FinPlanCo

NEWSLETTER H1 Apr 2025

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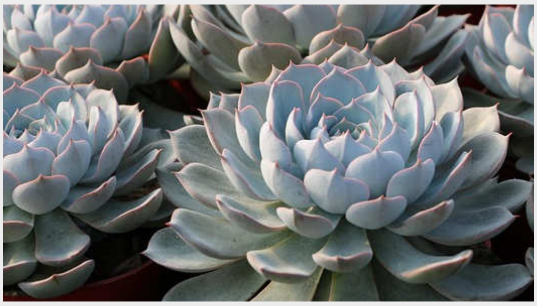
1 ARE YOU ON TRACK FOR RETIREMENT?

Quick checks to make sure you are on track and stay on track to reach your retirement goals.



2 YOUR INVESTMENT TERM MATTERS

Understanding that your ideal investment composition is term dependent.

3 THE CASE FOR GOLD

In times of uncertainty, we find ourselves revisiting the investment case for gold.

4 FINANCIAL FAQ

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

"Having the basics, a good bed to sleep in, good relationships, good food and good sex, is most important. Those things don't get much better when you have a lot of money or much worse when you have less." – Ray Dalio

INTRODUCTION

In this newsletter, we're diving deeper into these key financial planning topics:

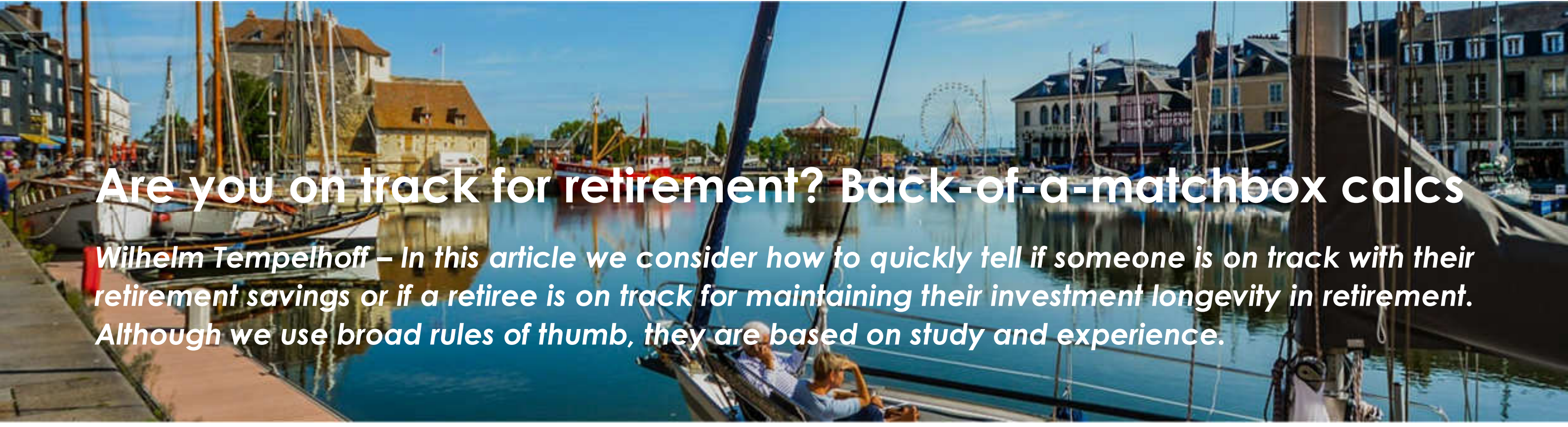
A well-structured budget is the cornerstone of any solid financial plan. We've put together a concise guide on the importance of budgeting and how it sets the stage for financial freedom.

Investing is a long-term game, and patience pays off. We revisited the fundamentals of compounded growth, illustrating how disciplined investors can reap significant rewards over time.

Recent client discussions have highlighted growing interest in gold as a safeguard against market volatility and potential U.S. dollar weakness. Could recession fears be driving this trend? We explore whether increasing your gold allocation could be a smart move.

The duration of your investment plays a crucial role in navigating market fluctuations. Understanding how time in the market impacts returns can help you make strategic decisions to optimize your investments.

