

# THE WEALTH PERSPECTIVE

SECOND QUARTER 2015





The world is constantly turning. We know how important it is to keep up. That's why we continually keep your best interests at heart.

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# INTRODUCTION



**Corrie de Bruyn**  
CEO  
PSG Wealth

In this edition, Adriaan Pask, our Chief Investment Officer, provides an economic overview and positions PSG Wealth's current market outlook. Lize Visser, Head of Sales, shares her insights into how good advice can translate into alpha; while Shaun van den Berg, Head of Client Education, considers the importance of diversifying your income stream. Willie Fourie, Head of Estate and Trust Services, explains why it doesn't pay to take shortcuts when it comes to your will. Finally, Annemie Nieman, Legal Technical Adviser, reminds us to claim qualifying tax deductions.

## Welcome to the first edition of *The Wealth Perspective*.

*The Wealth Perspective* is PSG Wealth's new quarterly newsletter. It replaces our previous publications (including *Advice Simplified*, *Wealth Simplified* and the *Quarterly Investment Update*) to give you a single, consolidated view of insights from the PSG Wealth business.

## Why we have launched our new publication

We are mindful that your time is both limited and valuable, so we have narrowed our focus to providing a single, high-quality publication that gives a comprehensive update from PSG Wealth as a whole. Our new quarterly publication reflects our scope and stature as a fully-fledged wealth management business. It also allows us to give greater exposure to each of our various divisions.

## What you can expect from the publication

In addition to investment and economic commentary, each edition of *The Wealth Perspective* will feature opinion pieces, educational content and updates from several areas within our business. You can download the entire newsletter to save and read at your leisure, or you can view or download articles individually.

## A word from me: remember to benefit from tax-free savings

In March this year, we launched the PSG Wealth Tax Free Investment Plan. This product has the unique and significant advantage of offering tax-free investment returns. You can invest up to R30 000 a year (and R500 000 over your lifetime) to make the most of the tax break on offer.

You will benefit from:

- **Completely tax-free returns:** You pay no tax on the interest, dividends or capital growth you earn on your investment. This can boost the ultimate outcome of your investment substantially.
- **Flexibility:** Make regular debit order or lump sum investments as you choose, and access your savings at any time if you need to.
- **Choice:** You can choose to invest in over 50 different unit trusts on our platform, including those managed by PSG and others (any clean class unit trust that does not charge performance fees).

If you haven't yet taken advantage of these attractive benefits, why not do so now? For more information, please visit [www.psg.co.za/wealth/investments](http://www.psg.co.za/wealth/investments).

## We welcome your feedback

We hope you enjoy the read, and the new format of our quarterly newsletter. Please feel free to send us any feedback you might have – we always look forward to hearing from you.



# INVESTMENT UPDATE



**Adriaan Pask**

CIO  
PSG Wealth

## The local economy

The challenges facing monetary policy have persisted. As expected, the downward trend in inflation (which can mainly be attributed to the impact of lower oil prices) has reversed.

Headline inflation is expected to temporarily breach the upper end of the South African Reserve Bank's (SARB's) 6% target band early next year. It is then expected to remain uncomfortably close to the upper end of the target band for most of the forecast period.

The upside risks have increased mainly due to further possible electricity price increases. The exchange rate also continues to pose an upside risk to inflation, as uncertainty about impending US monetary policy tightening continues.

Local demand, however, remains subdued. Electricity constraints also continue to weigh on output growth as well as general consumer and business confidence.

## The global economy

Global inflation remains weak, but the partial recovery in the international oil price has affected the deflationary risks in some economies. Higher (but still low) inflation expectations contributed to a sharp rise in bond yields in some of the advanced economies. We have also seen spill-overs to other bond markets.

However, most central banks remain in loosening mode. There have been further reductions in interest rates in a number of countries since the previous meeting of the SARB's Monetary Policy Committee (MPC). A notable exception has been Brazil, where monetary policy was tightened for the third time this year.

The timing of tightening US monetary policy remains a focal point. The expectation is that the US Federal Reserve will make the first adjustment in September this year.

