



## A RETIREMENT STORY ...

By Magnus Heystek—Investment Strategist

AT a recent investment seminar of Brenthurst Wealth in Cape Town one of the attendees came up to me and told the following story:

*"I have been running a Spar in the George area for the last twenty years or so and what I have experienced confirms in graphic detail what is happening with people at and after retirement.*

*When they retire, invariably from somewhere inland, mostly Johannesburg and Pretoria, they drive new cars, dress well and spend money on life's little luxuries: smoked salmon, expensive wines, macadamia nuts and such things.*

*Over time, however, I can see a pattern emerging. Their cars gradually get older, their clothing is not so brand-new anymore and they start looking at the prices of groceries.*

*After ten years or so, I can clearly see a rapid drop in their standard of living: they only buy the basics and then in small amounts. Long gone are the luxuries of a decade or so ago....."*

**The details he was referring to: the financial time bomb of longer lives.**

Most people today are aware of the rapid increase in longevity. This is not a new subject and is generally accepted as one of the major (but generally welcomed) demographic shifts of the times we live in. In the demographic world it is referred to as an "Agequake", one that will reverberate and rumble for many decades to come.

It is, in my view, one of society's biggest challenges of the 21<sup>st</sup> century.

What is not so widely accepted is that this additional bonus of an extra 10 or even 15 years (when compared to a previous generation) needs an entirely new approach to investment thinking.

When compared to longevity a century ago the increased lifespan in the western world is closer to 30 years. And, by the way, Spain, Greece and Austria fared even better, proportionately. Life expectancy in these countries doubled over the course of the 20<sup>th</sup> century. That's the good news.

Now for the bad news *"At this rate we can't afford to live for so long, especially not when people at retirement continue approaching investments like people a century or so ago."*

As local financial publication Finweek wrote a month or so ago: *"Investors at retirement have to take more investment risks to generate a growing income for a retirement that can last much longer than expected,"* or something to that effect.



### Investment Seminar

#### JHB INVESTMENT SEMINAR

**DATE:** WED, 3 AUG 2011  
**TIME:** 15H30 FOR 16H00  
**VENUE:** INVESTEC HEAD OFFICE  
 100 GRAYSTON DRIVE  
 SANDTON

#### LOUIS NIEMAND: INVESTEC

➤ IS THE BULL MARKET STILL ALIVE?

#### MAGNUS HEYSTEK: BRENTHURST

➤ BUILDING GLOBAL WEALTH

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Finweek, incidentally, pursued this subject following a previous newsletter from Brenthurst Wealth, which discussed the death of retirement as lifestyle concept as we know it.

For the first time in human history, people aged 65 and over are about to outnumber children under 5. In many countries, older people are entitled to government-funded pensions, health services and long-term care will soon outnumber the workforce whose taxes help finance those benefits.

No other force is as likely to shape the future of national economic health, public finances and national policies according to a new analysis on global aging from Standard & Poor's, as the "irreversible rate at which the population is growing older."

In South Africa the situation is different in many ways. The increasingly older section of the population is mostly white and Indian while an ever-increasingly younger section of the population is black and dependent on state grants to survive. However, that is a different debate for another time.

How are investors approaching retirement coping with these uncharted waters?  
For the majority, not very well.

A small (but fortunately growing) section of retirees-to-be have made very important changes to their investment mindset, albeit not without some heavy convincing and hand-holding during recent investment market volatility.

### ***SO WHAT IS TO BE DONE?***

For starters, governments should extend the retirement age. Another one is that investors need better preparation for retirement.

In Europe different countries have reacted differently to government plans to extend the formal retirement age. The Brits have by and large accepted, and in some cases welcomed, a gradual increase in the retirement age over the next thirty years or so, but in France news of the intended increase in the retirement age led to nationwide strikes with millions of people taking to the streets in October last year.

The issue of extending the official retirement age in South Africa has not been very topical, and it's to be doubted that the country's militant trade unions will be happy with any such plans. Extending the careers of many apparently well-off employed people would, no doubt, not be politically digestible, especially not against a backdrop of millions of unemployed young people in the country.

In the meantime, government can start educating citizens to understand that greater longevity may entail personal sacrifices, like increased savings and a willingness to pay higher shares of their medical and long-term costs.

Government efforts in this regard, so far, have tended to be haphazard and not a priority and it has been left to the private sector via the investment industry to create a greater awareness of this.

Twelve years ago I co-authored a book "The Amazing and Scary Truth about Retirement" with well-known financial journalist Bruce Cameron. In this book we warned about the looming retirement trend. In our wildest dreams we could not foresee how quickly and severe this demographic disaster would unfold.

We don't talk about the "looming disaster" or the "ticking time-bomb" anymore. It is here and it is happening all around us, not only here but all over the world.

Many top universities in the United States now offer the issue of longevity and retirement (and everything else that comes with it) as a field of study. Stanford, one of the Ivy League of US universities, has created the Stanford Centre on Longevity, for example.

It's head, prof. Laura Carstensen, was recently quoted in the New York Times, describing her outfit as a multi-disciplinary research center whose "modest aim is to change the course of human aging".

