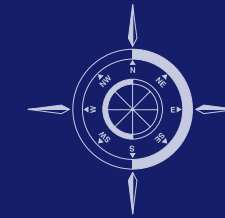


# Retirement Funds Update

# PROFICIO

## NFB FINANCIAL UPDATE



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The Taxation Laws Amendment Act 3 of 2008 came into effect on 22 July 2008.

### What are the implications?

Written by By Leona Trollip,  
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### Retirement Annuities

The requirement that a member had to retire by the age of 70 has been removed. Members may retire at any age after 55 with no upper age limit. This is ideal for members who are either still working or not yet ready to retire from their retirement annuities as increased longevity requires increased funding.

Pension and Provident Funds provided by employers will however continue to have normal retirement ages defined in their rules as these funds are a function of employment contracts.

If a member emigrates, they may now withdraw from their Retirement Annuities if they have not yet attained age of 55. To proceed, formal emigration must be recognized by the South African Reserve Bank for the purposes of exchange control. The benefit may be subject to tax depending on the member's specific circumstances.

### Preservation Pension/Provident Funds

The laws governing these funds previously required participation of the member's employer in the Fund before the assets could be transferred from the former employer's pension/provident fund. This requirement of an employer has been removed. Members still need to transfer their

benefits to the preservation fund within 6 months of leaving service.

### Linked Life Annuities

In the event of death, beneficiaries are no longer limited to a pension payment and may elect to receive the total proceeds as a lump sum regardless of whether the source of the funds originated from a retirement annuity or pension/provident fund.

Furthermore, the fact that the source is irrelevant allows a retiree to combine funds from various sources into one Linked Life Annuity. This is a welcome change allowing consolidation of ones funds if required.

### Partnerships

New partners as well as existing partners may now become members of a retirement fund. Previously, a member of a partnership could only become a member of a retirement fund if the partner was previously an employee and, on becoming a partner, was allowed to keep their membership of the fund as though they had not stopped being an employee. Contributions were then based on pensionable salary during the 12 months which ended on the day on which they stopped being an employee. ○

## FROM THE CEO'S DESK

Since we last chatted, we've had a change in government, a change in who owns who in world financial markets and one of the most severe market corrections in recent history. To add to this we have witnessed the local currency decline from levels solidly in the late 7's to the mid 10's against the US Dollar. This decline represents a weakening from a strong point of around the late 5 level. For those investors with offshore assets some protection from declining markets has been enjoyed but this has not come without varying degrees of concern over the safety of the very institutions which hold our funds on call. So, where to next and can one afford to begin committing to markets at this time? Similarly, if invested, should you remain invested or run for cover? In attempting to answer these questions it is critical to understand human behaviour, research shows that the S & P 500 has delivered 12% per annum compound over the last twenty years. During the same period, US inflation has been just 4% per annum compound. The average investor, unassisted by professional help, has only earned 5% compound. So where did the rest of the return go? The answer lies in our risk aversion being more than equally matched by our greed. In good times, we develop a need to stay for the long term and all roads point upward. When things turn down, we typically bank the biggest number and get really worried when this is compromised. Typical behavior would have us deal with the first correction. However, should this be followed by any further downward tendency a very ancient part of the brain kicks in; this is the fight or flight reflex.

Logic is defied in a scramble for cover and an overriding fear of total loss. The truth in these times is that the dramatic corrections, which become losses on sale, are followed, not always immediately, by periods of significant out performance. This last happened a few years ago and was triggered by a gentle but sustained period of low interest rates. As the economy slows down over the next period, perhaps even going into reverse, the Reserve Bank will be able to drop rates. This will have the effect, not only of stimulating borrowing, which will stimulate the economy, but also resulted in poorer returns to cash investors. They, including the largest Pension Funds, will begin to look around for decent real returns and the whole cycle will begin again. Shares with good dividends, well diversified Property Funds and other growth assets will once again resume their position as the asset classes of choice.

