The Adfinity

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Patience is a virtue

The legendary investor Warren Buffett gives perhaps the most concise advice about how risky markets feel, and what you should do: "The stock market is a device for transferring money from the impatient to the patient." Seeing a market dip is scary but it's important to remind yourself that market drops are an expected, unavoidable part of investing. You may want to take action, but remember: There are productive actions, but they don't include changing course. The best advice is simple and straightforward: Stay calm and stay the course.

The net wealth of South African households declined by an estimated R205bn during the first quarter of 2018, compared to the last quarter of 2017, according to the latest Momentum/Unisa Household Wealth Index report. The report estimated that household wealth amounted to R7 087.3bn at the end of the first quarter of 2018, R205bn lower than the adjusted figure for the fourth quarter of 2017.

Where did my savings go?

The report's authors said the drop was principally due to a fall in the value of financial assets. These assets include households' savings in retirement funds and annuities, which are mostly invested in shares of companies listed on the JSE, as well as in bonds and fixed deposits. This, in turn, was caused by a decrease in listed share prices. "For instance, the JSE All Share index decreased from 59 504 points at the end of Q4 2017 to 55 475 points at the end of Q1 2018," the authors said. "In real terms, this represents an annualised decline of 28.0% between Q4 2017 and Q1 2018."

"The real value of bank deposits was also worth 0.6% less compared to Q4 2017." While the All Bond index increased at an annualised rate of 28.4%, the report's authors said that most of households' savings are invested in listed shares and deposits. "This caused the sharp decline in the real value of households' assets in Q1 2018."

What happened to the share price?

The authors noted a number of reasons behind the decrease in the All Share index, which had reached an all-time high in late January 2018.

These include fears of overheating share markets worldwide, and money leaving South Africa with the expectation of higher interest rates in the United States. "Domestically, an increase in the VAT rate and uncertainty about the impact of land expropriation without compensation contributed to a further decline in share prices."

The authors said a decrease in net wealth was bad news for households. "Less net wealth is bad news for households, as it indicates that their estimated monthly income will be insufficient to fund their

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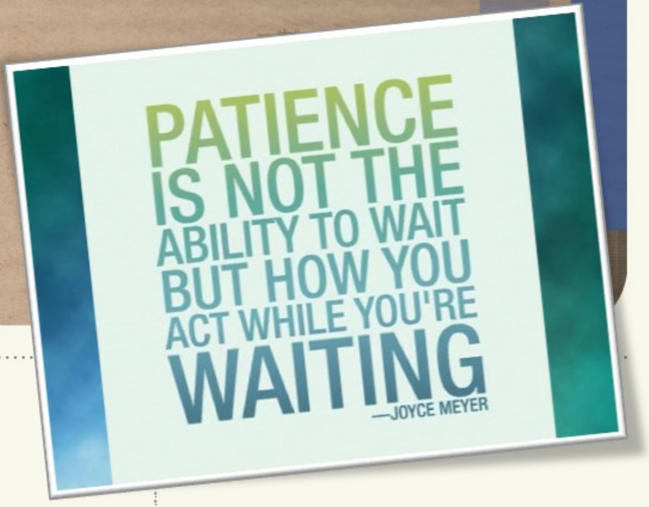

standard of living in retirement, while it also means that they will have less funds available to protect themselves against emergency expenses," the authors argued.

"Under these circumstances they normally revert to additional borrowing, which increases their liabilities and thus reduces their net wealth." Remember why you're investing. If you're saving for a long-term goal, such as a retirement, your allocation already factors in a short-term market drop. A sharp fall in stock prices, as we've seen recently, is usually accompanied by scary news headlines and red numbers. Modern media wants clicks and attention, and, unfortunately, fear sells.

Stay calm and make smart decisions to support your longer-term goals. You knew there would be days like this, and planned for it. If you're tempted to take action remember that, as with many things in life, making decisions in the heat of the moment is probably not a good idea. Investing is no different. The more you check your account, the more likely you are to see losses, and subsequently do something in reaction to a near-term drawdown. And reacting to market drawdowns are likely to hurt your returns over the long term.