Securing financial stability for retirement requires ongoing assessment. We've outlined key checkpoints to help you evaluate whether you're on the right path—both during your saving years and throughout retirement.



Are you on track for retirement? Back-of-a-matchbox calcs

Wilhelm Tempelhoff – In this article we consider how to quickly tell if someone is on track with their retirement savings or if a retiree is on track for maintaining their investment longevity in retirement. Although we use broad rules of thumb, they are based on study and experience.

One of the most common financial planning objectives is to save for a comfortable retirement (or to have a comfortable retirement for those close to the life event). It is ubiquitous and something we can all relate to.

Sadly, the reality is that only 6% of SA's population can retire comfortably. Put another way, South-African retirees replace an average of 12% of their pre-retirement income after retirement, which is far from comfortable.

I'd wager that "comfortable" here means something different to every person. For some this includes room to travel, spoil the grandchildren, or enough money to finally tackle the "bucket-list". For others it means having enough to cover expenses and continue a similar standard of living than pre-retirement.

Whatever the definition of comfortable is, I would add that retirement income must also be sustainable. In this article I will try to provide the reader with a few broad "rules of thumb" when considering their retirement savings whether in the accumulating or decumulating (spending) phase. Rules that can help gauge whether you are on track to building up enough of a retirement nest egg to retire comfortably and estimate sustainability of one's retirement.

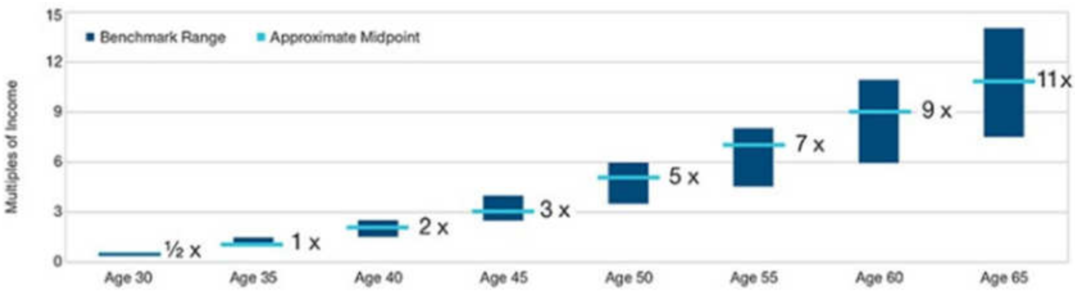
The first question is therefore how much you need to accumulate, and the second question is how you make it last. Two questions that are quite linked.

There are different measures to determine whether you are on track to retire sustainably. Studies show that you need 17-20 times your pre-tax salary at retirement to retire comfortably (at 75% of your salary in retirement) at age 65.

Let's say you start working at 25: that means that after 10 years of work you need at least twice your annual salary saved up, after 20 years it should be 5 times, and at the end of year 30 you need 10 times. This puts you on track for 17 times at the end of year 40 (age 65). This is deceptively simple but provides a benchmark in the South African context considering our higher base inflation.

You could also use these guidelines in reverse to estimate what income you are on track for, by taking your retirement savings at year 10 (age 35 in this example) and dividing it by 2 to determine your possible annual retirement income before tax at age 65. Let's say you have saved R2.5mil by age 45 for example, then you would divide this by 5 to determine that you are on track to earn R500 000 per annum before tax if you retire at age 65 (20 years later).

Here is the same statistic for a global retiree earning and spending in USD, bear in mind that foreign retirees usually have additional Social Security income in retirement. Estimated by T. Rowe Price a global investment firm:



In practice this means that you need to start saving 15% of your salary at age 25 to reach these savings amounts. If you start saving later, the percentage of your salary increases accordingly. Here is a short table to illustrate the required percentage of your salary if your investment grows by inflation plus 5% per annum:

Starting Age	Percentage Savings of Salary
25	**15%**
30	**22%**
35	**30%**
40	**41%**
45	**58%**

I think we can agree that these figures are very harsh and sobering. The reality is that the sooner one can start saving for retirement the better. Compounding is on your side and can help lower the savings required over the long term. It is also possible to catch up for missed time, but it means some sacrifice in the present.

Ninety One summarises it succinctly with three important numbers for retirement savers: 5% p.a., for 30 years, means 20 times income as a starting point.

