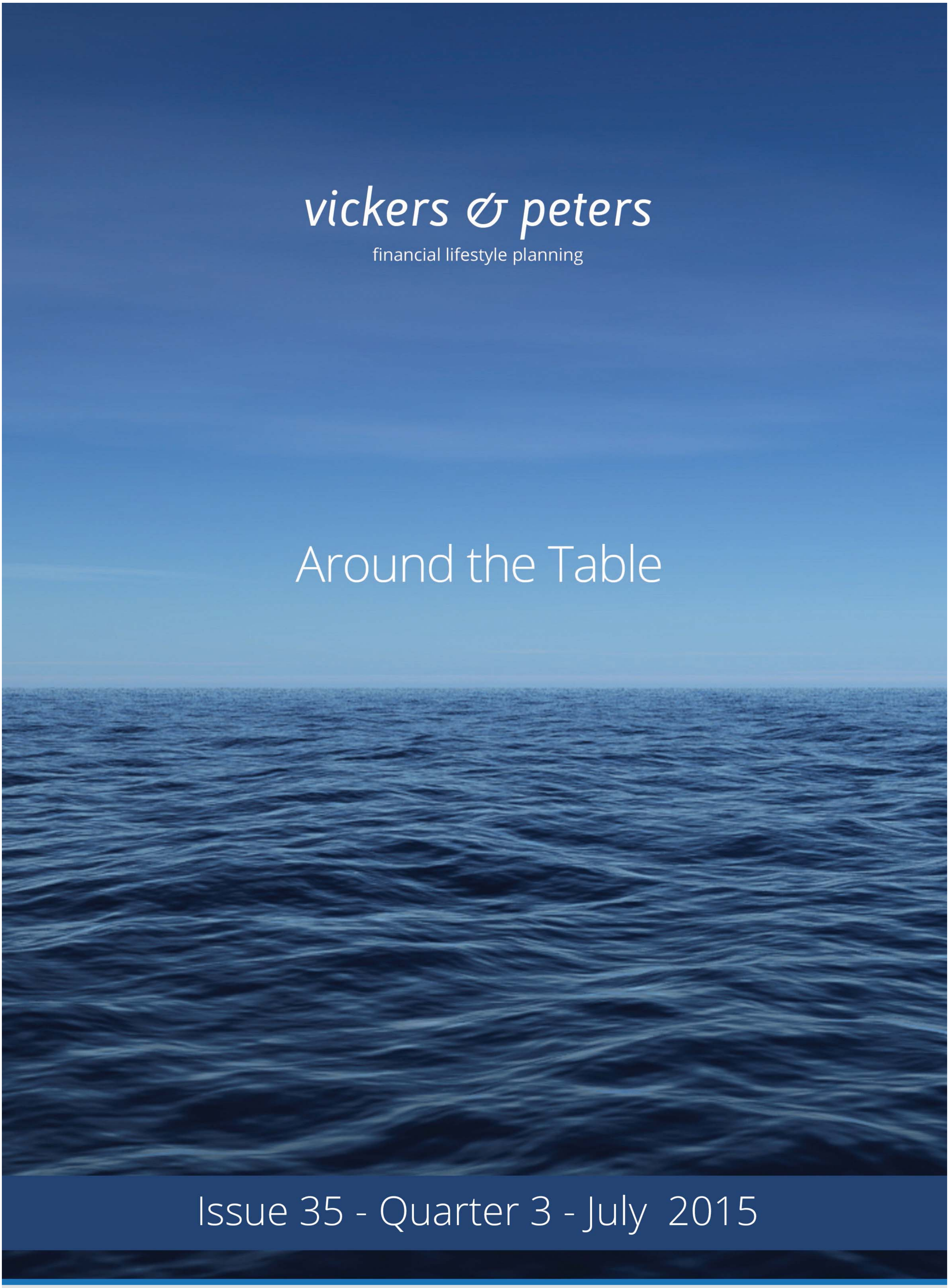

vickers & peters

financial lifestyle planning

Around the Table

Issue 35 - Quarter 3 - July 2015

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Estate Planning

When conducting a financial needs analysis (FNA) one of the eventual outcomes would be the conclusion of an estate plan on death. This article will summarise some of the more important points to consider in your planning.

There are 3 different modes of succession in South Africa namely:

- **Testate succession** which takes place when you have a valid will where the content thereof is executed by the appointed executor of the estate - Wills Act 7 of 1953;
- **Intestate succession** which is governed by the Intestate Succession Act 81 of 1987 that came into operation on 18 March 1988 and applies to persons dying without a will or dying with an invalid will; and
- **Contractual succession** which is contained in a contract – one of the most common being an ante-nuptial contract.