Other Experts Agree: Stay Calm, Do Nothing

Listen to what some of the most respected consumer advocates in personal finance have to say:

Jason Zweig, an esteemed columnist for The Wall Street Journal, put together a 2015 list of what not to do. Read it for yourself, but here's an overview, put more positively:

- Turn off the news.
- Stay calm; don't panic and sell.
- Use this as an opportunity to diversify.
- Remember that what matters is the outlook for the future, not a "correction."
- Ignore most commentary; no one knows what will happen next.

Ron Lieber of The New York Times knows what this feels like and puts forward six excellent points to consider:

- This drop is nothing compared to the gains the market has seen in the past six years.
- These portfolios were constructed when you weren't anxious.
- You (should) have plenty of time to recover.
- If you're worried about panicking, it's better to reduce your risk (say, by 20% stocks) than to move to cash. Just know this likely means you'll need to save more.

This is completely normal. This is what markets do.

Cass Sunstein, author of Nudge and an experienced investor in his own right, recommends to "have a diversified portfolio, consisting in large part of low-cost index funds, weighted toward equities; add money as you get it, and diversify it as well; keep the cash you need; and otherwise hold."

Stay Focused on the Future, Not the Past

Let's answer the key question on many people's minds: How much worse have markets performed after a bad week (a 5% or worse drop in markets) historically?

The answer: If anything, they appear to perform slightly better. Recent performance is simply not informative about what will happen next. "Bad weeks" are defined "bad" with a loss of 5% or more. We have 48 of such weeks starting from the 1950s. (Analysis from 2015)

Bad Weeks and Future Returns

While it might seem like future returns are more variable after a bad week, this is likely because of the smaller sample size (there are 3,376 weeks that were not bad, for comparison).

Indeed, if anything, it seems like bad weeks are followed by slightly better weeks. But we don't recommend you bet on it; the odds of it going well are the same as the odds of it going poorly.

We're in an era of uncertainty; we always have been, and we always will be. Even if people say otherwise, no one knows what will happen, so there's no use in projecting. We understand that it might feel necessary to try to correct what's happened, but it's just a distraction. The more important thing to do is focus on the future and staying properly invested.

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Tax Tips

Each year new regulations and amendments aim to combat tax avoidance and 'loopholes' as a means of ensuring tax payers are contributing as much as possible to the fiscus.

However, there are still some clever ways to get your filings in order and save money when you submit.

Top up your retirement annuities

Up to 27.5% of taxable income, capped at R350,000 per year, may be deducted from your income in respect of retirement annuity contributions

Donate to the family trust

According to Goodwin, each individual taxpayer may make donations up to R100,000 per annum free of donations tax.

"If one is using a trust for estate planning (or any other) purposes, such donations might be made to the trust. This has the effect of lowering the personal estate and increasing the assets of the trust," noted Goodwin.

"Both the taxpayer and spouse may make tax-free donations as described, provided this is done before 28 February."

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Taxing logic

Rulers and governments have levied various types of taxes throughout the centuries. Income tax (i.e. a tax specifically levied on the earnings of individuals and corporations) is a relatively modern form of taxation. This is because the levying of income tax requires a fairly orderly society with a money-based economy and reliable records.

Until a few centuries ago, these requirements did not exist and until then the most common forms of taxes were those based on ownership of assets, such as land or slaves. Before income tax was possible, rulers had to be far more creative to extract their dues from the citizens. Here are some examples of strange taxes levied through the centuries.

Cooking Oil Tax

In order to fund the construction of the pyramids, the Pharaohs of Egypt levied many taxes, mostly on food produce. One of their oddest laws concerned the taxation of cooking oil. Citizens were obliged to obtain their cooking oil from the Pharaoh's officials and recycling was prohibited. Egyptian tax collectors would audit every household to ensure that they were using the appropriate amount, confiscate their old supplies and force them to buy fresh, taxed cooking oil.

Urine Tax

Though introduced by his predecessors, it was Emperor Vespasian (AD 69-79) who rolled out this tax to cover all of Rome's many public toilets. The tax was actually levied on the collection of urine by the toilet operators who sold it on, at great profit, to tanners and cleaners who used the liquid's high ammonia content.

Beard Tax

Peter the Great, Tsar of Russia from 1682-1725, was surely one of history's greatest advocates of odd taxes. Taking taxation to new levels of absurdity he levied taxes on drinking water, beehives and souls (actually this was just a poll tax - not quite as interesting as it sounds). He even created a committee whose sole purpose was to think up new taxes. One of his most ludicrous taxes, introduced in 1705, was levied on men who grew beards. The tax was part of Peter's modernising reforms and was used to coerce his countrymen into dropping archaic hirsutist customs and bring them into line with the clean-shaven citizens of modernised Western Europe.

