclusion imperative of the National Treasury that gives everyone access to financial services, and encourages South Africans to save.

Another development alongside the RDR is the introduction of tax-free investment products for which intermediaries can charge commission, similar to Individual Savings Accounts (ISAs) in the UK. Since the RDR allows for commission to be earned on sales of these products, brokers and advisors will be incentivised to sell them, and they should grow in popularity.

Although customers may now be more aware of the cost of receiving financial advice, by including these measures the cost structures of products will be far more transparent and equitable - hopefully resulting in a market that is viewed by consumers as being fair, thereby contributing to the sustainability of advisor practices and improving savings rates in South Africa.

INVESTMENT STRATEGY

Old but true...

A head start in saving equals greater financial freedom

Experts tell us we should save 15%-20% of our salaries every month. But few people manage this, and even if they do, they often spend accumulated savings when an emergency presents itself.

“Building wealth is not just about saving and investing in the right products or services, nor is it only about getting good returns,” says Krisen Rabindra National Sales Manager at Standard Bank Financial Consultancy. “The biggest factor determining wealth is the length of time you are invested.”

Below is a story about two people who had the same opportunities, but chose different paths and had different outcomes.

Laura and Bronwyn met on the first day of high school. As they went through school together, very different personalities emerged: Laura was a saver and Bronwyn a spender. At 16 they got part-time jobs. Every time Laura was paid for her work, she put half her money into her bank account that her parents had set up for her and spent the remainder. Bronwyn, however, spent every cent. By the time they started college together, Laura had saved R5 000 and Bronwyn had spent all and then was able to convince her parents to help her financially.

Both continued to work while studying. When Laura graduated, she was driving a car that was paid for in cash. Bronwyn used public transport. They landed good jobs and earned approximately the same amount of money. Their after-tax income was R8 000 per month.

Laura continued with her savings plan, paying 15% of her income (R1 200 per month) into a unit-linked retirement annuity. Bronwyn realised she needed a car and borrowed the deposit from her dad.

She took out a four-year loan and her repayment was R2 500 per month. In addition, she opened a number of clothing accounts and indulged in purchasing a new wardrobe. As the months passed by, her income was almost consumed by debt repayments.

Four years later, Laura’s investments were worth R73 467. Bronwyn had just finished paying off her car. Realising that she had to become more responsible, Bronwyn decided to start a savings plan. By this time she had an after-tax income of R11 000, so she could afford to save R1 000 per month. Laura decided to keep investing R1 200 in her retirement plan and start an after-tax savings programme of R800 per month in a money market account for the deposit on a home.

By the time they were 30 (five years later), Laura’s retirement investment had grown to R231 471 (a 12% net return per year) and Bronwyn’s R1 000 per month was worth R81 669. When Laura bought a townhouse, she put down a R100 000 deposit (the proceeds from her money market account) and took a loan for R850 000 over ten years. Her repayment was R11 000 per month - quite a large amount of her now R40 000 salary, but she could afford it as she had no other debt. Bronwyn, however, could not afford to buy
her own property.

“When we look at Laura and Bronwyn’s financial behaviour, the point of departure was when Laura decided to save towards her retirement and Bronwyn chose to buy a new car and rack up other debts,” says Mr Rabindra. “This decision cost Bronwyn R149 800 in retirement savings and put her in a position of not being able to afford her own property.”

The head start Laura had in her retirement portfolio will translate to an approximate R2.8 million at age 55. The calculations did not take into account that you should increase your savings by at least the rate of inflation each year, so your retirement funds have the same buying power when you retire.

“Financial security is within everyone’s grasp,” assures Mr Rabindra. “As the example illustrates, it takes forward planning and commitment, but it is achievable if started early.”

Password nightmare

Who can you trust to keep your financial information safe?

CREDIT CARD FRAUD CONTINUES to increase and more than R454m was lost last year from R366m in 2013. For businesses to protect themselves, it’s safer to entrust sensitive information to a reliable third party than managing it yourself - especially in the e-commerce space.

The days are long gone when you could protect your bank accounts by keeping your PIN number safe, says PayGate IT Director David Beukes - these days the business of security is a lot more complex and best left to experts.

“We all instinctively believe that if something is close to us, it’s under our control and secure,” he says. “But as financial transactions have become more complex and abstract, the balance is shifted: it’s now safer to entrust sensitive information to a reliable third party and keep it at arm’s length.”

He says the rise of personal password vaults is a good example. “Nowadays we all have so many logins and passwords it’s impossible to remember them all. Many people are tempted to have just one or two passwords and use them everywhere, but that’s a security nightmare waiting to happen. Instead, it’s better to use a password manager like LastPass or 1Password that can generate and store complex passwords easily.”

In the same way, he says, “we want the lowest possible number of people to have access to our credit card details. The technology and processes needed to keep this information secure are complex and expensive: only banks, specialist payment gateways and very large retailers can afford it.”

The lesson for almost all online retailers, he says, “is don’t try to do it yourself. Don’t process your own payments, and don’t ever let customer card details pass through your own servers. Rather integrate with a payment service provider you can trust to keep that information secure – and delete it promptly when they no longer need it.”

Compliance with the global Payment Card Industry Data Security Standard (PCI DSS) is the current gold standard, he says. “South Africa’s banking system is sophisticated and our banks take security very seriously – at PayGate it’s notable that the banks have been following up with us on our levels of PCI compliance, conducting audits and beefing up their own internal security teams. This is all a very good sign.”

For consumers, he says, “the lesson is to deal only with online retailers who are either PCI compliant themselves - which is only possible for the very largest organisations – or hand off all their transaction processing to a PCI-compliant service provider. Nothing is ever 100% secure, but that is the best protection available.”

About PayGate

PayGate is a payment service provider that offers online retailers simple, effective services to accept electronic payments, which can be a very complex part of running a business. It offers merchants connections to multiple acquirers and fully manages the technical connections and relationships with the banks, card, and payment networks. It also offers risk management services with payment notifications, settlement reports and fraud protection. PayGate is linked to more than 70 banks in over 30 countries and has been providing secure, reliable online payment services since 1999. Its immediately accessible services help businesses of all sizes stay on top of the continuously evolving world of online payments. For more information visit www.paygate.co.za

FINANCIAL SERVICES

The RDR paradox

Automation can reduce compliance costs

THE FSB’S RETAIL DISTRIBUTION Review (RDR) is intended to provide a framework for accessible, high-quality financial services advice that is free from conflicts of interest. It will have widespread implications for the distribution of financial services products, but it might not achieve its objective of quality financial advice for all.

At the heart of RDR is the advisers’ obligation to give the best possible advice, appropriate for a client’s needs and free from any conflicts of interest, whether they are independent or tied. RDR gives significant additional responsibility to both intermediaries and product providers to improve structures, transparency and disclosures and while this may mitigate conflicts of interest, it will not address the underlying issue of the cost of advice: a necessary luxury which remains unaffordable to the majority of South African consumers.

“At Different Life, while we welcome the move to greater transparency, we do have some misgivings about potential unintended consequences. Our issue centres on the cost of providing...
the advice and the implications for customers,” says Philip Tomlinson, CEO Different Life.

“There is a polarisation within the South African insurance industry between the provision of comprehensive, full needs analysis advice, as prescribed under the Financial Advisory and Intermediary Services (FAIS) regulations, and no advice at all – with nothing in between. It’s like having to choose between a Rolls Royce and roller skates.”

Like the Rolls Royce, the comprehensive advice model contained within the FAIS legislation is excellent. But like the Rolls Royce, comprehensive needs analysis and the full, person-to-person advice process is expensive to undertake and, combined with the cost of extensive compliance, takes the only advice on offer out of financial reach.

He says that for the majority of the market this model is unaffordable on a "cash for service" basis. “Yet if financial advisers are not paid explicitly for their advice, they need to turn to product providers to cover this expense through up-front commissions: the proximate cause of the very conflicts of interest the regulations are attempting to eliminate.”

