THE WEALTH PERSPECTIVE

FIRST QUARTER 2017

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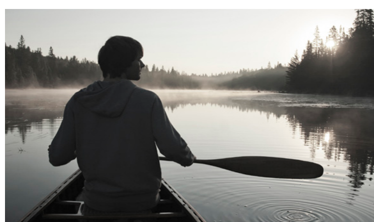
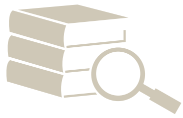


Having a clear vision of the outcome you want to achieve can help your investments remain on track.



INTRODUCTION

Marilize Lansdell
CEO
PSG Wealth

In this edition of The Wealth Perspective, Chief Investment Officer Adriaan Pask talks about a few of his forecasts for 2017 and considers the potential surprises that could materialise to derail those forecasts. Our industry view, presented by Jac de Wet, Head of Sales: Southern Regions, explains how multi-asset funds can help you to avoid typical investor mistakes. Grant Meintjes, Head of PSG Securities, shares some of the common mistakes investors make when trading shares. Willie Fourie, Head of Estate and Trust Services, explains how the Budget proposals and recent changes in legislation have opened up new challenges in the estate planning process. In light of recent political and economic developments, we added a short note on the recent ratings downgrade. You might also find the guest contribution this quarter from our Head of Strategic Research and Support, Ronald King, especially insightful. Ronald explains how focusing on inappropriate timeframes in decision-making can lead to short-sighted investment decisions.

In this issue we explore the benefit of hindsight

Hindsight, the saying goes, is 20/20. This is equally true in life and in investing. The significance of events is often only revealed retrospectively. At the same time, life – and the markets – move in cycles. If there is one thing the history of investing has taught us, it is that there are clearly lessons to be learnt from past mistakes.

Using hindsight as foresight

In this edition of *The Wealth Perspective* we look at investing with the benefit of hindsight. Collectively, our team offers you a wealth of insights. We too have learnt some painful lessons over the years. The key to becoming a smarter investor is to learn from those mistakes and to avoid repeating them in the future. The benefit of sharing our diverse insights is that, collectively, we emerge wiser and stronger. This issue is therefore dedicated to helping you plan, and invest, better in future.

Key themes in this issue

Our contributions to this issue were thoughtfully selected and built around some key themes.

Being human does not always count in your favour

A common thread running through many of the articles is the extent to which our own behaviour can be our undoing. At PSG Wealth, a lot of our time is spent on embedding processes and instilling disciplines that help us to manage our own behavioural biases. Different aspects of these behaviours are explored in the articles by Jac, Grant and Ronald. A disciplined process is at the heart of better investment and wealth management outcomes.

Understanding the nature of risk is key to being a better investor

Another key theme I think is worth highlighting is risk. One of the great mind shifts you need to make when investing is understanding the risk/return trade-off. Risk can be your greatest ally when it comes to achieving your investment goals and objectives, but it can also be your biggest enemy. Misunderstanding the nature of the risk you are taking on – or its potential impact – can have a devastating effect on your ability to build long-term wealth. This theme also emerges in both Jac's article mentioned above and Adriaan Pask's insightful article, The risks to some of our 2017 forecasts. The latter article will also help you to gain a better understanding of the discipline we apply in our own business around understanding and managing risks – and using those insights to make better investment decisions for all our investors.

Investment success is not automatic – it takes work

As an investor, you either have to invest the time to upskill yourself, or you need a trusted adviser to do it for you. There are no shortcuts to achieving successful investment and wealth management outcomes. Grant makes this point forcefully in his article. Willie's article also makes it clear that an estate plan is not a once-off exercise. Rather, it needs to be revisited and updated frequently to ensure it remains relevant, as your personal circumstances as well as legislation may change.

I hope you find the insights we have shared useful and insightful. Most importantly, we hope it will help you to make better investment decisions in future. Your investment success is, after all, a reflection on the fact that we have done our job well.

A WORD FROM OUR CIO

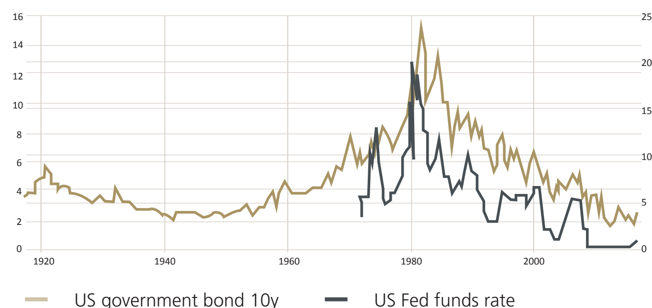
The risks to some of our 2017 forecasts

Adriaan Pask
CIO
PSG Wealth

Forecasts serve a variety of purposes. Governments and businesses use economic forecasts to help them determine their strategies, multi-year plans and budgets. Stock market analysts use forecasts to help them estimate the value of a company and its share capital, and to manage potential risks. Although forecasting can attract legitimate criticism, it still assists in the scenario planning process. Forecasting also forces money managers to pay attention to the potential risks to their own viewpoint.

