FinPlanCo

NEWSLETTER H2 Oct 2024

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1 SCAMS: RATHER BE SAFE THAN SORRY

Modern scams have become so sophisticated, but still share the core attributes with the older ones. Can this help identify them?

2 COLLECTIVE INVESTMENT SCHEMES

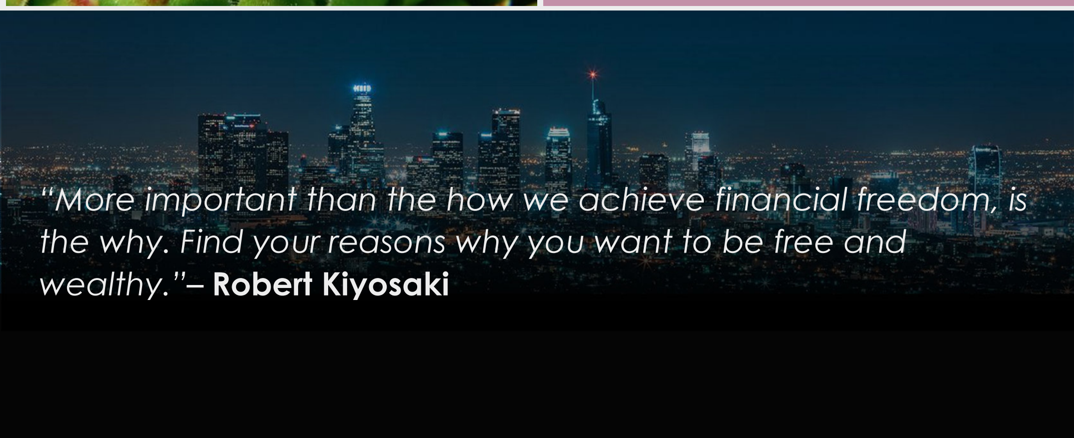
This article unpacks what these schemes are and how the most famous type, a Unit Trust, is structured.

3 WHAT CAN YOU LEARN FROM BOND RATES?

This article looks at how the bond yields have changed in the world and how interest rates could now be on the lowering leg of the cycle.

4 FINANCIAL FAQ

A regular segment in the newsletter to cover some frequently asked financial planning questions that may be useful to others.



"More important than the how we achieve financial freedom, is the why. Find your reasons why you want to be free and wealthy." – **Robert Kiyosaki**

INTRODUCTION

For this newsletter we considered including articles on various topics and topical matters.

In the end the ones that won out were driven by:

An increasing prevalence of fraud and scams in SA, particularly targeting older persons and those who engage with social media regularly;

The uncertainty about where interest rates are headed and what that means for both savers and borrowers;

Understanding the structure of a collective investment scheme, particularly the common unit trust fund, and the safety that a unit trust investment provides to investors;

The aim of illustrating the process and structure of financial planning and the setting a financial plan for a client. This process may differ between professional financial planning firms, but the overall concepts are the same;

Lastly, we have added some short articles in between the main ones, to provide short but topical insights.

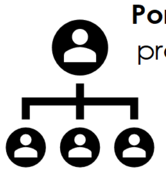
SCAMS: RATHER BE SAFE THAN SORRY

Wilhelm Tempelhoff – Modern technology and communication networks are making it easier for scammers to find and convince you. Be wary and protect your hard earned savings.

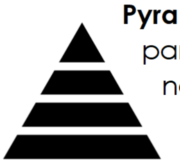
In the age of technology, the Protection of Personal Information act, over-regulation, and red tape, one would think that the prevalence of scams, "get rich quick" schemes, and fraud would have declined. I don't know about you, but it feels like it is more prevalent than ever, and I am forever having to dodge cold calls and block fraud attempts. Age old methods are being deployed in new and inventive ways with the help of social media, artificial intelligence and technology to provide an air of plausibility to the same longstanding scams and fraud methods.

I thought it would be helpful to include an article on how to spot a scam or fraud and how best to avoid them. Naturally we cannot mention every type of fraud and every mechanism best employed to counter it, but if we cover the basics, I would be content.

I think we are all familiar with the two main types of investment scam: Ponzi- and Pyramid-schemes. The trouble is that these are being rebranded and dusted off to bring them into the 21st century.



Ponzi Scheme – named after the Italian, Charles Ponzi, this investment scheme lures investors by promising high rates of returns while using the funds of more recent investors to pay out fictitious profits to the earliest investors ("robbing Peter to pay Paul"). The identifying characteristics may include very high returns, little or no risk, incentives to find more investors, overly consistent returns, sold by unlicenced individuals who can be pushy, incentives to keep investments in place rather than sell them, etc.



Pyramid Scheme – participants in these schemes aim to make money by recruiting new participants, usually with promises of high returns in a short period, with an emphasis on recruiting new participants, normally with a service or product with little to no real value. Promoters here will try very hard to convince you the service or product is genuine and has true value, in other words that it is rather a multi-level-marketing scheme (which can be legitimate). These schemes make their money by using network marketing to gather new members with the promise of sharing in commissions or payouts. You can see how social media plays right into the hands of this type of fraud.

