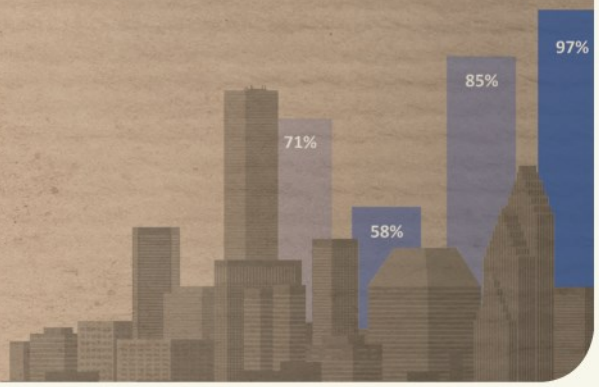
Mark Wenning's

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Pocket Money

The interest rate cut by the South African Reserve Bank (Sarb) may put extra money in your pocket if you have debt or a mortgage bond. However, more significantly, it signals growth prospects for the economy and could even prompt you to find ways to improve your financial situation over the long term.

The Sarb's monetary policy committee decided to cut the repo rate (the rate at which the Sarb lends money to the banks) on 29 March 2018 by 25 basis points to 6.5%. The last cut, also by a quarter of a percentage point, was in July 2017.

Good for some

Commercial banks will follow suit by dropping their interest rates on both savings and debt.

Luigi Marinus, a portfolio manager at PPS Investments, says the rate cut offers welcome relief for South African consumers ahead of the recent one-percentage-point increase in the rate of value-added tax. "Investors view the rate cut as 'growth positive' for the South African economy, which has experienced disappointing growth in recent years. The significant progress made within South Africa in this quarter bodes well for promising economic growth prospects," Marinus says.

Junk avoided

Herschel Jawitz, the chief executive of Jawitz Properties, welcomed the news. "With the latest inflation figures comfortably within the 3%-to-6% band and the downgrade risk from Moody's avoided for now, the Reserve Bank needed to show consistency of policy," he says.

Jawitz says that, according to the latest research from First National Bank, consumers are in a better financial position in terms of debt-to-income levels, and this will be further improved by the rate cut.

Use to your advantage

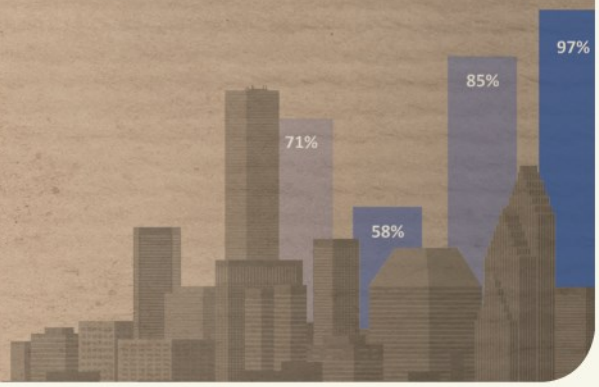
The two main ways in which you can use the rate cut as a stepping-stone to financial freedom are by paying your debts off quicker and by revisiting your investments.

With the repo rate dropping from 6.75% to 6.5%, the banks' prime lending rate, which is also the home loan base rate, will drop from 10.25% to 10%. This will translate, for homeowners, into a saving of R151 a month on a 20-year home loan of R912 000 (the current average approved bond size). The minimum repayment payment of R8 952 on such a loan will now drop to R8 801.

The best way of using this extra amount is by maintaining your bond repayments at their current level. By doing this, the average homeowner stands to shorten his or her overall loan repayment period by 12 months – and save more than R73 000 on the total cost of his or her home.

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Debt buster

Another opportunity for South Africans caught in a debt trap is to pay off their liabilities quicker. Last year, a survey reported that 16% of household income was going towards debt repayments, such as personal loans, store accounts and credit cards.