This article explores the risks to two of the scenarios we deemed most likely to play out during 2017. (Read more about all our expectations for 2017 in the latest PSG Wealth Research and Strategy Report.) Firstly, we anticipate that the US Federal Reserve (Fed) will increase interest rates to around 1.5% during 2017. Secondly, we believe that US Treasuries will be under further pressure this year. Most money managers understand that these two points are closely related. Typically, an interest rate hike has the opposite effect on most other fixed income asset classes. As interest rates increase, bond yields also rise, driving down prices for these instruments.

Performance of US 10-year bond versus the US Fed funds rate



Source: Trading Economics

We expect yields on US Treasuries to rise this year as we anticipate rate hikes by the Fed

At the beginning of March, Fed funds rate futures priced in about an 80% chance that the US Federal Reserve (Fed) will bump up interest rates by 25 basis points (bps) at its policy meeting on 14 and 15 March. Hawkish comments from Fed officials at the start of the month also stoked expectations of a US interest rate hike in March. Yields on US Treasuries jumped after the comments were made public. On 2 March, the 2-year yield rose to as much as 1.308%, from a previous level of 1.296%.

This was its highest level since August 2009. The 10-year yield rose to 2.462%, still below its two-year peak of 2.641% reached in December 2016. As expected, the Fed raised interest rates on 15 March for the second time in three months, with officials sticking to their outlook of two more rate increases this year and three more in 2018. Fed chair Janet Yellen said that the central bank would stick to a gradual path of interest rate rises even if inflation ran above its 2% target.

Performance of the US 2-year Treasury yield as at 2 March 2017

Source: Trading Economics

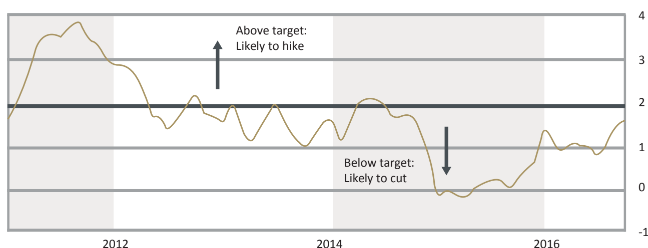
Interest rate decisions remain heavily data dependent

Data on the strength of the US economy, the strength of the labour force and inflation are some of the important statistics which inform the Federal Open Market Committee's (FOMC) decision. The minutes of the FOMC's latest meeting showed that members accepted the need to raise the Fed funds rate again 'fairly soon'.

Data reviewed by the members showed that the US real gross domestic product (GDP) expanded at a moderate rate in the fourth quarter of last year and that labour market conditions continued to strengthen. At the time of writing consumer price inflation (CPI) accelerated further above the slow pace seen during the first half of last year, but was still running below the FOMC's longer-term objective of 2%. However, the latest data released by the Fed on 15 March showed that CPI inflation ticked up to its highest level in five years. The headline index moved up to 2.7% year-on-year (y/y) for February. Core CPI, which strips out the volatile food and energy categories, was up 2.2% y/y.

A WORD FROM OUR CIO

US inflation rate since 2012



Source: Trading Economics

Better-than-expected data released in the middle of February also placed the US Treasury market under pressure

CPI, retail sales and the Empire Manufacturing Index all exceeded estimates. Bond yields have been climbing over the past few weeks as hopes of reflation in the US economy mounted. At the time of writing the benchmark 10-year yield had risen almost 20 bps since 8 February. A higher interest rate outlook has taken the fizz out of the bond market. However, it is not only interest rates that are resulting in withdrawals. Uncertainty regarding US policy is contributing to the Treasury yield exceeding government-set rates. Global investors and central banks are reducing their investment in US Treasuries as President Donald Trump's expansionary policy is expected to lead to a higher fiscal deficit and rising inflation.

US Treasury yields

US Treasury	Yields at 3 January 2017	Yields at 28 February 2017
2-year	1.22%	1.22%
3-year	1.50%	1.49%
5-year	1.94%	1.89%
7-year	2.26%	2.19%
10-year	2.45%	2.36%
30-year	3.04%	2.97%

Source: US Treasury

A Fed rate hike has been on the cards for some time.

The preceding information supports our expectations, but now we need to clarify under which conditions our view may not play out as expected

A reverse in US employment, retail sales and, amongst others, inflation data could delay further hikes by the Fed.

