



HOW SAFE IS YOUR CAPITAL IN A MONEY MARKET ACCOUNT?

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The old saying "the only thing that remains constant, is change" is certainly more relevant in recent financial history than ever before.

The last few years we have experienced unprecedented global events and world markets in total crises—most notably and most shockingly, the collapse of the US banking system. Probably the most important lesson we can learn from the unfortunate circumstances US investors and bank account holders experienced, is that there is no such thing as a perfect investment vehicle in terms of safety. Not even a fixed deposit with your most trusted bank.

Most investors seek capital growth, but at the same time indicate that they do not want to take any risk. Capital preservation is extremely important but yet the cost of living is rising. Our last newsletter indicated the possibility and more importantly the impact of deflation. The main questions we are currently faced with: Are we in a deflationary environment? Will inflation prevail? Or will we enter a situation of mild inflation?

Although it is pretty much impossible to indicate which scenario will occur, there is one thing that is certain: our day to day spending (necessity spending) keeps rising. I'm referring to food prices, petrol prices and more importantly electricity prices. Current legislation suggests that inflation is roughly 3%, but it is safe to suggest that the cost of living is in fact much higher than that.

We understand that investors seek protection and guarantees, and that a money market fund will provide just that. *But, what is the true impact of these supposed guarantees?*

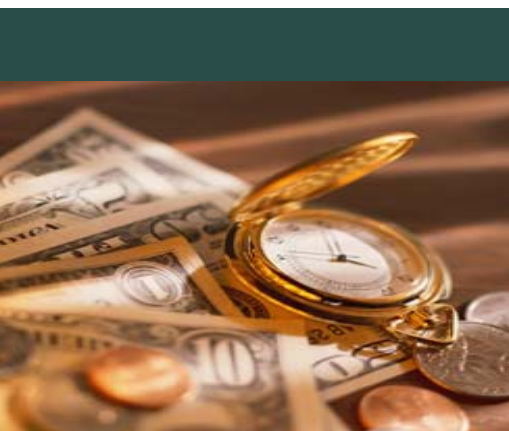
A PURE MONEY MARKET IN THE BANK VS A UNIT TRUST MONEY MARKET FUND:

Money Market in a Bank

- A yield of roughly 6.2% will be received
- Full exposure to that particular bank exclusively.
- Low risk, but runs the risk of default or liquidation of the bank.

Unit trust Money Market Fund

- Similar yield after all costs. + - 6.3%
- Credit exposure to a variety of banks. (To use an example the Investec Money Market Fund has exposure to Nedbank, Firststrand Bank, Standard Bank, ABSA, Investec Bank, African Bank and other money market instruments. These assets include Bankers acceptances, debentures, negotiable certificates of deposit, treasury bills and call accounts.
- Low risk, but should one bank default the full value of your investment will not be lost.



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Please bear in mind that we DO NOT indicate that any of the South African banks will default or go into liquidation. We purely suggest that it is a possibility as we have seen the last couple of years with large global banks. In fact we believe our banking system is quite safe and very good, but why run the risk of a pure Money Market account at the bank when a stable alternative exists.

IMPLICATIONS OF INVESTING FUNDS IN A PURE MONEY MARKET ACCOUNT.

Two very important factors must be considered with one's money namely: tax and more importantly inflation. R1,000,000 will not buy or provide in 10 years what it will today.

Our main objective at Brenthurst is to beat inflation, which is currently between 3% & 6%, while money markets are yielding anything between 6% to 7%.

The objective of money market funds is to offer investors a "safe haven" for cash during times of market uncertainty. (Short periods). The yield on money market may outperform other types of investments for short periods, but is unlikely to do so over the long term. *Therefore, we believe the highest risk investment over time is money in the bank.*

Real rate of return = return after tax less inflation

Example: Money invested in money market, assuming an 18% tax bracket.
Let's assume a rate of 6% received in money market and inflation at 5%.

Real rate of Return = $(6\% \times 0.82) - 5\%$
= - 0.08% (This is within the tax bracket of 18%, the 40% tax bracket is even more severe)

THEREFORE ON "PAPER" A 6% RETURN IN THE SHORT TERM LOOKS ATTRACTIVE BUT OVER TIME THE "REAL VALUE" OF YOUR MONEY IS DEPLETING.

Some features of Money Market funds:

- It provides capital preservation with minimal volatility.
- Compelling alternative to current and savings account.
- Ideal vehicle to "park" money short term, and to use for emergencies.
- A highly liquid investment.