It's not possible for everyone to become wealthy, but it is possible to be financially free of debt. Despite how South Africans view their current financial situation, financial freedom and the security it brings is attainable by reducing your living expenses, eliminating loans and ensuring that your income is greater than your expenses. People with outstanding loans should take the opportunity of the lower interest rates to pay back their debt as quickly as possible.

Piggy bank

A rate cut is also the perfect opportunity for first-time investors saving money in a bank account to consider investing in a unit trust fund instead.

While a reduction in the prime interest rate is good for the economy, it isn't great for South Africans saving money in bank accounts. Consumers with savings in interest-bearing vehicles will earn a lower return on their hard-earned cash."

Long-term data shows that it took 92 years to double the real value of a cash investment, based on historical average returns, whereas equities (shares in companies listed on the stock exchange) needed only nine years to do the same. However studies have also shown that only 2% of South Africans are investing discretionary money in an equity-based investment vehicle.



Cash is good for short-term needs and provides relative stability, but cash saved in a bank account or fixed deposit is seldom able to deliver real growth over the long term, as opposed to equities (see side article), which have proven to outpace inflation. Another benefit of unit trusts is the financial security they bring.

Fenced in

Unit trusts are ring-fenced, meaning that contributions made by investors towards a unit trust remain separate from the unit trust company. Should there be issues with the financial stability of the institution, the investors' money is protected, as it is held by an independent trustee and, unlike fixed deposits, investors can access money in a unit trust with only a day or two's notice.

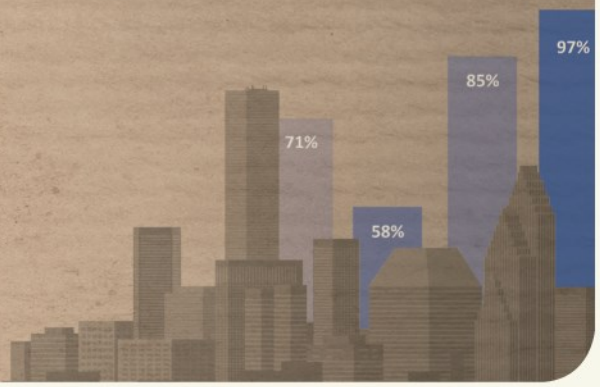
The old saying that every little bit helps rings true here. While the drop in the interest rate may seem small it is nevertheless something and it shouldn't be squandered. Paying off a home loan sooner or investing the saving is a great start toward financial independence.

What are Equities?

Equity investors need to have a longer-term investment horizon of about seven years or more to fully benefit from their equity holdings. They should therefore have a longer-term investment goal - like retirement - and be willing to ride out the ups and downs of the equity markets, ignoring the short-term news flow. Those who switch in and out of the market frequently have been shown to earn lower returns over time.

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The SMART Model

The SMART model is an effective guide for defining objectives. Let these 5 money-saving tips guide your resolutions to make 2018 a financial game changer:

Specific

so that you know exactly what you are aiming for and how you are going to get there;

Measurable

enabling you to keep track of your progress and assess how closely you have really met your goal;

Achievable

so that you can take on the challenge with confidence and not become overwhelmed by a task that is too ambitious;

Relevant

it is easy to come up with an array of good, creative objectives in a free brainstorm, but all of them may not get you to your desired end goal; and

Time-bound

deadlines place healthy pressure on you to succeed.

The Business of Estate Planning

Most business owners place much of their effort into meeting the daily demands of running their own business and often neglect to plan for what will happen to the business when they are no longer there to run it. A business often represents a substantial portion of the business owner's estate and continuity of a business interest is of major importance.

Careful planning is necessary to ensure that a business continues uninterrupted by an owner's death or disability and that his or her heirs receive fair value for the business.

Paper trail

In many small to medium sized businesses, the arrangements between owners following the death or disability of one of them are seldom committed to paper. Partners (or co-shareholders) tend to work on trust and when one dies without there being a written agreement, disputes may arise.