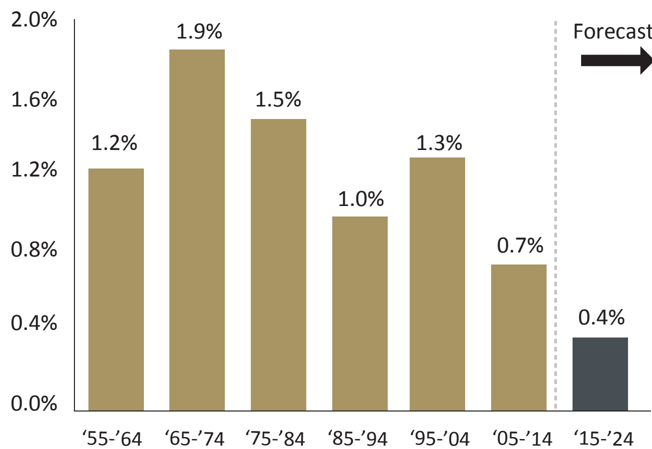
The Fed defines the natural rate of unemployment as between 4.7% and 5.8%. The latest data shows that the US unemployment rate rose to 4.8% in January 2017. If the US economy takes an unexpected knock, economic growth could slow, which could lead to fewer available jobs and the unemployment rate rising. If corporate earnings are low and companies can't sustain the recent growth in wages, then the Fed would think twice before hiking rates.

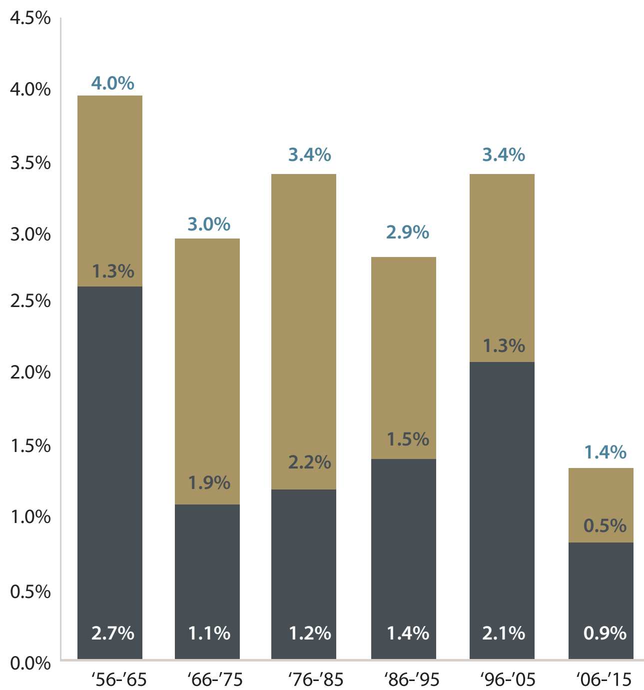
Productivity growth in the US has also been lacklustre by post-World War II standards over the past decade. The FOMC noted at the end of 2016 that output per hour increased only 1.25% on average per year from 2006 to 2015. This compares to its long-run average of 2.5% from 1949 to 2005. If this halving of productivity growth were to persist, it could have wide-ranging consequences for living standards, wage growth and, more broadly, for economic policy.

If the major tax reforms proposed by the new Republican government in the US do not pass stringent tests, corporate earnings could also suffer. Some market commentators believe President Trump's tax plans will support economic growth and, in turn, corporate earnings. However, if these changes are not enacted, corporates will not grow as much as they might currently expect. This could lead to job losses, less retail sales and the economy growing more slowly.

The graphs on the next page show that both population growth and productivity are at lower levels. This could prompt concerns among FOMC members as these factors underpin the sustainability of the economic growth outlook in the US.

A WORD FROM OUR CIO





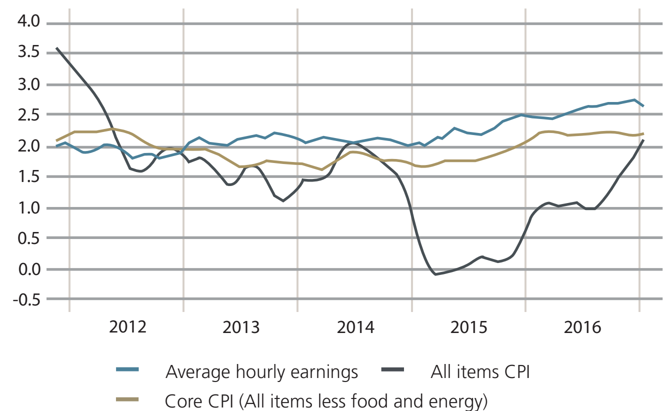
Wage acceleration appears not to be high enough

Robert Johnson, director of economic analysis at Morningstar, says they have been concerned about inflation for some time, mainly because higher inflation will put consumers under pressure.

"While the popular press has been cheering wage increases, and although it has done nice things for consumers, we beg to differ. Wage growth made its big jump a couple of years ago. Since then there hasn't been all that much change. For some time, consumers reaped a considerable benefit from a combination of demographically induced wage increases and low inflation."

Morningstar data shows that in early 2015, hourly wages were growing at 2.0% and, for all practical purposes on an economy-wide basis, there was no inflation. This gap persisted for almost all of 2015. Inflation increased somewhat in early 2016 to the 1% level and wage growth moved to 2.5%. This represents a smaller but still healthy spread. In February 2017, wage growth sneaked up to 2.65%, but the all-items CPI increased to 2.11%.

