Quarter 2 2023

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Financial Informer

secure your financial independence

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The secret is there isn't one

As financial planners, we often get asked what the secret is to retiring wealthy. The truth is, there are no secrets. Successful investing requires a long -term perspective, patience, and a focus on steady, sustainable growth over time. Think of investing like a marathon – it requires putting in the work over the long term. There is no quick sprint in the last few years of retirement.

Not taking risks over the long term ensures that you take longer to double your money.

Risky Business

While it's important to be cautious when investing, avoiding all risk when investing over the long term can actually be counterproductive. Financial planners use the rule of 72. This rule is explained as follows:

The number of years required to double your money at a given rate, You just divide 72 by the interest rate – for example, if you want to know how long it will take to double your money at 8% interest, divide 72 by 8 and you get nine years. Most South African money market accounts give you an interest rate of 7% so it will take you almost 10 years to double your money. According to the **South African Savings Institute** the four asset classes, or principal investment markets, are cash (the short-term money market), bonds (the long-term money market), property and equities (the share market). And their historical performance in real (after inflation) terms is as follows:

Asset Class	% growth after inflation
Cash	0 to 1%
Bonds	1 to 3%
Property	2 to 4%
Equities	7 to 9%

So this can give you an idea of how long your investment would take to double.

It might sound like a lot now, but prices of all consumer products have grown by more than that so you must use the second rule. This shows you how fast the current inflation rate will reduce the value of your investment's present value. To do this you divide 70 by the current inflation rate to know how fast the value of your investment will get reduced to half its

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present value. An inflation rate of 7% will reduce the value of your money to half in 10 years. Considering inflation when investing can help you make more informed investment decisions that consider the impact of inflation on your investments over time.

How much?

The 4% rule is a commonly used guideline for determining how much you can safely withdraw from your investment portfolio each year to provide for your retirement needs without depleting your savings.

The rule suggests that if you withdraw 4% of your portfolio value in the first year of retirement, and adjust that amount annually for inflation, your portfolio should last for at least 30 years. For example, if you have a R1 million portfolio, the 4% rule suggests that you can withdraw R40 000 in the first year of retirement, and then adjust that amount for inflation each year.

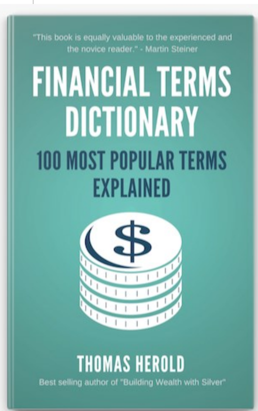
The 4% rule assumes a moderate investment portfolio allocation, typically consisting of a mix of equities and bonds. It also assumes a 30-year retirement period, which may not be applicable to everyone.

No guarantee

It's important to note that the 4% rule is a guideline and not a guarantee. Your actual retirement needs may vary based on your lifestyle, expenses, and investment portfolio performance. Additionally, market volatility can impact the success of the 4% rule. In a down market, the amount you withdraw from your portfolio may need to be adjusted to avoid depleting your savings too quickly. Overall, the 4% rule can be a helpful guideline for determining your retirement income needs and withdrawal strategy.

So, in short, what advisors want you to understand is that yes, investing is often compared to a marathon, rather than a sprint. This means that successful investing requires a long-term perspective, patience, and a focus on steady, sustainable growth over time.

Consult with an experienced, accredited advisor to devise a financial strategy suited to your goals and circumstances.

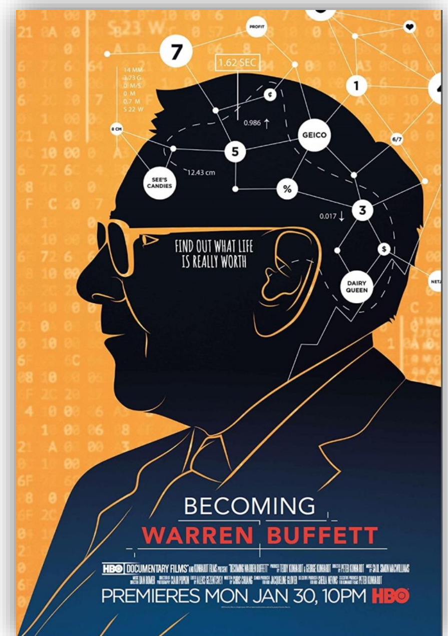


Amortization: Amortization is a method of spreading an intangible asset's cost over the course of its useful life. Intangible assets are non-physical assets that are essential to a company, such as a trademark, patent, copyright, or franchise agreement.

EBITDA: An acronym standing for Earnings Before Interest, Taxes, Depreciation, and Amortization, EBITDA is a commonly used measure of a company's ability to generate cash flow. To get EBITDA, you would add net profit, interest, taxes, depreciation, and amortization together.