Disadvantages:

- Your capital will be preserved but effectively it is not possible to keep up with inflation. Imagine the cost of a certain asset for R100 today. Investing in a Money Market fund will leave an investor with R106 after a year, but effectively even though the Rand amount is higher of your investment, that R106 will not be able to buy the same asset as the year before due to inflation and taxation.

At Brenthurst we invest in a wide variety of funds and also combine certain funds to produce returns that will neutralize inflation and reduce volatility. We specifically look at factors such as:

➤ FUND MANAGER

We only invest with fund managers that have a proven track record, extensive experience and research capabilities as well as the required qualifications. We use fund managers that are consistent and have proven themselves during positive economic circumstances, but more importantly during difficult economic circumstances. Brenthurst also has a very strong relationship with the fund managers and have up-to-date information on any changes within their funds on an ongoing basis.

➤ SIZE OF THE FUND

This is a very important aspect to consider. When a fund has reached a size that is too large, investment choices can be influenced negatively. However there are also dangers of investing into a fund that is too small. Brenthurst does extensive research in choosing funds that are sized with the appropriate capital to take advantage of opportunities and minimize the risk of a run on a particular fund due to it being under capitalized

➤ HISTORICAL DATA

Although this is not the most important aspect, it is important to evaluate fund managers on their consistency especially in difficult economic circumstances.

➤ CORRELATION/ RELATIONSHIP BETWEEN FUNDS

BRENTHURST USES FUNDS THAT COMPLIMENT ONE ANOTHER. This simply means that certain funds will perform well during certain economic circumstances, while others might not. However in the event that market conditions change the other funds we have selected will be positioned to take advantage of a change in economic circumstances. In so doing we diversify the portfolio to ensure that volatility is kept to a minimum.

➤ STANDARD DEVIATION

A technical term, but briefly indicates the level of volatility a certain fund can experience. We use funds where the standard deviation is much lower than the all share index or direct equity funds so as to ensure that capital is preserved especially in the case where an income is being withdrawn from the same.

We believe that cash returns will remain poor and only a small portion of your investment should be exposed to Money Market funds. **If the objective of an investor is conservative, with low volatility but producing returns that will combat taxation and also neutralize inflation, a better option is to invest in a diversified, *conservative* portfolio where there will be exposure to money market instruments, bonds and a small portion of equities.**

For those investors who might still question the validity of the argument against money market as an acceptable long term investment vehicle, one last remark: *consider the fact that as an individual you have no control over what happens with the interest rate cycle.*

Up until recently, interest rates in South African have been relatively high and thus money market returns for investors have been favorable as well.

Even today, in comparison to other global economies, South Africa still has a relatively high interest rate level. *What happens in the event that interest rates are cut to a level similar to those global economies—0% in Japan, 1-2% in the US, UK, Australia?*

We are not saying it will happen, but the possibility certainly is there. Once again, although money markets are advertised as a "risk free" investment with "guaranteed returns", it certainly does carry the risk of interest rates being reduced to nothing. *If it can happen in first world countries, why would the possibility of it happening in South Africa not exist?*

Never make the mistake in blindly accepting that any investment product is one hundred percent guaranteed and risk free. More than likely, there will be a "catch", a price to pay which you might not be made aware of. One needs to look at all the angles, and because no one expects the average investor on the street to always be aware of all these various angles, obtain the help of a certified financial adviser to guide you through the pro's and cons of any investment you might be considering.

ANNOUNCEMENTS: OPENING OF PRETORIA OFFICE

It is with great pride and pleasure that we announce that our newly-launched Pretoria branch is now officially open!

Please be advised that the financial planners Johan Burger, CFP and Michelle Burger, CFP are operating from the new Pretoria premises and can be contacted on **Tel: (012) 460-0340** or alternatively you may contact them on their cell. **Johan Burger:082-732-8655 Michelle Burger:072-635-8667**

Johan and Michelle will continue to service all their existing clients from these new premises, and should you wish to make an appointment with either of them in Johannesburg, you are more than welcome to do so by contacting them on the Pretoria line. Sune Cilliers, our newly appointed assistant, will be ready to take your call. Kindly note that they will be travelling to the JHB office on a weekly basis.