"After enjoying a spread of more than 2% in early 2015, that spread has shrunk to a meagre 0.5% on a year-over-year averaged basis. On a single-month basis the spread has all but disappeared in January, with inflation and wage growth hovering around 2.5%," Johnson noted.



Source: Morningstar Inc.

A WORD FROM OUR CIO

If the economic indicators discussed above start to signal a weakening US economy, the Fed could decide to delay rate normalisation. This, in turn, could boost US Treasuries, which could start to outperform. This asset class would then not come under pressure as we expect in 2017.

Thomson Reuters thinks the Fed will let the economy run a little hot, rather than tightening interest rates aggressively this year. If they are right, then investors and the FOMC will reassess the prospects for monetary policy further ahead, bidding up the US dollar and Treasury yields later this year. Admittedly, this outlook is subject to greater-than-usual political uncertainty.

Analysts at Thomson Reuters feel that not only will the scale and timing of Trump's promised fiscal spree have a significant effect on the economy, but the newly assigned Republican seats in the FOMC could also cause unexpected changes in monetary policy.

In general, if economic conditions in the US worsen, the Fed could be forced to delay its proposed hike in rates. This in turn will boost US Treasuries, contrary to our expectations for this year. We feel these odds are currently quite slim, but remain cognisant of this tail risk and will make adjustments to our portfolio positioning if appropriate.

A WORD FROM OUR CIO

What does a ratings downgrade mean for the South African economy?

Adriaan Pask
CIO
PSG Wealth

On 3 April, S&P Global Ratings (S&P) announced that it had moved South Africa's long-term foreign currency sovereign credit rating to below investment grade ('junk status'). The move comes in response to the cabinet reshuffle announced late on 31 March. S&P's decision stems from concerns that the changes indicated that 'policy continuity' has been put at risk and that South Africa's economic outlook could come under pressure. Ratings agency Moody's has also put South Africa on downgrade watch.

What does junk status mean?

Junk status is a reflection on the creditworthiness of a country. It means that the perceived probability of defaulting on the capital loan repayment for South African sovereign bonds is considered higher than that of investment grade bonds issued by other countries. In return for taking additional risk, investors will demand greater compensation in the form of higher yields. This cost will be directly borne by government and corporates, but ultimately passed on to consumers and shareholders.

What is the likely impact on the local economy?

From an economic perspective, the South African government may struggle to raise funding for projects. Yields on bonds will have to move higher to compensate investors for the additional sovereign risks, which increases the governments' cost of capital. This will place additional pressure on the national budget, and ultimately, taxes. In addition, corporate financing cost will increase which places pressure on earnings and growth. The rand has already responded to the news of a ratings downgrade by weakening sharply, and further rand volatility is likely to continue.

Will junk status rating affect the average South African?

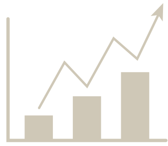
As the cost of borrowing moves higher as described above, economic conditions for local businesses become more difficult. Further currency volatility is likely to impact on import costs, deficits and inflation. This means it becomes more difficult for the economy to grow at its full potential, while pressures on tax revenues rise. All of this means the economic environment becomes more challenging for both businesses and consumers.

What should investors do?

Investors should maintain a balanced investment outlook and ensure any changes to their portfolios are in line with their needs and not in response to short-term market noise. Diversification is key as a strategy to dealing with market uncertainty.

Can junk status be reversed?

Junk status is not irreversible, but it will take a concerted effort and proof of sound economic and fiscal governance. Our two main concerns are the current account and the fiscal budget. South Africa will need to improve on our relative attractiveness in order to attract investment. We need to increase our export to import ratio, and get a firmer grip on our fiscal spending. Economic growth will go a long way towards increasing spending power, but ultimately we will simultaneously have to cut spending and increase revenue in order to make swift work of recovering our investment grade status.



INDUSTRY VIEWS

How multi–asset funds can help manage wealth–destroying behaviour

Jac de Wet
Head of Sales: Southern Regions
PSG Wealth

It is important to consistently do the right things in order to achieve your investment objectives – especially in volatile and uncertain markets. Although investors often blame the market for not meeting their investment goals, the reality is that it's often due to their own behaviour. The good news is that these behaviours can be managed by putting the right investment plans and strategies in place and sticking to them. Making the right investment decisions linked to your goals is crucial to achieving long-term investment success.

Four negative investment behaviours that destroy value

Behaviour 1: Saving too little

Medical advances mean that lifespans are increasing, and investors often don't realise how long their retirement years could last. A person who starts working at 23 and works until 65 would spend 42 years working. If they live to 100 years of age, that would mean spending 35 years in retirement. Had they decided to retire earlier, at 55, they would spend more time in retirement than the time they had spent working! This could also mean that your medical expenses in retirement are likely to be higher than what you may expect.

Behaviour 2: Not saving for long enough

Longer life expectancies mean that you need to start saving as early as possible and continue saving for as long as possible. This may in turn mean that you end up retiring later than you originally planned. Unfortunately, investment plans – like many things in life – seldom turn out exactly as planned, and if investors are not careful, they may fail to meet their investment objectives. Compound interest is often touted as the eighth wonder of the world, but it takes time to work in your favour, so it is best to start saving as soon as you possibly can.