More modern versions of these schemes employ Cryptocurrency or Crypto Assets as a premise because most people don't understand how Crypto assets work while believing that Crypto investments can provide very high returns because of the history of something like Bitcoin. This creates a sense of plausibility which is exactly what fraudsters and scammers will prey on. A famous example on the SA context is Mirror Trading International (MTI) which touted the use of AI to enhance cryptocurrency trading and provide significant returns. In fact, it was a pyramid and Ponzi scheme and collapsed in December of 2020 with global investors losing Billions of Rands.

Other scams that use Cryptocurrency as set-dressing include the misuse of "Initial Coin Offerings" where promoters hype up a new Cryptocurrency's value before the originators dump all their holdings at inflated prices. These are known as "pump and dump" schemes or "smart Ponzis". Pump and dump schemes can also involve groups of people buying real stocks and recommending the purchase to thousands of others via social medial before selling at inflated prices after the price has been driven up. Also be weary of so called "meme-stocks" which are those that are heavily influenced by social media, often these stocks are popularised and inflated without fundamental support. This can be both innocently done and with malicious intent.

Be wary of online bulletin boards, vlogs, newsletters and other social media where so called experts offer their opinions. This can at its most innocent be a true private opinion of an individual without an agenda, or it can be as nefarious as scare tactics to get you to believe in their product or service. Often these are structured to point out a "glaring problem" and then help you solve it by offering the "perfect counter" to solve the problem, bubble, societal collapse, etc. The internet is a big place, and it gives a platform to anyone with access thereto, and it is hard to identify those with valid opinions based on their qualifications and expertise. Look out for disclosures or details required by law to identify true expertise and distinguish it from frivolous opinions and fear mongering.

Scams have also tried to rebrand as "gifting circles" where you give gifts to help others which in turn allows you to move up in the ranks and request aid from other new entrants into the circle. Whether gifts or loans the attributes of the structure should provide clues to the true intent.

While no scam will wear its true nature on its sleeve, you can use some commonsense principals to identify the red flags. Sometimes a scam is easy to spot but other times it seems quite legitimate. Here are some examples of scams and what to look out for:

Advance fee scams – Someone will ask you to pay upfront for a service or product before it is rendered or promise you a large payout for a little initial upfront outlay. This can be as overt as an African Prince that needs you to pay banking fees upfront so he can move millions to your account, or it can be as covert as someone who undertakes to redo your swimming pool but requires full payment upfront. Check their credentials, business details, online presence and address to start. Interrogate their quote and consider carefully whether your trust is warranted or not.

Remote access scams – This is where a scammer will try to access your device via remote access software like TeamViewer. A classic example is where you receive an email from your antivirus software provider, internet ISP or even your bank, warning you that your computer has been infected and requesting you to contact a specific business/team/person to assist you (the scammers). These scammers then take you through a complex process whereby they gain access to your device via remote access and steal your sensitive information. They prey on most people's lack of technical or IT knowledge. Again, the sense of urgency that something is wrong overrides common sense in these cases. Don't reply to suspicious or unsolicited emails, be sure to have your antivirus software up to date, don't allow others to access your computer or phone remotely, stay away from public Wi-Fi, and keep your login and passwords safe.

A bit of extra advice would be to avoid using "autocomplete" when filling in any online forms or information, ideally also consider not using the password and login saving features of your browser (rather type them in fresh every time). Although this can be tempting as a quick way of completing tedious information, it can be used to steal important information like login details, ID numbers, passwords and more by using hidden sections on the website that are also "auto-completed".

Affinity scams – These scams prey on your affinity to a particular religion, ethnicity, charity or group. They are often legitimised by the scammers pulling in a relevant trustworthy person from the religion or affinity. They exploit your trust and friendship within the group. For example, a famous golfer may support the "opportunity" without knowing what it truly involves. This lends an air of legitimacy to it and tempts you to lower your guard.

Phishing – this is where a fraudster will send you a message via email, SMS, phone call or even WhatsApp to trick you into providing them with sensitive or financial information. These can be sophisticated and use origin numbers or email addresses that are similar to the genuine article. These messages often come with an urgent element to push you into action: "you need to do something now or risk account closure" for example. If you have any doubts, don't respond, rather contact the purported company directly. Pay careful attention to the originating source, for example the email address or the internet link. Don't click on any links but rather hover your mouse over them to see where they truly lead. When in doubt, just delete it and corroborate any urgent claims directly.

Competition scams – Avoid replying to any contact informing you that you have won something that you never even entered the competition for. If you have not entered a competition, chances are you have not won anything. Don't contact strangers and if you have any doubts reach out to the competition provider, for example if someone claims you have won a car in the Spar Win-a-Car competition, call Spar, not the person.