This dovetails into the second question how can one make the retirement capital last for the long term?

Retirees face three amin challenges in retirement:

1. Inflation Risk – the risk that one's purchasing power is eroded by inflation. Just think of when your grandmother told you what her first salary was and what she could buy for a schilling…
2. Sequence-of-returns Risk – the risk that retirement coincides with terrible investment conditions. If your investment returns for the first years of retirement are poor you are on the back foot for the rest of your retirement.
3. Longevity Risk – the risk that you outlive your savings. It used to be fine to plan for 30 years' worth of retirement, but people are living longer, and healthcare is better than ever.

Broadly speaking, most retirees face these risks, and they should be incorporated into one's financial plans. Combatting these risks does not form part of this article but sufficed to say that they can be at least partly addressed with some financial planning techniques and investment approaches.

Bearing these risks in mind the FSCA published the following income drawdown rates they consider to be sustainable, on average, for retirement investments (living annuities in this case).

Sustainable Living Annuity Income Drawdown Rates

Age	Males	Females	Life Expectancy Males*	Life Expectancy Females*	Life Expectancy Males #	Life Expectancy Females #
55	4,50%	4,00%	24,14	27,77	21,37	25,29
60	5,00%	4,50%	20,41	23,65	17,42	21,07
65	5,50%	5,00%	16,95	19,75	13,81	17,09
70	5,50%	5,00%	13,69	16,00	10,61	13,43
75	6,00%	5,50%	10,62	12,49	7,89	10,2
80	7,00%	6,00%	7,92	9,38	5,69	7,47
85	8,00%	7,00%	5,65	6,72		

Source: Financial Service conduct Authority (FSCA) draft criteria for living annuities in a default annuity strategy (2018)

* Source: Social Security of America, 2024 Trustees Report, Table for Life Expectancy at a given age.

Source: Old Mutual Premiums and Problems, edition 125, Table A: Life Expectancy Tables used to calculate VPA's

As important as the starting income one selects is the return you are aiming for. The importance of taking enough risk in retirement cannot be overemphasized. Coronation provides the following table in this regard where the rate of income needs to be balanced with an appropriate return aim to sustain longevity. The highlighted example is where a 5% starting income is sustainable over 33 years if the investment return is 10% per annum (inflation in this example is 6%). If the return is only 7.5% per annum the income can only be sustained for 19 years. That is a 14 year reduction.

It's crucial to select a prudent initial income rate

At a 10% p.a. investment rate of return, initial income drawdown rates up to 5% are sustainable

		Investment return p.a. (net of fees)					
		2.5%	5.0%	7.5%	10.0%	12.5%	15.0%
Income rate p.a.	2.5%	21	30	50+	50+	50+	50+
	5.0%	11	14	19	33	50+	50+
	7.5%	6	8	10	13	22	50+
	10.0%	4	5	6	7	9	20
	12.5%	2	3	3	4	5	7

It is important to note that the table above assumes that you will adjust your percentage income selected over time to maintain the same amount of real income (i.e. allowing for inflation of 6% per annum).

Source: ASISA Standard on Living Annuities; 2009

Longevity risk and inflation risk can be addressed by taking enough risk in one's retirement investments. To earn inflation plus 4% (the 10% highlighted above) you need to take quite a bit of risk, likely a medium risk portfolio at the very least.

Allan Gray has illustrated this differently by using the table below. The table illustrates the minimum real return (return above inflation) required to sustain one's income for different periods and different starting income rates as a percentage of capital.

Invest for above-inflation (i.e. real) returns

Minimum real returns required per year to sustain a required level of real income for a required period

Years of income required (Approximate current age)	Income as a percentage of capital: 3%	4%	5%	6%	7%
40 (55)	1.4%	3.1%	4.5%	5.9%	7.2%
30 (65)	0.2%	2.1%	3.8%	5.3%	6.8%
20 (75)	-2.5%	-0.1%	2.0%	3.8%	5.5%
15 (85)	-5.5%	-2.6%	-0.2%	2.0%	4.0%

Source: Allan Gray research. Minimum real returns required per year after all fees and assuming an annual drawdown in advance.