That the financial services industry is not providing quality, accessible advice is ultimately a symptom of the high cost of the advice model. Paradoxically, while the RDR is trying to solve the quality and access issues, it is in fact rendering advice more costly by increasing compliance costs and therefore addressing quality only at the cost of affordability and access.

“We don’t believe that anyone should be deprived of life assurance because advice is not accessible or affordable,” says Tomlinson. “There is an opportunity here for technology to close that gap, with automated systems augmented by limited personalised advice from an adviser. Technology enables the direct life insurers to bring quality products to the market, without the interaction cost of face-to-face engagement and paperwork. An automated offering would free highly qualified financial advisers to focus on their core competency of providing quality advice to clients, rather than fulfilling the role of (overpaid) administrators and data-capturers.”

Another important advantage of technology is that the automated processes will always be 100% regulatory compliant, documented and auditable – with the marginal costs of signing new business stripped almost to zero. Clearly, this creates an enormous cost saving. In this way, we can cost-effectively reach those consumers who are currently massively underinsured.

The regulations which aim to ensure that South Africans have access to quality financial services advice in reality could have the opposite effect. Technology can serve to substantially redress this imbalance and ensure greater access for all.

HEALTHCARE

The silent killer
The real dangers of Malaria

"Many South Africans are not sufficiently aware of the danger malaria poses to their health. There are still too many unnecessary fatalities from this infection.” This is according to Dr Danise Theron of Netcare Travel Clinics and Carlswald Medicross Family and Dental Clinic in Midrand.

Speaking on the eve of World Malaria Day, 25th April, she said that while South Africa has made major strides towards reducing the incidence of malaria, in certain northern areas of the country the threat remains very real. South Africans who travel to these areas and other countries where malaria is prevalent should therefore take precautions against the disease throughout the year.

"In a recently reported case a Johan-

esburg man who had visited Mozambique died after contracting malaria. He apparently thought he had simply contracted flu, but he developed complications from malaria. We need to be more aware of the dangers posed by this illness and should never underestimate it. It is a good idea to seek the advice from your local travel clinic before visiting malaria areas,” suggests Theron.

The World Health Organisation (WHO) estimates that 198 million cases of malaria occurred worldwide in 2013 and approximately 584 000 people died from the disease, mostly children under five years of age in sub-Saharan Africa.

Theron says that the risk of malaria in South Africa is highest between September to May, which is considered to be ‘malaria season’. The risk in KwaZulu-Natal is confined to the very far north of the province and is today relatively low. The mosquito-borne disease may also be present in the north-western parts of Mpumalanga and Limpopo. Countries such as Mozambique, Malawi, Angola, the DRC, Sudan and Uganda and all the West African countries have particularly high rates of malaria which occur throughout the year and visitors to these regions should be especially vigilant. Seasonal malaria is also found in parts of Zimbabwe, Botswana and Namibia.

One of the best ways to avoid getting malaria is to avoid getting bitten - especially by the infectious female anophelines mosquito. While mosquitoes are mostly prevalent at certain times of the year they can be highly persistent in their efforts to bite you. It is also worth noting that the malaria-carrying anophelines mosquito is silent and you will therefore not necessarily know that you have been bitten.

There are a number of precautions that can be taken to avoid being bitten. As mosquitoes are most active at dusk it may be wise to stay indoors at that time. Alternatively, be sure to protect yourself properly against mosquitoes by wearing long trousers, long shirtsleeves and socks with your shoes in order to minimise exposed skin that can be bitten.

The most effective insect repellents are those containing DEET. It is however imperative to reapply it to exposed areas four hourly. "Where you sleep and stay is another important consideration. Tents and other accommodation should be properly protected with mosquito gauze and treated regularly with insect repellent. Sleep under repellent treated mosquito nets. A fabric spray for clothes, curtains, bedding and tents, is useful in achieving a mosquito free environment. Electric repellant mats and

Please continue on page 10.....
We can’t say it enough. Thank you, thank you, thank you to our brokers and our Hollardites! Not just for voting us as the Corporate and Commercial Insurer of the Year at the 2015 FIA Awards. Thank you for helping us get there. We couldn’t have done it without you, and the relationships that you have with your clients. We’re all about the win-win-win. It’s only when our clients, Hollardites, partners and brokers are happy, that we are too. Like right now. So thank you, once more.

Short Term Insurer of the Year - Commercial
Short Term Insurer of the Year - Corporate
It is a myth that prophylaxis does not provide protection against the development of cerebral malaria. It is also untrue that prophylaxis makes diagnosis of malaria more difficult, as is sometimes rumoured. She advises those who have travelled to a malaria area to keep an eye out for the symptoms of malaria even if they have religiously taken your prophylaxis and other precautions. Although malaria usually presents with flu-like symptoms it can also initially express itself in very many different ways in individuals, for example sometimes it can cause diarrhoea. So be sure to report any health problems to your doctor. The first symptoms in adults may include the following:

- Feelings of weakness, lethargy and dizziness
- Fever and sweats
- Muscular and/or abdominal pains
- Vomiting, diarrhoea

“Malaria symptoms can start from a week to two weeks after you are first bitten. Very occasionally it may even take a few months before it starts to present itself.”

Families wishing to travel to a malaria area should get to their doctor or travel clinic timeously in order to find out which malaria medication or combinations of medication they should be taking. They should then be sure to take their medication as prescribed (be aware that some prophylaxis must be started a week before departure), and, when they are on their journey or holiday, protect themselves from being bitten by every means possible. “And finally, consult a doctor if you think you may have malaria. Take these precautions and there is little reason why you should not have a wonderful trip with the snapshots to prove it,” concludes Dr Theron.

Fast facts about malaria from The World Health organisation:

- Malaria is a life-threatening disease caused by parasites that are transmitted to people through the bites of infected mosquitoes.
- A child dies of malaria every 30 seconds.
- Malaria is preventable and curable.
- Approximately half of the world’s population is at risk of malaria, particularly those living in lower-income countries.
- Travellers from malaria-free areas to disease ‘hot spots’ are especially vulnerable to the disease.
- Malaria takes an economic toll - cutting economic growth rates by as much as 1.3% in countries with high disease rates.

ECONOMY

On remote control

Local companies lose out to digital traders

SOUTH AFRICA’S PLAYING FIELDS are not level when it comes to local businesses competing with multinationals in the digital economy.

- SA companies cannot compete on an equal footing with multinationals providing digital goods and services in South Africa.
- Action is required from the tax authorities, as well as a global solution.

SA’s tax laws have not kept pace with the growth of the digital economy and changes in the way that business is conducted. They were promulgated at a time when today’s technology and business models were the work of science fiction and the ability of a company to conduct business in a country required its physical presence.

“We are living in an era of unprecedented digital change – the type of change that is reshaping the relationship between customers and business and prompting forward-looking CEOs to question the very business they are in,” says Charles de Wet, Head of Indirect Tax, PwC Africa.

“Currently, multinationals in the digital economy that sell goods and services in the South African market and elsewhere do not have to comply with the same rules as local companies.”

Globally, there have been numerous reports regarding multinationals that pay little or no tax in the markets in which they generate profits. “Not only is this position unsustainable but it distorts competition between companies, as well as placing the multinational at an advantage over local businesses operating in the market,” explains De Wet.

Foreign entities are only subject to tax in South Africa on income derived from a source in South Africa. However, the source rules were developed a century ago before the digital economy existed and do not take into account the way in which the modern economy operates. As a result multinationals can avoid paying tax in South Africa because the source of their income is not in the country, notwithstanding that they operate in it.

Multinationals are also accused of exploiting loopholes in the global tax system by setting up structures in low-tax jurisdictions and shifting profits both from the markets in which they operate and those in which they do have a physical presence to these low-tax jurisdictions. By doing this they are able to pay much lower taxes on their global profits. This gives these companies a cost advantage over local businesses that are fully within the South African tax net and have to pay tax on the profits they make at comparatively high rates.