General Investment scams – If it sounds too good to be true it probably is. There is no reward without risk. Be wary of investment opportunities in obscure assets or companies, or those that are in foreign jurisdictions outside the regulations of your country, or those without the necessary regulatory oversight, licencing and registrations. Legitimate investments have legitimate regulation. An example is the recent collapse of the BHI Trust, a purported investment trust without any of the requisite regulatory licences and registrations that would indicate its legitimacy as it turned out to be a Ponzi Scheme. It was not an Authorised Financial Service Provider (FSP) even though it conducted financial services, a clear contravention of the law and massive red flag. Another question you can ask yourself is why a legitimate investment would pay you 35% per annum to invest when they could easily get finance from a bank at 15% per annum? (that is Prime plus 23.5% vs. 3.5%). If it is such a good investment concept or opportunity, why would they not keep it a secret and make more profit that way? Altruism? Selflessness? Unselfishness?... Unlikely.

Always use a dose of healthy cynicism and don't believe that people or companies have altruistic motivations because that is very seldom the case. If it is "Company X's Birthday" and they would like to give you R10 000 for "having an account with them", be cynical and ask yourself if the shareholders (who would be wholly profit driven) would ever agree to do that.

It is important to be vigilant when investing or when moving around online. Do not let anyone you don't know and trust, access your computer or emails. Be especially weary and cynical of cold calls or unsolicited contact. "*Never rush a good panic*" – in other words don't be scared into doing something, take your time to corroborate the legitimacy of the claims someone makes before acting thereon. For example, if someone calls form your bank to say you need to act immediately because someone is accessing your account. Take a deep breath, take down the caller's details and don't share any personal information, rather call your bank directly and corroborate the claims made by the unexpected caller.

Remember that we are all human and these scams are constructed to play on our biases, fears and feelings. Scammers tend to build towards their ultimate agenda and they don't wear their foul intentions on their sleave. Often, they start off with something small to build rapport and gain your confidence. They might ask you to mail a letter on their behalf or offer to give you a voucher for a simple task (the voucher is usually a freely available one). Soon however their requests start moving towards their true agenda, but the process start off quite innocently. Even the most suspicious of us can get caught in the moment or lulled into a false sense of security. It does however help to slow things down, take a step back and check with those that you trust before moving forward. When in doubt always get another person's opinion who might not feel as close to the fire as you are.

When you start thinking critically you will be able to poke most of these scams full of holes. It is a sad state of affairs that we have to start living our lives with "cynicism"-coloured glasses, but the alternative is losing some of your hard earned money. Rather be safe than sorry.

FinPlanCo clients are always welcome to contact us to run any suspicious situation by us. We would be happy to be a sounding board and help you separate the wheat from the chaff.

The Role of Central Banks

Pieter Koekemoer of Coronation recently wrote about the role of central banks and money in an economic system. We found his comments insightful and quote them here from Coroconnect:

"Money is, at its root, a rationing system used to provide access to the World's wealth and resources. If the money supply is out of balance with the underlying economic reality, instability is likely to follow. Too much money will lead to an increase in inflation, while too little money in circulation will suppress economic growth and increase unemployment.

Society entrusts central banks with the duty to maintain economic stability. It does this through setting policy interest rates and controlling the monetary supply by buying or selling government securities and setting reserve requirements for banks; which, in turn, controls how much money can be lent. A tighter, more hawkish policy stance typically acts as a headwind for financial markets, while a looser, more dovish stance is often supportive of asset prices."

WHAT IS A UNIT TRUST?

Wilhelm Tempelhoff – Unit trusts are collective investment schemes and they are governed by the Collective Investment Schemes Control Act (or CISCA) in South Africa. They offer simplicity, convenience, liquidity, affordability, professional management, competitive costs, strong transparency, clear reporting and investment safety. But what are they and how are they created and governed?

In a South-African context we often need to compare the types of unitised investments with each other. These are called Collective Investment Schemes and most often they are Unit Trusts although others also exist like hedge funds, participatory bonds, open-ended investment schemes (OICs), Collective investment schemes in property and more. The difference comes down to the structure (trust, company, etc.) and the underlying assets.

These types of investment vehicles allow you to easily buy a bundle or selection of investment assets for convenience and often for affordability. Historically access to the stock market was considered only for societal elites, this changed however with the implementation of unitised investments where funds can be pooled to allow many small investors to gain the benefits of size.

The most widely known and used collective investment in SA is the unit trust. This is a unitised investment where your money is combined with others creating an investment pool which is held in a trust. A portfolio manager is then appointed to manage the pooled funds and invest this into an underlying set of investments (like shares, bonds, cash, listed property, etc.). The investment is managed according to the objective or mandate of the unit trust. This mandate can be very risky or it can be very conservative, each unit trust has its own investment objective and the manager manages it accordingly. That means each unit trust has its own risk profile, ideal investor type, ideal term, investment objective, etc.

A unit trust uses a trust structure to house the investment portfolio, and a trustee is appointed to oversee the assets and the fund manager. In fact, collective investment schemes (CIS) are made up of various separate legal entities that work together to run the investment. Please refer to the schematic on the next page for an overview and when reading the next section:

The combined portfolio value is split into equal units allocated according to the investment amount you make. These units are priced daily and bought and sold at the daily price.

