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Being well or rich

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For some reason greed and power is part of humanity. Not long ago I read about the bankruptcies of both Boris Becker and Johnny Depp (not even to mention Naas Botha). It makes you wonder *what* we need, or *how much* we need? They are not the only celebrities who have been victims of their own success. I suppose we could all ask ourselves whether we are good stewards with what we have. So, how much do we really need, or want? It just seems easy to squander away any amount of wealth. As Benjamin Franklin frankly put it: "*A small hole can sink a large ship*." Take for example the preposterous lifestyle of Boris Becker: he wasted £100 million in a short time (please don't convert that amount into Rands). An article in Vanity Fair outlines the state of Johnny Depp's finances. He apparently made $750 million in 17 years and spent all of it on extravagancies beyond imagination. At one point his expenses apparently ballooned to more than $2 million a month! It does show us that no one is immune to poor budgeting or out of control habitual spending.

Planning ahead

We do experience turbulent times in and outside of South Africa. Financial planning questions are equally applicable to younger people who are still saving for their future, as well as those who have already left employment – by implication those who have accumulated wealth. Financial articles, including advertisements, try to address this relevant topic on a regular basis. There are no easy answers, because personal circumstances and needs differ vastly. Any generalisation may highlight a symptom, but does not take the place of sound personal planning per se (a proper diagnoses). What everyone should pay attention to could perhaps be the following:

- **Increased life expectancy** is a reality and the so-called "retirement" at 65 has become a misnomer. Even more so it is hard for many to scale down their lifestyle in order to stretch the sustainability of capital. Countries with state pensions (or welfare) have already increased the official retirement age beyond 67. Medical science has greatly contributed to our longer life expectancy, but it also comes at an increase expense. During retirement, it is therefore a double whammy! You live longer and it costs more in medical expenses. Your financial planning must account for this. It is therefore advisable to plan for additional sources of income (a hobby, or interest) or to continue to work well beyond the age of 65. That is if AI (artificial intelligence) and robots haven't replaced us!
- **Lower returns** over the next few years will average out the exceptional returns of a few years ago. It's wise to use conservative estimates within your long-term projections (30 plus years) to provide for unexpected volatility.
- **Deferred spending** is in essence saving for the future. In general, it seems as if people have saved too little. The age-old lesson: first save and then spend what is left over. Not the other way around. There is no alternative to a disciplined approach. The baby boomer generation was forced to contribute to retirement funds. Unfortunately, the modern mantra is instant gratification. Or worse, "I can start saving later". The lottery and young billionaires are a reality, but very few are that lucky (take note that there is a difference between *rich* and *wealthy*). For most of us, there is only one reliable answer and that is <u>regular savings over a long period of time</u>. This does require budgeting and personal responsibility. Plan regularly (it includes a good tax strategy) and invest wisely across different asset classes; i.e. diversification.

The immense power of compounding

How long do I need to save, or how much do I need to accumulate? Below we tried to outline a financial calculation in order to save R1 million in <u>real</u> terms. Thus factoring in the effect of inflation. In other words the capital should keep its **purchasing power over time**. So if I have 20 years, how much do I need to save each month in order to accumulate R1 million in capital?

- 20 years; R2,153 per month
- 15 years; R3,421 per month
- 10 years; R6,072 per month

So if your investment period shrinks by 50%, you need to save 3 times as much in order to reach the same goal. The effect of compounding is astounding. No wonder Einstein called it the 8^{th} wonder of the world! Folks, who postpone their savings, unfortunately do tend to <u>run out of time</u>. Often factors beyond your control force individuals into retirement without the ability to have accumulated enough capital.

Bitcoin and more…

Our quarterly perspective will be incomplete without a few remarks on Bitcoin. The rise of crypto-currencies has been spectacular. Déjà vu! Once again individuals are lured into getting rich quick offerings. Please consider the following:

- Do you want to experiment or understand how the system works? Or, do you see it as an investment backed by something?
- What backs or is behind the so-called "*block chain*"? Who ensures the integrity, or will come to your rescue if something goes awry?
- Are you desperate? There is no such thing as easy money – easy come, easy go…

Here is a <u>link</u> to a balanced article.

Season greetings

As always, we would like to wish everyone a blessed Christmas and a joyful time with family and friends. It is a time of the year to ponder, reflect and re-evaluate our life goals. Once again thank you to all our clients for your support and patronage. We acknowledge the trust you have placed in our family business and we appreciate the long-standing relationships.