Behaviour 3: Not taking enough risk

Although many investors are hesitant to take on risk in their portfolio, well-managed risk can be your best friend, provided you understand and respect it. This is where financial advisers can play a crucial role. By stepping into a coaching and mentoring role, they can help you overcome your own biases and bad habits that undermine your ability to invest successfully, rather than merely offering investment advice. Not taking on enough risk means your money is not exposed to enough growth assets, and that your money is unlikely to generate a sufficient return in the long run.

Behaviour 4: Taking too much risk

Investors often try to remedy behaviour 2 above by trying to find 'high return' investments. This is especially the case when they realise too late that they have saved too little. Sadly, if it sounds too good to be true, the chances are that it is! In addition, chasing short-term performance by regularly switching between funds can destroy your wealth. Rather, choose a strategy and stick to it.

To manage your behaviour, start with a plan

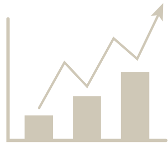
We are faced with the consequences of these negative investment behaviours every day. If these potential pitfalls are not addressed and managed properly, they could destroy your wealth and put your investment goals in jeopardy.

There is no substitute for starting to save early enough. Having a financial plan can help you identify how much you will need to save to reach your goals. It can also help you to identify the appropriate level of risk you need to take to reach your goals.

The value of multi-asset funds in curbing wealth destroying behaviour

We have found that a well-managed multi-asset fund can help many investors, especially when it comes to taking on enough of the right kind of risk. These funds combine a variety of asset classes, providing a mix of growth assets like shares, and more stable assets like cash, in line with their respective mandates and objectives. The funds are professionally managed and are continuously rebalanced to ensure they retain exposure to the right types of assets in varying market conditions. By taking the pressure off the individual to select the right funds, investors are also relieved from the pressure of having to react to market developments – and potentially making the wrong decisions in the face of fear.

The Association for Savings and Investment South Africa (ASISA) reports that most net new retail investments were invested in the South African Multi-Asset High Equity sector – also known as balanced funds. These funds comply with the Prudent Investment Guidelines, as set out by Regulation 28 of the Pension Funds Act, and are popular choices for pre-retirement investments (retirement annuities, preservation funds, pension funds and provident funds).



INDUSTRY VIEWS

Choice on the PSG platform

PSG offers access to a range of multi-asset funds via the PSG Wealth platform. This includes access to:

- PSG Wealth multi-managed solution funds of funds (which are accessible to investors using a PSG adviser only), for those wanting exposure to a number of asset managers in one fund.
- Award-winning funds from PSG Asset Management, like the PSG Balanced Fund featured in our fund spotlight below.
- A large selection of funds on offer from external fund managers that have been subjected to our strict due diligence processes.

Take care to manage your investment behaviour

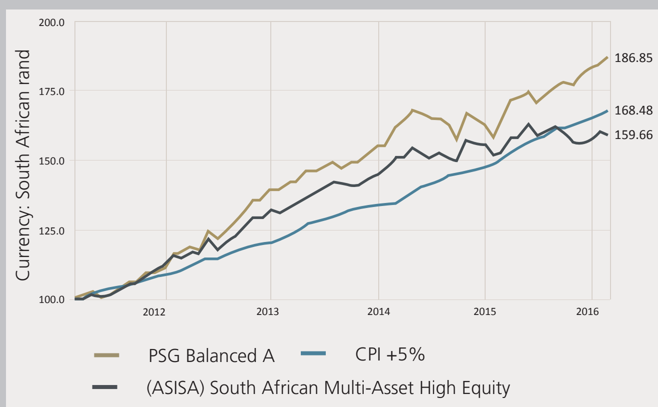
When it comes to managing your long-term wealth, the first step is to get your own wealth-destroying behaviour under control. A financial plan not only helps to clarify your goals, but can also help you work out how much you need to save to achieve them. The next step is finding an investment that helps you to achieve the right balance between risk and return. By putting a solid foundation in place, you are more likely to achieve your investment goals in the long run.

Spotlight on the multi-award winning PSG Balanced Fund

The PSG Balanced Fund won a Raging Bull certificate as the fund which delivered the best risk-adjusted returns over five years in the South African Multi-Asset High-Equity sector. This award is especially prestigious because it acknowledges the fund manager for consistently achieving above average risk-adjusted returns over the longer term. The PSG Balanced Fund was also named the best aggressive allocation fund at the Morningstar awards. Both awards were received for the period ended 31 December 2016. Full details of the awards are available from PSG Collective Investments (RF) Limited.