The portfolio or fund is comprised of the cash continuations of the investors. This is invested into the actual underling shares, bonds, cash, listed property, and other securities.

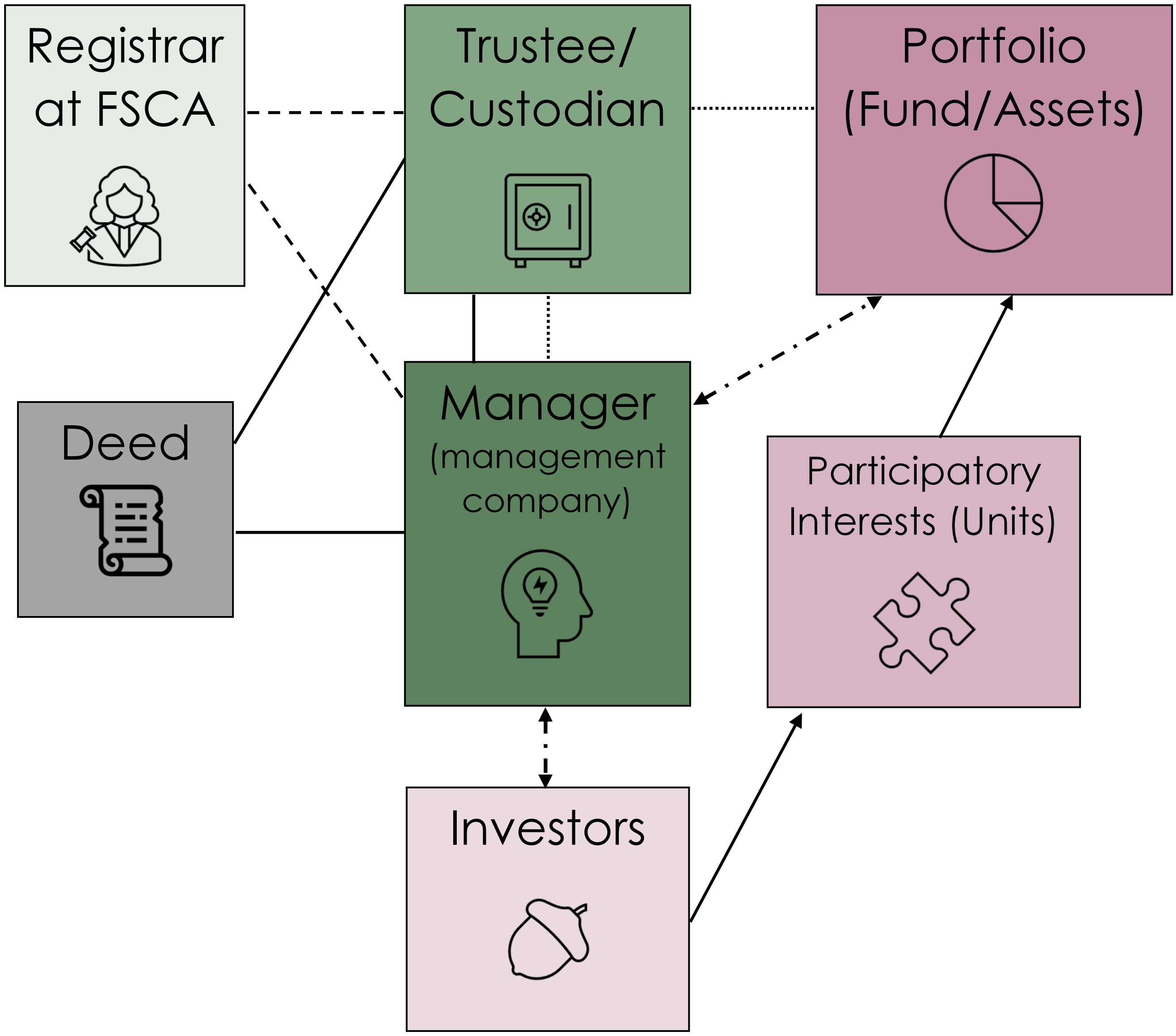
A CIS is governed by a deed which is in turn governed by the authority of the Registrar at the Financial Sector Conduct Authority (the FSCA). The regulator can inspect the working of a CIS at any time.

Each CIS must also have an appointed trustee or custodian who acts as the custodian of all the cash, securities and assets in the portfolio. This trustee also ensures that the fund manager operates the portfolio according to the deed.

It is important to understand that the underlying assets do not belong to the manager or the management company, they are held by the trustee on behalf of the investors. An important protection mechanism for investors. More on this below.

The fund manager or management company is responsible for the management of the fund in all respects, including the creation of the units, marketing them, selling and repurchasing of the units, making investment decisions, and keeping records.