We look forward to welcoming our Pretoria client base to our new premises.
PRETORIA ADDRESS: 17 Umgazi Road | Landmark East Building 4th Floor | Menlo Park | Pretoria

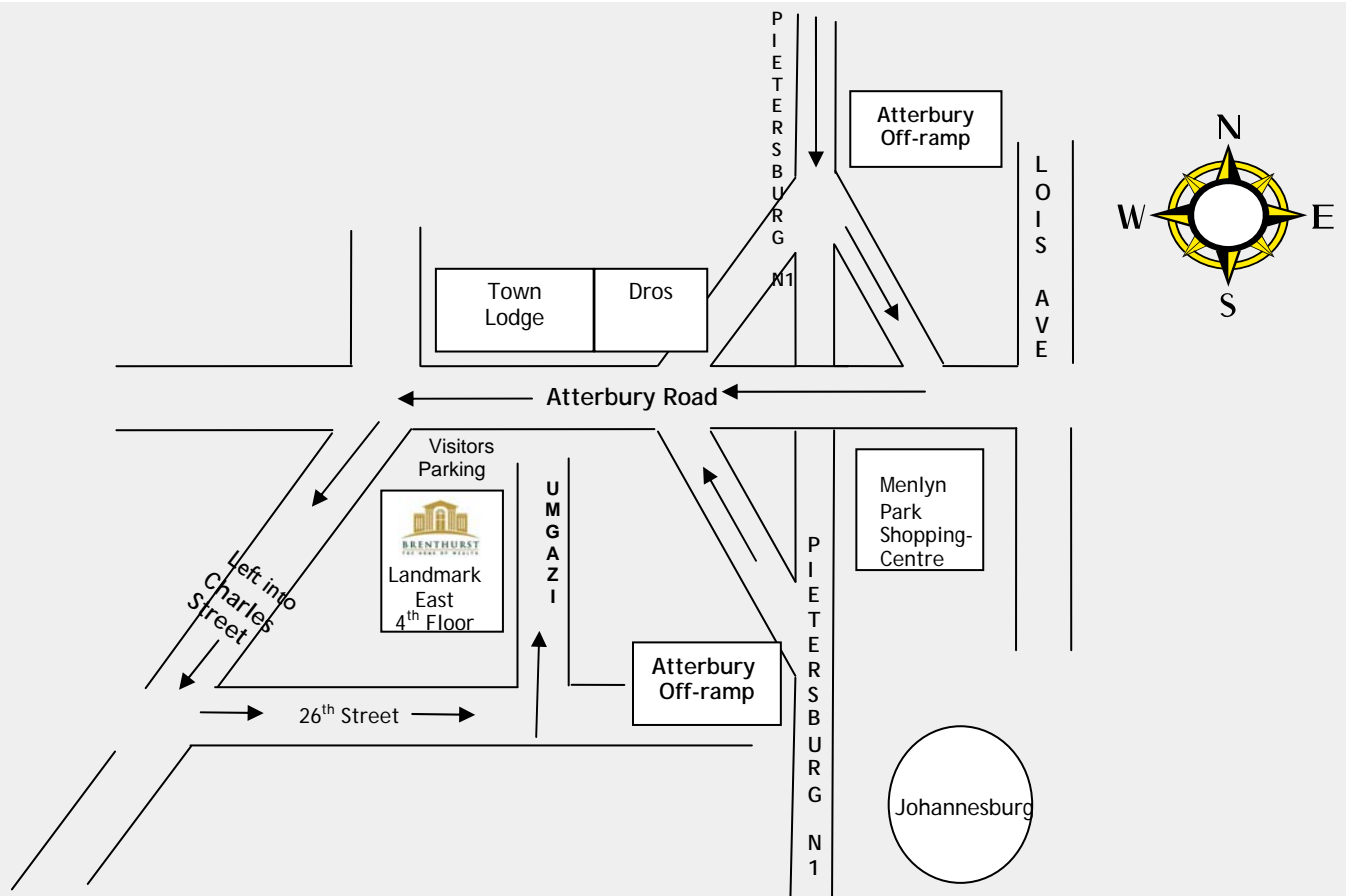
Directions to Brenthurst Wealth: (Pretoria Office)

FROM JOHANNESBURG:

N1 - take Atterbury Offramp
Turn left into Atterbury Road at robot
Keep left into Charles Street
Turn left at next robot - 26th Street
Turn left at next street - Umgazi Street
Last building on LHS (opp school grounds)

FROM POLOKWANE:

N1 - take Atterbury Offramp
Turn right at robot into Atterbury Road
Cross the highway
Keep left into Charles Street
Turn left at next robot - 26th Street
Turn left at next street - Umgazi Street
Last building on LHS (opp school grounds)



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*Brenthurst Wealth Management (Pty) Ltd. is an authorised FSP in terms of the FAIS Act, 2002(FSP No 7833)
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