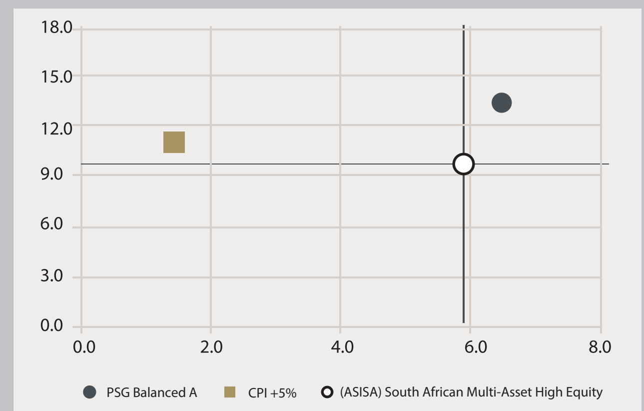
The primary objective of the fund is long-term capital growth and a reasonable level of income for investors. The fund can have a maximum of 75% invested in equities, 25% in listed property and 25% in offshore assets. The fund's benchmark is inflation + 5%. The graph shows that the PSG Balanced Fund consistently outperformed its benchmark as well as the average of its peers.

The long-term performance of the PSG Balanced Fund (2012/01/01 to 2017/02/28)



Source: Morningstar Inc.

The long-term risk-adjusted returns of the PSG Balanced Fund



Source: Morningstar Inc.

The scatter graph above shows that the fund achieved higher performance than its peers for a marginal increase in risk given current volatile market conditions. For more information on the fund, click here.

INVESTING AND TRADING

Six trading mistakes to avoid

Grant Meintjes
Head of PSG Securities
PSG Wealth

Being clear on why you are investing helps avoid being overwhelmed by too much information. The trading environment has changed drastically over the past 15 years. Today investors enjoy access to company information within moments of it being announced. Being able to access all this information can be a double-edged sword. While it could help in making better-informed investment decisions, it could also potentially derail you.

Mistakes investors make repeatedly

Being in the trading game, we have noticed that there are six common mistakes investors make repeatedly, namely:

- investing without a plan
- focusing on the wrong trading horizon
- getting caught up in the thrill of the trade
- not rebalancing portfolios often enough
- not investing enough quality time
- chasing recent winners

The good news is that you can avoid making these mistakes if you are aware of them and follow a disciplined approach.

1. Investing without a plan

If you don't know where you're going, any road will take you there and it is easy to go astray. Having a personal investment plan in place can help you avoid this pitfall. A plan will also help you to clarify:

- Goals and objectives – what are you investing for and what do you want to achieve from your investments?
- Risks – what risks are relevant to you or your portfolio? Your goals will determine what risks are appropriate and acceptable to your investment
- Asset allocation – what percentage of your total portfolio will you allocate to local equities, international stocks and other asset classes?
- Diversification – allocating to different asset classes will help you to diversify your portfolio.

You need to be clear about each of these before you start investing.

2. Focusing on the wrong trading horizon

Most investors are too focused on the short term and do not stick to their trading plan. If you are saving for a longer-term goal, like your retirement 25 to 30 years from now, what the stock market does in the next 12 months shouldn't be your biggest concern.

If you are investing for the long term you can afford a more aggressive asset allocation than when you have a shorter investment horizon, like saving for your child's university education, say in five to eight years' time.

3. Getting caught up in the thrill of the trade

Investors often look for easy opportunities to make money when they start trading. The 'feel-good aspect' of making money drives them to chase the next big thing.

Unfortunately, this need to make money sometimes means investors make hasty investment choices based on too little actual research. A typical example of this is getting a tip from a friend at a braai on what promises to be the next quick win. Listening to such trading tips may distract you from your trading goals and cause you to make silly mistakes. To remain true to your investment plan, ask yourself why you are trading, and whether your transactions align to your goals and objectives.

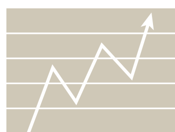
4. Not rebalancing your portfolio often enough

Rebalancing is the process of ensuring your portfolio remains in line with your investment plan and goals. Rebalancing is difficult because it forces you to sell the shares that are performing well, and consequently make up a larger portion of your portfolio than you intended, and buy more of the shares that aren't doing quite as well. For this reason, we find that many investors do not rebalance their portfolios often enough.

Rebalancing is important, because it helps to remove emotion from the trading process. If you do not follow your investment strategy and instead let emotion drive your investment decisions, you could end up deviating from and not achieving your investment plan and goals.

5. Not investing enough quality time

When you invest your hard-earned money, you need to spend time and effort on your investment strategies. You would not walk into the first car dealership you see and buy the first car on the floor. You would rather carefully research different models, compare their 'specs' and consider the costs carefully. It could take quite some time before finally committing to the right car for you.



INVESTING AND TRADING

The same applies to investing in shares. You can only make sound choices when you spend quality time investigating the companies you want to invest in. It might be a good idea to let your financial adviser do it for you should you not have the time or inclination to do this yourself.

6. Chasing recent winners

This factor has probably led to more poor investment decisions than any of the others we have mentioned so far.