What is a little disturbing at present are the high relative interest rates. For tax payers, these rates need to be evaluated on an "after tax" basis. However,

for Pension Funds, who don't pay tax, the nett return is approximately 13% at present. This will need to drop to begin to entice them into riskier growth assets, not only as bargain hunters (which they already are doing), but also as the preferred long-term source of quality, inflation-beating returns. This explanation will hold true. It always does, but this is certainly cold comfort for investors buying investments with the sole purpose of providing themselves with income. One of the great challenges is that South Africans have a reputation for not saving enough in providing for retirement. Often their portfolios have little excess capital, offering the planner little scope to allocate funds to assets which are specifically there to provide predictable levels of inflation linked income and the luxury of applying the balance to local and offshore growth assets.

We have developed products, including an endowment underpinned by probably South Africa's premium property portfolio, which meets this income need. When markets are as volatile as they are right now we advise, in almost all circumstances, that investors stick to their guns. The task of the advisor is to recognize the facts as presented. At NFB we work backwards. First we understand the requirement for income. We then allocate assets to products and asset classes which are designed to deliver the returns needed in a fashion which will deliver the income, as tax efficiently as possible, comfortably deal with inflationary pressure and then look for investment niches which will provide accessible, tax efficient and, importantly for your heirs, Estate Duty efficient capital growth.

Perhaps there is space for an important final note regarding Estate Planning. When last did you have your, your spouses or your parents' wills checked and updated? Both NFB East London and NFB Johannesburg enjoy very qualified skills in this arena. If you are at all like me, this is one aspect of my structure that suffered from neglect until my advisor prompted me to update both mine and Lisa's wills and our Family Trust Deed. You are invited to ask your advisors for assistance. All we need is a copy of your will and Trust Deed. The specialists in your area will then come back to you, firstly with obvious updates and improvements, as well as to prompt you regarding any changes in your family or wealth, which might promote changes being made to these rather crucial documents.

A final word: hang in there, Warren E Buffett is climbing in and he has a nose for when there is value on offer.

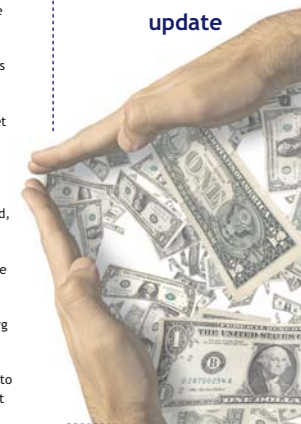
Mike Estment, CEO

### IN THIS ISSUE

from the CEO's desk

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### Contact us:

# THERE WILL ALWAYS BE AN EXCUSE NOT TO INVEST

written by Travis McClure  
Financial Advisor, NFB East London



**W**ith all the volatility and uncertainty in world markets and with the economic story changing weekly, and sometimes daily, some might resort to looking to the stars for the answers. So that's what we did. We looked up an astrology report on the markets and the prediction was as follows: "It looks like it will really start to get scary in late December with Pluto heading over the horizon and a bunch of activating planets to set it off. However the actual low point of the market will be early 09"

Of course we do not believe in all this astrology and lining up of the planets thing. What we do believe in however is the historical facts and how often history repeats itself. The market is a clever animal with strong survival skills and as bad as it may look it has been through many bad situations before.

You see there will always be an excuse not to invest. There is also no perfect time to invest. If one goes back in history there have been many negative and some catastrophic events through which the market has prevailed. The obvious place to start comparisons would be with the Great Depression from 1929 to 1933 moving on through the World Wars, various recessions, economic slowdowns, Cold Wars, apartheid; 1987 stock crash, the Asian crisis; Y2K anxiety, the tech bubble, terrorist attacks and the subprime crisis and now the credit crunch.