“It is not surprising that the tax laws have not kept up with the digital era and South Africa is not unique in this regard. The pace at which the digital economy is growing will require action from South Africa’s tax authorities, as well as an overall global solution.
to level the playing fields so that South African companies are able to compete with big multinationals on a level playing field,” says De Wet.

The Organisation for Economic Co-operation and Development (OECD) has taken the lead globally to develop the tax rules and to confront the tax challenges faced in the digital economy. In September 2014 the OECD released its final report on the tax challenges of the digital economy under its Action Plan on Base Erosion and Profit Shifting (BEPS). The report acknowledges that the digital economy has increasingly become the economy itself, it is not possible to ring-fence the digital economy from the rest of the economy and more technical work needs to be done to evaluate the broader tax challenges posed by the digital economy and potential options to address them. Overall, most countries have not yet taken steps to implement legislation targeting the digital economy or have cautioned against unilateral action, usually issuing pronouncements that refer back to the OECD reform efforts.

As the OECD continues its work, there is likely to be increasing action by individual countries in this area over the coming years. Italy took steps to introduce a ‘Google tax’ that would have seen the taxation of online advertisements. The tax was subsequently cancelled. More recently the UK introduced a diverted profits tax that addresses the way multinationals shift profits around the world to minimise their tax bills.

Closer to home, South Africa as an observer of the OECD has begun to consider its place in the digital economy and the issues of neutrality associated with it. With this in mind, National Treasury implemented legislation in June 2014 to levy Value Added Tax (VAT) on foreign entities providing electronic services to local consumers within the South African market place. In order to achieve this, the VAT Act was amended to require foreign entities providing certain electronic services to local suppliers to register for and charge VAT on their services. Currently, the scope of the tax is limited to a handful of electronic services (e.g. educational services, games, auction services, e-books, audio visual content, still images, music and subscription based services.) However it has been proposed that this list will be expanded during the course of 2015 to include software.

De Wet says, “Yet still many suppliers remain outside the scope of South African VAT and further work needs to be done to ensure that foreign suppliers operating in the South African market place are taxed in line with local businesses. Furthermore, the legislation is, in some instances not clear and opportunities exist for National Treasury to strengthen the effectiveness of the law.”

Kyle Mandy, PwC Head of National Tax Technical, says although a foreign company may be registered as a VAT vendor in South Africa, this does not mean that it has a physical presence or permanent establishment or even that its income is sourced in South Africa for corporate income tax purposes. Currently, South African companies are taxed at the rate of 28% for corporate tax purposes. Conversely multinational companies selling digital goods and services escape paying corporate tax in South Africa. “This is because they do not fall within the South African tax net, either because their income is not sourced in South Africa in accordance with our domestic rules or because of relief provided by a double taxation agreement entered into between South Africa and the foreign country,” explains Mandy.

Finance Minister Nhlanhla Nene announced in his 2015 Budget that proposed changes would be made to the rules for the digital economy in line with the recent guidance issued by the OECD in its report on BEPS. The changes for South Africa are based on the interim report of the Davis Tax Committee which contends that there is limited scope for South African residents to shift profits to offshore tax havens by way of e-commerce transactions. Conversely, the opposite is true with regard to e-commerce transactions carried out by non-residents with South African consumers. The report proposes a number of recommendations in respect of the proposed design of the new tax legislation relating to e-commerce transactions in order that a level playing field is created so that South African companies can compete with multinationals.

“Significant legislation changes will be required to level the playing fields and provide a solution. However, any domestic rule changes are unlikely to be successful in the absence of a global solution which will entail reforms to the international tax system and tax treaties in particular,” cautions Mandy.

“It is also a risk to transplant a foreign taxation system into a domestic system without proper consideration of local circumstances. A considered approach is favoured but the law needs to be developed so that it is consistent, yet malleable enough for a current and future digital era.”

**TAXATION**

**Internet outside the net**

**Challenges of the online digital economy**

Significant digital presence test in South Africa may be necessary for digital giants to pay their fair share of taxes. Multinational companies that supply content via online streaming or subscription services to the South African market do not have to comply with the same tax rules as their local counterparts and in some instances are not taxed. “We are living in an era of unprecedented digital change. South Africa’s tax laws are outdated and have not kept pace with the growth of the digital economy,” says Charles de Wet, Head of Indirect Tax, PwC Africa. “Digital giants should be held accountable and pay their fair share of South African taxes.”

The content streaming market has exploded with countless service providers such as Netflix, DSTV BoxOffice, Hulu, Node, HBO Go, MTN FrontRow, Vidi and Amazon Prime Instant Video, as well as online magazines, news and newspaper providers becoming household brands in South Africa. Their popularity with internet users continues to spike, notwithstanding that many foreign content providers may not officially supply services to South Africa. Despite this, South Africans are accessing these services by means of ‘location masking’ virtual private networks (VPN).

While foreign content providers relish the ‘tax-free’ nature of their services supplied to South African consumers, local suppliers are feeling the ‘economic pinch, as domestic content providers..."
are required not only to levy South African value-added tax (VAT) on services supplied to the local marketplace, but pay South African corporate income tax of 28% on profits generated. “This further increases the gap between domestic and foreign players in the online media industry and has a negative impact on revenues collected to finance necessary public services for South African residents,” adds de Wet.

This aside, technology companies have always stepped on one another’s toes to try to become the peoples’ gateway to the digital world – to be the only place people need to go to get what they want. The digital economy is rapidly becoming the economy itself and South Africa needs to make sustainable provisions for these changes.

According to the Organisation for Economic Co-operation and Development (OECD) revenue authorities have an important role to play in realising the full potential of electronic services. The OECD suggests that it is necessary to provide a fiscal environment within which electronic services can flourish, while still monitoring its influence and impact on the economy.

The OECD, as part of the Base Erosion Profit Shifting (BEPS) debate, has come up with a so-called ‘Action 1’ to address the tax challenges of the digital economy which seeks to align taxation with economic activities and value creation. Implemented on 1st June 2014, the OECD suggests that it is necessary to provide a fiscal environment within which electronic services can flourish, while still monitoring its influence and impact on the economy.

The OECD is working to address this problem and by developing guidelines on location based taxing rights. Concludes de Wet: “While taxing concepts such as a ‘significant digital presence’ test or a ‘virtual permanent establishment’ may seem far-fetched, these may be necessary to require foreign electronic service providers to pay their fair share of South African taxes.”

**FINANCIAL SERVICES**

**Royal service**

**King Price: the first three years**

King Price is celebrating its third birthday this June. The financial services firm opened its doors to business on the 2nd of June 2012, “armed,” as it says, “with some radical notions: The first, being the only insurer in South Africa (in the world, actually) to decrease its premiums month on month, as the value of your vehicle depreciates.” The second, to put our customers first, no matter what. We call it “Royal Service”.

“We pride ourselves in our Royal Service,” says Gideon Galloway, founder and CEO of King Price. “That’s why we started the firm, because we believe that if it’s good for the customer, it’s good for us. It’s a belief that the entire King Price family lives, it’s ingrained in our culture, our products, and especially our service. And I’m incredibly proud that we’ve been able to do this for three years, especially since our detractors said we’d never make three months.”

A testament to King Price’s royal service can be found in the Ombudsman for Short Term Insurance annual report. This year, the report lists King Price in third place for claim overturn rate at 16.32%. Why is an overturn rate important? Well, it’s really all about customer service and paying claims. The overturn rate is where the Ombudsman reverses the original decision of the financial service provider, at least partially, and awarding the customer with their claim, or a portion thereof. “The fact that we have such a low overturn rate suggests we are fair, and genuinely want to assist each and every customer.

“We have to thank our competitors for keeping us on our toes. It was OUTsurance, founded in 1998, that secured the silver medal with a 13.83% overturn rate, and Bidvest Insurance (founded in 1997) in the top spot with an overturn rate of 11.54%. King Price will admi-

ably do even better by our fourth birthday,” continues Galloway.

When King Price opened its doors, it did so with 43 staff members. “They said we wouldn’t last three months, and today, three years later, the firm has grown to more than 550 staff members. The youngest is only 19, and the oldest, who is 63, enjoys working here too much to retire. Our positive and reinforcing culture means that we have a staff churn of less than 2%.