Here is an overview of a CIS structure:



Source: *Profile's Unit Trusts &Collective Investments 2019 – "Understanding Unit Trusts"*

Any returns that are earned by the CIS are split between the unit holders/investors. SA regulation requires that unit trusts must distribute their income earnings at least once per year. This distribution is taxable in the hands of the investor, and it retains its nature. In other words, the investor receives a tax certificate showing the breakdown of the distributions received throughout the applicable tax year and breaking down the distributions into their constituent parts like Interest, Foreign Interest, Rental Income, Dividends, etc. (dividends are however taxed at source for individuals and one would receive the dividend distribution after tax). Any gains in the price of your unit in the unit trust, accumulates over time and the capital value increase (capital gain) is triggered when you sell or switch out of the unit trust. Again, a tax certificate is provided to give you the breakdown.

As you can see from the above the structure is divided into the fund, the trustee and the management company. This provides a great deal of regulation and safety to investors. A CIS is highly regulated meaning that while they have investment risk, they are unlikely to be victims of embezzlement or fraud. Unit trusts have been around for more than 50 years, and the originators ensured that the safety of small investors needs to be paramount. This has meant that there have been no major scandals in this industry in SA.

LESSONS FROM BOND MARKET YEILDS

Carel Marx – *Interest rates play a significant role in the workings of an economy and they are the most effective tool in any Reserve bank's tool set to stimulate or brake (slow) an economy.*

That is why it is very important for investors as well as borrowers to follow the interest rate cycle for different reasons. Let's kick off with some interesting facts on 10-year government bonds.

Top 10 countries with the lowest 10 year bond yields (Oct 2024):

Country	10Y Yield ▴	Spread vs Ger	Spread vs Usa	Spread vs Chi	Spread vs Aus
Switzerland	0.530%	-173.4 bp	-357.6 bp	-161.9 bp	-378.6 bp
Japan	0.956%	-130.8 bp	-315.0 bp	-119.3 bp	-336.0 bp
Taiwan	1.510%	-75.4 bp	-259.6 bp	-63.9 bp	-280.6 bp
Sweden	2.066%	-19.8 bp	-204.0 bp	-8.3 bp	-225.0 bp
China	2.149%	-11.5 bp	-195.7 bp	0 bp	-216.7 bp
Denmark	2.174%	-9.0 bp	-193.2 bp	2.5 bp	-214.2 bp
Germany	2.264%	0 bp	-184.2 bp	11.5 bp	-205.2 bp
Thailand	2.520%	25.6 bp	-158.6 bp	37.1 bp	-179.6 bp
Netherlands	2.552%	28.8 bp	-155.4 bp	40.3 bp	-176.4 bp
Ireland	2.632%	36.8 bp	-147.4 bp	48.3 bp	-168.4 bp

Top 10 countries with the highest 10 year bond yields (Oct 2024):

Brazil	12.710%	1044.6 bp	860.4 bp	1056.1 bp	839.4 bp
Sri Lanka	13.055%	1079.1 bp	894.9 bp	1090.6 bp	873.9 bp
Kazakhstan	13.350%	1108.6 bp	924.4 bp	1120.1 bp	903.4 bp
Russia	16.219%	1395.5 bp	1211.3 bp	1407.0 bp	1190.3 bp
Uganda	16.820%	1455.6 bp	1271.4 bp	1467.1 bp	1250.4 bp
Kenya	17.160%	1489.6 bp	1305.4 bp	1501.1 bp	1284.4 bp
Nigeria	20.737%	1847.3 bp	1663.1 bp	1858.8 bp	1642.1 bp
Egypt	23.780%	2151.6 bp	1967.4 bp	2163.1 bp	1946.4 bp
Zambia	25.740%	2347.6 bp	2163.4 bp	2359.1 bp	2142.4 bp
Turkey	29.515%	2725.1 bp	2540.9 bp	2736.6 bp	2519.9 bp

If you are wondering where SA would fall, it is the 17th highest 10 year yielding bond in the world with our neighbours, Botswana one spot above us and Namibia one below. Very interesting is that Botswana offers investors only 7.22% on 10-year bonds and in SA you get 9.3%. We don't know the Botswana market very well, but my gut tells me, the market is pricing this incorrectly. Either the SA yield needs to drop, or Botswana is simply too low. Another important thing one should notice from the lowest yield table, is the number of European countries on that list.

It is all good and well to see the spot yield at a certain point in time but more important is the path followed to get there; and to determine whteher a rate of say 9.3%, in the case of South Africa, is low, fair or high.

We've included the yield paths for both the UK and the US as a comparison for SA.