## Economic indicators

	2015						2014					
	Jun	May	Apr	Mar	Feb	Jan	Dec	Nov	Oct	Sept	Aug	Jul
Repo	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%
Prime	9.25%	9.25%	9.25%	9.25%	9.25%	9.25%	9.25%	9.25%	9.25%	9.25%	9.25%	9.25%
FRA 9x12	6.93%	6.99%	6.84%	6.76%	6.48%	5.98%	6.78%	6.27%	6.64%	6.99%	6.59%	6.64%
Inflation	*	4.6%	4.5%	4.0%	3.9%	4.4%	5.3%	5.8%	5.9%	5.9%	6.4%	6.3%
Institute for Supply Management Index	*	50.3%	44.0%	49.1%	49.5%	48.2%	51.0%	59.7%	53.6%	52.6%	48.3%	41.9%
Unemployment	*			26.4%			24.3%			25.4%		
GDP Growth (YOY)	*			2.1%			4.1%			1.4%		
Current account (% of GDP)	*			-4.8%			-5.1%			-5.8%		

\* Data not yet released by product provider

Sources: I-NET, Stats SA, SARB

As at 30 June 2015



# INVESTMENT UPDATE

## Local markets

Following a reasonably good first quarter, local equity experienced a poorer second quarter with a 0.72% loss. Listed property was the worst affected sector, with a 7.18% loss over the period.

Resources lost 4.90% over the quarter, largely on the back of a poorer global economic growth outlook, which impacted spot prices. Financials shed 3.55%. Industrials managed to buck the trend by generating a minor gain of 1.31% over the quarter.

On a longer-term assessment, the FTSE/JSE All Share Index has generated an annualised return of 19.46% over the preceding five years. This was amid an extreme sector rotation, where industrials generated an annualised return of 38.29% over the five-year period, and resources a negative return of 2.98% per annum over the same period.

## Global markets

In global markets, news was dominated by the events in Greece and China, which affected global sentiment. Major US, UK and European indices all ended in negative territory for the quarter. Of the major indices, the German DAX Index was worst hit, with a 7.77% loss over the quarter.

The MSCI World Index was, however, supported by better returns from the Japanese Nikkei Index, which returned 5.36% over the quarter. As a result, the MSCI World Index ended the quarter with only a 1.11% loss.

Bond yields in the US and Europe continued to rise during the quarter. However, they did dip substantially when Greece failed to make its payment to the International Monetary Fund.

## Market review

### Market indicators

Index	Quarter-end value	1 Month	3 Months	6 Months	1 Year	3 Years	5 Years
ALSI	51 806.95	-0.89%	-0.72%	4.09%	1.69%	17.90%	19.46%
Industrials	74 857.25	0.44%	1.31%	6.22%	11.35%	31.68%	38.29%
Resources	21 378.64	-7.07%	-4.90%	-6.85%	-31.36%	-5.98%	-2.98%
Financials	43 621.34	-0.60%	-3.55%	6.46%	16.25%	23.45%	25.53%
Listed Property	616.47	-0.68%	-7.18%	3.72%	19.70%	12.67%	15.95%
ALBI	488.43	-0.20%	-1.40%	1.55%	8.21%	7.09%	10.93%
VIX	18.23	31.72%	19.23%	-5.05%	57.56%	2.24%	-9.44%
S&P 500	2 063.11	-2.10%	-0.23%	0.20%	5.25%	17.15%	20.03%
EURO Stoxx	3 424.30	-4.10%	-7.39%	8.83%	6.07%	17.07%	6.61%
Nikkei	20 235.73	-1.59%	5.36%	15.96%	33.46%	41.56%	23.13%
Hang Seng	26 250.03	-4.28%	5.42%	11.21%	13.19%	11.67%	6.08%
Dax	985.54	-4.05%	-7.77%	12.05%	11.84%	24.42%	17.99%
MSCI World	1 758.69	1.33%	-1.11%	4.84%	2.59%	14.11%	13.78%
MSCI World ex US	1 853.99	0.83%	-3.49%	3.98%	-5.07%	9.28%	6.96%
FTSE 100	6 737.95	3.33%	-3.20%	-0.17%	0.12%	6.98%	7.41%

Sources: I-Net, J.P. Morgan  
As at 30 June 2015



# INDUSTRY VIEWS



**Lize Visser**  
Head of Sales  
PSG Wealth

## Alpha: there's more to it than the markets

When we invest, we ultimately hope to achieve satisfactory returns on capital. One way to measure this is by considering the alpha of an investment. But when we look at alpha, we need to look beyond pure market performance. Advisers, by guiding clients through a tailored and well considered advisory process, can help to achieve this performance – and ultimately contribute to alpha.