Many investors select companies, strategies and sectors because their recent good performance lead them to feel that they are 'missing out on great returns'. The temptation to adjust your plan could be very real if a share or sector has done extremely well for a long time. However, the cycle could well be nearing its end and the smart money could already be moving out. You need to stick to your investment plan and rebalance to avoid this pitfall. This is the exact opposite of chasing performance.

Plan to avoid mistakes

Investors who focus on their investment objectives and plan can recognise and avoid these six common mistakes. They are more likely to achieve their investment goals because they invest with the end in mind. Sadly, none of these make for great conversation starters around the braai, which could be why many investors keep on making the same mistakes.

PSG resources that can help you trade smarter:

- Webinars
- News and articles

ESTATE MATTERS

Avoiding estate planning pitfalls

Willie Fourie
Head of Estate and Trust Services
PSG Wealth

Estate planning presents many potential pitfalls. Recent developments have again shown how important it is to revisit your plans frequently to ensure they remain relevant. Relegating your will to the proverbial bottom drawer once it has been drafted is probably one of the biggest mistakes you can make.

Changes introduced in the Budget

The recent Budget delivered by then-Finance Minister Pravin Gordhan is a case in point. It has introduced a number of additional punitive taxes aimed at the rich and has a direct impact on existing estate planning ideas.

Key changes to the Budget include:
- taxable income above R1.5 million will be taxed at a higher marginal tax rate of 45%
- the effective capital gains tax (CGT) rate for individuals and special trusts has increased to 18%
- the effective CGT rate for other trusts has increased to 36%.

These changes, together with the introduction of section 7C of the Income Tax Act (which deals with interest-free loans), have prompted many clients to ask if it is still worth holding a property in a trust. Unfortunately, it is not as simple as transferring the property and closing the trust.

Interest-free loans to trusts

Parliament accepted the recommendations of Judge Davis's commission of enquiry into taxation reform in January this year. As a result, the newly drafted section 7C has been introduced to the Income Tax Act with effect from 1 March 2017. This section deals with interest-free loans to trusts and has had a major impact on estate planning. Specifically, it has considerably challenged the continued use of trusts as estate planning structures.

The legislation applies to any loan made by a natural person to a trust. If the interest charged on the loan is less than the repo rate plus 1% (currently, this would be 8%) the difference will now be a deemed donation. This deemed donation will be subject to 20% donations tax, although the annual donations tax exemption (currently R100 000) will continue to apply.

Transferring immovable property from a trust

The practical implication of the change is that unless there are other compelling reasons to retain the trust, it is probably a better option to transfer immovable property into the name of the individual who made the loan to the trust. Doing so will reduce or extinguish the loan account. However, since section 7C also provides an exemption if the loan to the trust is made for the purchase of a home for the lender, this should only be considered if a loan has been made to fund a second or an additional home.

The impact of transfer duty

Normally, transferring property from a trust will attract transfer duty, conveyancing fees and CGT. The Transfer Duty Act, however, allows for an exemption from transfer duty if the transfer is made to a beneficiary of the trust within the third degree of consanguinity of the founder of the trust (i.e. to a close relative like a grandchild, child or nephew or niece), and provided that nothing is paid for the property.

You can therefore transfer the property into the name of the relative and deregister the trust. However, the transferee, founder and the transfer itself all need to meet the requirements of the Transfer Duty Act for the exemption to apply.

Selling the property in the future

Another point to consider is the future sale of a property and the related impact of CGT if it is held in a trust. Property will attract CGT at an inclusion rate of 80% of the gain, which will be included in the taxable income of the trust. This is then taxed at 45% and, unlike in the case of a natural person, no annual rebate applies.

Trustees may, however, depending on the provisions of the trust deed, use the conduit principle to award the capital gain to any or all of the beneficiaries of the trust. This will help to ensure that the inclusion rate is reduced to 40% and the annual rebate of R40 000 is applied.

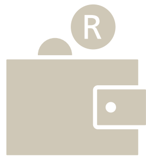
There is not a 'one-size-fits-all' solution

This is a complex matter and you should consider the impact of transferring assets from a trust, or deregistering a trust, holistically. It is important to consider each person's unique circumstances and to structure their estate plan accordingly.

ESTATE MATTERS

Effective estate planning starts by discussing the relevant issues with a Fiduciary Practitioner of South Africa, the highest designation awarded to estate practitioners by the Fiduciary Institute of Southern Africa.

Your fiduciary adviser will only be able to identify potential shortcomings in your existing will or estate plan and provide appropriate guidance and solutions once they understand your unique circumstances. Good communication is therefore the cornerstone of this process and estate owners need to be clear about their needs when engaging with their fiduciary practitioner.



QUARTERLY INSIGHT

Sound investment decision–making requires a long–term focus

Ronald King
Head of Strategic Research and Support
PSG Wealth

It is easy to get caught up in the short-term noise of the latest press articles. But when it comes to making decisions about their investments, investors would do better by reminding themselves of their long-term objectives and ensuring they view share market behaviour from the correct time-perspective.

