

Review your building plan

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A few thoughts by Cobus Rysbergen:

I recently found myself in the (un)fortunate position where I wanted and needed to do some renovation and maintenance work to my house. The project was not without frustration, but it was interesting to note how certain of the difficulties that were encountered, could relate to the field of financial planning. Here are some examples:

Do it the right way first time round

I asked my gardener to remove a tree in my driveway. He accidentally damaged what looked like a water pipe. We asked the plumbers to have a look and they jumped in and while they were cutting the "water pipe", they in fact cut a electric cable inside the pipe - our house's main power supply! The cable was not marked properly, nor was it at the standard depth.

If the work had been done correctly from the beginning, we could have avoided this fiasco without all the additional costs. It is important, in the same way, to use the correct structures and planning models from the outset to achieve your financial goals and manage accompanying risks.

Let us use the example of mark movement; i.e. **volatility** as a risk factor which we would like to manage. We know that, as sure as the seasons will change, that growth is cyclically and that markets **will also change**. There will be periods of good growth, followed by periods of poorer results and then another cycle; however, the long-term trend is **always positive**. There are two very important points to be made at this stage. Firstly, it is very difficult to accurately predict when these cyclical changes in the market will occur and secondly, we need not be concerned with these unpredictable changes. As long as our plans incorporate these fluctuations, we can still achieve financial peace of mind. How do we then **plan** for market volatility?

DIVERSIFICATION We can distribute our assets across different asset classes (e.g. not only direct ownership of property as investments or shares), over various industry sectors (such as Resources or Industrial) and by using different fund managers (Investec or Coronation) and investment styles or approaches (growth versus value investing, or active versus passive methods). We could also spread assets across geographic locations via offshore investments – especially in an environment where a currency will continue to devalue. Basically you do not want all your eggs in one basket.

TIME HORIZON Despite all the short-term changes in financial markets, we are well aware that **equities outperform** all other asset classes in the long run. We can thus plan, that certain funds (for cash flow requirements in the short-term) will not be exposed to these market fluctuations, while other funds to be used only after a longer period of time, gain capital growth whilst exposed to the market. We know there is enough time to achieve the required growth without making capital withdrawals under duress, as we move through a market down swing.

WITHDRAWAL The withdrawal of funds for cash requirements can be structured in such a fashion, e.g. through direct equity portfolios with dividend and rental income streams, so as to avoid the realization of funds during poor growth cycles.

INVOLVEMENT Certainly one of the most important aspects is client empowerment and involvement during the planning process. That way informed decision-making can be achieved. The quickest method travelling from Cape

Town to Beaufort West is by car. At certain times (such as being stuck in traffic); however, a cyclist may overtake you, but in the long run the car will always win. It therefore makes no sense to jump out and sell your car in order to buy a bicycle each time a cyclist passes you! In the same way equities as an asset class will beat the other asset classes over time, even though it can be "overtaken" in the shorter term. Our clients understand this basic principle and do not panic during periods of market uncertainty.

Therefore, if one does not start to plan early enough, while incorporating all these factors into the planning process, there might be a substantial risk that one could miss out on the required growth of your funds due to **fear** of market volatility. Or, you might find yourself in a position where you will need to withdraw funds during a negative growth cycle – destroying wealth.

Transparency

A recommended contractor provided us with a quotation and the work started immediately, but it quickly became apparent that certain costs were not included in the original quotes. It also became apparent that some of the work would need to be done by sub-contractors which were not included in his quotation.

Clients should, right from the onset, have absolute certainty about what services will be offered and when. Which financial instruments will be used and what the cost implication of each step will be. Again, we encourage clients to be proactively involved in the decision-making process to ensure complete transparency.

Project management

I took on the role of project manager, but it soon became clear that an expert would have been able to help me coordinate the different contractors, as well as project supervision and quality control.

During the planning process where we try and help clients to achieve their financial goals, a comprehensive long-term financial plan is of utmost importance. When you are travelling, you need to know at which airport you will start at, how long the trip will be including the cost and final destination. In the same way, during the financial planning process we need to **accurately** determine these aspects. What is your current financial position? How much assets do you have at your disposal? How much time do you have to accumulate the required assets and how long will they sustain your lifestyle needs, or wants?

We find ourselves in a very privileged position where we can help our clients to develop, implement and regularly review and adjust such a plan according to changing circumstances. Where we encounter specific client needs such as constructing a trust, we make use of **independent experts** in the relevant fields. We are however flexible enough to also work with specialist familiar to our clients.

We at Afrafin maintain a central role during this process to ensure that all facets of the process are well coordinated and integrated.

Prospects for 2015

What can we expect from 2015? It is difficult to determine to what extent financial markets (domestic and international) have already discounted economic obstacles, but it is unlikely that the good returns over the last 3 to 5 years will continue. Again (with a good plan) this forecast should not worry us at all.

- Cobus Rysbergen joined Afrafin at the end of November 2014. Welcome Cobus!