Vickers & Peters
LIFESTYLE AND ASSET PLANNING

"Around the Table with Vickers & Peters Financial Planning"

Issue 02 – April 2007 **Quarterly Publication** *Compiled by Graeme Holt*

The Budget 2007/2008

I have highlighted below the areas of opportunity that the new budget has presented for financial planning and long term wealth creation for our clients.

- The increase in the interest exemption:

  Under 65's – raised from R16 500.00 to R18 000.00
  Over 65's – raised from R24 500.00 to R26 000.00

  The increase effectively allows an investor under the age of 65 to hold a risk free [e.g. money market] investment of up to R200 000.00 (yield @ 9% p/a) without incurring a tax liability. For over 65's this would increase to a lump sum investment of roughly R288 900.00.

- The CGT annual exclusion has increased from R12 500.00 to R15 000.00.

  With this portfolio restructuring (sale of an asset) becomes a bit more of a tax lenient exercise.

- From an estate duty perspective the abatement of R3.5 Million and the increase in the donation tax exemption from R50 000.00 to R100 000.00 allows for greater flexibility in terms of succession planning.

  The CGT exclusion on death has doubled from R60 000.00 to R120 000.00.

- Good news for all retirement funds with interest and rental income tax being reduced to 0%.

  This simply enhances the attractiveness for individuals to increase their level of savings for retirement.

  Lastly, with the reduction in personal income tax means that there should be some positive cash flow for individuals. This presents an opportune time to either save or consolidate debt. Depending on which option is more appropriate the relief granted by the minister should be used wisely.

On the Table this quarter…

The Budget 2007/2008 — *Page 1*
Market update: The last quarter — *Page 2*
On the table: Asset Allocation — *Page 3*
Why your Risk Policies should be reviewed — *Page 4*
Fiduciary footnotes — *Page 6*
At your service — *Page 7*

Market update – The last quarter…

Key Indicators	Last Price	1 Day	1 Month	1 Quarter	Year to Date	1 Year
JSE All Share	27,267.24	0.43%	6.68%	8.39%	9.44%	33.98%
S&P 500	1,420.86	-0.12%	2.43%	0.18%	0.18%	9.73%
Nikkei	17,284.17	0.00%	0.40%	0.36%	0.36%	1.33%
Rand/US$	7.26	0.62%	1.94%	-4.86%	-3.65%	-15.80%
US$/Euro	1.34	-0.12%	1.24%	0.51%	1.26%	10.14%
Gold $/oz.	664.50	0.11%	3.43%	3.75%	4.37%	13.85%

Source: Investec: 02 April 2007

Indications were for a market correction in early 2007 following the exceptionally strong run in the 3rd and 4th quarter of 2006 and Feb 2007 proved to be the decisive month.

World markets dropped on the 27th of February following the sell off in Shanghai amidst fears of a change in corporate taxation policies in China and slowing global growth – "Greenspan's speculation comments."

Although global equity markets were hard hit, particularly emerging markets (it was the biggest drop on Wall Street in one day since 9/11), clients did not suffer the same magnitude of losses. I have tabled below the 1st quarter returns of our houseview range of equity funds which form the equity "building block" of our CPIX target return portfolios.

1st Quarter - Jan 07 to March 30	
Fund	**% Return**
Allan Gray Equity	9.70%
Nedbank Rainmaker Equity	7.40%
Fraters Earth Equity	6.80%

As can be seen from the Fund returns above, performance has been attractive despite the fall in equity prices. It must be pointed out that all three equity funds have a Beta β*value which is lower than the market (ALSI).

Looking ahead the underlying fundamentals remain stable with stock selection being the key driver of performance. Baring any global shocks, opportunities for long term wealth creation remain intact, although this is definitely not a time to abandon a disciplined risk strategy.

We urge all our clients to remain focused on their long term objectives and following any lifestyle or financial change to please contact your financial advisor to review your financial plan.

Notes:
The fund returns do not include distributions or fees
***Beta β – volatility of the fund in relation to the JSE All Share Index**

On the Table: Asset Allocation – Managing Risk Part 2

As mentioned in the January edition of Around the Table, Vickers and Peters Financial Planning endorse target return portfolios ranging from CPIX +4% to CPIX +7%, depending on the clients risk profile and investment objectives. In this April edition we continue with part 2 of managing risk with a brief discussion on asset allocation and its merits in portfolio construction and in particular its role in the construction of our CPIX target return portfolios.

