



THE POWER
OF INDEPENDENT ADVICE

IN THIS ISSUE

“ *Discussing divesting from the JSE should be part of the review of any investment strategy.* ”

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CREATE A FINANCIAL PLAN ... AND ACT ON IT

By Andre Basson, Financial Planner, Brenthurst Wealth Management

INVESTORS CAN PROTECT THEIR MONEY BY CHANGING THE ASSET CLASS OR VEHICLE AN INVESTMENT IS IN.

There was a time when investors who experienced poor returns could just hold on to their investment for a year or two until the market corrected and then returned to growth. Indeed, many advisors and market commentators would tell investors that poor returns are part of the short-term volatility that is to be expected when investing in an equity-dominated portfolio.

Most moderately-aggressive and aggressive unit trust funds have an investment horizon of five years or longer, and investors have been told to keep their investment until the end of the investment horizon. *Now that the five years have gone by and the returns are flat, what are investors supposed to do?*

Part of the six-step financial planning approach is for the investor to review his/her financial plan, and a very important aspect of the review is to critically analyse the performance of retirement investments, and if needed, to make and implement changes. It is no good doing a review for the sake of a review and then not acting on it, which is like raking the leaves around in autumn and then not picking them up. Many funds focus on JSE-listed shares, and by and large, the equity-heavy funds have underperformed. It is therefore crucial to look at alternatives.

Divesting from the JSE should not be a conversation only for those who are emigrating – it should be part of the review of any investment strategy. There are investment opportunities elsewhere, such as South African cash and bonds, and offshore equity.

Current income funds (using cash and bonds) provide a return in excess of 8%. This looks very compelling in the context of SA's structural economic challenges and bad investor sentiment, that have had an impact on JSE equity. Be aware that not all income funds are the same, and investors need to use those that will hold up well, in the event of a downgrade.

However, moving money away from the JSE should not be a fear-driven response, but rather a tactical decision, looking at the possible returns for the level of risk attached. Short-term and long-term options are available in the form of SA enhanced income and offshore equity funds. These two strategies are fundamentally different, but neither have exposure to the JSE. This is a tactical change that would have worked very well (and still does) for investors in their retirement annuities (RAs), pension and preservation funds.

This discussion is a critical one to have with a financial advisor, especially for those over the age of 55. The ideal structure to invest in better-performing asset classes is a living annuity. Once you are over the age of 55 you can switch your RA to a living annuity which can have 100% offshore exposure (compared with only 30% in a RA, pension and provident fund).

Another more technical reason why investors should investigate moving an RA to a living annuity is the issue of 'prescribed assets'. Most investors are not aware that funds can be protected by switching to a living annuity. RAs, pension- and provident funds are governed by the Pension Funds Act. Living annuities are governed by the Long-Term Insurance Act. Why is this important?

The ANC in its 2019 manifesto referred to investigating the requirement of pension funds being forced to invest in key socially-productive assets.

While the wording in the manifesto is vague, it opens the possibility that pension funds may be forced to invest in non-performing and possibly delinquent state-owned entities such as Eskom and Sanral. Following this announcement, there has been a lot of discussion on how it is not in the best interest of pension funds, and how it is not feasible, but very little has been said about how investors can protect their investments against this.

The trustees of pension funds have a fiduciary duty to protect the fund, and just how they will be able to exercise this duty remains to be seen if the changes are pushed through. The conversation has been started, but this has only resulted in more questions, such as will people who have not retired yet be able to change their current pension savings plans away from this risk? What are the rules? What about retirees? What must they do? Which kind of pension investments are most exposed to this risk? These are all very valid questions that need to be answered.



BE PROACTIVE. A proactive approach is important, and a proactive step for those who are over the age of 55 is to consider moving their money from an RA to a living annuity. As mentioned above, a living annuity is governed by the Long-Term Insurance Act and does not need to adhere to Regulation 28 or prescribed assets (should the latter become a reality). RAs and pension funds can be forced to adhere to the imposed rules.

Understanding the current investment environment is only the first step to take when consulting a financial advisor. Creating a plan that is unique to personal circumstances and considers the alternatives to the current risks affecting the JSE, is the second step. Acting on the plan is by far the most crucial step.

Investors can protect their money by changing the asset class they are invested in, such as SA bonds or offshore equity, and can also protect their money by changing the vehicle that an investment is in, such as a living annuity.

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INVESTING IN MAURITIUS - SEMINAR INVITATION

MAURITIUS, THE 'SINGAPORE OF AFRICA' OFFERS ONE OF THE MOST PROGRESSIVE INVESTMENT ENVIRONMENTS ON THE CONTINENT. 'INVEST MAURITIUS' will be presented in Johannesburg on 1 October 2019, starting at 16:00. If you are interested to know more about investment opportunities on the island, to diversify away from the risks prevalent in the South African market, including property investment, or want to know more about residency, do not miss this event.

INVESTMENT OPPORTUNITY IN MAURITIUS

Date: 01 October 2019

Time: 16:00 to 18:30

Venue: The Forum at The Campus, Sloane Street, Sandton

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