Net Worth: You can calculate net worth by subtracting what you own, your assets, with what you owe, your liabilities. The remaining number can help you determine the overall state of your financial health.

*Return on Investment (ROI): Return on Investment is a simple calculation used to determine the expected return of a project or activity in comparison to the cost of the investment, typically shown as a percentage. This measure is often used to evaluate whether a project will be worthwhile for a business to pursue. ROI is calculated using the following equation: ROI = [(Income - Cost) / Cost] * 100*



Becoming Warren Buffett

The documentary covers the life and career of Warren Buffett, who is widely regarded as one of the most successful and influential investors of the 20th Century.

Buffett is interviewed extensively on his upbringing, his early facility with mathematics and interest in investing, and his time as a young adult studying under Benjamin Graham to learn the principles of value investing (which are outlined with a series of short animated segments).

Buffett's friends, family and colleagues are featured in interviews, including his wife Susan Buffett and his longtime business partner Charlie Munger.

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The tough get going

In these tough times, managing your finances effectively is crucial. With rising interest rates and inflation, it has become increasingly difficult to maintain financial stability. It's important to change your mindset and take control of your expenses. Adopting a proactive approach and planning a budget can help you stay on top of your finances. The following 5 tips should help you navigate stormy waters.

We are facing a lot of financial headwinds, not only in South Africa but the world. Times are tough. Interest rates and inflation have rapidly increased, and a lot of us have been put under a great deal of financial stress. Having a victim mentality won't get us anywhere. Be proactive and take control of your expenses. Plan, budget, and execute.

Reel it in

Now, more than ever, we need to be on top of our expenses. We need to know exactly what we are spending and where the leakages in our budgets are. As interest rates have increased over the past year, we have been squeezed little by little, and some of us haven't adapted our budgets accordingly. Have a look at your past three months' bank statements to see exactly where you've spent outside of your budget and where you can cut back. Create a new budget and make sure to stick to it.

Better sooner than later

Pay more than what's expected of you. Now that we've seen what interest rates can do to our disposable income, it shows us the importance of staying out of debt. Here is a little example: The maximum interest rate of a personal loan is 28.75% per annum (compounded monthly). A loan of R50 000 at an interest rate of 28.75% over 72 months would have a repayment amount of R1 464.15 p/m and a total cost of R105 418.72. The total interest paid would be a mammoth R55 418.75. If you decide to pay R2 000 p/m, you will decrease the length of the loan to 29 months and decrease the interest by R13 048.

Peter to pay Paul

We have a way of sabotaging ourselves when we do this. We believe that payment will come through, and when it doesn't, we shoot ourselves in the foot. Only spend what has already come into your pockets and don't bank on money that hasn't come in yet. By doing this we trap our future selves. Don't fall for special offers. Stores always have special offers and it won't be a once-in-a-lifetime deal. It will come around again. Remember, impulsive behaviour is the enemy of your financial success.

Emperors new clothes

Don't fall for the emotional tug of peer pressure. Live according to your plan and not according to other people's pressure on you. Spending money or "showing wealth" doesn't generate wealth in any shape or form, it's an expense and won't benefit you on your journey to becoming financially independent.

Good luck out there!

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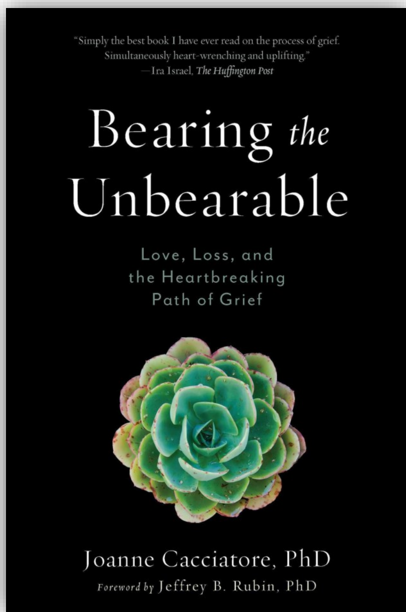

Bearing the Unbearable - Love, Loss, and the Heartbreaking Path of Grief

If you love, you will grieve—and nothing is more mysteriously central to becoming fully human.

When a loved one dies, the pain of loss can feel unbearable—especially in the case of a traumatizing death that leaves us shouting, "NO!" with every fiber of our body. The process of grieving can feel wild and nonlinear - and often lasts for much longer than other people, the nonbereaved, tell us it should.

The broken chain

The loss of a spouse is a difficult and painful adjustment for anyone to make. There is the sense of loss, the uncertainty of the future and the emotional ties that took time to forge that now seem to mean so little. As difficult as this is to consider, it is nevertheless something all married couples should plan for as these details will be the last thing a surviving spouse will have the energy for if the worst were to come about. Use this guide to plan and give you peace of mind that you have done the best for your other half.

