Vickers & Peters
LIFESTYLE AND ASSET PLANNING

"Around the Table with Vickers & Peters Financial Planning"

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It's the time in the market that counts!

If you are an equity investor and follow the markets quite closely you may be of the opinion that now is the time to sell. Your reasoning may be that cash has returned 10.3% over the last year and the All Share Index's total return has been less than that so your thinking could be: "why don't I sell my equities, put the cash in the bank and wait for the dust to settle?"

Let's take a closer look at the dangers of implementing such a strategy.

If you began your investment strategy on the 30 June 1978 with an initial capital investment of R10,000.00, at that point your Financial Planner would have ensured that you invested your discretionary capital in the equity market with the aim of achieving the highest capital return. This would have been a relatively easy decision, what with the market having rallied nicely for the previous year-and-a-half with an annualised return of 20%.

Having gone ahead with the equity investment you may have felt it prudent to check on your portfolio every six months with the intention of switching out of equities (to cash) when the market was "under-pressure" (delivering a lower return than cash over the previous 12 months).

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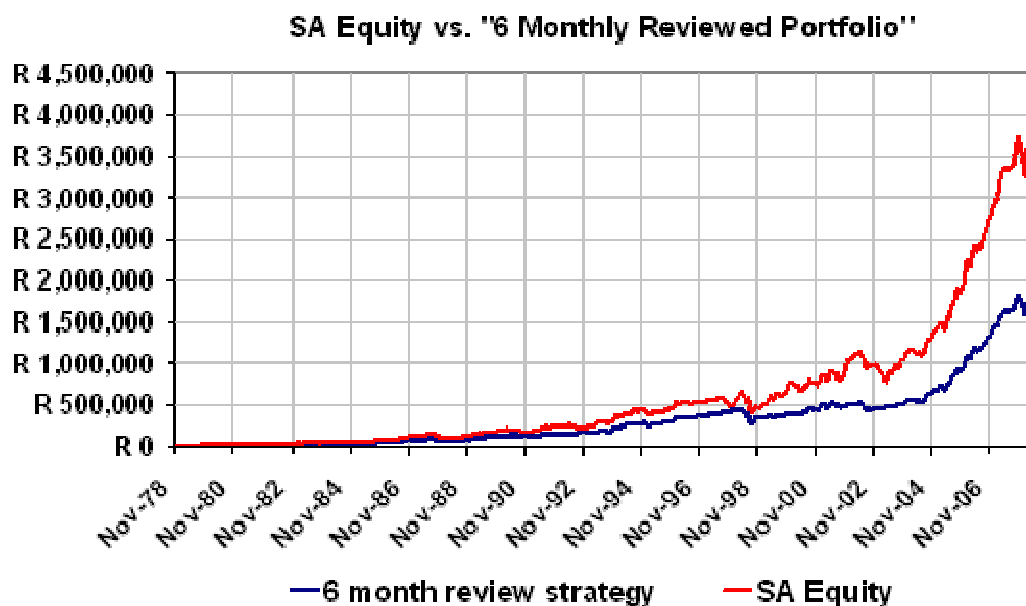
If you had followed such a strategy (assuming switching was done on the same day as the review, no transaction costs and no tax implications due to capital-gain-events) the differential in returns would have been significant (to say the least). The table and graph below highlight this.

Table 1. Comparison of returns between SA Equity and "6 Monthly Reviewed Portfolio".

30 year history *30 June 78 to 30 June 08*	6 month review strategy	SA Equity
Starting Capital	R 10,000	R 10,000
Ending Capital	R 1,833,625	R 3,668,812
Annualised Return	19.3%	22.1%



Graph 1. SA Equity vs. "6 Monthly Reviewed Portfolio"

The point of this article is to show the potential pitfalls of what may seem like a logical and careful investment strategy.

Remember the popular investment adage: **It's the time in the market, not timing the market that counts!!**

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

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The Launch of the VPFP unit trust funds

Through previous issues of Around the Table and various other correspondences we have communicated to clients the recent launch of the VPFP unit trust funds. For those of you that are not aware of our fund range and how they are structured I will provide a brief summary on firstly, the reason for launching our funds and secondly, the benefits for clients.

Background

We have launched three funds (portfolios), ranging from the conservative CPI +2% to the moderate CPI +4% and the aggressive CPI +6%. The VPFP funds have been registered with the FSB and are quoted in the daily news publications according to their respective fund classifications. All three funds are a "Fund of Funds (FoF)" structure, which means a unit trust fund that invests in a number of other unit trusts.