From the above an investor who needs income for a period of 30 years, who takes a starting income of 5% per annum needs a return of 3.8% above inflation as a minimum.

Resulting Rules of Thumb:

1. Save at least 15% of your income in your 20s. Starting later means saving more.
2. Invest with the long term in mind to help your retirement savings grow by benefiting from compounding.
3. When retiring at 65, take 5% p.a. or less as income in the first decade of retirement, then 6% or less in the second decade.
4. Don't be too conservative with your investments in retirement while bearing the sequence of return risk in mind.

Financial planners use these broad rules to quickly assess a client's progress on saving for retirement and to measure their longevity considerations in retirement. There are various ways financial planners help clients improve their odds of reaching, and maintaining, their goals. All these strategies and plans boil down to a simple mantra: **"Prioritise the Future"**

Budgeting & Money Management

Financial stability is based on sound budgeting and money management. Families and individuals can more easily maintain financial objectives by tracking their income and expenses with the aid of a well-structured budget.

A budget is about planning how the incoming cashflows are spent and best allocated for short-, medium- and long-term objectives. It allows you to prioritise your cashflow and understand your spending habits and financial capabilities. A budget is not a spending limit, it is rather a guideline where you set certain soft targets for spending and harder targets for saving or debt repayment. A little over or a little under is not the end of the world and it should not be a point of anxiety.

Budgets should be living organisms and need to be maintained and checked every month or even multiple times per month. It helps you track expenses, ensure no payments are missed and all expected income arrived on time. Engaging with your budget ensures that you keep abreast of changes in your cost and income foundation. Budgets not only help you prioritise and track inflows and outflows but help maintain your financial health by picking up significant changes early and addressing them appropriately. A well-constructed financial plan starts with a budget.

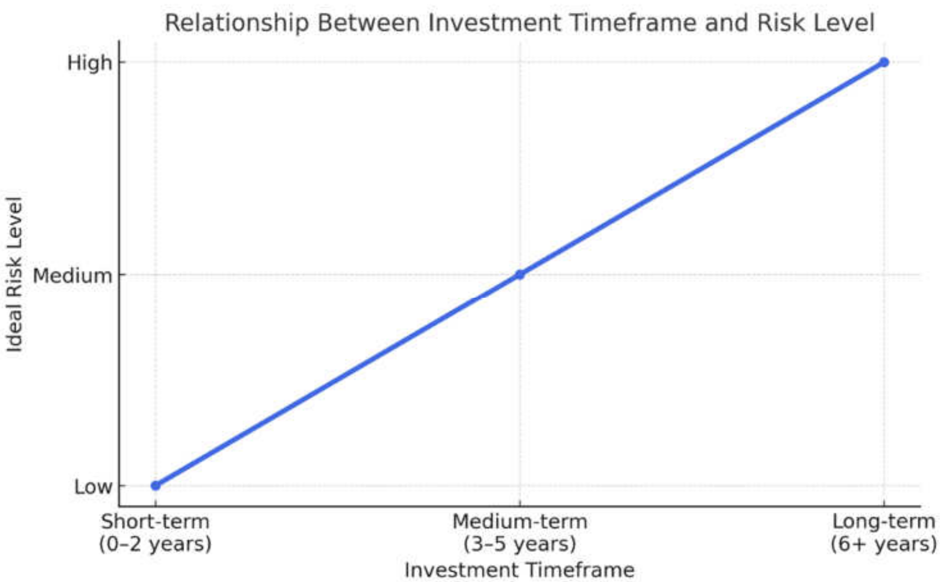
Your investment term matters

Wilhelm Tempelhoff – One of the most undervalued strategies in investing is to match your investment's composition with your investment timeframe. One avoids many investment pitfalls by doing so.

Investment planning is the art of creating an investment strategy to provide you with the best chance of reaching your financial goals. This process considers many factors including the risk appetite of the investor, the current state of the investment environment, any tax considerations and available structures. I'd like to suggest that from a financial planning and behavioural finance perspective, one of the most important considerations is the timeframe of the investment.

It is a factor that is often overlooked and at its core is simply understanding how long one plans to invest before access is needed. Investment term or timeframe can range from mere months to many decades, and it is logical that the length of time has great bearing on the suitable investment strategy.