### Alpha starts with considered advice

Alpha considers the return an investment achieves in context of the risk taken to do so. For example, alpha considers the volatility (risk) of a unit trust, and compares its performance to a benchmark index with the same volatility. The excess return of the unit trust relative to the benchmark is its alpha. This results primarily from successful investment management but it is also achieved through quality advice.

### The value of advice is changing

Investors expect to be treated fairly by their adviser and trust the adviser to keep their best interests at heart. As an adviser, the key to client retention is keeping that trust.

The financial advice industry continues to gravitate toward fee-based advice, which means there's increasing pressure to define the value of advice. For investors without the time, willingness or ability to handle their own financial matters, an adviser may simply offer peace of mind. But advisers can offer far more value.

### The value of a financial plan

A financial plan promotes complete disclosure on investors' portfolios. More importantly, it enables investors to share what is of most concern to them: their goals, feelings about risk, family matters and charitable interests. Sharing this information is crucial to building trust and deepening the advisory relationship. It also helps to identify opportunities to generate alpha by adding additional value.

### Advisers understand financial products

Advisers go through regular product accreditation with financial services companies. They have access to a wide spread of information to determine the most suitable products and funds for their clients' needs and objectives. They also know what features and benefits to look for in specific products, and where to find these products at competitive prices. Un- or ill-advised clients often get trapped in products with fixed term commitments and massive exit penalties.

### The importance of a thorough review

Although advisers choose investment strategies for their clients, they cannot control performance. However, performance remains important to investors. Even in an established

advisory relationship, periods of significant underperformance can undermine trust. Being able to avoid or mitigate underperformance gives the adviser another opportunity to generate alpha.

### Navigating the complexity of investing

Advisers know how important it is to stay the course during a bear market, or to rebalance when markets are overvalued – even when it doesn't feel like the right thing to do. Countless studies have revealed the positive impact of this on clients' wealth creation.

Investors who are too confident in their ability to predict investment outcomes are often under-diversified and more susceptible to volatility. They may end up taking more risks, and trading too often.

Investors may also place too much focus on past performance. Past decisions are used to make future decisions, until one day their formula no longer works.

### Adviser alpha can make a significant difference

Recent research conducted by American investment management company Vanguard estimates that the alpha an adviser contributes to an investor's portfolio can be as high as 3%.

Vanguard adviser's alpha strategy modules	Value-add for 'average' client (in base points of return)
Suitable asset allocation using broadly diversified funds/ETFs	> 0 bps
Cost-effective implementation (expense ratios)	45 bps
Rebalancing	35 bps
Behavioural coaching	150 bps
Asset location	0 to 75 bps
Spending strategy (withdrawal order)	0 to 70 bps
Total-return versus income investing	> 0 bps
<b>Potential value added</b>	<b>'About 3%'</b>

Source: Vanguard

Advisers add real value by structuring an investor's investment plan and actively managing their portfolio to achieve their objectives. The challenge and opportunity is defining this value, and communicating it clearly to clients.



## FROM OUR TRADING DESK



**Shaun van den Berg**  
Head of Client Education  
PSG Wealth

### Don't kill the goose that lays the golden eggs

Without realising it, it is easy to become reliant on a single source of income, such as your monthly salary. While this may be sufficient for some, for others it may result in restricted financial freedom. In worst case scenarios it may also involve significant financial risk. By diversifying your sources of income you'll be taking an important step to secure a comfortable financial future.

#### Remember Jack and the beanstalk?

Jack and his mother are poor and are forced to sell their last cow for money to live on. On the way to the market, Jack is tricked into exchanging the cow for three magic beans. Upon his return home, his mother is so upset that she throws the beans out into the garden. The next morning, Jack finds a beanstalk that has grown into the sky. Jack climbs the beanstalk and finds a giant's castle. To cut a long story short, Jack steals the giant's goose, which lays solid gold eggs, and he and his mother live happily ever after.