The VPFP funds can be seen as "independent" FoF's in that we invest across a range of unit trusts from different management companies. This stands in contrast to an "in house" FoF which invests in only the unit trust funds of a particular unit trust management company. We feel this approach not only reduces the risk of the portfolios' but also allows our clients to be exposed to the best managers in the market. The three VPFP funds are structured as shown in **table 1** below. The weightings shown in table 1 are indicative of each funds (portfolios) neutral position.

The mandate of the three funds allows for the systematic change to any manager at any particular time and the automatic adjustment of the risk exposure (weighting) to each individual manager. These movements are however restricted to comply with each funds risk mandate. Further information to this active investment style is provided below.

Table 1

Manager	Asset Class	CPI +2% Weighting	CPI +4% Weighting	CPI +6% Weighting
	Domestic Equity	**20.0%**	**35.0%**	**60.0%**
Polaris Capital	Domestic Equity	8.0%	14.0%	24.0%
Fraters	Domestic Equity	6.0%	10.5%	18.0%
Hermes	Domestic Equity	6.0%	10.5%	18.0%
	Domestic Fixed Interest	**55.0%**	**45.0%**	**20.0%**
Metropolitan Inflation Link	Domestic Fixed Interest	27.5%	22.5%	10.0%
Coronation Bond Fund	Domestic Fixed Interest	13.8%	22.5%	10.0%
Prudential High Yield Bond	Domestic Fixed Interest	13.8%	0.0%	0.0%
	Domestic Property	**10.0%**	**5.0%**	**5.0%**
Stanlib	Domestic Property	10.0%	5.0%	5.0%
	International	**15.0%**	**15.0%**	**15.0%**
Investec	International Equity	5.0%	10.0%	10.0%
Prudential	International Fixed Interest	10.0%	5.0%	5.0%
Total		**100.0%**	**100.0%**	**100.0%**

Why a Fund of Funds?

The premise for a licensed unit trust fund emanated from the desire to provide clients with a flexible fund structure that would allow for the implementation of our best ideas more efficiently and cost effectively. The solution was an actively managed Fund of Funds (FoF) that would target a specific return objective i.e. CPI +2, 4 and 6%.

The FoF investment structure has its roots in our houseview fund selection, as many of you will be familiar with the unit trust funds selected in our FoF range. Because of this association, the realignment for clients from the existing houseview funds to the VPFP Funds would be a relatively simple one.

Who is responsible for the fund management?

Celtis Capital (Pty) Ltd is the investment consulting arm of VPFP and is responsible for the active management of the VPFP Funds. Celtis core responsibilities include the unit trust manager selection as well as the management of the risk exposure i.e. the weighting to each asset class (equities, bonds, cash and property).

Celtis comprises an internally led investment team back by Riscura and RMB Unit Trusts Ltd. Riscura is an independent risk services company which assists Celtis in asset class selection and portfolio construction, while RMB Unit Trusts fulfill an administration and fiduciary services role.

We feel this combination of independent services complements our investment style and brings a level of professionalism which is expected from our clients.

Investing with reputable unit trust managers within a tried and tested investment process should be a source of comfort to all our clients.

Active Management

The active management style brings two new components to our portfolio services. The first is the ability for VPFP to change the underlying unit trust managers whenever deemed necessary. The second is the ability for VPFP to adjust the weightings to each fund manager whenever deemed necessary. This allows the portfolio to be positioned overweight, neutral or underweight in each risk category (asset class) relative to the FoF's mandate. The change to both the manager and the weighting would be an automatic adjustment for clients that would not require a signed switch instruction.

The flexibility allows Celtis to de-risk the portfolio during uncertain times and by increasing the weighting can exploit market opportunities and capture enhanced returns.

Costs

From a cost point of view, it was vitally important that we did not position the funds where the costs would increase. The idea to create service efficiencies and active portfolio management would simply not be as attractive if it meant higher cost were to be incurred.

After many months of negotiations with various fund managers and investment administrators alike, we were able to price our funds at a level which would represent a fee in line or at a slight discount for the average VPFP client when compared to the current level of fees clients are paying on the individual fund basis.

Another advantage of the VPFP Fund structure is that there are no restriction periods, investment terms or withdrawal penalties. The VPFP Funds offer daily liquidity and if at any stage a client would need to exit this can be done as per normal unit trust investment dealings.

The VPFP CPI +2, 4 and 6 Funds charge no entry, exit or performance fees.

VPFP's implementation strategy and reporting of the funds

When switching clients from their existing funds into the VPFP Funds, VPFP will consider each client on a case by case basis, depending on the individual's particular circumstances. For example, clients that currently have an offshore exposure in excess of 15% (which represents the maximum amount permitted by the VPFP Funds mandate) we would recommend holding these assets and rather switching the balance of his or her fund to the VPFP Funds. The implementation strategy would be aimed at aligning the portfolio to match your risk profile and investment objectives.

