BRENTHURST WEALTH MANAGEMENT

INVESTMENT REPORT

ISSUE EIGHTY SEVEN

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SA STRUGGLES OUT OF RECESSION

By Magnus Heystek—Investment Strategist

THE SA ECONOMY "OFFICIALLY" EMERGED OUT OF ITS FIRST RECESSION IN 17 YEARS IN THE THIRD QUARTER OF THIS YEAR, BUT THE REVIVAL HAS BEEN VERY FAINT TO SAY THE LEAST.

The financial and emotional scars of the brutal implosion of economic activity will be felt for many quarters to come, and a return to the pre-crash growth levels of around 4-5% GDP growth per annum soon is considered a pipe-dream.

It is expected that the Soccer World Cup next year will provide a temporary boost to consumption expenditure and confidence, but concern is already mounting about an economic vacuum once the estimated 400 000 soccer tourists leave after the final whistle is blown.

The loss of more than 1 million jobs in the 2008/009 recession (out of a total workforce of just over 13 million) will have a ripple effect running through consumer confidence, consumer expenditure and even the shape and direction of the debate on SA's economic policies.

Add to this fragile recovery the looming threat of annual increases of 35% per annum for the next three years in Eskom's price for electricity, high wage demands and inelasticity in the pricing and supply of labour and the economic light shines even dimmer…

Government, after recently as March this year still denying that SA was heading for a recession, has done very little to stimulate the economy, apart from pres. Jacob Zuma vaingloriously promising "500 000 jobs by the end of the year". This statement is now seen for what it really was: hot air.

At best the economy will "muddle through", a term coined by American investment expert John Mauldin, mainly to describe the progress of the US economy, but one that can equally be applied to SA.

And the elephant in the room, which has economists looking in all directions but into the eyes of the beast, is the growing budget deficit.

At the time of the mid-term Budget in October was it estimated that the budget deficit would rise to between R70 and R80 billion for the 2010/2011-fiscal year. This has now (6th December) risen to an enormous R128 billion in line with government expenditure increases while revenue collection falls dramatically behind schedule.

Taxpayers can already start preparing themselves for massive tax hikes in next year's Budget to finance this shortfall. Talk about good timing, Mr. Trevor Manuel…

TO ALL OUR WONDERFUL CLIENTS: **"HAVE A FANTASTIC HOLIDAY SEASON & ENJOY EVERY MINUTE OF LIFE."**

RETIREMENT SEMINAR

DATE:	WED 10th Feb 2010
TIME:	15H45 FOR 16H00
VENUE:	BRENTHURST AUDITORIUM , BLD 2 CNR WILLIAM NICOL & FOURWAYS BOULEVARD, FOURWAYS
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INVESTMENT MARKETS REBOUND

In March this year, Vic de Klerk, senior investment journalist at Finweek and Fin24, advised his readers to sell all their investments and head for cash, adding, that in his view, the market “will never again in his lifetime” recover to pre-crash levels around 33 000. The “market” he was referring to, is the JSE all-share-index.

Earlier this week, barely 8 months later, the index was heading towards 28 000 and set to reach 30 000 before the end of year. In the investment world one must never say never.

It also underscores, once again, that emotional reactions to short term adverse movements in the market are costly in the long run.

In the May-edition of our investment newsletter we stated our view: the collapse in the stock market from September 08 to March 09 was an overreaction, with equity markets worldwide forced down by the desperate need for cash by some of the world’s largest hedge funds and investment bankers. To sell in March would have been a classic case of capitulation at the wrong price.

The loss to investors who panicked at the time now stands at around 50% or so. This opportunity cost can never be made up again.

It’s during times of such market turbulence that I have to remind some of the younger financial planners working at Brenthurst Wealth what happened on the 19th October 1987.

On that sunny Monday here in SA all was well with the world, the sun was shining, the US economy was humming along and nothing could go wrong, or could it?