Testate Succession

The law in South Africa allows a person drafting a will to distribute their estate according to their wishes. But freedom of testation and the rights underlying it are not absolute.

Here are a few factors that will limit this freedom of testation and for you to keep in mind when drafting your will:

- Marital regimes

The marriage regime should always be considered because each regime will have a lawful implication on what can and what cannot be done with the deceased estate. For example: if married in community of property, the Testator can only bequeath his share of the joint estate (unless the spouses intentionally mass the assets).

- The Maintenance of Surviving Spouse Act

This Act was put to test in a case where the court ruled that the plaintiff's claim for maintenance from her late husband's estate be recognised, as he had excluded her in his last will and testament.

- Pension Funds

Section 37C of the Pension Fund Act gives the board of trustees of a retirement fund the discretion to exercise a fair and reasonable distribution of Pension benefits. The objective of this section is to ensure that those persons who were dependant on the deceased member are not left destitute after his/her death, irrespective of whether or not the deceased was legally required to maintain them.

- Understanding the relationship between the Testator and assets

Many founders/trustees of Trusts have attempted to use what is referred to as 'testamentary reservation' to determine what is to become of the Trust assets when they die. A trust is a separate legal entity from its founder/trustee and as such there is a clear separation between assets of the founder/trustee and the assets of the trust. A person cannot bequeath assets that they do not own.

- Life insurance policies

Benefits payable from a life insurance policy to a nominated beneficiary, who has duly accepted such benefits, will vest in the beneficiary directly and will not be influenced by any contradictory bequest in the Testator's will. Most life insurance contracts dictate that beneficiary nominations have to be made whilst the life insured is still alive and it should be done in writing and will only be effective once it reaches the life office. The only time a life insurance policy's benefits will be influenced by the policyholder's will is if no beneficiary is nominated and the benefit pays into the estate of the policyholder.

Intestate succession (no will or an invalid will)

The Intestate Succession Act applies to persons dying intestate (in whole or in part). The law of intestate succession prescribes the heirs of a deceased estate in the following circumstances:

- When the deceased has failed to determine how and to whom his/her property must be awarded by will;
- Where it is impossible to carry out the wishes of the deceased because the beneficiaries are, for example, unable to inherit, or do not wish to inherit or are predeceased;
- The will is not accepted by the Master;
- The will has been declared invalid;
- Where certain assets of the Testator/Testatrix have been left out of the will altogether.

The distribution of an estate in terms of the Intestate Succession can be summarised into nine rules governed by the Intestate Succession Act 81 of 1987.

Conclusion

A person can die partly testate and partly intestate, as for instance a person bequeaths certain assets in their estate and omits to deal with the residue. There can also be instances where an individual dies leaving a valid will which will take effect on their death, but subsequently becomes inoperative in whole or part, in which instance intestacy occurs.

Therefore, to ensure that your assets are distributed according to your wishes it is vitally important to draft a valid will and to review your will on a regular basis with a qualified professional.
Please contact us to update your will or to draft a new will.

Your tax certificates for the 2015 season

The 2015 tax season starts on 1 July 2015 and ends on 27 November 2015 (e-filing). During this time you will need to submit your return to the South African Revenue Service (SARS). To help you with your tax submission, we have put together the answers to some frequently asked questions regarding your investments.

Which investors need to register for income tax?

Clients receiving income payments from their Retirement Income Option (Living Annuity) SARS requires everyone who receives taxable income above the tax threshold to register for income tax.

What are the tax thresholds?

For the 2014/2015 tax year, the taxable income thresholds for individuals are as follows:

- Below age 65 – R70 700
- Age 65 and below 75 – R110 200
- Age 75 and over - R123 350

Which investors are liable to submit a tax certificate for their investments?

The following investors and policy holders will need to submit a tax declaration for their respective investments and policies.

- Living Annuity or Retirement Income Option – income earned (01 March 2014 to 28 Feb 2015)
- Flexible Investment Option (local and offshore) – capital gains or losses, interest earned, rental income and dividends declared.
- Retirement Annuity – annual contributions which will be claimed as a tax deduction.
- Income Protection Policies - annual contributions which will be claimed as a tax deduction (no longer deductible from 01 March 2015).

What information is provided by the investment/life company to SARS?

