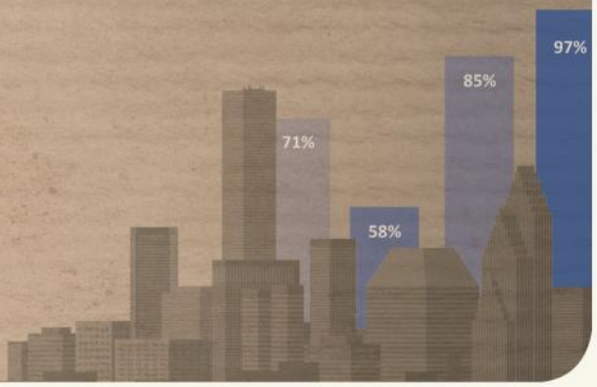
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FINANCIAL INFORMER



Quarter 3 / 2014



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Risky Business

Throughout the ages, many have tried to put into words exactly what risk is and what it means to them. Some have been more successful than others—cutting to the heart of the matter, appealing to sensibility, or just putting an idea that's difficult to explain into words we all can understand. Perhaps now is a good time to start understanding the difference between risk and volatility and what it means to you.

Should you be worried?

The recent devaluation of the rand, labour disputes in the mining and agricultural sectors as well as concerns about our economic future are unsettling investors in SA. The fact that the stock market performed very well recently is amplifying the fear as investors worry that the market cannot continue going up for much longer. Should you be worrying about this too? More to the point, what should really worry you – uncertainty, volatility or inflation?

Volatility is not risk

Reading marketing material from fund managers who brag about the low volatility of their funds as if this means that their funds are somehow less risky than their competitors is, arguably, a pointless exercise. One cannot equate volatility with risk, especially if you are a private individual who needs to make smart, long-term investment decisions. If you are trying to generate real capital growth, you should be praying for volatility. Investments with no volatility are either very low risk and stand little chance of beating inflation, or they are Ponzi schemes that promise both stellar growth with low volatility (which is just too good to be true).

The opportunity of uncertainty

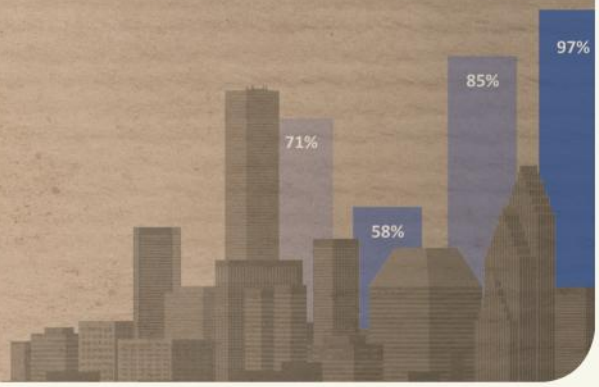
Where would you rather invest your money today: in platinum miners or the listed property sector? A large number of people would prefer listed property. The returns have been great and there is a good chance that these companies will generate income and profit in the next few years. What about platinum? Well, the unions seem hell-bent on destroying their source of employment in a lethal game of chicken to get higher wages for a reducing number of employees. Some platinum miners are even being publicly targeted by government - never a good sign for investors.

However, savvy investors (not of a nervous disposition) would seriously consider the platinum miners rather than listed property or the retailers in SA. There is good value in platinum miners and they have no international competition so they have a natural monopoly. The uncertainty facing the sector is precisely what creates the investment opportunity

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Mark Wenning's

FINANCIAL INFORMER



Quarter 3 / 2014

and hence the potential (this is not advice but merely an example of character).

Manage the rollercoaster

Most international markets, including SA, have performed very well recently. So volatility has reduced and most equity investors are in a comfort zone. This is probably a good time to start worrying; complacency with equity investments is never healthy. The probability that equity markets will generate reduced performance in the years ahead is increasing constantly. It is going to be difficult for most asset classes to beat inflation in the next three to five years.

So, should you sell out of equities? Definitely not, however it would be a good idea to diversify your portfolio across a range of sectors and asset classes. No one knows if the stock markets will continue to run for the next year or three and the savvy investor would prefer to earn dividends rather than interest on cash. The only effective strategy for managing your assets in volatile conditions is to be optimally diversified. The best investors never invest with absolute conviction because they realise that the stock market will always do the unexpected in the short term. This means they don't bet the house on one particular strategy.

Smart investors will allocate some capital to one strategy but if they are wrong, they will have capital allocated to other strategies too so that they do not take unsustainable losses. Absolute conviction with investments is always fatal to capital growth.

Inflation is the real enemy

Over long periods of time, your real concern should be about the effect of inflation on your money. If you do not invest in productive assets like shares and commercial property, you are guaranteeing the value destruction of your capital. This is especially true if you invest in cash and other 'low risk' assets because you want to avoid volatility. This is not a good strategy for long-term investing, productive assets are by their very nature volatile.

Ideally you should focus on the income from these assets. If the income they generate increases faster than the inflation rate, then the volatile nature of the capital invested is not as relevant. It is one of the reasons why Warren Buffett avoids IT companies; he cannot predict their income in the next ten years and therefore allocates his capital elsewhere.

If the markets do take a beating in the next year or two, it will probably be a good idea to increase allocation to shares beyond your normal targeted percentage but to always maintain some asset class diversification, just in case.





"Only those who will risk going too far can possibly find out how far one can go".

