



Classic FM Business with John Fraser, 20/07/2008

“INFLATION,”

with Mike Estment CEO NFB Financial Services Group

JOHN FRASER: Suppose you retire on a fortune and that must have happened to some people in the old Rhodesia which turned into Zimbabwe, their currency spiralled into silly levels of inflation and presumably they are in dire straits. That may be an exaggerated scenario for anyone in South Africa, but nonetheless inflation is high - what is it doing to people who are trying to plan or maybe have already retired. One man who should know is the CEO of NFB Financial Services, Mike Estment. Inflation is a real enemy of wealth creation isn't it?

MIKE ESTMENT: Indeed it is a big challenge. If you're investing in assets or you're participating in the economy, you stay in touch because the fact that you're in the system means that you can price yourself accordingly. But as you said, retirees are in a very different place and in fact retirement planning for more conservative investors is becoming a great challenge for us.

JOHN FRASER: Is there much somebody can do who is in that scenario, who is living on a fixed income and sees the value of what they have being eroded?

MIKE ESTMENT: An excellent question. Probably one of the most important and valid points now is not to panic, because one often sees in the formal financial services industry, people being tempted into taking bets and doing things that are inappropriate and way past their tolerance for risk, not only in terms of taking views on markets, but also taking views on higher rates of return offered by who knows who in the media. These unregulated loans and higher risk is typically what brings higher returns. So a word of advocacy there is to be extremely cautious and talk to the mainstream people about returns as it is tempting to extend oneself and take a bit of a view and if it doesn't pan out, you're then left in a much more compromised position with capital at risk, or capital lost, forcing you probably to take even greater risks on what remains.

JOHN FRASER: Lets go back 20 years, pretend this individual is 20 years younger, still working, still accumulating wealth, still planning for retirement or maybe not doing enough planning for retirement - to what extent should potential future inflation play a part in those plans?

MIKE ESTMENT: It's going to be an extremely decade because if one looks at common cause, everyone is saying that we're in what they're calling a super cycle on resources. If that's true then the biggest bugbear is probably fuel and then the basic minerals like coal and probably oil and steel. If those continue and persist in these extraordinary levels of cost, just for the raw material, never mind the processing thereof, we are facing a very tough decade. The point really is that to stay in the system where the system and blue chip shares or growth assets such as property will keep a pace with inflation makes a lot of sense. That's complicated though because if inflation remains high, typically interest rates remain high and the cost of borrowing to leverage a property remains high, and therefore the risk implicit in that remains high. So you're confronted with this dilemma - almost this conundrum of what is a safe haven, what is a decent return, cash yields are high, but then tax rates start playing a bigger role and if one is close to or retirement is fast approaching, you're typically advised to go out of the risk pool into fixed interest. The beauty about pension products is that they're not taxed and therefore the tax issue doesn't play a role. So for someone who is living off of their own cash, it certainly can and will play a role.

JOHN FRASER: Well certainly if anyone is a little worried, the transcript of this interview will be appearing on the Classic FM website, but just to conclude this, I suppose one of the central messages is that one has to be aware that things are complicated, that the individual is not necessarily fully educated in the options, the challenges and the opportunities, and therefore it is vital to get the right financial advice early enough so that you don't find yourself retired and broke.

MIKE ESTMENT: I think early enough is tomorrow. In many instances one finds that people work their entire life, particularly gullible and vulnerable are the institutional guys who are chasing depressed share prices. They've got a bucket full of share options and all those sorts of things put pressure on one, it takes your eye off your own portfolio and before you know it you're in a whole heap of trouble. The earlier you get into the compounding of real returns the better - that's always been good advice and will remain so forever. Education is important, choosing advice, the source advice, the cost of advice because the cost also impacts on your ultimate returns - all of those issues combined that the best advice there of all, is to get stuck in now and not avoid the nasty sense of loss or "I'm not going to make it" or just confront it. The issue is real, the advice is out there - I would advise your listeners around the country to embrace that challenge and let other professionals help them do so.