Adfinity financial services

secure your financial independence

post — P O Box 4145, Tygervallei

office — Imperial Executive Suites, 2nd Floor, Imperial Terraces, Tyger Waterfront

email — info@adfinity.co.za

www — www.adfinity.co.za

phone — 021 914 6863

assist — Mariaan Scheepers, mariaan@adfinity.co.za

Heaven forbid

Most of us can remember the days when insurance salesmen used to use the corny phrase that was designed to strike fear and trepidation in the minds of their clients. Heaven forbid that you leave your wife and children destitute and defenseless. A lot has changed since then...not least of all the "poor wife" who, these days, is more than capable of looking after herself.

It is true that these days it is more than likely that both husband and wife (or husband and husband, wife and wife or even they/them) are now contributors to the overall family/household budget. So what has changed? Well, not the "heaven forbid" but rather that both parties contributing to a joint income now require life cover where there is a household and (heaven forbid) minor children.

Life insurance is designed to reassure you that your dependants, such as your children or a partner, will be financially looked after in the event of your death. There are several things to think about when buying it, such as the type of policy you want, when you need it and how to buy it.

How does life insurance work?

Life insurance pays out either a lump sum or regular payments on your death, giving your dependants financial support after you've gone.

The amount of money paid out depends on the level of cover you buy.

You decide how it's paid out and whether it will cover specific payments – such as mortgage or rent – or if it's to leave your family with an inheritance.

What types of life insurance are there?

There are three main types:

1. Term life insurance policies

Not all insurers offer this type of life cover any longer. However, under the right circumstances, a term life cover is a good option. These run for a fixed period of time, known as the 'term' of your policy, such as five, ten or 25 years. They only pay out if you die during the policy.

There are three kinds of term life policies.

- **Level** – pays as a lump sum if you die within the agreed term. The level of cover stays the same throughout. This is the most simple and affordable option.
- **Decreasing** – the level of cover reduces each year. It's designed to be used with repayment of mortgages, where the outstanding loan decreases over time.
- **Increasing** – the level of cover rises over the term of the policy, to keep up with inflation.

2. Whole of life insurance policies

These pay out no matter when you die, as long as you keep up with your premium payments.

They're often used to help towards a funeral, Estate duties, tax, covering a home loan and can be used in business as the foundation of a partnership agreement.

3. Joint life cover

If you have a family, life cover is essential to provide for them if something happens to you. Where affordability is a consideration, rather than leaving one partner uninsured, a joint life policy could be an option. Joint life insurance allows you and your partner to be covered by a single policy with the same terms and conditions and will be paid out when one partner passes away.

The best way to decide if a joint cover policy is right for you is to look at whether it would meet your requirements.

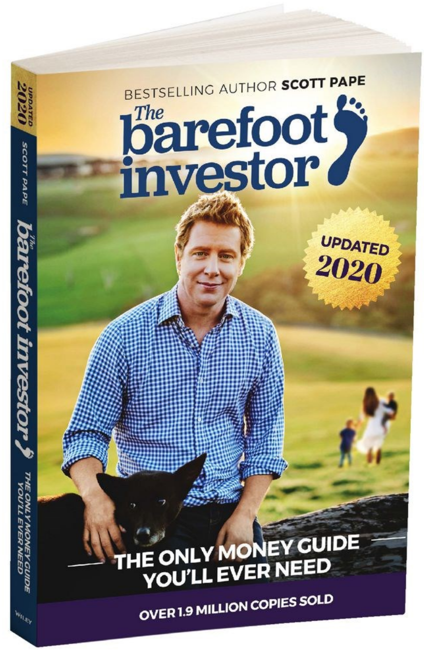
It is most suited to nuclear families, where both partners contribute income to the household. If a partner passes away, their spouse and children can be financially secure, even though an income will be lost. Having joint cover has several benefits. It is paid out irrespective of which spouse or partner dies; it is usually cheaper than having to pay for two individual life insurance policies; joint cover leaves the family more secure than if just one spouse was covered; and stay-at-home mums and dads can be covered too, which means that extra burdens like childcare costs are covered should they pass away.

However, if you are considering a joint life policy, make sure you understand when the policies pay out. A "first death" policy would be paid out once either of the policyholders die. This could be useful in the case of settling debt or providing for children's educational needs.