SA 10-year nominal government bond yield (October 2024):

UK 10-year gilt (October 2024):

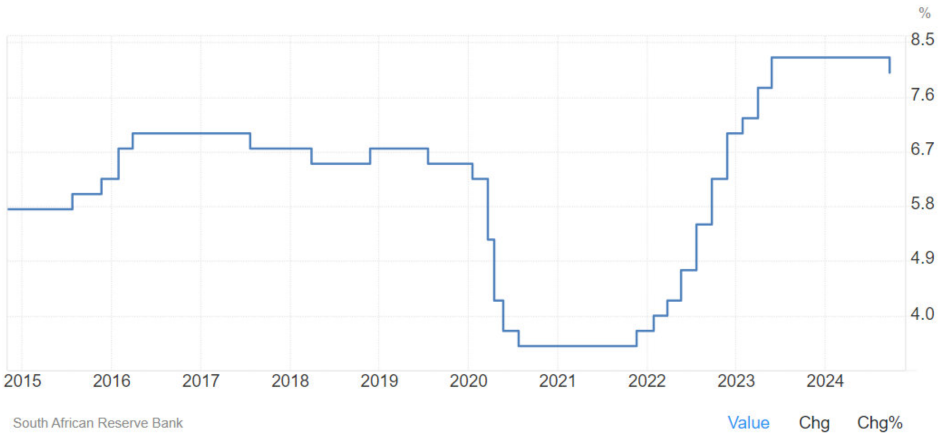
US 10-year Treasury Bond Note (October 2024):

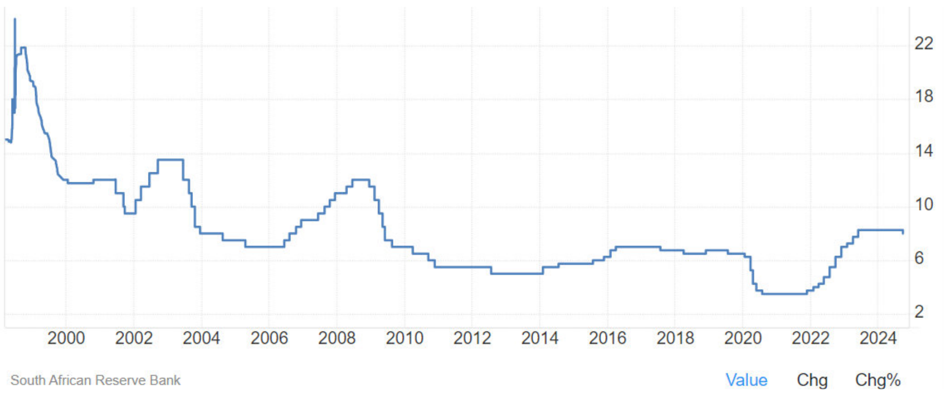
Clearly from the above charts, the interest rate on a 10-year US treasury is 4.1%, thus implying that if you buy it today and hold it until maturity that would be your return. If you however feel that 10 years is too long, you can opt for a 2-year US treasury, only yielding 0.153% less per annum or 3.94%.

The UK and the US offer almost the same yield on 10-year bonds with South Africa offering a 5.22% spread on top of the yield in the UK and US. This 5.22% spread is often referred to as the risk premium. The additional interest an investor receives to compensate them for higher possible inflation, higher risk of default and a possible weaker currency. This spread needs to be attractive to foreign investors in order for them to take on these risks.

If foreign investors feel that South Africa is less risky of inflation blowing out, the currency weakening drastically and the government defaulting on their debt obligations, then money will flow to SA. You can imagine that they got burned with Ramaphoria. The meaningful drop in yields this year is due to some of those risks being adjusted downwards. Also note the quantum of yield change on SA yields versus the UK and the US. Our yield dropped from +-11% to 9.3% or +-1.7%, the US and UK over the same period dropped by +-0.5%. The drop in the long-term yield is also due to the lowering of short-term interest rates by both the US (0,5%) and SA (0,25%).

Moving our attention to short term interest rates in South Africa. It is important not to only know the actual rate (repo is 8.25% currently as at October 2024) but also the path to get there. The graph below shows the repo rate over the last 10 years, and this might seem like a high point but going back to pre-2000, its actually low. Interest rates came down sharply in 2020 as Covid-19 hit the world. We saw a global recovery in most economies, sparking inflation that led to reserve banks hiking aggressively since 2022 and now the first step down which is an indication of the lowering cycle that started.