Window Tax

Window tax, or glass tax, was introduced in England (and subsequently the whole of Britain) in 1696 during the reign of King William III. Eventually repealed in 1851, it was initially brought in as a way to tax people relative to their wealth while circumventing the vehemently opposed income tax. Interestingly, the consequences of the window tax can still be seen in Britain to-

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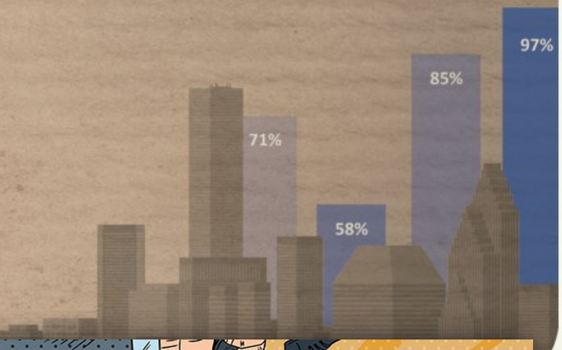

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day. Many of the period's surviving buildings feature bricked-up window spaces, a common practise used to alleviate the tax burden by the middle-classes, who were greatly affected by the law.

Hat Tax

Hat Tax, much like window tax, was levied by the British Government in 1784 as a way of taxing citizens according to their wealth without resorting to income tax. First introduced by Prime Minister Pitt the Younger, hat tax laws forced hat sellers to acquire licences and employed a tiered tax system dependent upon the cost of the hat with mandatory tax-revenue stamps pasted in its lining. Apparently, many tried to dodge the tax by claiming that their headwear wasn't actually a hat. This form of evasion became so widespread that it led to government amendments to the legal definition of a hat in 1804.

Salt Tax

The crucial role of sodium chloride in the diet of humans, animals and plants and countless applications within science, religion and other areas have seen it shape cultures, define economies, cause wars and become one of history's most taxed commodities. Of the countless salt taxes throughout history, perhaps the most well-known example is that imposed by the British in colonial India. Salt taxation had existed in India for millennia, but in 1835 the British East India Company increased the rate significantly, and the British Empire continued the harsh taxes when it took over in 1858. The British salt tax in India received worldwide attention during March 1930, when Mahatma Ghandi led the Salt March to Dandi. It was to be the first act of the Salt Satya-graha, a campaign of non-violent protest against the British salt tax, and moreover, the first act of organised civil disobedience. The campaign did not have much effect on the salt tax, but it increased global awareness and support for India's plight against British rule.

Narcotics Tax

Strange taxes are not confined to the distant past. Since North Carolina pioneered the scheme in 2005, many US states have been imposing taxes on illegal drugs. Often referred to as "Crack Tax", this odd scheme obliges honest dealers and drug users to anonymously buy tax stamps for all manner of illegal substances, from cocaine and heroin to marijuana and even moonshine. The stamps only satisfy state tax laws, so possession of illicit drugs remains illegal. However, possession without appropriate tax stamps incurs substantial financial penalties. Predictably, few dealers and users buy tax stamps. Therefore, the huge revenues generated by these taxes are mostly acquired from tax evasion fines following arrests, which often result in seizure of property.

Critics have denounced this sneaky system for violating drug dealers' rights to due process and protection against self-incrimination as well as condemning the double punishment it imposes. Consequently, in some states the tax has been repealed after being ruled by courts as being unconstitutional.

Use a tax-free investment account

In March 2015, the government introduced a tax-free investment product to encourage South Africans to save after-tax money.

“You can invest R30,000 per year (up to a maximum of R500,000 over your lifetime) and benefit from growth free of dividends tax, income tax on interest and capital gains tax.”

Taking advantage of the Capital Gains Tax (CGT) exemption

All individuals are entitled to an annual exclusion of R40,000 on any capital gains earned during the tax year.

“By selling certain growth assets before year-end (e.g. unit trusts) and re-purchasing them shortly thereafter, the tax-payer can make use of this annual exclusion and increase the base cost of his or her portfolio.”

“By increasing the base cost of the portfolio, the eventual CGT on disposal of the assets is reduced. Of course transaction costs will have to be considered in making this decision.”