The death or disability of a business partner may have disastrous consequences for the business, the remaining owners and the family of the deceased or disabled owner. These include:

- Replacement of a partner (including a co-shareholder in the case of a company) or sole proprietor by an heir who may not be qualified to run the business
- The surviving co-owners may be unable to purchase the deceased owner's share, resulting in the sale of the deceased's interest to an outside party
- Possible disagreement between the surviving co-owners and the heirs of the deceased regarding the valuation of the business
- Loss of business opportunities and client confidence due to the uncertainty of the continuation of business

Buy-and-Sell

The surviving co-owners may have to raise finance to repay the deceased owner's credit loan account to his estate.

The credit rating and credit facilities of the business may be adversely affected.

The fairest and most effective means of buying the interest of a deceased or disabled business owner is by providing in advance for such a contingency through a Buy-and-Sell Arrangement. Funded by a life assurance policy, the ability to finance such an agreement is assured, regardless of the timing of such an unfortunate event. The arrangement should be recorded in an agreement, commonly known as a Buy-and-Sell Agreement.

The benefits of a Buy-and-Sell Arrangement are:

- Ensures that in the event of the death of

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a business owner, the surviving owners have the funds to retain control of the business

- Provides for business continuity
- Ensures a fair and predetermined price for the heirs of the deceased owner or sole proprietor
- Preserves the goodwill and strengthens the creditworthiness of the business
- Defines the method valuing interests and specifying co-owners' rights
- Provides finance for the surviving owners to buy the loan account from the deceased owner's estate
- Policy proceeds on the death of the life assured are free of estate duty (provided certain legal requirements are met). In that way there is no duty on the proceeds of the insurance, failing which the deceased owner's estate could effectively be taxed twice, on both the business interest and the policy proceeds.

It is important to seek professional advice in structuring the Buy-and-Sell arrangement to ensure it suits the specific needs of a business. The structure should then be reviewed regularly and the valuations and insurance policies updated. This will ensure not only that a business owner's heirs receive the full value of the business assets, but also that they are not involved in disputes, confusion and resentment when the business owner is no longer there.

Direct vs Indirect offshore investments

Before you take the plunge investing make sure you understand your motivation for investing offshore, as well as the implications of your choices. It should be a strategic decision taken with the construction of your overall portfolio in mind and as part of a carefully crafted, holistic financial plan.

One of the first choices you need to make is between using a rand-denominated offshore feeder fund ("asset swop") facility and investing directly in offshore unit trusts. The best option (or combination of options) is the one that will most suit your needs and that will best complement your overall financial plan.

Although rand hedging is the main reason many people invest offshore, investors already gain substantial rand-hedge exposure through JSE-listed companies that generate their earnings abroad. Keep in mind that, because your expenses are priced in rands and are linked to South African inflation, moving too much of your portfolio offshore could result in a number of problems. Rand-denominated offshore investments are ideal if you don't necessarily want to expatriate your capital but want to take an investment view.

Various rand-denominated offshore (feeder fund) unit trusts are available. Typically, this is the cheaper and more easily accessible option when diversifying your portfolio offshore.

You may want to consider investing directly offshore if you plan to access your money offshore – for example, if you plan to emigrate, have offshore liabilities, live overseas part of the year, or expect that your children will study abroad.

This involves taking money out of South Africa, which needs to happen via an authorised dealer. Once the money is physically out of South Africa, it can be invested in offshore markets in a foreign currency by using the offshore capital investment allowance granted to the authorised dealer.

Investors can use their personal single discretionary allowance of R1 million per taxpayer per calendar year (which does not require tax clearance from Sars) or their foreign capital investment allowance of R10m per taxpayer per calendar year (which requires Sars clearance).

Main differences between rand-denominated and direct offshore investments

	Rand-denominated	Direct investment
Invest in:	Rands	Foreign currency
Exposure:	• Globally • To foreign currencies	• Globally • To foreign currencies
Limits:	None	• R1m a year without tax clearance • R10m a year with tax clearance
Access to investment:	Locally, in rands	Offshore, in foreign currency
Estate planning and tax:	Simpler, as in many cases there is no need to consider foreign legislation.	Consideration must be given to foreign legislation. Specialist fiduciary and planning services may be required.

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