Those initial 43 staffers managed to make just over 1 800 sales in our first month, but now, we do anything between 8 000 and 9 000 sales monthly. “We probably shouldn’t have told you that, as it is market sensitive information,” he quips. “Since 2012, we’ve paid out over R525m

King Price: the first three years
in claims.” Coupled with our low turnover rate, it’s clear King Price is serious about providing quality customer service.

HEALTHCARE

Hearty mouthful

The benefits of chocolate

Eating up to 100g of chocolate every day is linked to lowered heart disease and stroke risk, finds research published online in the journal ‘Heart’ – and reported by Journals for BMJ.

There doesn’t seem to be any evidence for cutting out chocolate to lower the risk of cardiovascular disease, conclude the researchers.

They base their findings on almost 21 000 adults taking part in the EPIC-Norfolk study, which is tracking the impact of diet on the long term health of 25 000 men and women in Norfolk, England, using food frequency and lifestyle questionnaires. The researchers also carried out a systematic review of the available international published evidence on the links between chocolate and cardiovascular disease, involving almost 158 000 people—including the EPIC study participants.

The EPIC-Norfolk participants (9214 men and 11 737 women) were monitored for an average of almost 12 years, during which time 3 013 (14%) people experienced either an episode of fatal or non-fatal coronary heart disease or stroke.

Around one in five (20%) participants said they did not eat any chocolate, but among the others, daily consumption averaged 7g, with some eating up to 100g.

Higher levels of consumption were associated with younger age and lower weight (BMI), waist: hip ratio, systolic blood pressure, inflammatory proteins, diabetes and more regular physical activity—all of which add up to a favourable cardiovascular disease risk profile.

Eating more chocolate was also associated with higher energy intake and a diet containing more fat and carbs and less protein and alcohol.

The calculations showed that compared with those who ate no chocolate higher intake was linked to an 11% lower risk of cardiovascular disease and a 25% lower risk of associated death.

It was also associated with a 9% lower risk of hospital admission or death as a result of coronary heart disease, after taking account of dietary factors.

And among the 16,000 people whose inflammatory protein (CRP) level had been measured, those eating the most chocolate seemed to have an 18% lower risk than those who ate the least.

The highest chocolate intake was similarly associated with a 23% lower risk of stroke, even after taking account of other potential risk factors.

Of nine relevant studies included in the systematic review, five studies each assessed coronary heart disease and stroke outcome, and they found a significantly lower risk of both conditions associated with regular chocolate consumption.

And it was linked to a 25% lower risk of any episode of cardiovascular disease and a 45% lower risk of associated death. This is an observational study so no definitive conclusions about cause and effect can be drawn. And the researchers point out that food frequency questionnaires do involve a certain amount of recall bias and under-estimation of items eaten.

Reverse causation—whereby those with a higher cardiovascular disease risk profile eat less chocolate and foods containing it than those who are healthier—may also help to explain the results, they say.

Nevertheless, they add: “Cumulative evidence suggests that higher chocolate intake is associated with a lower risk of future cardiovascular events.” And they point out that as milk chocolate, which is considered to be less ‘healthy’ than dark chocolate, was more frequently eaten by the EPIC-Norfolk participants, the beneficial health effects may extend to this type of chocolate too.

“This may indicate that not only flavonoids, but also other compounds, possibly related to milk constituents, such as calcium and fatty acids, may provide an explanation for the observed association,” they suggest.

And they conclude: “There does not appear to be any evidence to say that chocolate should be avoided in those who are concerned about cardiovascular risk.”

INVESTMENT STRATEGY

Not beyond means

Five steps to grow your wealth

Middle and upper class South Africans are earning more than enough to afford comfortable lifestyles, but they need to come to terms with the trade-offs required to ensure that their lifestyles are sustainable well into a long retirement.

Andrew Bradley, chief executive officer at Old Mutual Wealth, says despite the burgeoning growth in this group of individuals’ private earnings, they are living beyond their means and struggling to make ends meet. A further 10% said they were not worried about saving for the future; 14% said they would like to invest but were not sure who to turn to for financial advice; and, 23% said they saw no benefit in being loyal to a particular investment house and therefore a long-term strategy.

“It is not about what they earn, but about what they do with their money - that is critical,” says Bradley. “High earning individuals must take responsibility and consider how much is enough to provide for their current as well as their future lifestyle needs. They must also understand the future impact of their current financial discipline, or lack thereof. An investment plan which takes all these aspects into account is the only way to accurately determine how the assets they accumulate can best be grown to take care of all these needs.”

He says there are five basic principles to adhere to in order to ensure reliable and sustainable capital growth.

“Even when the temptation is there to shrug off a sound investment strategy in the face of a seemingly endless and prolific income stream, we should not forget the examples history made of so many wealthy people who ended their days in circumstances that could have been avoided if a more sober approach was adopted when the going was good.”

He says to build and sustain wealth, individuals should:

» Focus on time in the market rather than timing the market. “It is important
to continue investing through all market conditions, and particularly during market lows when share prices are undervalued and a lot cheaper, so that you gain more during market highs.

- Understand time horizons and risk. Time horizons are a major influence on an investment approach. The longer your perspective and the longer you are prepared to invest, the more options you will have with greater returns without increasing your investment risk.

- Diversify portfolios. When deciding where to invest, it is always better to cast your net widely. Do not put all your eggs in one basket. Also do not focus on the returns from the individual components of a diversified investment portfolio. Rather look at the performance of your portfolio as a whole.

- Keep investing over the long term. “Compounding returns are the most powerful force in investments. This happens when you get growth on your growth. This only occurs when you have been invested for a long period of time. Trying to make up for lost time will require a lot more allocated to your savings and can be dangerous if you chase unrealistic returns.”

- Ensure investment strategies are customised for specific needs. “Each person is unique and their financial needs will depend on where they are and their personal future plans. A good investment strategy should take this into account. What might be good for one person is not necessarily good for the next.”

He says there is a lack of understanding about the difference between income and wealth, and that most high earners have no idea how much they should be saving in order to sustain their lifestyles into the future. “In order to increase wealth, it is essential to be realistic about future returns. Not only do you need to start investing at an earlier age but you need to keep in mind that your investments need to continue to grow beyond retirement. The purchasing power of your wealth needs to remain intact and at the very least be able to match but preferably to beat inflation.”

He said many wealthy individuals did not draw a distinction between business, lifestyle, investment and surplus assets. Understanding the characteristics of each of these asset types is critical to ensuring your financial security.

Business assets could be shares in a company which generate income and for non-shareholders, the income they derive from work. Investment assets are the assets required to replace the cash flow generated by business assets, especially on retirement. It is essential to grow these continually over time.

Lifestyle assets include a primary residence, holiday homes, cars and other items bought to enhance lifestyles. Bradley says that often debt is incurred to acquire more of these kinds of assets, which further erodes the funds left for investing.

“Surplus assets relate to the amount of money not required to fund lifestyle needs. These funds can be risked to increase investment assets, to invest for future generations or to give back through charities or philanthropic foundations,” says Bradley.

Getting the balance right with the spread of these asset types will ensure the success or failure of an investment strategy.

**RETIREMENT PLANNING**

**Poor suffering**

Super wealthy struggle to save

In the next decade, the number of ultra-rich South Africans in Johannesburg and Cape Town is expected to increase by about 40%. Yet the percentage of this group that will maintain their lifestyles into retirement is significantly smaller.

According to Jason Garner, Strategic Relationship Manager for Private Wealth Management - a division of Old Mutual Wealth, while the growth in the number of high and ultra-high net worth figures is encouraging and good news for the country, it also raises the issue of more awareness needing to be created to understand the real value of capital required for wealth preservation, especially during retirement.

“Many high net worth individuals incorrectly think they have more than sufficient funds for retirement due to their current status, but often this may not be sustainable for the particular lifestyle that the individual has become accustomed to,” he says.

