Vickers & Peters
LIFESTYLE AND ASSET PLANNING

"Around the Table with Vickers & Peters Financial Planning"

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Retirement Fund Taxation

The Taxation Laws Amendment Act No. 8 of 2007 was passed into law on the 8 August 2007 and now officially replaces the current formula used for the taxation of lump sum benefits. The following changes will be effective from 1 October 2007.

1. Taxation of lump sums at retirement and on death.

Formula A has been removed and formula B has been replaced with the following formula:

Taxable amount	Rate of tax
Not exceeding R300 000	0%
R300 000 < R600 000	18%
R600 000 < R900 000	R54000 plus 27% of amount exceeding R600 000
Exceeding R900 000	R135 000 plus 36% of amount exceeding R900 000

The above formula is applicable to both retirement and death lump sum benefits which accrue on or after 1 October 2007.

2. Withdrawal benefits

The taxation of withdrawal benefits from funds remains unchanged and are taxed in terms of section 5 (10) of the Income Tax Act at the members highest average rate of tax over the last two years assessed income.

3. Lump sum benefits not exceeding R75 000.00

GN 16 has been aligned with the new legislation which in effect allows the full retirement capital to be commuted for a lump sum if the value does not exceed R75 000.00. Previously this amount was R25 200.

4. Tax on lump sum benefits for persons below the tax threshold

Lump sum payments from retirement funds paid to persons who earn less than the tax threshold (R43 000 for persons under 65 and R69 000 for persons of 65 and older) will be exempt from withholding tax. Previously, members were subject to an 18% withholding tax which could be claimed back if they registered as taxpayers.

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.

Market Update – The last quarter…

Key Indicators	Last Price	1 Day	1 Month	1 Quarter	Year to Date	1 Year
JSE All Share	29,959.19	0.05%	4.53%	5.72%	20.25%	33.90%
S&P 500	1,526.75	-0.30%	3.58%	1.56%	7.65%	14.29%
Nikkei	16,776.49	-0.06%	1.25%	-7.51%	-2.61%	4.02%
Rand/US$	6.87	0.17%	5.04%	1.44%	1.78%	12.49%
US$/Euro	1.43	0.21%	4.70%	4.65%	8.16%	11.88%
Gold $/oz.	745.20	0.21%	10.66%	14.71%	17.04%	24.55%
FTSE 100	6,466.80	-0.30%	2.59%	-2.14%	3.95%	8.49%
MSCI World Free	411.92	0.14%	5.22%	3.03%	12.00%	21.77%
Emerg.Mkts US$	818.78	0.01%	13.54%	12.53%	31.66%	54.09%

Source: Investec - 01 Oct 2007

Global Risk Aversion (GRA) has been a re-occurring theme in the media over the last few months and has been sourced as the main reason for the recent fall in global markets. In this quarter's Market Update segment we will take a closer look at the GRA phenomenon and the impact it has had on the various asset classes over this volatile period.

So what is Global Risk Aversion?

Over recent years amidst cheap credit and a global economy awash with plenty liquidity, global investors went in search of higher yielding assets often with no consideration for the associated risk. With the general complacency in global financial assets and financial houses lending practices, investors overextended themselves to levels which inevitably would at some stage need to be corrected. Most recently the excesses of the US housing bubble have shown up with the implosion of the sub-prime market in the US. Usually property default would be contained to the banks and lending institutions alone, but in the US there is a sub prime market.

The sub prime market is a wide spread US practice of bundling high risk housing loans of low income borrowers together and repackaging it as unitized loan and selling it as a low risk instrument to other investors. These investors included private equity firms, hedge funds and institutional investors seeking higher yielding instruments. On the surface this might not be seen as such a fearful thing but as investors started to understand the true nature of the risk and the misrepresentation of the product, investors started panicking as they did not know which banks, hedge funds or institutional investors were exposed to potential losses.

Suffice to say that the recent sell-off in financial markets has resulted from the squeeze in liquidity and concerns that the woes in the sub-prime and collateralized debt markets are much more widespread than initially thought. According to one source the reason why equity markets have taken such a beating from the sub-prime sector is that some quantitative hedge funds with exposure to sub-prime mortgages have been unable to sell debt to finance their increased margin call. As a result they have had to sell equities at a loss just to raise the additional cash. Negative sentiment and emotional responses then exacerbate the sell-off as the de-risking exercise of portfolios and high***er*** risk positions starts to unwind. The real risk however lies in a spill-over to the US economic consumer and global economic activity.