I was set to attend the opening of the Young Presidents Organization at the then Carlton Hotel. More than 400 American CEO’s under the age of 40, hence the name of this grouping, were in SA to have their annual global bash.
By the end of the working day Wall Street opened 22% lower, the three-day event was cancelled and these young but now deeply worried Americans were all scrambling for seats on airplanes to get back home.
The markets continued dropping for another four months and by the end of the decline the market was down 40%.

A year later the market had doubled from these low levels.
Even today market experts are still scratching their heads as to what caused the crash of 1987.

We are pleased to report that with the exception of one or two clients who could not stand the emotional roller-coaster ride, all our clients stuck to their investment strategies.

THE TABLE BELOW REFLECTS HOW SOME OF THE FUNDS USED IN THE CONSTRUCTION OF OUR PORTFOLIOS HAVE FARED FROM THE BEGINNING OF THE YEAR

MONTH-END PERFORMANCE DATA (VALUES FOR PERIODS GREATER THAN ONE YEAR ARE ANNUALISED) AS AT 01 DEC 2009

	Custom*	1 Month	3 Months	1 Year	3 Years	5 Years
Allan Gray Balanced Fund A	13.32%	0.42%	4.11%	16.81%	9.38%	17.97%
Allan Gray Equity Fund A	20.12%	0.62%	6.35%	25.93%	7.79%	21.03%
Allan Gray Stable Fund A	6.80%	-0.46%	1.01%	8.76%	10.63%	13.63%
Coronation Balanced Plus Fund A	20.04%	0.03%	4.08%	22.46%	8.89%	17.50%
Investec Opportunity Fund R	17.74%	-0.07%	4.45%	20.58%	9.80%	16.61%
Investec Value Fund R	26.84%	0.74%	4.60%	34.24%	8.35%	18.75%
Nedgroup InvestPositive Return Fund A	9.85%	0.58%	1.98%	10.63%	11.08%	
Prudential Equity Fund A	22.28%	-0.51%	5.71%	27.94%	9.77%	21.00%
STANLIB Property Income Fund A	14.12%	-0.04%	3.94%	19.62%	12.55%	22.51%

All performances shown in the table are percentages calculated using NAV to NAV prices net of fees, including dividends reinvested on payment date.

THE ONE LESSON FROM THE CRASH:

If there is one lesson we have learnt, once again, from the events of the past twelve months or so it is this:
A FUND WITH A FLEXIBLE MANDATE IS MOST PROBABLY YOUR BEST DEFENSE DURING TIMES OF MARKET TURBULENCE.

Most of the funds we use are such funds, described officially as asset allocation funds (high, medium and low equity).

We are currently doing extensive research around the issue of building portfolios making even greater use of asset allocations funds to provide our clients with better returns but with lower risk.

PROTECTING THE DOWNSIDE IS OFTEN MORE IMPORTANT THAN GENERATING SHORT-TERM OUT-PERFORMANCE.

Our next newsletter in January 2010 will deal more extensively with this issue. It will most probably entail a massive reshuffling of our existing portfolios but we feel that in the long term it will be worth it.

PRESERVE, PRESERVE, PRESERVE...

People change jobs for a number of reasons. They include unhappiness at work, a promotion, better working conditions, relocation to another city or worse, being retrenched or dismissed. Whatever the cause, apart from anything else, changing jobs invariably also means a change of retirement fund and what to do with money in an existing fund.

The worst option is to have it paid out in cash, even though an estimated 70 to 80% of people changing jobs cannot resist the temptation of doing so. The lure of quick and easy cash, despite giving as much as 40% to the Taxman, is simply too hard to resist. And despite all the best intentions in the world, this money is soon spent and frittered away.
WITH THE EXCEPTION OF THE FIRST R22 500 THE BALANCE AT WITHDRAWAL PRIOR TO RETIREMENT IS ADDED TO TAXABLE INCOME IN THE YEAR OF WITHDRAWAL.

It is not uncommon to find middle-aged people with absolutely no pension fund. A little bit of digging soon finds the reason: pension money was withdrawn every time jobs or careers were changed. And on average this happens about 7 times during a working career. The days of life-long careers spanning 30 to 40 years are a distant memory.