According to the 2014 Old Mutual Wealth Report’s Attitudes Survey, more than a third of the financial planners surveyed expected their super wealthy clients to spend more on luxury goods this year, with 46% of ultra-rich African clients mentioning they would increase their spending activities.

“Many high net worth individuals become accustomed to a certain type of lifestyle and as a result they need to ensure they have the funds available if they want to maintain this lifestyle well into retirement, which is likely to include overseas travel and the purchasing of luxury items and experiences. Similar to your average income individual who doesn’t have a savings goal, a comfortable retirement is unlikely even for the wealthy, when they do not have a long-term wealth preservation strategy.”

One only has to look at the reality of spending patterns, says Garner. “No matter what the age of the individual or even income, people consistently spend more money as they earn more. Many
at retirement. It is not enough to focus on single goals as many respondents did. One must look at the demands that all the lifestyle requirements, including unforeseen costs, will have on the wealth management strategy holistically.

“Retirees also need to remember that their day now includes an extra eight to 10 ‘free’ hours that were previously spent at work, and it is likely that this time will be spent doing more expensive activities that need to be budgeted for.

“The longer we live and the better medicine becomes at keeping us alive, the greater the cost of our healthcare needs. The longer we live, the more likely it is that, in addition to our healthcare costs, we will need some kind of long-term care or frail care when we become incapable of living independently.”

Garner explains that upon retiring with a significant amount of money, there are two potential pools that this money should be divided into, namely wealth preservation assets and surplus assets.

“Health preservation assets refer to the capital that is needed to sustain the level of wealth or lifestyle for the duration of retirement. Once this figure has been determined, the amount of surplus capital available is known.

“Surplus assets refer to the money that individuals could effectively ‘afford’ to lose. This money can be used when making emotional financial decisions or to speculate with, such as buying into a new business venture that may or may not be profitable.”

Garner adds that a very clear line needs to be drawn between the two types of assets and that one must never allow the emotional impact of what happened in the one to affect the other.

“One needs to devise an integrated strategy, which includes both wealth preservation assets and surplus assets, and investors need to understand how much is needed out of each pool and what can or can’t be done to ensure a comfortable retirement.”

INVESTMENT STRATEGY

Exchange control opportunity

Is now the time to move funds offshore?

In Finance Minister Nhlanhla Nene’s February budget speech, he announced increased scope for South Africans to invest offshore, raising the foreign exchange allowance for individuals from R4 million to R10 million per calendar year. For many investors, R10 million could be a substantial portion of their investable portfolio.

How do you get offshore exposure?

Explain Andrew Mackie, Investment Analyst, Maitland, “There are two primary channels of investing offshore.

The first is to invest via a local rand-denominated feeder fund that in turn invests in offshore assets. The advantage of this approach is that it does not require you to use your foreign-exchange allowance, which means it is not necessary to buy foreign currency or get a tax clearance.

from SARS (and is not affected by the comments in the budget speech). Whilst this option provides you with offshore exposure, your capital (and gains/income) must always be repatriated back into South Africa and redeemed into your local bank account.”

The second channel, he says, is to make use of your foreign exchange allowance and instead of just getting offshore exposure, your money is actually sent abroad in your own name and there is no requirement to repatriate funds back into South Africa. In order to move funds abroad you will require a tax clearance certificate from SARS (specifically for the purposes of investing offshore). Following receipt of this you are allowed to convert your rands into foreign currency using an authorized dealer and are then able to invest into foreign investments either directly or through an offshore custodian.

Why invest offshore?

Mackie says investing offshore provides access to a larger universe of investments than those available locally and that may have greater value and/or return prospects. The JSE is a highly concentrated exchange that is dominated by a few large-cap stocks and is resource-heavy relative to other equity markets. Global markets will provide opportunities in new and unique investments including industries not as well represented in SA such as technology and bio-tech stocks.

Allocating offshore introduces portfolio diversification so you are not entirely dependent on the success and behaviour of the SA market. This is especially relevant considering the political, economic and socio-economic risks present in the SA economy which represents a fraction of global markets.

Foreign-currency assets become more valuable in rand terms if the rand weakens and so act as a rand hedge. This also serves to reduce volatility especially in portfolios with local investments that are sensitive to rand weakness, such as importers or companies with foreign debt. Thus, global exposure is advantageous to local investors at a time when emerging market currencies are volatile and vulnerable to global factors outside their realm of control.
Have you missed the party?

“The advantage of global investing is that it complements a local portfolio - to invest solely in a global portfolio would be an extreme decision for any local investor, especially for someone who relies on their portfolio as a source of income to fund rand-denominated expenditure,” he notes.

Despite the much publicised concerns around South Africa (few of which are new), the JSE All Share Index (total return) has outperformed the MSCI World Index (a measure of global equity markets) in ZAR terms over almost every measurement period on a rolling 5-year basis since 2007 (data starts in 2002). The extent of outperformance has narrowed recently. “However, the good news is that investors who have up until now only invested locally would not have missed out relative to peers who had invested globally,” says Mackie. (Refer to the graph on the previous page: JSE ALSI compared to global equity markets).

Unless opting for an aggressive equity orientated portfolio, most investors are also likely to include an allocation to other asset classes in their portfolios. The local bond and cash markets offer compelling real yields (i.e. adjusted for local inflation) relative to global developed markets, and the argument to make such investments offshore is less compelling (see table above, from Bloomberg).

While the case for the SA market has looked favourable, it would be unwise to turn a blind eye to the local market fundamentals and the domestic risks at hand. Mounting economic pressures with twin (budget and current account) deficits, high levels of unemployment and ailing power supply from Eskom contribute to discomfort amongst investors. These factors, combined with stretched valuations (a current JSE All Share P/E ratio of 21.12 relative to the 10 year average of 14.75), make local equities vulnerable to any international events that might trigger a ‘risk-off’ response, such as the first Fed rate hike.

These concerns together with currency risk support the need for an element of diversification via offshore investing, especially in equity markets. There would appear to be little opportunity cost today for an investor to take advantage of their increased foreign exchange allowance in order to introduce an element of diversification into their portfolios.

RETIREMENT PLANNING

Aggressive approach needed

The case for equities

WHAT REAL GROWTH is needed for a comfortable retirement outcome? Are retirement funds investing aggressively enough to achieve this?

“For members to secure a comfortable retirement, real returns of between 3½% and 4½% of pre-retirement savings are needed,” says Barend Ritter, Portfolio Manager at Sanlam Investments. This implies that you need an equity exposure of more than 60% (up to 75%) in a typical balanced fund. This should give you sufficient returns over your working life, starting at age 30 and ending up at age 60, up to 75 years of age.

Contrary to this, however, results from the Benchmark Survey conducted by Sanlam Employee Benefits show that members in retirement funds are not investing aggressively enough. Of the funds surveyed, only 40% of funds said ‘yes’, they do offer members an aggressive investment option in a typical balanced fund. Of the funds that said ‘yes’, only a further 30% of these members were actually invested in these aggressive options.

Overall, this implies that only a mere 12% of members who participated in the survey were invested in aggressive options. And that is clearly not enough!

The role of behavioural finance (specifically ‘loss aversion’) plays a critical role in this, particularly the aversion to investing in equities that we see with retirement funds. Loss aversion is simply the human instinct to avoid losses, and we engage in behaviour that will ensure this. This is no different with investing.

Key takeout: Loss aversion (selling during market downturns) destroys value.

So what does it take for the markets to recover in real terms after a big slump? Interestingly, history has shown us consistently that on average it only takes 4 years for the equity markets to recover. If you consider a 20-year career and membership in a fund, this 4-year period is not considered significant and certainly doesn’t warrant the loss aversive selling behaviour described above.

The best action you can take during a market dip is to stay calm, stay the course and remain invested, riding out the market volatility from beginning to end.

HEALTHCARE

Neuro squabble

Serotonin and depression link a myth?

The widely held belief that depression is due to low levels of serotonin in the brain - and that effective treatment raises these levels - is a myth, argues a leading psychiatrist...
in The BMJ (British Medical Journal) this week.