T. S. Eliot

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Mark Wenning's

FINANCIAL INFORMER



Quarter 3 / 2014



Spending Spree

For most people, investments consist of traditional asset classes like shares, bonds and cash. For the super-rich though, the term "investment" can be extended to include what are known as "collectibles". A collectible is any physical asset that appreciates in value over time because it is rare or it is desired by many. Listed below are some of the most expensive collectible items ever recorded. However, investing in collectibles should come with a major health warning: while some of the items below might prove to offer decent returns for their purchasers over time, the general consensus is that nothing can beat the returns offered by traditional investments like shares and bonds.

WORLD'S MOST EXPENSIVE PAINTING $250m (R2,6 bn)

The Card Players is a series of five oil paintings by the French Post-

(Continued on page 4)

10 Estate Planning Tips

Estate planning is certainly not something that most people look forward to. However, it is imperative to make sure that everything you have worked long and hard to acquire ends up in the right places after you die.

Estate planning is more than simply having a Will, and many other aspects need to be considered. Below are ten estate planning essentials that should be considered.

1. Review / update your will:

Having a Will is the cornerstone of any estate plan. For anyone with children the consequence of not having a Will may be devastating. Once you have a Will, it is important to review it regularly, and also to ensure that your family know where to find your Will when you aren't around to show them.

2. Appointing guardians for minor children:

This issue is often overlooked by parents, especially as a surviving parent remains guardian in the event of the death of the other parent. However, couples should always stipulate a guardian for their children to cover the eventuality of their simultaneous death. Deciding who will raise your young children should you die is a tough task - so tough that many parents never do it. Some just procrastinate, while others find themselves deadlocked, unable to agree with their partner over a suitable candidate. For parents who have minor children, it is imperative to take time and special consideration when deciding who will take guardianship of their children in the event that they die. Your nominated guardian should be stipulated in your Will.

3. Review beneficiaries:

As your family situation changes over the course of a lifetime, you may need to change the names of beneficiaries not only in your Will but also in life insurance policies and other documents that list beneficiaries, such as trust deeds and group life funds.

4. Appointing trustees for minor children:

Trustees should not be confused with guardians – trustees are appointed in a Will to administer monies inherited by young children, or heirs who are not capable of doing so. Guardians look after and care for minor children. The appointment of trustees is crucial for inheritances by minor children (i.e. under 18 years) as in the absence of provisions in a Will creating a trust, a minor child's cash inheritance must be paid over to the Master of the High Court's Guardian's Fund for safekeeping.

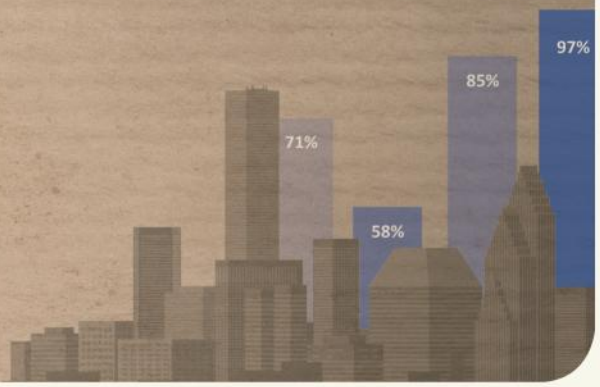
5. Record-keeping:

It is a traumatic time for the surviving family when someone passes away. This trauma can be exacerbated when your loved ones cannot find important documents, keys to safety deposit boxes, financial statements and other necessary infor-

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Mark Wenning's

FINANCIAL INFORMER



Quarter 3 / 2014



mation. It is essential to create a list of where all-important information can be located and give the list to someone you trust.

6. Donations:

In terms of current legislation, a person is allowed to donate up to R100,000 each tax year, free of donations tax, to children, trusts or other persons. There is no limit on the amount that spouses may donate to one another tax free. By making donations, large estate can be reduced to avoid significant estate taxes.

7. Estate taxes:

There are various ways to limit the taxes payable on your estate (such as estate duty and capital gains tax), depending on the size of your estate and your family situation. It is worthwhile to discuss the options available to you with me regarding your Estate Planning options as this may lead to an effective and financially beneficial structure for your estate.

8. Liquidity:

One of the most common problems in winding up an estate is the situation where there is not sufficient cash to settle the estate's liabilities, such as mortgage bonds, vehicle finance, taxes and winding-up costs such as executor's fees and conveyancing costs. In such a situation the outcome can be a forced sale of assets (such as the family home). Life insurance is an easy and affordable way to provide estate liquidity.

9. Offshore assets

If you should have offshore assets when you die, you'll also have a foreign estate that will have to be administered. Each country has its own legislation dealing with inheritance and the signing of Wills. Your South African Will won't necessarily meet with the legal requirements of the country where your assets are situated. A solution is to execute a separate Will in the foreign jurisdiction dealing only with those assets.

10. Make a living will:

Many people today draw up living wills. A living will is an advance document reflecting a person's wishes regarding the type of medical care he or she would or not want if the person lacks the physical capacity to communicate his or her needs, especially where there is no hope of recovery or significant improvement. One of the most important roles of a living will is that it may be the only written evidence of what a person's wishes are.



(Spending Spree Continued from page 3)

Impressionist artist Paul Cézanne. Painted during the 1890s, the versions vary in size and in the number of players depicted. One version of *The Card Players* was sold in 2011 by private sale to the Royal Family of Qatar for a price estimated at between $250 million and $300 million, making it the most expensive work of art ever sold.

WORLD'S MOST EXPENSIVE WRISTWATCH : $55m (R577m)

At a cost of US$55 million, a new watch - which its makers claim to be the world's most expensive - is proof that time really is money. Called the *Graff Hallucination*, it was designed by London jewelers Graff Diamonds. The ladies watch was unveiled at the Baselworld watch and jewelry fair in Switzerland in May 2014, is encrusted with 110 carats of colourful rare diamonds.

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