Although markets remain at the moment data dependant and sentiment driven, the long term outlook for the global economy remains sound with many earnings reports still surprising on the upside. Valuations on the JSE have unwound from peak levels of around

17 to current levels of around 13. As a result our equity managers have seen some buying opportunities and will continue to buy into specific stock weakness.

We do believe that the mis-pricing of the more risky global assets has been boiling under the surface for some time and hopefully the clean out of US sub prime will enable the market to settle down and provide some impetus for the continuation of the secular bull market. We do however caution that the clean out of the US housing excesses will take some time as it makes its way through the system and as such we expect markets to remain volatile.

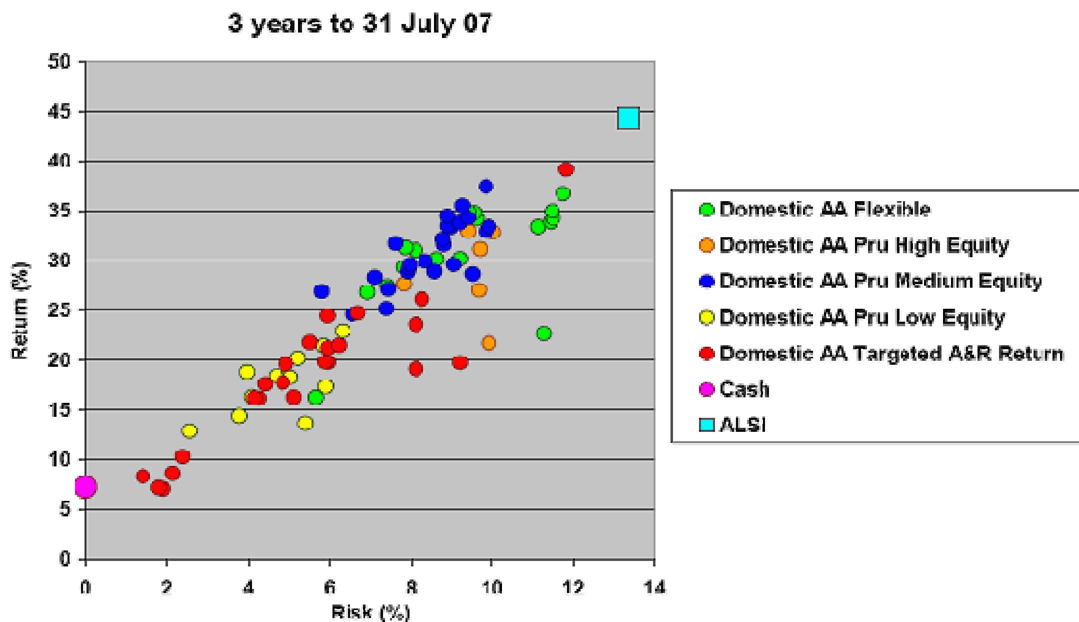
To give clients an idea to what extent the various asset classes were effected during the volatile period of 31 May to the end of August, I have tabled below the performance of the traditional asset classes, namely domestic equities, bonds, property, cash and offshore equities and bonds.

Table 1

Asset Class	Return – last 3 months
Domestic General Equity	-1.22
Domestic Bond	-0.98
Domestic Cash	2.27
Domestic Property	-1.28
Offshore Global Equity	-2.67
Offshore Global Bonds	2.73

Source: Morningstar

Graph 1 below illustrates the average risk vs return trade off between the various equity weighted "Domestic Asset Allocation" portfolios* for the last 3 years ending 31 July 2007.



Source: Morningstar - Micropal

So what does emerge? Firstly, we can see from **table 1** above, that there is no question about where investors would of liked to of being positioned for the duration of the correction – cash or global bonds. Secondly, it's a timely reminder for investors to take cognizance of the potential volatility associated with the more risky asset classes** – equities and property. Lastly, as can be seen in **graph 1**, that although cash would of being a good short term holding, the long term picture would be quite depressing for any investor with no exposure to equities. In summary, a well diversified portfolio, with the optimal level of equity exposure (determined by the clients risk profile) would have provided an acceptable level of risk vs return trade off – **see graph 1.**

I think what we are reminded about during times of uncertainty is whether or not we were true to our own risk aversion characteristics (tolerance to losing money) from the outset. It's also a good time to gain some perspective. By sticking to the implemented strategy and its corresponding performance objectives it provides some perspective into what's happening and eliminates the noise associated with short term volatility and its inevitable emotional responses.