A "second death" policy only pays out when both policyholders have passed away. Because it only pays out on the second death, lowering the probability of a payout in the early years, this policy may be cheaper. However, it may leave the surviving spouse and family with no payout for debts or the cost of raising children. Make sure you choose wisely based on the needs of your family. If both spouses die at the same time, the payout becomes part of the estate. Policyholders (with the assistance of a legal professional) have the option to have the proceeds paid to a trust.

When choosing a joint life policy the following should be considered:

- In the case of a "first death policy", the remaining partner would no longer be covered by the policy. As life insurance premiums increase with age, the surviving partner may find that life cover has become unaffordable or may have developed a health condition, making it difficult to get cover.
- The policy cannot be divided up in the case of divorce or separation. If one partner decides to not pay their half, the policy will cease to exist unless the other partner decides to take it over and asks for a change in beneficiary



The Barefoot Investor is an Australian farm boy's no-BS guide to taking charge of your personal finances with a simple system to eliminate debt, live in the now, and still retire in peace.

Why should you read it?

Scott Pape is Australia's most trusted personal finance expert. His book has sold over 1,900,000 copies. Despite growing up on a farm, Pape wanted to get rich by trading stocks. That didn't work out. He went back to his farm and now uses the simple life as a metaphor for managing your money. The book helps you take control in three phases: plant, grow, then harvest your money. He balances easy tips with radical advice. A great book for beginners.

and updates the terms of their will. This decision can be made based on the primary caregiver or financial provider of shared minor children.

Do you need life insurance?

Life insurance pays out when you die – not when you lose an income due to illness or disability.

It's suitable for you if you have:

- dependants, such as school-age children
- a partner who relies on your income, or
- a family living in a house with a home loan that you pay – a life insurance policy can provide for them if you die.
- You might also want a policy that covers your funeral expenses.

What is the cost of life insurance?

The cost varies, depending on a number of factors. But life insurance is generally considered to be good value.

A policy giving your loved ones a decent amount of financial protection can be a low cost solution for peace of mind and financial planning.

Your monthly payments will depend on things such as:

- your age
- your health
- your lifestyle
- whether you smoke
- your family medical history
- the term of the policy
- your occupation – a high-risk job might push your premiums up.

The price is also affected by the level of cover you buy. The amount of cover you need will depend on:

- Your current and future debts
- mortgage/rent
- number of dependents
- take-home pay or income from other sources.

Four things to think about when buying life insurance

1. Be honest about your medical history

Most claims are successful, but it's important to give your insurer all the information they ask for. When you make a claim, they will check your medical history. If you didn't answer truthfully or accurately in your application, or didn't disclose something, they might not pay out.

2. Read the small print

Make sure you know exactly what is and isn't covered. Be aware that definitions and exclusions (what isn't covered) can vary between different insurers. If you see something you don't understand, ask your financial adviser.

3. Can you switch to a better deal?

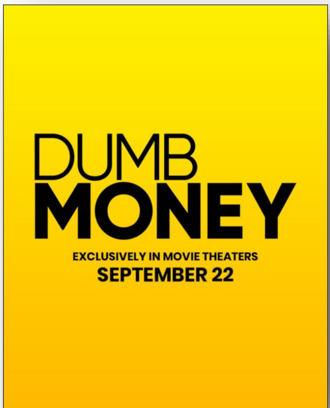
As you get older or develop medical problems, you might find it's cheaper to stick with a policy you bought when you were younger.

If you decide to switch, make sure you don't cancel your existing policy until the replacement policy is fully set up and you have made the first monthly payment.

When you've cancelled a policy, you can't change your mind.

4. Consider a waiver

With some insurance policies, you can ask for extra features to be included. For example, if you pay a bit extra to add a 'waiver of premium' to your policy – your premiums will be paid automatically if you can no longer work due to accident or illness (and in some cases retrenchment). This is to protect against your policy being cancelled if you miss a monthly payment.



Dumb Money is the ultimate David vs. Goliath tale, based on the insane, yet true story of everyday people who flipped the script on Wall Street and got rich by turning GameStop (yes, the mall videogame store) into the world's hottest company.

In movie theaters from 22 September 2023

Quarter 3 2023

Financial Informer

Supercalifragilisticexpialidocious

Understanding the financial implications of your decisions and clearly communicating those decisions to key stakeholders can help advance your business or career. But first, one needs to grasp the terminology as terminology often serves as a barrier to greater insight. Some of these may be completely obvious, however if even just one helps in deepening your understanding of finance then it will have certainly been worth the read. Here are 20 financial terms and definitions to know.