#### One income source is not enough

We use Jack's story as an analogy, as many people only have one source of income (such as their job or a business) – just like Jack's last cow. Because of the associated financial risks, it is a good idea to consider creating one or more additional streams to generate cash flow. For anyone who wants financial freedom, creating at least one additional income stream is no longer a luxury but a necessity. This will help you to protect yourself and your family from the unavoidable ups and downs of economic and industry cycles.

#### Seize opportunities in the market

The three magic beans in Jack's story represent opportunity. Compared to 20 years ago, it is much easier to make money from the market today. This is due to both the range of financial instruments available and the advancement in technology. Twenty years ago, we only had equities to invest in, and dial-up modems that were very slow. Today, we have high-speed internet and derivative instruments, which allow us to profit even in falling markets.

#### Your first investment is always in yourself

Jack was careless in believing that he had found 'magic beans'. Savvy investors should always know what they are getting themselves into. Your first investment is in your financial education. To make informed decisions, you must always start by educating yourself about the risks involved. It is not so much about making money, as it is about avoiding capital losses. And it is also not so much about avoiding risk, as it is about managing it. Consult the online tutorials on our website if you want to start learning more.

#### Shares are a good place to start

As a novice, shares are a good place to start, as this helps you to understand how markets work. Using the research PSG Wealth makes available to you, create a watch list of potential winners. From this list choose companies that meet certain fundamental and technical criteria. Depending on your starting capital, you would then build a share portfolio over time. Your portfolio should consist of between eight and twelve shares, spread across three to five sectors for diversification. Ultimately, you could have a portfolio of undervalued, quality and growth shares, which you could manage passively by only making small adjustments once in a while.

#### Create various income streams

At PSG Wealth, we offer a wide range of financial products that enable you to create various income streams from the market. It is also possible to move funds offshore to take advantage of movements on different exchanges, and in different exchange rates.

#### Take control of your financial destiny

By learning more about successful investment and trading strategies and implementing a course of action, you can become successful faster. Jack made some mistakes, but got lucky. You cannot afford to leave your financial future to luck. Rather, take control of your own financial destiny.



# ESTATE MATTERS



**Willie Fourie**

Head of Estate and Trust Services  
PSG Wealth

## Your will: too short and simple may be too little

A will is one of the most important documents you are ever likely to put in place. That is why it's important not to settle for a quick fix. If your will is incomplete or unclear, it may result in additional strain on your loved ones during what will already be a difficult time. Make sure that your will is comprehensive but uncomplicated by paying careful attention to how it is drafted.

### When it comes to your will, don't take shortcuts

Some people might think that a simple, one-page will is sufficient to transfer ownership of their worldly possessions to their heirs. Others even consider a pre-printed form, available at the local bookshop, as an estate plan. The do-it-yourself format is not what estate planning is all about. It is merely a weak effort to prevent a chaotic mess – but a mess usually results nonetheless.

However, a will does not have to be an overly complicated document to be effective. A carefully thought-through will, consisting of only a few pages and drafted by a knowledgeable estate practitioner, can simplify matters for your heirs and save them a significant amount in estate and other taxes.

### A complicated will can make life difficult for your heirs

An overly complicated will might use difficult words and phrases, or incorporate some control mechanism to restrict heirs' use of worldly belongings. This may be a genuine attempt to protect loved ones, but might only make life difficult for them.

### Find the middle ground

The answer lies somewhere in between. Each person has unique circumstances, therefore each will or estate plan needs to be tailored accordingly.

Communication is one of the cornerstones of this process. The estate owner must be able to convey their needs to the estate practitioner, who in turn must be able to identify the shortcomings in the existing will or estate plan. More importantly, the estate practitioner must be able to provide guidance on the various solutions on offer.

A properly drafted will and estate plan is the end result of a structured process, including a proper analysis of the goals of the estate planning exercise. Don't just try to avoid estate and other taxes. Many estate plans have failed because, although very tax efficient, they neglected the needs of family members.

