Check-in and checkup

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The use of screening tests in medicine is a well-established practice. Depending on your age and gender, most of us have undergone some form of screening in the past. Examples of medical screening tests are a glucose test, cholesterol test or a mammogram. The goal of a screening test is to detect a potential health disorder or disease where there might not necessarily be any symptoms.

Below are perhaps some screening questions that might help you assess whether you have an underlying "financial health" concern. If you have answered "NO" to any of these questions, it could indicate that there is an opportunity to improve your financial wellbeing.

1. Have you recently reviewed your will and last testament with an independent expert?

There are certain legal formalities that determine the validity of a will. If a will does not comply with all of these requirements, the document could be declared invalid. This might have far-reaching consequences for the heirs of a deceased. We frequently encounter wills that have not been signed correctly. The appointment of an executor, creating a testamentary trust for the inheritance of minors, appointing guardians for minors and reviewing your will after a divorce are examples of aspects that need close attention.

2. Are you aware of the different layers of fees/ costs associated with your investments?

Even though there has been a move towards greater transparency regarding costs in the financial services industry, high and hidden fees remain a major obstacle to your financial wellbeing. As a rule of thumb, we distinguish between three layers of costs when it comes to unit trust investments:

1. The advisor fee;
2. An annual administration fee, and;
3. A fund or asset management fee (this may often include a performance formula).

You have to add all three layers in order to determine the total fee; also known as the "Effective Annual Cost" or EAC. If you are not aware what the fees are for each of your investments, there is a risk that your investment might under perform due to high costs.

3. Do you know how much capital is required to sustain your dependants' lifestyle should you pass away, or become disabled?

There are many guidelines available to determine the amount needed in case of death or disability. In many cases we found that people are either over, or under-insured based upon their lifestyle needs. It is vital to do the necessary calculations and projections. Personal circumstances may vary. For a given required income, you should determine the sustainability of a capital injection.

4. If you are in the accumulation phase, are you contributing the maximum allowable amount to your retirement fund(s)?

SARS allows tax deductions for contributions to a registered pension, provident or retirement annuity fund up to the value of 27.5% of the greater of your taxable income, or remuneration. This deduction is limited to an annual ceiling of R350 000. Making contributions to a retirement fund leads to an immediate tax saving. All retirement fund contributions have to be evaluated in the context of each client's individual cash flow requirements, as well as the need to pay off debt. The allocation of capital between discretionary and retirement funds can be an important consideration.

5. Do you have sufficient funds set aside for emergencies?

A rule of thumb is that you should have between 3 and 9 months' worth of living expenses set aside for emergencies. These funds should be easily accessible and should be protected against the fluctuations of the market. If your home loan offers you an access bond, this could also serve as a contingency measure.

6. Do you know what the purchasing power of your money will be once you scale down, or stop working?

While investors save for retirement, they could be lulled into a false sense of security. Projections of the expected investment values at retirement often don't properly account for tax calculations. Further, an expected fund value is only meaningful if you have also factored in the effects of inflation. Even though this might seem like an obvious statement, it is fairly common that individuals do not realise that their investments would be "worth so little" once they retire.

7. Do you know how long your money will last once you retire?

Given your capital, many investors or retirees simply do not know how long they will be able to maintain their lifestyle. Various types of tax, rising living expenses (especially medical), below average investment returns and longer life expectancy can all have a negative impact on the sustainability of your capital. A financial plan with the relevant purchasing power projections is in our opinion essential to identify the risk of not outliving your money.

Some thoughts on the financial market...

The last few years have proven to be challenging in South Africa. Despite the recent positive political developments, the Johannesburg All-Share Index (JSE ALSI) has only returned roughly 5% per annum over the last 3 years. Even offshore investments did not do significantly better with the All Country World Index returning a meagre 7% measured in Rand terms. These below average market returns have translated into poor portfolio returns for investors. We want to remind clients of the following facts:

- Over time markets tend to return to a long-term average. We need to be patient;
- Inflation figures have also come down which have supported a real return; i.e. above inflation;
- The average return for the JSE over the last 50 years have been more than 6% above inflation;
- Depending on the underlying assets, investment performance unfortunately moves through cycles – similar to nature's seasons;
- By constantly "switching" or moving between strategies or funds (often to chase performance), investors might run the risk of "buying high and selling low";

We therefor encourage investors to stick with a long term financial plan.