Shorter timeframes call for a more conservative approach while investing for the long term allows one to take on much more risk (with hopefully much greater reward). The relationship is very simply illustrated below:



Time in an investment can be an advantage. The more time you have the more you can afford to ride out any investment market volatility. The ability to ride out the ups and downs means that you have scope to benefit from the compounding effect of more volatile growth-orientated assets like shares/equities. These types of investments can have a wide range of outcomes in the short term (both good and bad), but they tend to outperform cash and bonds over the long term.

Objectively shorter term investors must use fewer volatile investments and longer term investors have the benefit of being able to use more volatile investments. Subjectively however the investor's risk tolerance should be measured and addressed as part of the planning. A good financial planner will take the time to explain why an investor with a relatively long timeframe should not be too conservative. The opposite is also true (short timeframe means not taking on too much risk).

From a financial planner's perspective, the main benefit of choosing investments to match the investor's timeframe is in the managing of their expectations. Investors will have their anxiety levels greatly reduced during market dips if they have the benefit of time (and vice versa).

REVISITING THE CASE FOR GOLD

Carel Marx – Gold has played a role in society to trade and to store value for centuries. We must consistently consider it as part of our investment portfolios.

In October 2024, Alec Cutler from Orbis penned an insightful article on gold, aptly titled "*Trustless, Rustless, Shiny, and Tiny*." For those who missed it, the core message is simple: gold remains in high demand whenever trust in global systems weakens. Unlike other commodities, gold does not degrade over time, making it an exceptional store of value. Its "shiny" appeal comes from its widespread use in jewellery and luxury items, rather than commercial applications. Gold mining is one of the oldest industries known to humanity, yet most easily accessible deposits have already been extracted—leaving only limited reserves (Tiny).

Investors often turn to gold in times of economic instability or when they notice significant price swings. This pattern has been evident in 2025, with gold opening at **$2,657 per ounce in January** and reaching **$3,424 per ounce by late April**—a clear indicator of uncertainty in global markets.

Naturally, this has sparked questions from clients about including gold in their investment portfolios.

There are several ways to gain exposure to this valuable asset:

Physical Gold – Investors can purchase Krugerrands or gold bars, but securing and insuring them is essential. While liquidity isn't a concern, selling a full coin instead of a fractional amount may pose challenges.

Gold Price Tracking ETFs – Exchange-traded funds (ETFs) listed on the JSE provide an easy way to track the price of gold without storage or insurance hassles, allowing for quick entry and exit.

Gold Mining Stocks – If investors anticipate a rising gold price, gold mining companies may also see growth. However, company-specific risks should be factored into the investment decisions.

For those invested in multi-asset unit trust funds or other diversified portfolios, the question remains: do they already have exposure to gold? The short answer is yes. Most fund managers incorporate gold, either through ETFs or select gold mining companies, within their broader commodity strategies.

Looking at historical gold prices over the past 30 years reveals four key periods:

- **1995-2005:** Flat to negative returns.
- **2006-2012:** A strong bull run for gold investors.
- **2013-2023:** A prolonged period of stagnation.
- **2024-Present:** A resurgence in gold prices.

It is important to note that during flat periods, physical gold and gold-tracking ETFs offer no interest or dividend returns while still incurring costs, dragging down portfolio performance. Refer to the chart on the next page showing the 30 year history of the gold price (US$ per Ounce).

Commodity exposure, including gold, is a fundamental component of investment strategies. Depending on mandates, most portfolios maintain **between 5% and 15% commodity exposure**, adjusting allocations based on perceived market value. While exact gold allocations may not always be visible on fund fact sheets, professional fund managers ensure strategic exposure where necessary.

Gold acts as a financial "insurance policy" against economic downturns and unexpected global events. Since predicting crises is difficult, maintaining some exposure to gold is prudent. However, the allocation percentage is critical, ensuring balance within an overall portfolio.

Unlocking the Power of Long-Term Investing and Compound Growth

Compound growth is the magic behind wealth accumulation—it's the process where an investment's value grows exponentially over time as the returns generate their own additional returns. Not only does your initial investment increase, but the return earned continually builds upon itself, accelerating growth.

