



Classic FM Business with John Fraser, 14/04/2009

“Investment Update,”

with Mike Estment, CEO Director NFB Financial Services Group

JOHN FRASER: Now it's time to bring in another guest on Classic Business - somebody who is in a difficult position because he has to reassure and advise people who are trying to build wealth for their retirement, for their golden years, and it's a shambles out there - the JSE is down, Simon and I didn't chat about the story that was in The Times this morning about the public pension funds losing a great deal of value because of the decline in the JSE, but it's happening out there. Mike Estment, the CEO of NFB, welcome to Classic Business.

It is a worrying time, isn't it, for the investor because you may have been saving for years and years and seeing your nest egg grow quite handsomely, but in the last year or so almost everybody who has at least been exposed to the JSE, has seen a bit of pain.

MIKE ESTMENT: Yes, probably up to 18 months ago we were spoiled for choice with high interest rates, so if you were ultra-conservative and you wanted a guaranteed return on capital, you could deal with the tax issues but you could certainly get a 12% - 13% return on money in what used to be called the “risk free rates”, i.e. bank deposits, or large institutionally backed assets. The markets were also in a form where one could almost take a dart and throw it at the market and you'd make a reasonable call. That changed, and coincidentally, interest rates have probably dropped by 3% - 4% on the depositor's side, and that's put people into a very difficult position. It's not a time to start taking abnormal risk unless you have reserves outside of those that are required to provide you with income. Also in the area of pensions many people have relied on trustees and asset advisors and managers in the belief that they'll get to age 60 or 65 and be able to comfortably opt out, and that has been put in question by the extreme volatility in markets and the bear trend.

JOHN FRASER: Mike, at NFB you deal with a lot of high net worth individuals who are planning for those golden years, for those retirement periods. Have you come

across people in the recent past who may have decided to work an extra year or two because what they were expecting to retire on just isn't there anymore?

MIKE ESTMENT: That has happened, it's factually happened and as recently as three or four weeks ago, and the best answer to give people is to be aware of emotion, to really have a look at and understand the cloth and cut it accordingly, and not have a magical number necessarily in mind, rather a return, rather a requirement, and can your assets safely meet that requirement. The choice between taking guarantees - guarantees never come for free, they always have a price attached and you have to understand that price, you have to talk to your advisor, be they a stockbroker, be they an investment advisory business, be they an accountant who looks after you and in who you hold store, who's advice you hold store. Talk to them about the reality, and probably almost work backwards - what do I require, what's the likelihood of inflation exceeding 10%? If it's going to be 5% or 3% or if the globe goes into a low recessionary place, then it's all about income. The game changes. We had a funny debate and a discussion at our asset management committee where we were talking about gold, and gold is a great asset in rampant markets and in inflationary markets, but the big detractor is it doesn't offer a coupon or an interest rate, a return other than capital. Now if you were in the UK or the US, you'd be earning nothing on cash, so gold has different implications because it's now competing equally with bank deposits and bonds and so forth. So in South Africa we still have a very high nominal interest rate, it's questionable where it is in real terms, but there is tax and tax has become a bit of a nigger in the woodpile - it's becoming very important because if cash is offering you 7% right now or 8% for a person with a couple of hundred thousand rand, after tax that's probably 5% or 6%. It's not a big number.

JOHN FRASER: Hearing what you were saying at the beginning of that answer, I get the feeling that you're a little nervous that some cowboys are going to be riding into town, some people offering unrealistic returns without necessarily underpinning your investments with a type of security that's going to guarantee that if something goes a bit wrong they will at least get their capital back.

MIKE ESTMENT: Thanks both for remembering that I did mention that and for the opportunity to warn the listeners that it's unbelievable how quickly people lose sense of the sovereignty of their capital and credit risk, as we call it, and the worry about the fact that their income return is dropping. You do not want to go into the press and pick up on one of these adverts that it's not for the editor to sanction or veto any advert - if someone pays, the advert can go in - and what one is going to see is a significant crazy property based returns in all sorts of other opportunities that are just mindlessly silly and people are going to be compromised by them. So the warning to the listener is to be very cautious around extraordinary returns in a hope and belief that it is going to protect an income that they were used to while cash rates at the big banks were 12% or 13% just a year ago.

JOHN FRASER: And it would be naïve, I suppose, to think that the only crook in the world is Bernard Madoff and he's safely behind bars now.

MIKE ESTMENT: He's easy to pinpoint now - he's a fellow who has obviously erred, he's got past some extremely clever people, so this isn't for an naïve, unthinking, but quite wealthy individual that 's going to fall for this. Really smart people have

been foiled and fooled by conmen over the last decade or so, and repeatedly through history. I just advocate extreme caution. Talk to your advisors, talk to your friendly accountant or attorney in who's advice you hold store in, and just be careful.