The legislation concerning the preservation of pension funds has changed fairly dramatically in recent years.
Some of the changes are highly technical and will not be discussed here, but the overall changes have been beneficial.

THE OVERALL OBJECTIVE OF THE LEGISLATION IS TO ENCOURAGE PEOPLE TO PRESERVE ANY BUILT-UP RETIREMENT FUNDS WITHIN EITHER A PENSION OR PROVIDENT FUND.THIS IS DONE BY MEANS OF A TAX-FREE TRANSFER TO A PRESERVATION FUND OF THE MEMBERS' CHOICE.

The member also has a great deal of latitude in creating a tailor-made portfolio, based on personal objectives, risk profile, tolerance to risk and asset allocation considerations.

Preservation funds are offered by life assurance companies as well as investment-linked platforms, known as Lisps.
Investors can therefore choose between an almost bewildering array of investment options on these platforms.

A further and perhaps overlooked amendment to the relevant legislation was that the withdrawal from a preservation fund now becomes open-ended and does not have to coincide with the formal retirement from another pension fund.

It is now possible to retire from one fund at the age of say 60 and delay the "retirement" from another preservation indefinitely, or until such time as the capital is required to purchase an income, either a traditional annuity or a living annuity.

Non-member spouses can now also transfer the amount awarded in terms of a divorce order into a preservation fund of his/her choice. This will delay the payment of tax until retirement when the more favourable tax treatment will be applied.

Participating employer

Prior to recent changes in the legislation the employer had to be a "participating" employer in the preservation fund to which the employee wanted to move his/her funds. In certain cases employers were not "participating members" of any funds and therefore employees could do nothing about this. They therefore could not move their money to a preservation fund. This archaic rule now has fallen away and departing employees can now move to any fund of their choice.

Another strange and confusing rule that has been abolished was the requirement that an employee had to move their funds within six months of resignation otherwise their funds were taxed as if it had been withdrawn.

Members often left their personal affairs too late, only to be told that SARS had deducted up to 40% of their pension value with the balance paid into their bank accounts.

Government has been surprisingly forward-thinking in terms of these changes to legislation in order to encourage preservation of retirement benefits.

The other requirements of preservation funds remain the same:

- The full transfer must be transferred to a preservation fund, except where deductions have been from the member's account in terms of divorce or maintenance payments. Such deductions are not regarded as the member's first and final withdrawal from the fund.
- Only one withdrawal, either full or partial, can be made prior to actual retirement. A transfer to a retirement annuity, for instance, does not offer such flexibility. This "backdoor escape clause" does sometime come in handy in terms of financial hardship.
- Pension money must still go to a pension preservation fund & provident fund money to a provident preservation fund.
- Preservation fund monies need to be separated in terms of source.
- Funds cannot be moved from a retirement annuity to a preservation fund and vice versa.
- As a rule, the funds in a preservation fund cannot be touched by creditors. Likewise, can the funds not be used as collateral for a loan or ceded to someone else.

Changes to portfolios, platforms and advisors

Many investors with money already in a preservation fund are unaware that they have total control over that money in terms of the platform, portfolio and their advisors.

Its not uncommon to come across investors with a preservation fund lying "forgotten" in some outdated investment portfolio with no-one offering any investment advice.

The ongoing management of such a portfolio is of vital importance in terms of getting the best out of retirement.
Many investors are unaware that they can "fire" their original advisor and appoint a new one without incurring new upfront fees.
It is also possible to change platforms and underlying portfolios without much trouble.

Countless investors are under the impression that they have to remain with a certain investment company or advisor until they withdraw their funds. This is not so.

Preservation fund money can and must be managed on an ongoing basis.

Brenthurst Wealth can take over the management of any preservation fund on any platform at no new upfront cost to investors. Speak to any one of our six investment planners in this regard.

AND FINALLY, TO ALL OUR WONDERFUL CLIENTS WE WOULD JUST LIKE TO SAY:
"HAVE A FANTASTIC HOLIDAY SEASON AND ENJOY EVERY MINUTE OF LIFE."

FROM ALL OF US HERE AT THE BRENTHURST WEALTH-TEAM.

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