It can be difficult to keep a clear head when making decisions, especially at times like these when the world seems to be a mess. In such an environment, it is easy to become despondent and make the wrong decisions. However, sound long-term investment decision-making depends on our ability to ignore the short-term noise.

The current sense of disruption rests on:

Political uncertainty

We have already seen 280 terrorist attacks in the world this year. Political uncertainty is high. Xenophobia is not only a problem in South Africa, but also at the heart of many of the populist movements across the world. Many national and international politicians are in the news for using their positions for personal gain.

Disappointment with markets

The behaviour of the markets over the last two years have certainly not helped. The JSE has generated low returns, despite the ups and downs in between. Over two years, the index returned a meagre 0.88% per annum, which creeps up to 3.87% when dividends are included. This has left many investors wondering if it is worth the risk, and considering withdrawing from the share market.

Why your decision-making horizon matters

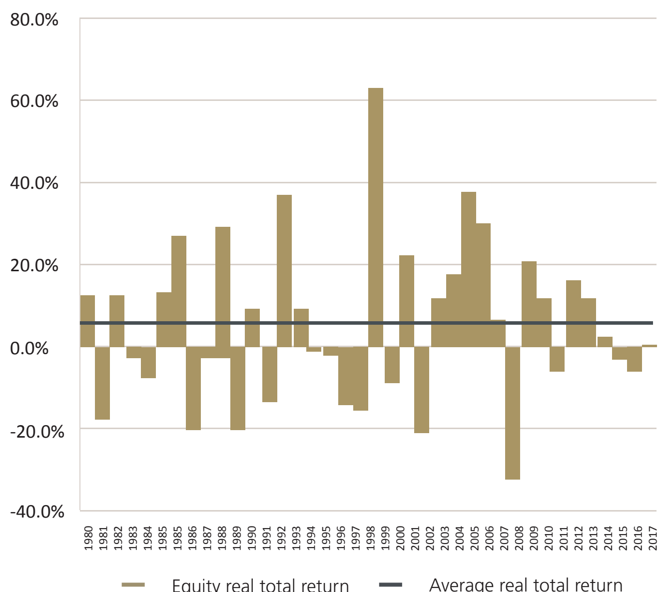
As Jac indicated in his article, people are living longer. Therefore, even retired investors could face an investment horizon of 30 years or longer. Focusing on short-term volatility when deciding where to invest is therefore a mistake. This view is not informed by our outlook for the market for the remainder of the year. Rather, it is based on a wealth of evidence about how the markets behave in the long run.

Markets are unpredictable – you could miss out

Counter-intuitively, the short-term volatility of markets means it is important to remain invested. We do not know when the markets will recover, but we understand that markets can move rapidly, and that those who sit on the sidelines are likely to miss out. Missing out on a few key days of growth can make a significant difference to your long-term returns.

The graph below clearly shows the volatility of the stock exchange and how easy it is to miss that growth.

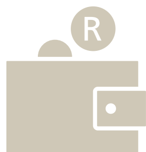
Volatility of annual equity real returns



Source: Inet and PSG

Over the long term, market behaviour is more predictable

Snyman and Smith (2015) conducted research on the variability in the returns of the stock exchange. They found that if investors invested for a month at a time, they would earn an average return of 16.8% per annum over an 18-year period. However, for 2.5% of the months the return would be as low as -23.18%. Typically, it is negative returns like these that cause investors to flee the markets.



QUARTERLY INSIGHT

Volatility of monthly returns

Average return	16.80% annualised
Standard deviation	20.40% annualised
Number of data points	225
Returns < 11.07% p.a.	103

Source: adapted from Snyman & Smith

While most investors understand the importance of the average return, the standard deviation provides an indication that 68% of the returns could deviate from this average return by ±20.40%. Viewed on this basis, receiving the 'average' return is highly unlikely.

The table below considers the return if investors remain invested for a 20-year period. While the average return drops slightly, the volatility of the returns reduces significantly. The table indicates that 68% of the returns now vary between 12.73% and 16.61% (±1.94%), making it much more likely that you would receive the 'average' return. Importantly, their analysis showed that no investor would receive a return of less than 11% over any 20-year period. Viewed on this basis, equities fared better than any other asset class.

Volatility of returns (20 years)

Average return	14.67% annualised
Standard deviation	1.94% annualised
Returns < 11.07% p.a.	0

Source: adapted from Snyman & Smith

When making decisions, ignore short-term noise

While we do not know what 2017 will bring, we can say that its importance in the life-span of your investment will diminish over time. Trying to time the market is difficult and fails more often than it succeeds. When we realise that we are invested for the long term, the perceived riskiness of a share portfolio is not as high as many investors think. The best advice for 2017 is therefore to stop worrying about the return you are likely to see in the stock market over the next week or month.

Your time would be much better invested ensuring you portfolio is suitably diversified and aligned to your needs. By doing so, you are far more likely to reach your destination successfully.

Reference: The information in this article is in part based on a presentation entitled 'Equity risk in a retirement portfolio' delivered at the FPI convention in 2015 by Paul Snyman and Prof Nico Smith.

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