### What to consider when drawing up a will

- **Be practical:** Do not create a burden for your executor or trustees – and ultimately your family – who have to implement and administer the structures you set in place. For example, trusts that are set up to last in perpetuity usually don't.
- **Ask your children what they want:** Consider existing trusts and other estate planning vehicles that your children may already have set up. If they prefer to receive any benefit directly, despite the benefit that a control mechanism can offer, then consider this.
- **Allow for flexibility:** The world has become a small place and the generations to come will live in a world without boundaries. Do not restrict the movement of assets or the transfer of wealth that could otherwise have benefited your children and grandchildren.

### You can leave your assets to anyone

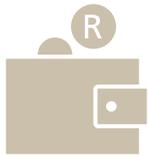
Freedom of testation means that you can leave your assets to whomever you please, as long as your actions are legal. Apart from statutory limitations, there are three general exceptions to this rule:

1. claims for maintenance of dependents
2. a surviving spouse
3. claims in terms of the accrual system created by the Matrimonial Property Act

### Avoid disputes with clear and concise language

The worst possible thing is when heirs dispute the validity of the will. When interpreting a will, our courts look at the ordinary meaning of words and phrases used in the will. Clear, concise language is of the utmost importance to make sure that there can be no doubt about the true intention of the estate owner's wishes.

Do not underestimate the impact that an improperly drafted will – or the absence of a will – can have on your family. There are too many horror stories about the cost of procrastination. Make an appointment with a recognised and accredited estate practitioner and get it done.



## QUARTERLY INSIGHT



**Annemie Nieman**  
Legal Technical Adviser  
PSG Wealth

### Don't forget to claim qualifying tax deductions

The new tax year is underway. While certain income earners are exempt from submitting tax returns, it may be in your favour to submit a return voluntarily if you contribute towards a retirement annuity. Retirement annuity contributions qualify for tax deductions, so remember to take advantage of this attractive tax benefit when you submit your upcoming return.

#### It's that time again...

The new tax year opened on 1 July and with it comes the rush to gather the necessary tax certificates and documentation. However, there are also those earning less than R350 000 a year, who might consider themselves fortunate by not having to submit a tax return.

#### Earners who don't have to submit a tax return

This category typically consists of South Africans who earn an income from only one employer and who earned less than R350 000 for the period from 1 March 2014 to 28 February 2015. To qualify, you should also:

- not have conducted any trade for the financial year
- not have received any travel or accommodation allowances
- not have had a capital gain or loss of more than R30 000
- not have received interest of more than R23 800 (for taxpayers below 65) or R34 500 (for taxpayers 65 and over) from a South African source
- not have any assets abroad

#### Submit a tax return to get tax back

If you fall into this category, you are correct in thinking that you do not have to submit a return. However, by not submitting a return, you give up the opportunity to claim back some of the tax you have already paid to the South African Revenue Service (SARS).

In many cases, taxpayers are unaware of the qualifying deductions that they can claim back. This sometimes also applies to those who earn more than R350 000 a year and have to submit tax returns in any case. It is a good idea to ask a financial adviser to help you get the information you need, for example, information about a retirement annuity that you might have taken out years ago.

#### Claim tax deductions on retirement annuities

Your contributions to a retirement annuity qualify for tax deduction, but this deduction can only be claimed if you submit a return.

The tax deduction can be quite substantial. For example, a 35-year-old taxpayer earning a salary of R340 000 per year would pay tax of R63 384 for the 2015 tax year if no deductions are claimed. If, however, the taxpayer submits a tax return and claims a deduction for retirement annuity fund contributions of R30 000, the tax payable would reduce to R54 084. That is a reduction in tax and a reimbursement from SARS of R9 300 for the year!

#### eFiling is quick and easy

Although it might sound like an enormous task, a basic return can be submitted within a matter of minutes using eFiling. Taxpayers who are not fully comfortable to complete their tax return online but do not feel up to travelling to the SARS offices (and sometimes waiting in long queues), can contact the SARS eFiling call centre on 0800 00 7277. A trained consultant will help you file your return electronically. Alternatively, you can download useful SARS guides on how to complete individual tax returns from the SARS website: [www.sars.gov.za](http://www.sars.gov.za)

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