Each event had its own negative effect on economies and markets

and would have given investors the perfect opportunity not to invest and many reasons to disinvest. Current market conditions are no different and while doing research for this article, We discovered that there are some scary parallels with conditions we have seen before. When you read words like those below on the Great Depression page of Wikipedia you could be forgiven for thinking that it was a report from 2008.

*"American consumers and businesses relied on cheap credit...This fueled strong short-term growth but created consumer and commercial debt."*

*"Businesses began to fail as construction work and factory orders plunged...Massive layoffs occurred."*

*"Banks which had financed this debt began to fail as debtors defaulted on debt...Bank failures led to the loss of billions of dollars in assets."*

*"Bank failures snowballed as desperate bankers called in loans which the borrowers did not have time or money to repay. With future profits looking poor, capital investment and construction slowed or completely ceased. In the face of bad loans and worsening future prospects, the surviving banks became even more conservative in their lending. Banks built up their capital reserves and made fewer loans, which intensified deflationary pressures. A vicious cycle developed and the downward spiral accelerated."*

continue next page

## Growth of a hypothetical \$10,000 investment in the S&P 500 Index made at the beginning of a year directly following some of the worst events in U.S. history.

\$10,000 INVESTED ON JANUARY 1 OF THE YEAR:	ALL SEEMED NEGATIVE BECAUSE OF:	VALUE OF THAT \$10,000 ON DECEMBER 31, 2007
1942	Pearl Harbor Attack - 1941	\$20,348,237
1948	Berlin Blockade - 1947	\$8,463,963
1951	Korean War - 1950	\$5,058,932
1956	President Eisenhower suffers a heart attack - 1955	\$1,733,436
1964	President Kennedy assassinated - 1963	\$796,609
1969	Vietnamese Tet offensive; MLK and RFK assassinated - 1968	\$537,495
1975	President Nixon's resignation - 1974	\$606,921
1982	U.S. recession coupled with soaring inflation - 1981	\$243,058
1988	Stock market crash - 1987	\$93,322
1992	War with Iraq and U.S. recession - 1991	\$48,074
1997	U.S. barracks bombed in Saudi Arabia - 1996	\$23,676
2002	Terrorist attacks on the U.S. - 2001	\$14,241
2004	Iraq War - 2003	\$14,207

Source: Thomson InvestmentView Weisenberger, as of 12/31/07.

In spite of the similarities with 1929, it is not expected that this is going to be akin to the Great Depression. Most financial institutions are likely to survive and prosper in the years ahead and the stock market will recover and be higher than it is today, in the years ahead. [The graph \(below\)](#) illustrates how the market has not only survived but thrived through all these hardships.

The table (left) looks at a hypothetical situation of \$10 000 invested in the US-based S&P 500 Index made at the beginning of a year directly following some of the worst events in US history. In each situation the value of the investment has grown substantially and the longer the term of the investment the greater the final value of the investment.

Of course, investing in a crisis or a downturn is easier said than done and then what about those that are already invested?

As an investor you need to stick to your strategy. Sure you might be holding a healthier cash balance in these volatile times but you do not want to be selling holdings in quality companies. If you don't need the money you invested in the stock market today and your investment time horizon is 5 to 10 years then stay invested. This may sound clichéd but it holds true as history tells us that it is time in the market that counts.

No one likes volatility but successful investors love it. Just ask Warren Buffet! His strategy is long term and believes "once invested stay invested", but what he is the master of is realising opportunities and

investing only when he sees value. He recently invested \$5 billion into Goldman Sachs at a time when everyone else is running from banks.