David Healy, Professor of Psychiatry at the Hergest psychiatric unit in North Wales, points to a misconception that lowered serotonin levels in depression are an established fact, which he describes as “the marketing of a myth.”

The serotonin reuptake inhibiting (SSRI) group of drugs came on stream in the late 1980s, nearly two decades after first being mooted, writes Healy. The delay centred on finding an indication.

After concerns emerged about tranquilliser dependence in the early 1980s, drug companies marketed SSRIs for depression, “even though they were weaker than older tricyclic antidepressants, and sold the idea that depression was the deeper illness behind the superficial manifestations of anxiety,” he explains. The approach was an astonishing success, “central to which was the notion that SSRIs restored serotonin levels to normal, a notion that later transmuted into the idea that they remedied a chemical imbalance.”

In the 1990s, no one knew if SSRIs raised or lowered serotonin levels, he writes; they still don’t know. There was no evidence that treatment corrected anything, he argues.

He suggests that the myth “co-opted” many, including the complementary health market, psychologists, and journals. But above all the myth co-opted doctors and patients, he says. “For doctors it provided an easy short hand for communication with patients. For patients, the idea of correcting an abnormality has a moral force that can be expected to overcome the scruples some might have had about taking a tranquilliser, especially when packaged in the appealing form that distress is not a weakness.”

Meanwhile, more effective and less costly treatments were marginalised, he says, and stresses that serotonin “is not irrelevant” but says this history “raises a question about the weight doctors and others put on biological and epide-miological plausibility.” Does a plausible (but mythical) account of biology and treatment let everyone put aside clinical trial data that show no evidence of lives saved or restored function, he asks? Do clinical trial data marketed as evidence of effectiveness make it easier to adopt a mythical account of biology?

These questions are important, he says. “In other areas of life the products we use, from computers to microwaves, improve year on year, but this is not the case for medicines, where this year’s treatments may achieve blockbuster sales despite being less effective and less safe than yesterday’s models.”

“The emerging sciences of the brain offer enormous scope to deploy any amount of neurobabble. We need to understand the language we use. Until then, so long, and thanks for all the serotonin.”

EDUCATION

Time is now

Tax-free savings could fund your child’s education

FIVE SOUTH AFRICAN UNIVERSITIES have been included in the Times Higher Education BRICS & Emerging Economies Rankings 2015 – a list of the top 100 universities in countries classified as emerging economies. The ranking reportedly looks at all core missions of a world-class university, using carefully calibrated performance indicators.

The University of Cape Town (UCT) ranked 4th in the list, with the Universities of the Witwatersrand and Stellenbosch at number 14 and 17 respectively. Much further down in the assessment, the University of KwaZulu-Natal came in at 47 and the University of Pretoria ranked 77th. Accolades such as this bolster an institution’s reputation, but in terms of student registration, the biggest barrier to entry for many prospective students, is the cost.

The exorbitant cost of attending university in South Africa means that for many parents planning the options for their child’s tertiary education, this route is simply not a financially viable one. Many universities have levied annual fee increases well above inflation year-on-year – a point noted by Higher Education and Training Minister Blade Nzimande earlier in the year. Declining government funding has been blamed for this, but the end result is a university degree that’s simply too expensive for household budget’s already under pressure.

No time like the present

If parents start saving early enough for their child’s tertiary education, enrolment at a South African university suddenly becomes a possibility. According to René Grobler, Head of Investec Cash Investments, the sooner parents begin contributing to an investment plan, the sooner their money can begin working for them and thanks to National Treasury’s new tax-free savings initiative launched on 1st March, that time is now.

“Treasury’s confirmation that parents can open a tax-free savings account for each of their children provides the optimal mechanism to begin saving literally from as soon as your child has an ID number,” says Grobler.

Introduced in a bid to turn the tide on non-savings, the tax-free savings initiative aims to stimulate saving over and above retirement-based savings. This provides an excellent opportunity for parents to take advantage of this compelling opportunity to save for their child’s education.

Make education your goal-based saving

As an example, if a parent started contributing R30 000 per year into a tax-free savings account with a 7% fixed interest rate, before their child turns 17, they would have met the current lifetime contribution limit of R500 000. If they left this in the tax-free savings account until their child turns 18, thanks to compound interest (at a constant rate of 7% per annum) their accumulated savings would have grown to R1,04 Mil-
lion: A valuable investment indeed.

Minister Blade Nzimande agreed to a meeting with vice-chancellors to discuss various issues, including what is responsible for driving high costs at universities. But currently, typical first year tuition fees for a student studying a straight BCom at UCT range from R50,000 to R62,500.

According to Grobler, parents using a tax-free savings account to save for their child's future should regard the investment as a long-term one. “For clients who exercise the restraint required to leave their investment for the full term, thanks to the positive effects of compounding interest, they will reap the most benefit,” she says.

While Treasury has stipulated that the tax-free savings account offers full liquidity within 32 business days in the case of an emergency (with a minor product-specific penalty fee applying) without any prescriptive terms and conditions on its usage, clients should note that the account cannot be reimbursed with the withdrawn amount at a later stage. Withdrawals will therefore negatively affect the tax-free growth of the investment over time. Also, it’s important not to exceed the annual or lifetime maximum contributions, since any amount over these thresholds will be taxed at 40%.

**RETIREMENT PLANNING**

**The magic number**

**Emotional and physical needs as important as the figures**

We are often asked how much money a person or a couple needs to have invested in order to retire comfortably. If the answer really was some magic number, you would likely not need a financial advisor. You would simply have to save and invest until you reached that magic figure and then retire and relax, says Johann Burh, Regional Head at The Wealth Corporation.

A magic retirement number would make many other key financial decisions in life far simpler. Can you afford to send your kids to private school? Can you afford a bigger house or a more expensive car? If any one of these choices boils down to you coming up short for that magic retirement number, the decision is simple. “Unfortunately, the reality is far more complicated,” says Burh.

In the financial press much focus is placed on investment generating returns, and for good reason. However, cash flow is a two-sided coin. “Equally important as cash inflow is cash outflow. Each person’s retirement number is different and is dependent upon their monthly expenses and lifestyle goals,” says Burh. “You need a cash flow matching investment solution for your retirement plan, and the amount you need to have invested needs to correlate with your anticipated rate of withdrawal.

“It is very challenging to try to estimate how much money you will require to meet your lifestyle goals and living expenses in retirement. Inflation is a key reason for this. Your best bet is to estimate what you will need in today’s terms and factor in the anticipated rate of inflation. This requires sophisticated financial planning software and is not something the average person is equipped to do by themselves.”

Just as no person is alike, so no financial plan should be alike either. Each person has different priorities, varying risk management requirements and tolerances, and unique lifestyle goals. In addition, your finances should not be your sole consideration.

“To create a comprehensive retirement plan you need to take cognisance of your practical and emotional needs as well. Your advisor should have a clear understanding of your support system of family and friends, your state of health, your current and future work opportunities, your interests and hobbies and so on, in order to help you to adequately prepare for the future in all respects.”

How are you going to spend your time when your work commitments come to an end? Where would you like to live and is this somewhere that your family and friends will be able to access easily? Will you have the financial and practical support that you need should your health fail? These are all key questions that require answers and your advisor should help you to find them.

If reaching a magical number was all that was needed to enjoy a happy retirement, all that you would need to plan for your financial future is a calculator. Retirement calculators are useful tools to promote financial literacy and illustrate the importance of saving and investing for the long term. Visit our website www.thewealthcorporation.co.za and give our retirement calculator a try. It is a great tool to help you to understand the effects that such variables as the rate of return, cash flow and inflation have on your retirement pot. Most importantly, such tools help to illustrate the negative effect that delaying saving for retirement has.

As technology improves, more and more people are using retirement calculators in place of professional advice, falsely believing that they are able to “go it alone”.