1. **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.

2. **Assets**: Assets are items you own that can provide future benefit to your business, such as cash, inventory, real estate, office equipment, or accounts receivable, which are payments due to a company by its customers. There are different types of assets, including:

- Current Assets: Which can be converted to cash within a year
- Fixed Assets: Which can't immediately be turned into cash, but are tangible items that a company owns and uses to generate long-term income

3. **Asset Allocation**: Asset allocation refers to how you choose to spread your money across different investment types, also known as asset classes. These include:

- Bonds: Bonds represent a form of borrowing. When you buy a bond, typically from the government or a corporation, you're essentially lending them money. You receive periodic interest payments and get your capital back at the time of the bond's maturity—or the defined term at which the bond can be redeemed.
- Stocks: A stock is a share of ownership in a public or private company. When you buy stock in a company, you become a shareholder and can receive dividends or company profits or both if and when they are distributed.
- Cash and Cash Equivalents: This refers to any asset in the form of cash, or which can be converted to cash easily in the event it's necessary.

4. **Balance Sheet**: A balance sheet is an important financial statement that communicates an organization's worth, or "book value." The balance sheet includes a tally of the organisation's assets, liabilities, and

What is Supercalifragilisticexpialidocious?

The word is a compound word, and said by Richard Lederer in his book *Crazy English* to be made up of these words: super- "above", cali- "beauty", fragilistic- "delicate", expiali- "to atone", and -docious "educable", with all of these parts combined meaning "Atoning for being educable through delicate beauty."

The *Oxford English Dictionary* first records the word (with a spelling of "supercaliflawjalisticeexpialadoshus") in the column titled "A-muse-ings" by Helen Herman in the Syracuse University *Daily Orange*, dated March 10, 1931. In the column, Herman states that the word "implies all that is grand, great, glorious, splendid, superb, wonderful".

The word was popularized in the 1964 film *Mary Poppins*, in which it is used as the title of a song and defined as "something to

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shareholders' equity for a given reporting period.

The Balance Sheet Equation: Balance sheets are arranged according to the following equation: Assets = Liabilities + Owners' Equity

5. **Capital Gain**: A capital gain is an increase in the value of an asset or investment above the price you initially paid for it. If you sell the asset for less than the original purchase price, that would be considered a capital loss.

6. **Capital Market**: This is a market where buyers and sellers engage in the trade of financial assets, including stocks and bonds. Capital markets feature several participants, including:

- Companies: Firms that sell stocks and bonds to investors
- Institutional investors: Investors who purchase stocks and bonds on behalf of a large capital base
- Mutual funds (often still referred to as Unit Trusts in SA): A mutual fund / unit trust is an institutional investor that manages the investments of thousands of individuals
- Hedge funds: A hedge fund is another type of institutional investor, which controls risk through hedging—a process of buying one stock and then shorting a similar stock to make money from the difference in their relative performance

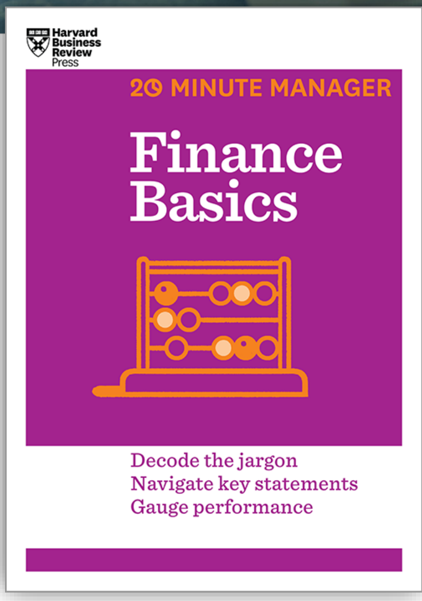
7. **Cash Flow**: Cash flow refers to the net balance of cash moving in and out of a business at a specific point in time. Cash flow is commonly broken into three categories, including:

- Operating Cash Flow: The net cash generated from normal business operations
- Investing Cash Flow: The net cash generated from investing activities, such as securities investments and the purchase or sale of assets
- Financing Cash Flow: The net cash generated by financing a business, including debt payments, shareholders' equity, and dividend payments

8. **Cash Flow Statement**: A cash flow statement is a financial statement prepared to provide a detailed analysis of what happened to a company's cash during a given period of time. This document shows how the business generated and spent its cash by including an overview of cash flows from operating, investing, and financing activities during the reporting period.