SARS requires third parties (Sanlam, Momentum, Investec etc…) to report the following client information to SARS twice a year:

- Investment income (e.g. dividends, interest, rental income)
- Capital gains/losses
- Living annuity income
- Retirement annuity fund contributions

What tax certificate information will you receive directly from the investment/life company?

Depending on the product you are invested in, the life company will send you a tax certificate at the end of each tax year (before the 2015 filing season starts). The table below highlights the different tax certificates that are issued for each product.

Tax certificate	Tax certificate description	Product
IRP5 / IT3(a)	This certificate reports all annuity income and lump sums payments. An IRP5 is issued when tax was deducted and an IT3(a) is issued when tax was not deducted.	• Living Annuity • Pension and Provident Preservation Funds • Retirement Annuity Fund
IT3(b)	This certificate reports interest and dividends for local investments.	• Flexible investment option
IT3(c)	This certificate reports capital gains and losses for local investments.	• Flexible investment option
Retirement annuity fund contribution certificate	This certificate reports all retirement annuity fund contributions made during the tax year.	• Retirement Annuity Fund
Offshore investment statements	This statement reports interest, dividends and capital gains tax for you offshore investments	• Offshore Investments

How will you receive your tax certificates?

The life company or investment platform you are invested with (Sanlam, Momentum, Investec etc..) will send you your tax certificates directly to you according to your communication preference (i.e. email or post). Alternatively, you can contact VPFP and we will gladly obtain the tax certificates for you.

Note: if you do have a valid e-mail address and your current communication preference is postal we would recommend changing to e-mail ASAP. Please forward your preferred e-mail contact to our client service centre provided below.

What happens if you do not submit your income tax return by the SARS deadline?

SARS will charge you non-compliance penalties for each month that your return is outstanding.

Who to contact for more information?

If you require assistance with your certificates, please contact your VPFP financial advisor or our Client Service Centre clientservices@vpfp.co.za.

Keeping your investments on track

Investors have a habit for buying investments at the top and selling at the bottom of a market, or increasing their risk tolerance when markets are high and decreasing their risk tolerance when markets are low. Many investors get caught up in media hype of fear and greed and buy or sell investments at the peaks and valleys of the cycle. Why does this type of emotional investing happen and how can investors avoid both the euphoric and depressive investment traps? VPFP provide some insight on how to keep an even keel and keep your investments on track regardless of market conditions.

Investor behaviour

The behaviour of investors has been well documented; there are numerous theories that attempt to explain the regret and overreaction that investors experience when it comes to money and the potential gains and losses on that money. Investors' psyche overpowers rational thinking during times of stress, whether that stress is a result of euphoria or fear.

The typical investor is putting his hard-earned cash at stake and, while hoping for a gain, wants to protect that cash against losses. Investors get investment "information" from many sources, such as mainstream media, financial news, friends, family and co-workers. Often investors get enticed by the market during periods of market calm (low volatility) and prolonged bull markets which is often counter intuitive and not the best time to be buying assets because they are expensive. Very seldom (if ever) do you find investors buying in a bear market when assets are cheap.

Bull markets are periods when the market tends to go up indiscriminately. During such times of market exuberance, investors tend to listen to stories from friends or family members about how much money they are making in the market, creating a stir and compelling those not invested to test the waters. Likewise, when investors read stories about a bad economy or hear reports about a volatile or negative market period, fear takes over and they sell at the bottom.

Behavioral finance - cognitive bias

A cognitive bias has been defined as "a general term that is used to describe many distortions in the human mind that are difficult to eliminate and that lead to perceptual distortion, inaccurate judgment, or illogical interpretation" (Kahneman, D., & Tversky, A. (1972).

Here are some examples of some of the better-known cognitive biases that, if unchecked, can lead to bad decisions which will ultimately dilute or negate a successful strategy. (Source: WikiPedia.org)

Anchoring - the common human tendency to rely too heavily, or "anchor," on one trait or piece of information when making decisions

Availability heuristic - estimating what is more likely by what is more available in memory, which is biased toward vivid, unusual, or emotionally charged examples

Confirmation bias - the tendency to search for or interpret information in a way that confirms one's preconceptions
Herd instinct - common tendency to adopt the opinions and follow the behaviours of the majority to feel safer and to avoid conflict
Hindsight bias - sometimes called the "I-knew-it-all-along" effect, the tendency to see past events as being predictable
Illusion of control - the tendency to overestimate one's degree of influence over other external events
Irrational escalation - the phenomenon where people justify increased investment in a decision, based on the cumulative prior investment, despite new evidence suggesting that the decision was probably wrong
Negativity bias - the tendency to pay more attention and give more weight to negative than positive experiences or other kinds of information
Optimism bias - the tendency to be over-optimistic about the outcome of planned actions
Pessimism bias - the tendency for depressed people to be over-pessimistic about the outcome of planned actions

There are many other cognitive biases as well as heuristics, anomalies and traps which await the unsuspecting investor.