Starting your investment journey can sometimes feel frustrating when the returns seem small or insignificant. The reality is meaningful financial rewards take time. If you stay committed, consistently invest, and weather the ups and downs, the power of compound growth will begin to work in your favour.

The Key Ingredients: Patience and Consistency. Compound growth reveals its true strength later in the investment timeline—it thrives on time, patience, and unwavering consistency. Much like the most valuable achievements in life, it demands dedication. Those who embrace a long-term approach understand that persistence leads to remarkable financial growth over the years.

Success in investing isn't about *timing* the market—it's about time *in* the market. With patience, discipline, and the steady application of compound growth, financial security and prosperity can be within reach.

FINANCIAL FAQ

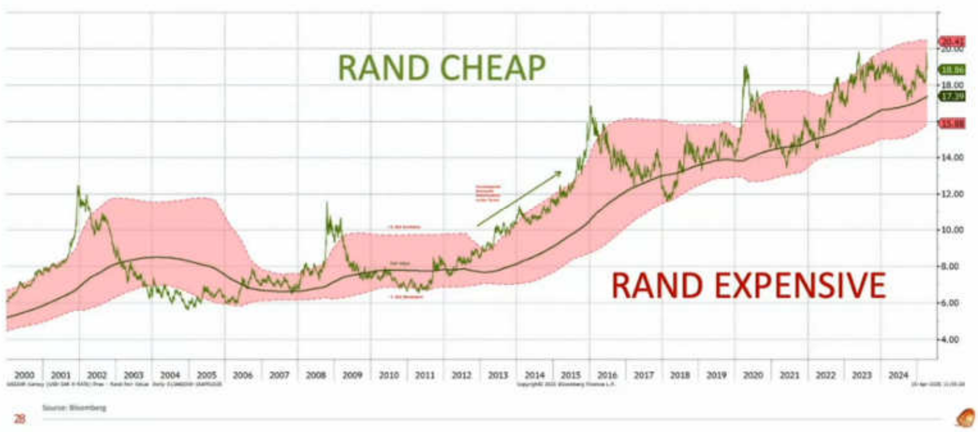
"I understand that some investments don't work out, what is important is keeping an eye on developments and making the necessary changes with time." – ***Recent client comment.***

Is it important to use well-known brands when choosing investment managers?

The short answer is yes. As an investor you should be looking for companies with a strong track record, not only in terms of time of existence but also in terms of performance consistency. Investment managers that have stood the test of time have a high likelihood of continuing to do so, especially if they are dynamic and pro-active. The benefit of size is economies of scale, and the benefit of time is a long term track record and refined strategy. That is not to say that smaller, newer entrants into the market are not viable options. Each option must be considered carefully in terms of approach, strategy, cost, consistency, structure, legal requirements and more (correct licencing for example). Size can also be a hamper to performance if it makes a manager slow and reactive as opposed to proactive and nimble. Old friends tend to be more reliable than new ones.

How do I hedge my investments against a continued weakening of the Rand?

We won't argue for or against the Rand's future in this answer but merely answer what one could do to hedge against a weakening Rand scenario. Normally the Rand would weaken against major global currencies by the inflation differential between the two countries in question. For example, against the US$ one would expect a weakening of X% per annum, where X is the difference between SA inflation and US inflation. Hedging against the weakness means you need to invest in a way that your investment return captures the weakness in the form of an enhancement to the return. This means investing into foreign assets, foreign currencies or local assets that can benefit from Rand weakness (for example local businesses that do a lot of business offshore). This slide from Foord Asset Management's recent report back session may be useful.



What is an EFT and why is it useful for?

Investopedia defines it as "…*a basket of securities that trades on an exchange just like a stock*". In other words, it is an investment security that holds multiple assets therein. Sygnia explains that you can think of these assets as specialised unit trusts that are listed on the JSE and bought and sold through a stockbroker like a share would. An ETF's basket of underlying assets can be as simple as a single commodity, or as wide as a whole index of shares or bonds. For example, a Top 40 ETF in SA would invest into the top 40 shares on the JSE stock exchange in the same weightings as the index it is seeking to replicate. This is much easier that trying to buy all 40 shares in the index yourself. By their very nature ETFs are usually passively managed (seeking to passively replicate an index or collection of assets) but actively managed options are also available.