However, a retirement calculator is unable to take into consideration the practical and emotional aspects of retirement, which are so critical to ensuring that all your needs and goals are met. Equally important, a retirement calculator is unable to provide the support and sage advice needed when markets fluctuate and the heart begins to rule the head.

“Retirement planning is a complex and nuanced process,” says Burh. “It involves so much more than helping you to reach a magic retirement number – although some advisors will have you believe that it is and that all you need to do to reach that number is to sign on the dotted line while they wave their wands.”

A retirement calculator, however sophisticated, is unable to help you to find the answers to key questions about what your life in retirement will be like. It is unable to factor into consideration the changes you and your family go through as you grow and your needs change.

“You need a qualified financial advisor who is able to act as a sounding board for the important financial decisions you make in life.” Someone who is able to walk the road to your retirement with you, providing the support you need along the way to reach your goals and helping you to understand what your tomorrow holds so that you can welcome it.
Strictly not for medicinal purposes

New research challenges benefits of moderate alcohol consumption

Any health benefits from alcohol may be limited to women aged 65 and over - and even then may have been exaggerated by existing studies, suggests research published in The BMJ (British Medical Journal).

High alcohol consumption has been associated with more than 200 acute and chronic conditions, with estimated health and social costs of up to £55 billion a year in England alone. Globally, more than three million deaths each year are attributed to alcohol.

Some studies have suggested that, compared with non-drinkers, moderate consumption may protect against cardiovascular disease and bring mortality benefits. But this association is contentious, with some arguing that the protective effects of light drinking may be exaggerated by “selection biases” in studies that could skew results. For instance, including former (potentially heavy) drinkers in non-drinking groups or not taking full account of other unmeasured (confounding) factors.

There is also concern about increasing alcohol consumption among older people and risk of alcohol related problems due to impaired metabolism of alcohol with age.

As a result, the Royal College of Psychiatrists has recommend that alcohol consumption should be reduced for both sexes to a maximum of 11 units per week or 1.5 units a day for people aged 65 years or more. But data to support this advice is lacking. So a team of UK and Australian based researchers explored the association between alcohol consumption and mortality in different age groups to determine the suitability of age specific alcohol limits in England.

Using interview data from Health Survey for England 1998-2008 linked to national mortality data, samples of 18 368 and 34 523 adults were analysed by sex and age group (50-64 years and over). Participants were interviewed about their average weekly alcohol consumption and use on the heaviest drinking day of the week.

Results were adjusted for a range of personal, socioeconomic, and lifestyle factors. Compared with never drinkers, protective associations were largely limited to men aged 50-64 years who reported consuming 15-20 units on average per week or 0.1-1.5 units on the heaviest day, and to women aged 65 and over who reported consuming 10 units or less on average per week and at all levels of heaviest day use.

Little to no protection was found in other age-sex groups, regardless of consumption level, say the authors. They also stress that protective associations “may be explained by selection biases”.

They conclude that one possibility is that this study “may have better isolated the true effect of alcohol consumption on mortality” and add that their results do not support the introduction of age specific recommended alcohol limits for persons aged 65 years and over.

In a linked editorial, Professor Mike Daube from Curtin University in Australia, welcomes this study as part of a growing body of evidence that alcohol intake is unlikely to offer any health benefits. He argues that new evidence or health claims, “should be treated with great caution” and health professionals should discourage alcohol intake, even at low levels, for health benefits. Health advice should come only from health authorities, he adds, and that the alcohol industry “should remove misleading references to health benefits from their information materials.”

Off beat

Irregular heartbeat a life-threatening condition

It has been estimated that as many as one in four adults over the age of 40 will develop some form of irregular heartbeat or arrhythmia, yet many South Africans are not aware of this common condition which can cause a life-threatening cardiac event or stroke.

Speaking ahead of Heart Rhythm Awareness Week, 3rd - 9th June 2015, Dr Anchen Laubscher, medical director at Netcare said people of all ages can suffer from this condition which affects many people’s quality of life, but it is particularly common among older individuals. “Empowering the South African public with knowledge about irregular heartbeat can help to save lives.”

Dr Israel ‘Pro’ Obel, a cardiologist at Netcare Milpark Hospital, says that a heart rhythm disorder or cardiac arrhythmia is when the heart beats too quickly, too slowly or irregularly. This is caused by one or more faults in the electrical circuitry of the heart. Electrophysiology is the study of the electrical properties of the heart’s cells and tissues in order to diagnose and successfully treat cardiac arrhythmia.

How would you know that you suffer from cardiac arrhythmia? Dr Obel says palpitations (i.e. missed or extra heartbeats, or racing heartbeat), dizziness, fainting, as well as shortness of breath, chest discomfort and chest pains could be symptoms of a heart rhythm disorder and should be investigated by...
a doctor or cardiologist if they persist.

Pulse can give basic indication of heart health

The Arrhythmia Alliance, an organisation that aims to improve awareness of cardiac arrhythmia, says knowing how to check your own pulse makes it possible for you to monitor your heart beat, heart rate and heart rhythm, which can give you a basic indication of your heart health and help you establish whether you might have any heart rhythm problems.

One of the easiest places to feel your pulse is on your wrist, although other areas are also used including in the crease of the elbow, in the groin or behind the knee. It is a good idea to check your pulse at different times of the day and following different activities such as exercise. This will help you to establish what your average pulse is, what kinds of activities raise or lower your pulse rate and whether you have any irregular heartbeat patterns.

Dr Connel Barnabas, a cardiologist who practices at Netcare Umhlanga Hospital, says people should seek advice if their pulse seems to be racing for much of the time and they feel unwell, if their pulse is slow most of the time and they feel unwell, or if their pulse is irregular, even if they feel well.

Atrial fibrillation increases risk of stroke by up to 500%. Dr Obel notes there are different types of irregular heartbeat. Atrial fibrillation, for example, is an abnormality in the heart rhythm affecting the upper chambers of the heart. It is a common heart rhythm disorder which can be severely disabling and even life threatening.

According to the Arrhythmia Alliance, atrial fibrillation increases the risk of stroke by up to 500%, and every 15 seconds someone suffers a stroke related to this disorder. Atrial fibrillation may have a number of causes including high blood pressure, age, excessive consumption of alcohol, chronic bronchitis and pneumonia, disease of the heart valves, heart failure or an overactive thyroid gland. However, in some cases there may be no obvious cause.

Diagnosis and specialised treatment

The early diagnosis and treatment of heart rhythm disorders can dramatically improve a person’s quality of life and even save lives. Treatment options for irregular heartbeat depend on the cause of the irregular heartbeat and how serious it is. An assessment by a specialist will determine which treatment approach is most suitable for the individual. If the problem is minor it may require little or no medical intervention while a number of specialised interventions can be considered to treat serious cases.

Dr Barnabas says there have been great advances in the treatment of irregular heartbeat over the last 20 years. The great majority of cases are successfully treated using drugs, surgery or devices such as a pacemaker.

A pacemaker, which is implanted during surgery, assists in keeping the heart pumping at a regular pace. It is generally used in cases where a patient’s heart is beating too slowly. Other treatments, such as medication or an implantable cardioverter defibrillator, which is a special type of pacemaker that can deliver a life-saving shock, may be used when the heart is beating too fast and irregularly.

Jacques du Plessis, MD of Netcare’s Hospital division says Netcare Milpark, Netcare Sunninghill, Netcare Christiaan Barnard Memorial, Netcare Greenacres and Netcare St Augustine’s hospitals all have electrophysiology (EP) laboratories.

“At these laboratories highly advanced procedures such as cardiac ablation are performed to treat heart rhythm disorders. In this procedure a special catheter is inserted through a vein and is remotely navigated up to the heart. There it destroys blocked or damaged electrical pathways that are causing ‘short circuits’ in the heart in order to restore its normal rhythm. Energy in the form of heat (radiofrequency energy) or freezing/cold (cryoablation) is used to destroy the tissue that is responsible for the short circuits,” explains Du Plessis.
From one of benefit statements that reflect accumulated capital to one of lifestyle outcomes, it is likely that umbrella funds will play an increasingly important role.