Rather than uniformly extending the retirement age, she says, governments and the private sector could develop initiatives that motivate older people to remain in the work force.

These incentives might include bonuses for people who work until they are 70, giving tax exemptions to companies who employ such people, flexible work schedules, telecommuting options and sabbaticals for education and training.

The United Kingdom also seems to be leading the world in many respects in the manner in which it is embracing the problems of an aging population. British legislators recently passed a law prohibiting discrimination against older people (among others) seeking goods and services like car rentals and mortgages. This year will also see a law eliminating the default age of 65. This will mean that people cannot be forced to retire based on age.

In South Africa there has not even been a suggestion that such a similar law is being considered.

In the United States the concept of a “Retirement Coach” is rapidly growing as people realize that inadequate preparation has left millions of people unprepared for the financial and emotional journey they are about to embark on.

No surprises there, as this year marks the first year when an estimated 7 million baby boomers per year (those born in the 8 years after the Second World War) and hence turning 65 from this year on (2011-1946=65) tumble into retirement.

**BRENTHURST WEALTH** is now in its 8<sup>th</sup> year and with certain clients being aboard much longer, from the days before I sold my previous company to Citadel.

While we remain investment advisors at the core of our business have we started noticing something in recent years: we are more and more becoming retirement coaches even though many of our clients are still years away from retirement.

And that’s how it should be. When advising on money we come to advising on life, in all its myriad of permutations. It’s a journey we embark together with our clients.

One of our biggest functions is convincing new investors to move away from the safety-at-all-costs mindset when it comes to investing, especially those investors who are exposed to volatile investment markets for the first time.

The automatic default in such cases is to invest in money market, fixed investments and increasingly RSA Retailbonds. Although these investments offer capital security and a predictable income it does not protect investors against ever-increasing cost of living.

The crisis in retirement is actually a crisis of income (a growing one). The above mentioned investments are heavily marketed as being “risk free and fee free”. It, however, doesn’t warn the investor of the risk ten years from now.

The risk is a steady declining income over time. Just remind yourself of the story of the Spar owner at the beginning of the newsletter.

## THE VALUE OF RISK

	Client A	Client B	Client C
DATE OF INITIAL INVESTMENT	30/06/2000	30/06/2000	30/06/2000
RETIREMENT CAPITAL	R1 000 000	R1 000 000	R1 000 000
FUND INVESTED IN	ABC Money Market Fund	ABC Balanced Fund	ABC Dividend Equity Fund
YIELD ON DATE OF INVESTMENT	9.90%	4.80%	3.80%
REVIEW DATE	30/06/2010	30/06/2010	30/06/2010
TOTAL INCOME RECEIVED TO DATE	R 913 745	R 621 771	R 1 216 897
AVERAGE MONTHLY INCOME	R 7 552	R 5 139	R 10 057
CURRENT VALUE OF RETIREMENT CAPITAL	R 1 000 000	R 2 500 742	R 4 069 910
CAPITAL GROWTH (CAGR)	0%	9.60%	15.07%
CPI (CAGR)	5.80%	5.80%	5.80%

Source: Old Mutual and Profile Fund Analytics & Finweek 7 July 2011

# BUILDING GLOBAL WEALTH: INVESTMENT SEMINAR, 3 AUG 2011

MAKING AN INVESTMENT DECISION IS NOT EASY, ESPECIALLY TODAY! A WORLD OF EXTREMES!  
 Developed market interest rates at lowest levels since 1940 and Government Bond yields at lowest since 1958. Debt at all-time highs. China growing at 10% into perpetuity? Gold and other commodities at all time highs. Peripheral Europe in crisis with unemployment in Spain more than 20%. Japan's share of global equity markets down from 44% in 1988 to currently only 8%. South African inflation and interest rates at multi-decade lows and still demand is weak.

...These are just some of the conundrums we as investors are facing today.

## INVESTEC HEAD OFFICE



## SEMINAR JOHANNESBURG

**DATE:** WEDNESDAY, 3RD AUGUST 2011

**TIME:** 15H30 FOR 16H00

**VENUE:** 100 GRAYSTON DRIVE | SANDTON | JHB

**RSVP:** JHB: +27 11 799 8100 email [reception@brenthurstwealth.co.za](mailto:reception@brenthurstwealth.co.za)

## INVESTMENT PRESENTATION

15h30 -16h00 Registration

16h00 -17h45 Presentations

18h00 -20h00 Refreshments

## KEY NOTE SPEAKERS INCLUDE:

**LOUIS NIEMAND:** Equity Product Specialist, INVESTEC ASSET MANAGEMENT

➤ **UPDATE INVESTMENT & FINANCIAL MARKETS: IS THE BULL MARKET STILL ALIVE?**

**MAGNUS HEYSTEK:** Director & Investment Strategist, BRENTHURST WEALTH MANAGEMENT

➤ **OFFSHORE INVESTING? WHY OFFSHORE? HOW MUCH OFFSHORE? PORTFOLIO CONSTRUCTION?**

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