When it comes to investing the question most investors ask is about returns, past returns and possible future returns. Whilst historical returns are important and should not be ignored, investors seldom question the level of risk associated with these returns.

Asset allocation remains the cornerstone of the CPIX portfolios' target return objective and is aimed at improving the trade off between risk and return. The CPIX portfolios' asset allocation model simply weights the portfolio between different asset classes, each with attractive but independent performance cycles. In this way the investor can reduce the volatility of performance without sacrificing returns.

Importantly though, economic cycles affect different market sectors in different ways and at different times. Just as the world remains dynamic around us, we believe so too needs to be the portfolio's asset allocation.

Depending on the stage of the economic cycle and other variables, a tactical range for each asset class is used to complement the overall investment strategy. In other words each asset class weighting within the portfolio will change to either an underweight or overweight position, depending on the tactical range assigned to that particular asset class. The tactical range varies for each target return portfolio. This effectively allows the portfolio to "adjust" to market conditions incorporating in part an active management style as opposed to a passive approach.

By assigning different asset classes to the portfolio it can also attribute to a lower correlation to the overall market, both on the upside and the downside. However, the tactical range allows the investor to capture higher returns by exploiting periods of opportunity in cheaper markets.

In summary, asset allocation is used as a tool to manage risk. The trick is to correctly manage the asset allocation in a way that does not dilute performance or offset the long term investment strategy.

We believe this approach will continue to add value to our clients' investment portfolios as the risk/return trade off becomes more compelling overtime. Returns should always be viewed in relation to the level of risk associated with the investment.

The CPIX portfolios should be viewed as a long term investment strategy with a 5 year plus investment time horizon.

Why your Risk Policies should be reviewed

Perhaps the most neglected aspect of financial planning is the area of risk benefits. If one considers the enormous disparity in benefits and costs in the risk benefits arena, then it is difficult to justify the view that one is acting in the client's interests unless one can show the application of a scientific approach or methodology and some form of consistency in its application.

Vickers & Peters Financial Planning are pleased to inform you that we are one of the few FSP's that subscribe to a process that has been developed over the past 9 years. It is to date the only written document that focuses on telling clients when an insurer will not pay a claim. This is a paradigm shift from brokers who focus on selling you on price and non related benefits, such as cheap flights, discount on hotel accommodation etc. Although these are potential value add benefits, they are not the primary reason for putting risk benefits in place when looking at protecting our families or business interests. In the example that follows it will become evident not to base your decision on price only.

The association with MC² Risk Consulting Services, the intellectual capital behind the process, goes back for sometime now.

Example: Assuming you were presented with the following Table, which company's product would you purchase?

Table 1

	Life Cover	Disability & Impairment Cover	Dread Cover	Premium	Premium Escalation	Cover Growth	Guarantee Term	Cash Value
Company A	R 1000 000	R 1000 000	R 500 000	**R 980**	5%	5%	10 yrs	R 0
Company B	R 1000 000	R 1000 000	R 500 000	**R 890**	5%	5%	13yrs	R 0
Company C	R 1000 000	R 1000 000	R 500 000	**R 870**	5%	5%	12 yrs	R 0
Company D	R 1000 000	R 1000 000	R 500 000	**R 820**	5%	5%	15 yrs	R 0

Based on the fact that insurance is a grudge purchase, with an incorrect perception that it offers no real value, 90% of people would purchase **Company D.** However, if placed in the position to make an informed decision, empowered with some form of tangible, meaningful and consistent evaluation, people may choose differently.

<u>The Real Value or "V" Ratio</u>

The Real Value formula, in summary takes 3 reference points:

- Products certainty of paying the claim
- Value added risk benefits
- **Benefits not covered**

The formula takes the sum of the real value of the reference points, and expresses them as a percentage to price. This in essence provides the client with an equal qualitative score of products presented.

$$RV = \frac{\underline{M + C2}}{W} : Price$$

© MC² Risk Consulting Services

Now, if you were presented with the following table having the value table added which company's product would you purchase?