Wealth creation is not measured in days or weeks or months. An investment horizon of years is the minimum time period any investment should be considered over, and the longer the period of time, the better.

So, take a step back from the radio commentators, daily newspapers and websites and get a little perspective. Look at the return on your investment over the appropriate period and you will see that what happens in one day, one week or one month really means very little. Look back on the last four years and see the real picture.

Of course nobody can predict with any meaningful accuracy the timing or the magnitude of a market correction. The best that investors can do is to make sure they are properly diversified according to their risk profile so that in the event of any downturn their losses are limited. A myopic view to investing is synonymous with speculation - don't lose sight of the long term objective.

*For illustrative purposes, the Domestic AA Prudential Low, Medium and High Equity portfolios in Graph 1 are comparable to VPFP's, CPIX +4%, CPIX +5% and CPIX +6% respectively.

**The ALSI dropped -15.31% between its high of 30 024 on the 13th July and its low of 25 428 on the 17th August. Over the same period the Property Unit Trust Index dropped -6.34%.

VPFP does have exposure to the **AVIVA Morley European Property Fund** and although the fund has been under pressure in recent months, like every other global property fund, we remain comfortable to retain this exposure within our offshore portfolios. Not only has the fund outperformed over the last 3 years in Euro (69.54% since Aug 2004) and added significant long term wealth to clients capital holdings but we feel the capital growth potential, although moderating due to a tighter ECB monetary policy, still remains attractive. This attractiveness is further enhanced when one considers property's second attribute - income distribution. The funds exposure to selected geographic regions with above average growth potential and the ability to alter its geographic holdings within the Euro region makes it a valuable diversifier within our offshore strategy. As such we remain comfortable with the fund manager and the management of the Funds investment process and do not recommend any immediate change to this strategic holding, unless – (a) the clients personal circumstances have changed or (b) the client has 25% or more in offshore property exposure. The fund does carry a high risk profile, aiming to achieve capital growth by investing in quoted equities of European property companies. The funds full track record since inception to 31 Aug 2007 is indicated below.

Fund Performance* (%) Share Class A

Cumulative	1 M	3 M	6 M	YTD	1 Y	3 Y	5 Y	Since launch
Fund EUR	2.14	-14.37	-14.99	-13.69	3.64	69.54	-	141.25
Benchmark EUR	2.05	-14.08	-14.38	-15.26	4.11	83.99	-	187.93
N/A	-	-	-	-	-	-	-	-
N/A	-	-	-	-	-	-	-	-

Annualised	1 Y	3 Y	5 Y
Fund EUR	3.64	19.24	-
Benchmark EUR	4.11	22.54	-
N/A	-	-	-
N/A	-	-	-

Calendar	2006	2005	2004	2003	2002
Fund EUR	43.03	19.35	33.76	-	-
Benchmark EUR	49.36	26.10	41.73	-	-
N/A	-	-	-	-	-
N/A	-	-	-	-	-

Is it time to change your investment objective?

A very interesting but worrying observation from the past few weeks' turmoil on the markets has been how investors are inclined to want to adjust their investment objectives to market movements. When the bull market was in full swing up until the volatility of the last few weeks investors were willing to buy into the benefits of a long term investment horizon. In some cases this was because they had built into their expectations the last four years' average annual return of 40%-plus on equity markets, which is unsustainable. Once markets started correcting and investors realized that equities in the short run are risky after all, they added another dimension to their primary investment objective of long term capital growth, that of no negative returns in the short term. Unfortunately, in direct equity investments this is close to impossible to achieve.

Equity market returns in the short to medium term are impossible to predict. Investors should ensure that they are correctly positioned according to their ability and willingness to take risk and should not be over (or under) exposed to asset classes that will make it difficult for them to achieve their investment objectives. Equity markets may be volatile in the short run, but some exposure is required in the long run if investors want to protect their capital against inflation. Investors should bear in mind that equity investments are an important tool in the creation of long term wealth. They should see themselves as part-owners of the companies they invest in and be more concerned with the underlying companies' fundamentals than the share price movements on a day-to-day basis. Share prices in the short run are determined by investor emotions while the company's fundamentals and it's ability to generate profits determine the long term direction of share prices.