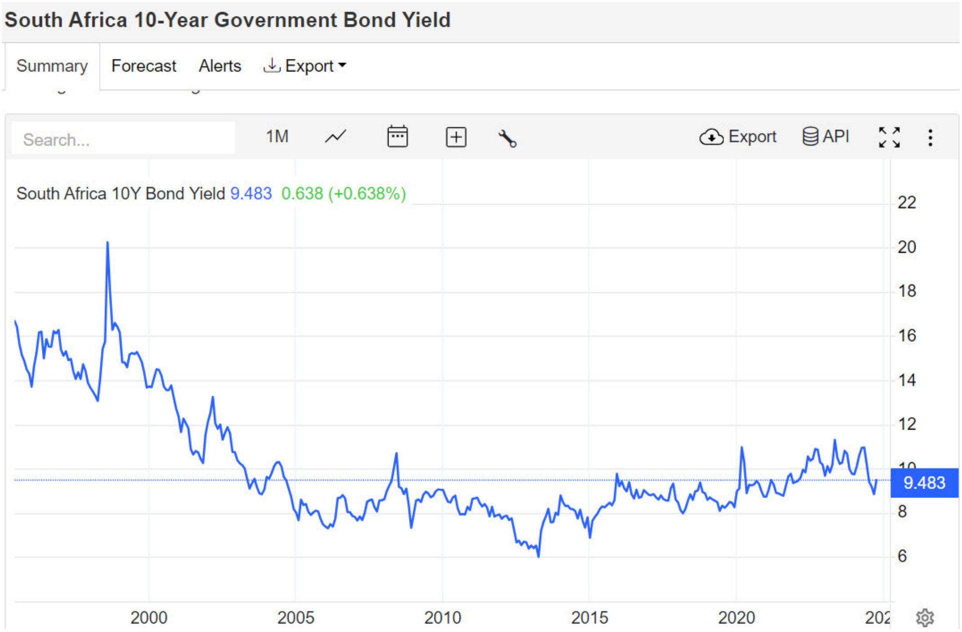




If you are an investor, you should be aware that short term interest rates are set to lower further, directly affecting your short-term deposit rates. Predictions in the US is for another 0.5% in 2024 and then another 1% drop in 2025. The FED funds rate target is expected to settle between 3% to 3.5% and inflation around 2% to 2.5%.

In South Africa we are likely to mirror the rate path of the US which means another 1.5% to 2% cuts to the end of 2025. That would bring the South African repo rate to between 6% and 6,75%. Inflation

adjusted or real yields should compress in the near term making short term cash deposits less attractive. The same will happen to real yields on longer term bonds if all else stays equal.
If you borrowed money from the bank, lower interest rates will bring some relief in the form of lower interest repayments. This should loosen up some cash flows to spend elsewhere and as such stimulating the economy.



Long term government bonds are priced according to risk premiums already alluded to earlier. Current bonds yields aren't exactly low compared to history. If the new GNU works well and we see improvement in SA, then I cannot see why we can't trade to a rate similar or even lower than Botswana at 7.22%. This drop in yield would be a very good outcome for long term bond investors but you need to own the bonds now or even better, bought them a couple of months back already.

Why are cars suddenly so expensive?

Recently we have noticed that client's vehicle costs have become a larger proportion of the family budget. This is partly due to the 15-year highs in local interest rates making the repayments stiffer than usual but at the same time, whether new or used, the car prices seem to be up post Covid…

Less than 25% of available vehicle models in SA are priced at less than R500k. That means the vast majority of new vehicles are priced at more than R500 000. WesBank indicated that the average consumer spent R392 174 on new car finance in Q1 2024, a 24% increase from Q1 2019. In the latest Vehicle Pricing Index from TransUnion, the average new car price increased by 4.7% for the first quarter of 2024 which is under the inflation figure of 5.2% for the same period. Yet some vehicle body types are more popular and increased by 8.4% (hatchbacks) and 6.4% (crossovers). Seems like the most affordable sections are increasing in price the fastest as customers start "buying down".

The short answer is that SA has increased subsidies to the local automotive industry, the Rand is pretty weak and there has been an increase in import duties. The industry also explains that inflation is a problem, supply chain disruptions play a part, and the legal and safety requirements have increased, all adding to the cost. If you want to feel better about the car prices in SA compare them to the European price.

WHAT PROCESS DOES A FINANCIAL PLANNER FOLLOW?

Wilhelm Tempelhoff. Each financial planning firm has their own process they follow to create and implement financial plans with clients.

Generally, the process is defined in 5 to 7 steps that typically include the collecting of information, analysis thereof, development of a plan and finally implementation and monitoring thereof.

At FinPlanCo we follow the outline of the Financial Planning Institute of SA. Here is a summary of our approach to the process.

Step 1: Define and start the relationship between client and Financial Planner.

Here the client and financial planner (FP) meet to discuss the needs of the client and the services and skills the financial planner can offer to the client. The experience and competency of the financial planner is discussed, and the parties try to determine whether they would be a good fit to work together. The FP and client will likely walk a long path together, so it is important to find common ground and have at least an initial affinity. If the client and FP are compatible, they agree on a scope of engagement and the method of communication going forward. The FP's fees are also discussed initially and agreed upon in principle.

Step 2: Collecting information about the client.

Here the FP will seek to gather both qualitative and quantitative information from the client. The FP will aim to identify the client's financial objectives, financial planning needs and priorities. The FP also seeks to establish the client's attitude towards finance and their financial experiences, expectations, risk appetite and knowledge. Understanding the client's values is also important. More objective information is also gathered, such as assets and liabilities, existing financial structures, investments, etc. Within the scope of engagement with the client, the FP will collect information and documentation that is relevant to conform to the applicable financial regulations.

Step 3: Assessing and analysing the financial information.

The FP then uses the information gathered in step 2 to assess the client's financial situation. The current situation and path are then compared to the client's goals, objectives, and needs. The FP then engages with the client regarding the client's ability to reach their objectives considering the opportunities, constraints, and risks that the current financial path and situation provides. The FP will also discuss feasibility of the client's objectives and point out any unrealistic expectations.