Employers that outsource the labour-intensive aspects of retirement provisioning to an umbrella fund administrator will have more time to engage constructively with employees, beginning at ‘day one’ of employment.

The Symposium heard that the industry would benefit if employers were able to dedicate more time and resources to educating employees about all aspects of retirement funding, including contribution levels, sensible investment portfolio selection and adequate insured benefits.

Inadequate healthcare planning

1. Inadequate healthcare planning

In life we are told to “expect the unexpected”. And in financial planning, the biggest challenge is always making provision for the unforeseen events that befall us. It is hard when in the prime of our life to imagine a time when our health will fail us. Equally impossible to imagine is the significant financial burden this can become.

The cost of private healthcare in South Africa has steadily increased in the recent past. Statistics South Africa tells us that healthcare inflation has exceeded CPI inflation by 4.3% annually between 2009 and 2013. As a result, where health insurance used to comprise 3.4% of household expenditure in 2006/2007, it made up about 7.2% in 2010/2011. And the trend has not abated. Making provision for a 10% annual increase in your medical cover is the industry norm.

South Africa’s targeted inflation rate is between 3% and 6%. With medical costs increasing persistently at around 10%, a significant portion of your retirement capital needs to be earmarked for health insurance. But it doesn’t end there. Ill-health is associated with a number of other costs: the bills for medication aids won’t cover for specialist procedures and drugs, nursing care at home or in a long-term treatment facility, etc.

“In financial planning the three primary variables to take into consideration are: inflation, return on investment and the rate of withdrawal,” explains Lotz. "If you have not set aside a significant portion of your retirement capital, the real sharp ones learn from the mistakes of others.” These are wise words indeed, says Johan Lotz, Advice Partner at The Wealth Corporation.

Clients come to us at various stages of life. Some are just starting out and in need of life cover as they get married and purchase their first home. Some find themselves alone due to death or divorce and need assistance with taking charge of their financial future for the first time. Others seek help upon retirement as they suddenly find themselves in a stage of life they knew was coming but never really imagined would arrive.

Whatever stage of life or financial position you find yourself in there are three common financial mistakes many people make which can threaten the security of your financial future. These are: inadequate healthcare planning, ineffective risk management and emotional corrosion, and insufficient retirement planning.

1. Inadequate healthcare planning

In life we are told to “expect the unexpected”. And in financial planning,
2. Ineffective risk management and emotional corrosion

As stated, in financial planning, it is imperative to plan for the unexpected. Market movements are another example. Equities market rise, correct, fall, correct, rise again and so on. Experiencing fear when you face capital losses is to be expected. A sound investment strategy and holistic plan will address the emotional side of investing so as to ensure that you stick to your plan – and so avoid costly mistakes – when trying times arise.

As part of the planning process, you need to ask yourself: What is my purpose or end goal for my investments?

“Perhaps the investment in question forms part of the core wealth you require to provide for your income needs in retirement,” he says. “Or perhaps it comprises the surplus wealth you wish to leave as a legacy. These two examples would have very different investment strategies attached and you as an investor would have a very different attitude to risk with each.”

What is the anticipated time horizon for your respective investments? Capital with an imminent maturity date requires an investment and risk strategy very different from capital required to be withdrawn in a number of decades hence. You should invest the latter in high risk, high return funds so as to generate the investment returns you need with minimal downside risk in the long-term. The former you should invest in low risk, moderate return investments so as to ensure the capital is there when you need it. Such a strategy will help to alleviate your concerns in times of market turmoil as you will know that the requisite capital is available when you need it.

How do my other, non-monetary assets form part of my financial goals and plan? Perhaps the upkeep of your dear holiday home is becoming a little too dear and you need to consider renting it out when you’re not using it to cover expenses. Or maybe the fishing boat you take out a couple times a year should be sacrificed now so that you and your spouse can travel in later years.

How am I going to stick to my plan when times are tough or temptation calls? “Your financial advisor will be able to provide the perspective you need when you begin to lose yours and will have the strategic patience required to help you realize your goals. Your advisor will review your plan on an annual basis – or when needed – in order to make sure that your current circumstances and future goals remain in line.”

3. Insufficient retirement planning

In an ideal world, a retirement plan would be created for each person many years before their retirement starts. In reality, this is seldom the case. “Perhaps this is because it can be challenging to imagine ourselves in the future and for that reason we prioritise the now,” says Lotz. “However, the fact remains that the decisions you make today are the same ones that determine your future.”

Many retirees today are facing a significantly reduced standard of living as the stage of life they find themselves in always seemed light years and lifetimes away when they were young. It is never too late to engage an advisor to help you to make important financial decisions, whether your retirement is 30 days or 30 years away.

Have you adequately planned for your retirement? Does this plan sufficiently provide for your healthcare as well as life’s unexpected needs? As experts in retirement-readiness, we understand that planning and preparing for retirement is an exciting prospect and a daunting one as well. The Wealth Corporation’s advisory solution offers a complete view of the retirement planning and management process, looking at all aspects of financial and personal well-being.

ALTERNATIVE INVESTMENTS

Floating an idea

Investments in tried-and-tested hard currency assets such as boats should be considered as an integral part of a well-balanced investment portfolio. These yachts are not only a low risk asset, but also a feasible alternative for both South African as well as foreign investors as they foster hard currency returns.

Global yacht charter companies such as The Moorings – with over 40 years of existence – offer yacht ownership programmes that pay a 9% p.a. guaranteed income for five years plus usage. This way you pay only a certain percentage of the value of the boat, thus owning a yacht has never been so lucrative.

“Our owners enjoy this guaranteed income regardless of charter activity, as well as zero operating expenses, worry-free maintenance and extensive use of their yachts and sister ships worldwide.”

“...” series discusses topics such as “Yearning for a yacht” and “How to plan a yacht in 30 days.”

According to BUC’s Used Boat Price Guide boats retain up to 80% of their capital value. It’s also a legal option for investors to externalise wealth and own a tangible movable asset that can be placed in a charter market, for which there is known demand.

Founder and CEO of The Botsford Group, a US boutique financial planning firm, who is also the author of The Big Retirement Risk: Running Out of Money Before You Run Out of Time believes that lifestyle investing is the new path to successful retirement. Lifestyle investments provide an income, either now or in the future, that’s safe, predictable or guaranteed. These include but not limited to real estate investment trusts, equipment leasing programmes

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Considering a yacht

The growth of the yachting industry has introduced new ways of owning a boat. The Moorings, for example, offers yacht ownership programmes that provide yacht owners fixed revenue. The programmes usually last for about five years with easy options to extend, attractive trade-in opportunities and worldwide brokerage support, making the exit process stress free.

The Moorings, that has pooled its expertise with South African boat builders Robertson and Caine to design a line of cruising catamarans, is a serious competitor in the international catamaran market.

Investors should “treat boat buying with care” adds Snyman. “Buy a boat that is made by a renowned boat builder, and always choose a good design to make sure you can sell the boat quickly when you need to,” he shares.

Owners can also sail to worldwide destinations, sailing school courses if desired, and have a dedicated Owner Care team on hand for all bookings.”
WHATEVER HE GROWS UP TO BE...
HE WILL GROW UP THANKS TO YOU

Sometimes we can make the most amazing things happen – even when we’re not around.

And that’s what a legacy gift to the Children’s Hospital Trust in your Will can do. It will provide critical care for little patients in the wards at the Red Cross War Memorial Children’s Hospital. It can buy new medical equipment, upgrade hospital facilities, provide professional medical training and it will help to save the lives of children just like Keano Rhodes, so that they become living examples of your legacy.

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The Children’s Hospital Trust is an independent charity (PBO No. 930 004 493) and works in partnership with the Western Cape Government: Health, who finances the running costs of the Hospital.
YOU ONLY KNOW TRUST ONCE YOU EXPERIENCE IT

At Auto and General, the opinions and ideas of our brokers have helped to forge a dynamic and solid relationship. Join the Auto and General family as a broker, and be part of a strong and successful partnership.

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