A married couple's financial planning should factor in the possibility of the death of one partner, and look to address the adverse financial implications for the survivor, and any children.

Cover against the loss of the "stay-at-home" spouse

Usually where only one spouse earns an income (or earns the bulk of the family income) while the other takes greater responsibility for the raising of children, couples will easily understand the benefit of insuring the primary income-earner against death, disability or dread disease. However, the loss of the spouse who is raising the children will also have an adverse financial impact on the surviving spouse and minor children. The loss of a stay-at-home spouse (whether through death, disability or dread disease) could result in the other spouse having to either cut back substantially on his or her working hours, could possibly require a career change, or the hiring of a full-time childminder. In any of these scenarios, life assurance cover on the "stay-at-home" spouse is a prudent if not vital aspect of the family's financial planning.

Liquidity for settlement of bonds and other debts

Banks often request the primary income-earning spouse to provide life cover on his or her life for the family's mortgage bond. However, it would be prudent to also have cover in place on the life of the other spouse in order to ensure the earliest possible settlement of this debt. Cover should also be taken out to ensure adequate funds are available to settle any overdrafts, credit cards balances and accounts in the name of the spouse.

Liquidity for costs of winding up a spouse's estate

Many married couples leave their respective estates to one another on death and thus ensure that no estate duty (or capital gains tax) is payable on death of the first-dying spouse. However, the need for liquidity to cater for other costs of winding up the

first-dying spouse's estate is often overlooked, especially in the case of the potential death of a spouse who is not the principal income-earner. These costs include executor's fees (calculated at 3.5% plus VAT on the gross value of the assets in the deceased estate), funeral expenses, and Master's fees. Add the legal (conveyancing) fees required to transfer an immovable property into the survivor's name and a substantial amount of money may be needed despite the fact that the deceased's estate has "simply" been left to a spouse.

The deceased spouse's estate might not have cash readily available to meet these expenses, requiring the survivor to make an immediate cash contribution or face the enforced sale of the family home or liquidation of investments or other assets!

Bequests for children

Married couples, in their testamentary planning, often simply leave their estates to one another in the event of either of their deaths. For couples with children, this strategy has certain potential shortcomings in that the surviving spouse may remarry and on his or her subsequent death leave the family's assets to a new spouse, or otherwise lose the inherited estate to ill-fortune or poor business dealings. To protect against this eventuality, a married person, while leaving the bulk of his or her estate to a surviving spouse, may wish to consider at the same time leaving cash bequests to minor (or adult) children using a life policy to fund these bequests. The use of testamentary trusts to protect minor children's bequests should be considered or else an executor may be required to pay these over to the Guardian's Fund administered by the Master of the High Court.

Provision for maintenance of extended family members.

Many people find themselves marrying for a second time, having had children from a previous marriage. This not uncommon situation often requires some careful financial planning. Take the case where a wife has remarried and her children from her previous marriage live together with her and her new husband. The planning for her potential death (or disability or contracting a dread disease), in terms of deciding with whom her children will stay in such event, and the provision for their financial future, requires thought. Even where she is not the primary income-earner, a life policy on her life structured to provide funds for her children would be a wise investment.

The case of aged parents should also be considered. Often retired parents live with their adult children, and one could find that after the death of a spouse, one "inherits" the in-laws (or is faced with the unpleasant task of extricating oneself from the responsibility of providing for them). Things can be particularly complicated if the parents have provided their child with funds used to build a "granny flat" on the child's property. A life policy on a spouse's life aimed at providing funds for dependent parents could ensure that this difficult and emotionally charged situation does not materialise.

Sliding Doors - Jim Morrisons Will

Jim Morrison, lead singer of The Doors, died at the young age of 27 with a simple two-page will. Although his financial assets were not substantial at the time of his death, Morrison owned a 25 percent interest in The Doors. His will left his entire estate to his girlfriend, Pamela Courson, or, if she did not survive him, in equal shares to his brother and sister. However, the will did not consider what would happen if the primary beneficiary subsequently died. Courson inherited Morrison's estate, but she died without a will less than three years later, and her estate went to her parents. Morrison's parents then contested the will, claiming that their son was not competent to make a will and that his common-law marriage to Courson was invalid. However, a probate court determined that Morrison and Courson had a valid common-law marriage, and the estate passed to Courson's parents and Morrison's parents in equal shares. To avoid this scenario, Morrison could have created a testamentary trust that would have allowed him to control the distribution of his assets even after his death. This would have ensured that his desired beneficiaries ultimately inherited his estate, rather than leaving it up to chance.