9. **Compound Interest**: This refers to "interest on interest." Rather, when you're investing or saving, compound interest is earned on the amount you deposited, plus any interest you've accumulated over time. While it can grow your savings, it can also increase your debt; compound interest is charged on the initial amount you were loaned, as well as the expenses added to your outstanding balance over time.

10. **Depreciation**: Depreciation represents the decrease in an asset's value. It's a term commonly used in accounting and shows how much of an asset's value a business has used over a period of time.



11. **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.

12. **Equity**: Equity, often called shareholders' equity or owners' equity on a balance sheet, represents the amount of value belonging to the owners of a business after all assets and liabilities have been accounted for. Using the accounting equation, shareholder's equity can be found by subtracting total liabilities from total assets.

13. **Income Statement**: An income statement is a financial statement that summarizes a business's income and expenses during a given period of time. An income statement is also

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say when you don't know what to say". The Sherman Brothers, who wrote the *Mary Poppins* song, have given several conflicting explanations for the word's origin, in one instance claiming to have coined it themselves, based on their memories of having created double-talk words as children. In another instance, they wrote: When we were little boys in the mid-1930s, we went to a summer camp in the Adirondack Mountains, where we were introduced to a very long word that had been passed down in many variations through many generations of kids. ... The word as we first heard it was super-cadja-flawjalistic-espealedojus.

Dictionary.com meanwhile says it is "used as a nonsense word by children to express approval or to represent the longest word in English." The word contains 34 letters and 14 syllables.

sometimes referred to as a profit and loss (P&L) statement.

14. **Liabilities**: The opposite of assets, liabilities are what you owe other parties, such as bank debt, wages, and money due to suppliers, also known as accounts payable. There are different types of liabilities, including:

- Current Liabilities: Also known as short-term liabilities, these are what's due in the next year
- Long-Term Liabilities: These are financial obligations not due over a year that can be paid off over a longer period of time

15. **Liquidity**: Liquidity describes how quickly your assets can be converted into cash. Because of that, cash is the most liquid asset. The least liquid assets are items like real estate or land, because they can take weeks, months or even years to sell.

16. **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.

17. **Profit Margin**: Profit margin is a measure of profitability that's calculated by dividing the net income by revenue or the net profit by sales. Companies often analyze two types of profit margins:

- Gross Profit Margin: Typically applies to a specific product or line item rather than an entire business
- Net Profit Margin: Typically represents the profitability of an entire company

18. **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

19. **Valuation**: Valuation is the process of determining the current worth of an asset, company, or liability. There are a variety of ways you can value a business, but regularly repeating the process is helpful, because you're then ready if ever faced with an opportunity to merge or sell your company, or are trying to seek funding from outside investors.

20. **Working Capital**: Also known as net working capital, this is the difference between a company's current assets and current liabilities. Working capital—the money available for daily operations—can help determine an organization's operational efficiency and short-term financial health.

...while you may be tempted to go the DIY route because your affairs are what you consider 'simple', think twice before putting pen to paper.

The big fat Will quiz

Drafting a valid will can be considered the first step towards leaving a legacy for your loved ones and, while you may be tempted to go the DIY route because your affairs are what you consider 'simple', think twice before putting pen to paper. Besides needing to meet the requirements of a valid will, you also need to consider other factors such as the nature of your marriage contract, your obligations in respect of financial support, your estate liquidity and the ongoing care of your minor children, amongst other important considerations.

QUESTION 1: Freddie, who is 16 years old, inherited a large estate from his father, who died some years previously. Freddie executes a Will leaving his estate to his mother.

True/False? The law does not permit Freddie to execute a valid Will as he is too young.

QUESTION 2: Elvis is a wealthy businessman, married to Priscilla in Community of property. Elvis executes a Will leaving everything to his mother.

True/false? - Because Elvis is married in Community of property, he requires his wife's consent to execute a Will dealing with their joint estate.

QUESTION 3: Julio, married with three adult children, has a child out of wedlock with his girlfriend. He executes a Will leaving his estate to his illegitimate minor child, to the exclusion of his wife and other children.

True/false? The law does not permit a person to leave their estate to an illegitimate child, to the exclusion of their spouse and legitimate children.