Step 4: Financial Planning recommendations are developed and presented.

Bearing step 2 and 3 above in mind, the FP will consider and identify strategies to help the client achieve their objectives, goals or needs. These strategies are then developed into recommendations and presented to the client in a way that illustrates how the client's goals can be achieved by each strategy. The client will then provide feedback to the FP who then considers and incorporates the feedback into a modified recommendation. The FP engages further with the client to refine the recommendation, identifying and presenting the products, structures and services that match the updated recommendations. The FP explains that the recommendations may change as the economic and personal circumstances change.

Step 5: Implementing the financial plan and recommendations.

The PF will discuss and help the client prioritise the most important sections of the plan. The client and FP then settle on the responsibilities with the implementation of the plan in order of importance.

Step 6: The Plan is periodically reviewed.

The client and FP discuss and agree upon the review responsibilities they share, and the basis used when reviewing the client's circumstances and progress towards their objectives, goals, and needs. Updates to the plan and amended recommendations are made and agreed upon based on the changing financial environment and/or any changes to the client's circumstances, objectives and needs.

Bear in mind that most financial planners offer their services to a limited extent where clients require it. For example, only considering one aspect of their financial lives ("contextual planning") or working with a more distilled version of the steps above to offer a consulting service to clients who only need a once off engagement ("financial coaching").

Whether you need a limited scope, simplified approach, or a full financial plan the financial planning process can benefit you and your financial future if applied diligently.

What is the difference between Distributing unit trust and an Accumulating unit trust fund?

Distributing funds distribute their earnings to the unit holders at least once a year. This includes interest, dividends, REIT income, and other sources of income. Depending on the fund, this distribution is declared and paid monthly, quarterly, bi-annually or annually. It may be useful to some investors to receive a regular distribution of the income-based earnings of a fund to help maintain cashflow, provide regular income, or pay expenses. Distributions can, however, be reinvested into the fund automatically.

An accumulating fund does not declare and distribute its income-based earnings; these earnings are retained in the fund and increase the price of each unit, and in turn the value of your investment. This means that whatever the fund earns in dividends, rental income, interest and other income, it retains inside and rolls it up into the price of the unit. This is why these funds are also called roll-up funds.

All South-African unit trust funds are distributing funds. SA investors can however choose between distributing and accumulating funds in a foreign investment context. Accumulating funds may also provide certain tax benefits above distributing funds depending on the structure or investment they are being used.

FIANCIAL FAQ

"I know I am young, but I don't want to invest for the long term, who knows what will happen!?"– ***Recent client comment.***

What is the SARS VDP process?

SA has a complex tax landscape and often individuals may fall afoul of their tax reporting requirements. The voluntary disclosure process (or VDP) is a mechanism that promotes tax compliance without the usual punitive measures. It is a way for taxpayers to regularise their affairs voluntarily. It must be voluntary, and one cannot use the VDP once SARS becomes aware of the non-compliance and approaches the taxpayer first. The incentive here is that there is potential relief from certain penalties. The tax is still payable, but the non-compliance penalties may be reduced or removed. No mention is made of an interest exoneration, however. Importantly, those who correctly make use of the VDP process are generally protected from criminal prosecution.

Can you keep your left over holiday money overseas?

The Reserve bank of SA aims to keep track of funds moving in and out of South-Africa and keep track of the assets individuals may have offshore. If you take foreign exchange out of SA to travel, you must convert it back to Rand within 30 days of returning to SA. The reserve bank also explains that if you have money left over from your travels, you are not allowed to keep the funds offshore or use them to buy offshore assets. The trouble comes in with the *declared reason* you took the funds out in the first place. The reason is important. If you indicate that it is to be used for travel/holiday, it can solely be used for this purpose. If however, you indicate that it is to be used for investment purposes, then you are allowed to invest the funds offshore and retain it there.

If inflation is coming down why are prices staying high?

Inflation is a deceptive concept, and the media does not always explain it thoroughly enough. The fact is that if inflation is declining, it just means the increase in general prices is slower than before. It does not mean that prices are declining; that would be called disinflation, and it would be very bad for an economy in general. Inflation measures the year on year increase in prices for a basket of goods and/or services. Inflation may decline from say 6% to 4.5% year on year. That merely means that the price of the basket has increased at a slower pace. Once high inflation happened, it gets baked into the pricing pie.

What are Survival periods on Severe illness and Disability cases?

Insurance companies, in some cases, add survival periods to certain benefits which allows them to only pay for the said benefit once a certain time period elapsed and where the insured did not pass away during this time. Let's explain by example; John insures himself for R1 mil death cover and R1 mil severe illness and they are "stand-alone" benefits. John has a severe heart attack that lands him in ICU. The condition qualifies him for a severe illness claim but the insurer has a clause that states, John must survive this condition for at least 3 months before the pay-out can proceed. If John had to pass away during the survival period, the severe illness claim fall away, and John's estate or family will only be able to claim the death benefit.

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