

Abundant choices

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Our world offers us too many choices and often individuals struggle to exercise an option. It becomes a problem when you need to make an informed decision quickly and you don't have the time.

I recently kicked off a small DIY project and finally decided to buy that cordless drill I always wanted. To my surprise, the decision wasn't that easy. Apart from poorly trained staff (no one in the hardware stores could guide me and I was forced to do my own research on the Internet), the information on drills and models were overwhelming – to say the least. Choices varied between brands, drill sizes, cordless types, voltage, gear ratios, hammer action etc. From all these thousands of models, it wasn't straightforward. How do I select a drill that suited all my needs? And I don't know what I need!

Over the last decade the number of passive Exchange Traded Funds (ETFs) have ballooned. A bewildering range of more than 3,500 ETFs is currently available in the USA and Europe alone, but less than 150 have assets of \$1bn or more (offering economies of scale and ample liquidity). Many commentators claim that there are just simply “too many” of these instruments. ETF's (there are also ETN's) have different strategies, allocation to specific sectors, underlying investment philosophies, e.g. RAFI, Smart BETA. Where does it end? Fees and costs are not the only consideration. So how do I exercise good judgement?

Back to basics

The generation that grew up in the 50's, will remind us of the day when there was only *Sunlight* soap – you washed everything with it! Today, you walk down the aisle of any pharmacy or supermarket and the soaps are stacked in various packaging for your hair, body, kitchen and more.

Here lies a common dilemma investors already face: how to filter all this data? The layman will need to find a way to educate him or herself in order to navigate the financial maze as it offers even more investment choices and flexible products. The investor needs to stick with a proven method and be able to identify simple criteria whereby you could judge an offering. Simplicity and a repeatable process for consistency will become even more important as our world gets cluttered with (often) unnecessary choices. This is not an exhaustive list, but what should we look at?

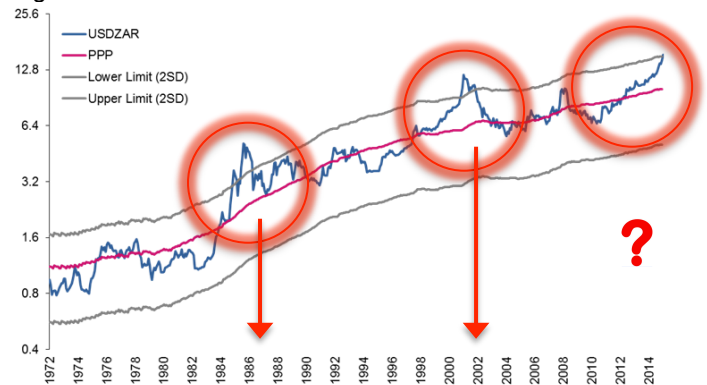
- **Transparency** in terms of performance and fees
- Flexibility; or **decision-making freedom**. Investors should not be locked into restrictive contracts
- **Diversification** around asset classes (cash, property, bonds and equities) and complimentary investment styles. Having a single approach may not always be effective as you move through economic cycles

What is in store for the Rand?

Having a working crystal ball would have helped a lot. Unfortunately no one can predict the wild swings of the Rand (ZAR). Our currency has experienced extreme volatility that has dominated our financial headlines. The ZAR has deteriorated approximately 30% to major currencies over the last 12 months. But remember, we are not alone. Mexico, Brazil, India, Russia (all the emerging economies) were affected.

What do we look at to gain some perspective? Economists use a metric called the Purchasing Price Parity (PPP). In theory the concept is based on the law of one price, where identical goods will have the same price in different markets when the prices are expressed in the same currency. It provides us with a measure to judge how weak

or strong the Rand is relative to another currency. From the graph below we can see historical data as far back as 1972 and a slow gradual weakening along the PPP line. During 1985/6 and 2001/2 we saw spikes that pushed our currency beyond an unusual limit – we are currently in similar territory. In all those cases the Rand eventually “normalised”. We are certainly not trying to make any predictions, but if you should judge the history, then there is a good chance things should get better; however, it might take time.



Where do I “park” cash during these volatile times?

Since last year we offer a cash manager solution with 24-hour access through Investec Private Bank. Rates do vary, but at the moment it is 7.27%. Please inquire with us if you are interested.

Keep in mind that one should carefully consider your options. Firstly, cash does not have the ability to offer **real** (after tax and inflation) returns over periods longer than 18 months. Hence, cash is usually there for short-term needs of between 6 to a 9-month period. Secondly, in an environment where our currency is devaluing, you buy less with Rands due to a weaker exchange rate (many of our lifestyle items are imported, or transported and we purchase fuel in US Dollars). Therefore, it remains imperative to allocate funds strategically in order to maintain purchasing power. Our diversified Inflation +2% investment strategy is an effective approach to counter both inflation and a weakening currency. The investment horizon for this strategy is 24 months.

New Pension Fund legislation enacted

New legislation finally normalised the differences between various pension vehicles. Essentially there will be no difference between a pension-, provident fund and retirement annuities. Contrary to some media reports, these changes benefit the majority of taxpayers in South Africa. For example, self-employed individuals were only able to deduct 15% from their taxable income as contributions to a retirement fund. From 1 March 2016, this contribution will be increased to 27.5% with a ceiling of R350,000 (maximum tax deduction, although you may contribute more). This is a major benefit for people earning less than R1.3m per annum.

Unfortunately pension funds have gained a sour reputation in South Africa for the wrong reasons. Since 2007, new legislation changed the retirement scene dramatically and the benefits of these amendments should not be underestimated. For example there is no Capital Gains Tax or Dividend Withholding Tax inside this structure; plus, it falls outside your estate. We encourage individuals to explore their options if they think they may qualify for a tax break.