QUESTION 4: Benni is a wealthy musician. He signs a 3-page Will in which he leaves his entire estate to his friend Bjorn. Benni signs his Will at the end on the last page but doesn't sign or initial the other pages. (Assume all other legal formalities have been met).

True/false? Benni's Will is invalid as the law requires him to sign or initial every page of his Will.

QUESTION 5: Whitney has a Will prepared for her, and when she signs her Will, she has a witness watch her sign. Whitney and the witness sign every page of the Will.

True/false? - Whitney's Will is invalid as the law requires two people to witness her signing and for them to sign attesting that they have so witnessed.

QUESTION 6:

Celine wishes to execute a Will. She signs it

in the presence of two witnesses, both of whom also sign the Will. One of the witnesses is a 20-year-old friend and the other is her 14-year-old daughter.

True/false? Celine's Will is invalid as her 14-year-old daughter cannot legally witness her Will.

QUESTION 7: Elton instructs his lawyer to draft and email him a Will. Elton prints and signs the Will before two competent witnesses. But he omits to insert the date and his ID number into the blank spaces left in the document to insert this information. (Assume all other formalities have been complied with).

True/false? Elton's Will is invalid as the date and his ID number have been omitted.

QUESTION 8: Aretha wants to sign her Will and asks two adult friends to witness and sign as required by the Wills Act. One of the witnesses is running late and so Aretha signs watched by one friend, who signs as a witness and leaves. Her second friend then arrives and Aretha signs again in front of him and he signs as witness.

True/false ? Aretha's Will is invalid as the two witnesses were not present at the same time to see her sign.

QUESTION 9: Rod marries when he is in his twenties and he executes a Will leaving his estate to his young wife, Alana. Shortly thereafter Rod and Alana divorce. Rod remarries and has six children with his second wife Penny. Rod dies 30 years after executing the aforementioned Will, without having executed a further Will.

True/false? By law Rod's Will has expired by the time he dies and his widow Penny and his children will inherit his estate in terms of the laws of intestate succession.

QUESTION 10: Lionel wishes to execute a Will, and signs it intending to have two friends sign as witnesses later. When he dies, his family discover that the Will is invalid as it was not witnessed.

True/false? The High Court has the power, on application by the family, to condone the lack of witnesses and declare Lionel's Will to be valid.

Q1: FALSE The Wills Act of 1953 governs the execution of Wills in SA. It provides that any person who has attained the age of 16 years may make a Will (unassisted by their guardian). Children under the age of 16 cannot make a Will, and their estates would be distributed according to the laws of intestate succession.

Q2: FALSE A married person is permitted to make a Will without their spouse's consent, approval or knowledge. In the case of a couple married in COP, the surviving spouse is entitled to half the joint estate by virtue of marriage and the deceased spouse's Will applies to his/her half share of the joint estate

Q3: FALSE SA law recognises the principle of "freedom of testation": one may leave one's assets to any person and may exclude or disinherit anyone including a spouse or child. A caveat is that an excluded spouse, minor child or any child needing support may institute a claim for maintenance from the deceased estate.

Q4: TRUE The Wills Act requires the maker of a Will to "sign" at the end of the Will and on every other page. "Sign" includes making of a mark or an initial.

Q5: TRUE The Wills Act requires two competent witnesses to witness and sign (or initial) the Will. Both witnesses and the maker of the Will must be present at the same time.

Q6: FALSE Anyone person of sound mind aged 14 years or older may witness a Will. And family members are not barred from being witnesses. The Wills Act disqualifies a witness from inheriting from a Will (with certain exceptions) but the fact that a witness is named as a beneficiary in the Will is not a flaw which invalidates the Will.

Q7: FALSE The ID number of the maker of a Will is not a required formality even though is it recommended to be included. The same applies to the date: the lack of a date does not invalidate the Will (although it may lead to problems proving where it ranks chronologically with other Wills and whether it revokes other Wills).

Q8: TRUE Both witnesses and the maker of the Will must be present at the same time.

Q9: FALSE Wills have no expiry date and in this example Rod's very old Will leaving everything to his ex-wife will be VALID and upheld (i.e. go to his ex-wife!). His widow may have a claim for maintenance from his estate but she and his children will not inherit by intestate succession.

Q10: TRUE The Wills Act gives the court an overriding discretion to condone non-compliance with formalities, provided it is apparent or can be proved that the Will represents the maker's true intention. However, it is preferable not to chance this risk: apart from the cost and time delays associated with an application to court, one has no certainty what the outcome would be.