Table 2

Life , Dread Disability & Impairment Providers	Core Score	Ancillary Score	Benefits not covered	Score	Weighted Rating	Premium	"V ratio"
Company A	90	84	2 of 78	90	1st of 40	**R 980**	90%
Company B	86	72	3 of 78	85	11th of 40	**R 890**	81%
Company C	79	68	4 of 78	80	14th of 40	**R 870**	76%
Company D	81	27	33 of 78	0	36th of 40	**R 820**	36%

With the information of table 2 above at your disposal, you as a client can now compare the embedded qualitative and quantitative value of the various products; the process would surely be around comparing the 33 benefits not covered by Company D at a rate of R 820 per month versus Company A as an example who only has 2 benefits that they do not cover but will cost R 980 per month.

So in summary would you rather pay R 980 for a product rated 90% or R 820 for a product rated 36%, or would you choose something in between?

Did you know that there are 266 different risk options across 16 categories across 7 insurers in South Africa? You will be happy to know that we evaluate all 266 options. Because Risk is relative to the choices you make!

*VPFP partners **MC²** for Risk Consulting Services.*

*VPFP would like to thank **MC²** for their contribution to this edition of Around the Table.*

Fiduciary Footnotes

The Minister of Finance announced in his budget speech that the tax treatment of lump sum benefits from retirement funds would be simplified. The simplified proposals replace complex calculations (Formulae A and B) of the second schedule.

The current tax free portion of a lump sum commutation being the greater of R120 000.00 or R4500.00 x n, will be replaced with the following formula.

- The first R300 000.00 is tax free
- The next R300 000.00 will be taxed at the minimum rate of 18%
- Any balance will be taxed at 36%

- The maximum full proceeds available in cash will increase from R25 200.00 to R50 000.00

(The 1/3 commutable benefit restriction will still apply for Pension Funds and RA's)

The tax proposals by SARS to parliament's finance committee will be included in tax amendment legislation effective 1 October 2007. Please note that certain further refinements may be contained in the final legislation.

Further to this, SARS has issued a Retirement Fund Practice Note (Addendum B to RF 1/96) which adjusted, with effect from the 1 March 2007, the minimum and maximum rates for Living Annuity payments to 2.5% and 17.5% respectively.

Depending on the client's circumstances, the income level can now be justifying reduced to the minimum level of 2.5% if not required.

If you would like to discuss the potential impact any of the above issues might have on your current investments or retirement plan please do not hesitate to contact your financial advisor.

At your service…

Vickers & Peters

LIFESTYLE AND ASSET PLANNING

James Vickers
☎ Direct: +27 11 803 8105
E-mail: mailto:jvickers@vpfp.co.za

Ian Peters
☎ Direct: +27 11 803 8158
E-mail: mailto:ipeters@vpfp.co.za

Graeme Holt
☎ Direct: +27 11 803 7642
E-mail: mailto:gholt@vpfp.co.za

Tiisetso Ngwenya
☎ Direct: +27 11 803 7782
E-mail: mailto:tngwenya@vpfp.co.za

Marinda Combrink
☎ Direct: +27 11 803 7782
E-mail: mailto:mcombrink@vpfp.co.za

Jacqui Nolan
☎ Direct: +27 11 803 7399
E-mail: mailto:jnolan@vpfp.co.za

Marie Atkins
☎ Direct: +27 11 803 5619
E-mail: mailto:matkins@vpfp.co.za

Candice Otto
☎ Direct: +27 11 803 7689
E-mail: mailto:cotto@vpfp.co.za

Chris Ellis
☎ Direct: +27 11 803 7843
E-mail: mailto:cellis@vpfp.co.za

Our services include…

- Wealth creation and savings (endowments, unit trust investments, share portfolios, education plans)
- Risk cover - life cover, keyman insurance, partnership insurance, disability, dreaded disease and income protection
- Pre and Post Retirement Planning
- Tax advice
- Wills
- Estate Planning
- Group Pension Schemes

You will find us at our new home in Kathea House, 45 Wessels Rd, Rivonia. Alternatively you can write to us at PO Box 926, Rivonia 2128, or e-mail to **gholt@vpfp.co.za**

"Take calculated risks. That is quite different from being rash." – George S. Patton

Licensed FSP No: 28003
Registration No: 2000/012548/07

Vickers & Peters
LIFESTYLE AND ASSET PLANNING

If you would like to be removed from our mailing list we would appreciate it if you would stipulate REMOVE in the subject line of a blank e-mail message.