As you can see from the table below equities have been the star performer over the last 35 years and would have adequately protected investors against inflation over the period.

The underlying asset classes since 1972 would roughly have yielded the following compounded average annual returns

Equities	22%
Offshore investments (MSCI - Rand terms)	19%
Cash	13%
Bonds	13%
Inflation	11%

Source: I-Net, Alphen Asset Management calculations.

The investment industry has become very competitive, which should have optimized returns for investors. Instead, in many instances it has resulted in a proliferation of products as well as an obsession with short term performance. This can result in irrational investment decisions. When the going gets tough it is important to focus on the merits of your underlying investments and only change them if you firmly believe that they are likely to keep you from achieving your long term investment objectives.

Is this the time to change those objectives? We think not. Enjoy the next quarter. We are hoping it will be better than the last.

We would like to thank Alphen Asset Management for their contribution to this edition of Around the Table.
www.alphenam.co.za.

Art and the S&P 500

Clear evidence of the enormous amounts of money in the hands of Russian oligarchs and successful hedge fund managers can be found at art auctions in London and New York. New price records are being set regularly, as some new collectors are more concerned with the acquisition of their target masterpiece rather than what prices the artist in question has been able to fetch in the past. This has the potential to disrupt the art market, in the same manner that hedge funds and derivatives have disrupted some commodity markets.

With this in mind, we came across an article on *Bloomberg* that told of an art dealer who bought a painting by Raphael in 1968 for $325. The painting was probably a bargain even at the time as there was some doubt as to whether the piece was authentic. That doubt was removed last week when the painting was sold for $37.3m, or 100 000 times what it was originally bought for.

Over 39 years that would be a staggering 34.8% annualised return. The S&P 500 Index appreciated at a comparatively glacial annual rate of 10.6%, including dividends, over the same period. Even Warren Buffett was left far behind as his company, Berkshire Hathaway, managed to return “only” 25% per annum over the same time.

Before rushing off to your neighbourhood art gallery to make a purchase, you may however wish to remember that the Raphael in question was purchased by an art expert, at a time when its origins were in doubt, and held for many years. The same factors are required for successful investment in the equity market, knowledge and insight, willingness to take risk and patience. It is extremely unlikely that quite such fantastic returns can be realised ever again without extraordinary skill or luck. A final sobering thought is that prices for old masters are currently still below the peak attained back in 1998.

5 Steps to filing your tax return

Step 1

Use the time before your tax return arrives to collect the supporting documents you'll need to complete your tax return. They are:

- IRP 5 from your employer
- Medical Expenses from your Medical Aid
- Travel Expenses if you have a travel allowance
- Interest earned from retirement annuities, savings or investments

Please note: This year you don't have to attach any supporting documents to your tax return. But please keep them all in a safe place for five years in case SARS needs to see them.

Step 2

Tax returns are being sent out from now and should be arriving any time from the end of July onwards. If you don't receive yours (probably because you've changed address) by the end of August, call SARS at 0860 12 12 18. This year, the form will be a single sheet of paper, one side for your personal details, and the other side for your income. It's as simple as that.

Step 3

Fill in the return on your own or with the help of your nearest SARS branch (listed overleaf). Please don't leave anything out as the form will be returned to you which will delay the process and could result in you being fined. Also remember that information dishonestly entered is a criminal offence. When you have completed the form in full, sign it, seal it in the self-addressed envelope provided by SARS and send it off.

This year the deadline for submitting your tax return is October 31. This gives you plenty of time to fulfill your obligation. Because of this, SARS will not be granting extensions.

Step 4

This year you can post your tax return or hand it in at any post office or SARS branch.
If you lose the self addressed envelope, you can simply mail your return to SARS, Private Bag 001, Pretoria.

eFiling

If you would rather do your tax return electronically, you can register now at www.sarsefiling.co.za.Follow the instructions on the site and fill in your form with all the correct information. **This year the deadline for eFiling is 31 January 2008**.

If you are due a refund, you will be notified within 72 hours. If you owe SARS money, you will have until the end of January 2008 to pay.

This year, to avoid fraud and theft, refunds will only be paid into an existing bank account and not by cheque.

At your service…

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LIFESTYLE AND ASSET PLANNING

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- 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**

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