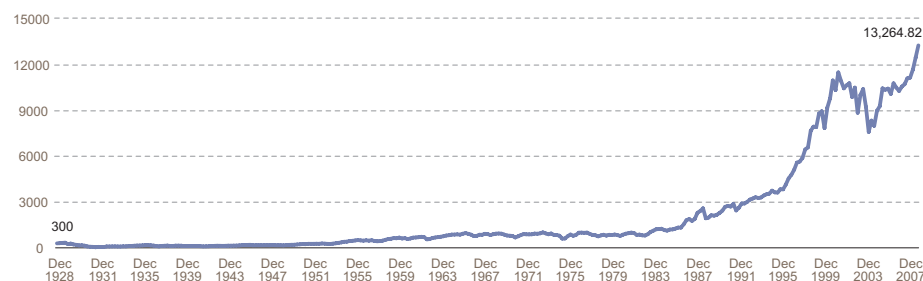
Don't panic! If you have been risk-profiled correctly and have a long-term strategy there should be no need to panic sell.

Tough times will test your resolve and nerve and it is likely that you will find that you do not have the stomach for the riskier assets that you thought you had. Review your risk profile and in time adjust the asset allocation to suit your profile.

Diversification, as always, is key and if you have a well-diversified portfolio you will have some protection from the market. At the same time you will also enjoy the upside of a market recovery. Of course you may need to adjust your weightings to each asset class as the markets dictate. Certainly your equity and property allocation would have diminished over the last year based solely on performance, but it is likely that these holdings would have been overweight in your portfolio owing to their outperformance over the past 3 to 4 years. It is therefore important to review and rebalance the asset allocation of your portfolio with your financial advisor to ensure that you are not overexposed to any one particular asset class.

There is no doubt that the current market is in crisis but history shows us that this crisis will eventually pass once panic subsides and rationality begins to reappear. Consistent strategy and a cool head is key. Opportunities will just require little more effort to identify. ○

## Dow Jones Industrial Average (DJIA) closing price from December 1928 through December 2007



1933 Depression	1953 Soviets get H-bomb	1973 Inflation and oil crisis	1993 World Trade Center bombing
1934 Depression	1954 DJIA at 300	1974 President Nixon resigns	1994 Whitewater investigation
1935 Dustbowl	1955 Racial tensions escalate	1975 Recession	1995 Oklahoma City bombing
1936 Spanish Civil War Begins	1956 Suez crisis	1976 Economy slow	1996 Barracks bombed in Saudi Arabia
1937 Recession	1957 Soviets launch Sputnik	1977 Inflation rages	1997 China resumes control of Hong Kong
1938 Pending World War	1958 Recession	1978 Interest rates soar	1998 Clinton faces impeachment
1939 WWII begins	1959 Castro in Cuba	1979 Iran hostage crisis	1999 Y2K anxiety
1940 France surrenders	1960 Soviets down U.S. U-2	1980 U.S. boycotts Olympics	2000 Stock market bubble bursts
1941 Pearl Harbor	1961 Berlin Wall goes up	1981 President Reagan shot	2001 Terrorist attacks on the U.S.
1942 Price controls	1962 Cuban Missile Crisis	1982 Recession	2002 Corporate scandals
1943 WWII continues	1963 President Kennedy killed	1983 U.S. invades Grenada	2003 Iraq War
1944 Rationing	1964 Gulf of Tonkin incident	1984 DJIA at 1500	2004 Multiple Florida hurricanes
1945 Recession	1965 Race riots	1985 Economy sluggish	2005 High energy costs
1946 Cold War	1966 Vietnam War escalates	1986 Libyan tensions	2006 War on Terror
1947 DJIA at 200	1967 Israeli War	1987 Stock Market crash	2007 Subprime mortgage crisis
1948 Berlin Blockade	1968 Martin Luther King, Jr. shot		
1949 Soviets get A-bomb	1969 U.S. begins Vietnam exit		
1950 Korean War	1970 Cambodia		
1951 U.S. Tests H-bomb	1971 Soviet Space Station		
1952 Korean War continues	1972 DJIA at 1000		

Sources: Animatedallas.com, as of 12/31/07. Timeline of the 1980s, 1990s. National Bureau of Economic Research, "Business Cycle Expansions and Contractions." The Mountain Times, "World Events of 1960-1969." Yahoo Finance.