Reporting will be done through monthly fund fact sheets, which will not only provide clients with the asset allocation and performance summary but also fund commentary, specifically highlighting key areas of performance or underperformance. The monthly fund fact sheets will be available to clients on the VPFP website which should be up and running in the month of November. I will keep you updated on this development as it unfolds.

Summary

Although we are facing many challenges in the economic and legislative environment, VPFP remains in a strong and healthy position within the financial services arena. We continue to structure our business for the long term benefit of our clients and the launch of our fund range is indicative of our commitment to ensure the best returns possible for our clients and fostering the long term sustainability of our business.

Clients that have not yet switched into the VPFP Funds or would like further information on the funds please send an e-mail to gholt@vpfp.co.za or ipeters@vpfp.co.za or jvickers@vpfp.co.za

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RMB ASSET MANAGEMENT
Traditional values. Innovative ideas.

"Remember, The Only Thing We Have to Fear, Is Fear Itself" - Franklin D. Roosevelt, Inaugural Address, March 4, 1933

It has been said that the road to hell is paved with good intentions.

Many investors inadvertently find themselves on this road when they elect, during times of market volatility, to sell out of their investments after they have fallen from previous highs. The greatest reason for this mistake is either that the investor does not have a financial plan, or abandons the plan at the time when sticking to it would be their most prudent action.

With the recent movements in both global and domestic markets, investors have become spooked. They have opened their newspapers and watched their televisions and have seen and read about a "credit crunch" and a "financial crisis" and this has awoken in them feelings of anxiety, fear, trepidation and, dare we say it in some instances, panic.

Whilst acting on these feelings alone is bad for both your health and wealth, experiencing them is natural.

International behavioural finance speaker Michael Falk says that when performance of our investments does not meet our expectations, the feel good chemical dopamine stops flooding into our brains and our levels of serotonin drop. This causes physical feelings of fear and panic. So, what many people are experiencing is not just mental, but also physiological.

Recognising and then understanding our fears is the first step towards overcoming them.

Why is acting on your fears so bad?

An intelligent investor has put in place a financial plan which aims to get them to various points in their investment lives that they need to reach. For investors who are in the accumulation phase of their lives, those points can include reaching the stage where they can provide for their children's education or where they will achieve financial independence and be in a position to stop working. For many retired investors, that point is where they have sufficient income to meet their needs during their golden years.

A financial plan is created in an environment where the objective characteristics of the assets in which the person is investing are known and married to the person's various financial objectives. The financial plan takes into account that markets go up, and markets go down. A financial plan which has some exposure to riskier, more volatile assets like equities (stocks, shares etc.) does so to fulfill a need for exposure to assets which, over time, grow at a rate faster than inflation. The investor who decides to sell these assets before they have had the time to outperform inflation as they will inevitably do over time is most likely to be departing from their financial plan and may well thus be starting down the road to ruin.

How can selling riskier assets when they have fallen in value be part of a good financial plan? Let's look at it this way. Do you think that a financial plan which says that we'll wait for the value / price of assets to go up before buying them and then

wait for the value / price to go down before selling them can ever succeed? No.

So how can investors avoid falling prey to these physiological and mental traps which try to lead them down the road to financial ruin?

Firstly, **create and stick to a financial plan**. This plan - best created in conjunction with a financial planning professional - will be an objective, long-term strategy which will have the greatest probability of achieving the investor's financial goals.

Secondly, **automate your plans**. It is hardest to, in the heat of the battle, make rational decisions. Decide, as part of your financial plan, to take certain actions if certain events occur. These should be actions which enhance the value of your investments over time, not detract from them.

Third, at time when you most want to do something, **do nothing**. Global and domestic markets went into what many investors saw as "free-fall" two weeks ago and our phones started ringing as panicky investors wanted to take flight. Those who did in the first few days realised significant losses and also missed the significant bounce which took place towards the end of the week. They thus lost on the down and lost out on the up! On the other hand, the investors who took a conscious decision to stay where they were benefited the most over that short week. Whilst those few days are only a proxy for longer-term movements, the point is that markets which are oversold are susceptible to vicious rallies - and investors want to participate in those.

We know that it is natural for investors to feel anxiety and fear during times of uncertainty. Acknowledge these feelings and understand them, but don't, please, act on them. Whilst the investor may be acting with the best intentions in their minds to, as they see it, "minimise their losses", we know that the road to [investor] hell is paved with good intentions. Make a plan, stick to your plan, act in a predetermined way when events occur which invoke emotional decisions and finally, when in doubt - do nothing.

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

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At your service…

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"Oil prices have fallen lately. We include this news for the benefit of gas stations, which otherwise wouldn't learn of it for six months." - William D. Tammeus

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