Timing

The lag between when an event occurs, when it is reported and when it is acted upon is what typically causes investors to lose money. The media will report a bull market only once it has already hit; unless the trend continues, stocks will retract in upcoming periods. Investors, influenced by the reports, often choose these times of premium valuations (expensive assets) to build up their portfolios and increase their risk profile. The result is buying higher risk assets (equities) at the top of a market and experiencing losses in upcoming periods as markets retrace.

Overvaluations are corrected over a very much shorter time span (bear), than they take to develop (bull), with the turning points almost impossible to call in advance. Not all investors are mentally prepared for when a much-awaited bull market finally comes charging in.

Strategies to take the emotion out of investing

There are however proven strategies that can alleviate the desire to purchase expensive assets or change your risk profile to suit the market trend and effectively reduce poorly timed investment allocations.

1. **Rebalancing your portfolio**

Rebalancing a portfolio will help maintain the original asset-allocation strategy and allow the implementation of any changes to the portfolios investment style. If an investor's investment strategy or risk tolerance has changed, he or she can use rebalancing to readjust the portfolio to fulfill a newly devised strategy. Likewise, a change in an investor's lifestyle may warrant a change in portfolio, allowing the investor to keep their target return objective on track and minimising risk (target return objective – CPI +2%, +4% +6% portfolios).

Essentially, rebalancing will help you stick to your investing plan regardless of what the market does.

2. **Diversification**

Another technique to diminish the emotional response to market investing is to diversify a portfolio. There have been only a handful of times in history when all markets have moved in unison and diversification provided little protection. In most market cycles, the use of a diversification strategy provides downward protection.

Diversifying a portfolio can take many forms - investing in different industries, different geographic regions, different asset classes and fund managers and even hedging with alternative investments like derivatives. There are distinctive market conditions that favour each of these subsectors of the market, so a portfolio made up of all these various types of investments does provide protection in a range of market conditions.

3. **Rand cost averaging**

The most effective strategy is rand cost averaging. Rand cost averaging is a strategy where equal amounts of rands are invested at a regular, predetermined interval. This strategy is good during all market conditions. During a downward trend, investors are purchasing assets at cheaper and cheaper prices. During an upward trend, the assets previously held in the portfolio are producing capital gains and fewer assets are being added at the higher price. The key to this strategy is to stay the course, set the strategy and don't tamper with it unless a major change warrants revisiting and rebalancing the established course.

Conclusion

Investing without emotion is easier said than done, especially because uncertainty rules the market and the media. The VPFP investment strategies proactively invest in the market on your behalf, eliminating the need for you to emotionally respond to news flow and media hype and stopping you from potentially making a financial wrecking decision. Rebalancing and diversification are two proven strategies (within a multitude of other alternatives) that are actively implemented by VPFP to manage your investments. However, the third technique, rand cost averaging, lies with you, the individual investor, to implement.

There are exceptions to every rule, but we hope that these investment fundamentals provide some insight into how we manage your money and how you should think about investing your money.

For further information on the performance of the VPFP funds please refer to the "Market Overview" section.

International Money Transfers

Good news! SARS has indicated that they are now issuing Foreign Tax Clearance Certificates (FTCCs) up to R10mil in line with the new annual SARB individual Foreign Capital/Investment Allowances.

What does this mean?

If you have already applied for a Foreign Tax Clearance of up to R4mil in 2015, you can now apply for the balance of R6mil under your annual R10mil Foreign Capital/Investment Allowance from the SARB before 31 Dec 2105. These applications will no longer be handled by their special audit unit and we can therefore expect the same 2-3 day turnaround times as before on the FTCC applications.

What if I want to externalise more the R10mil per calendar year?

It is still possible to submit a special tax clearance application for amounts greater than R10mil, but there will still be reviewed by the Compliance Risk Unit within SARS and is expected to take up to 3 months as before. No change there.

If you have any questions or would like to apply for a FTCC in respect of any balance on your 2015 R10mil Foreign Capital/Investment Allowance, please don't hesitate to contact us for further assistance.

Market Overview

The US has continued to record strong jobs growth over the quarter. The labour market participation rate appears to have bottomed and although still extremely low by historical standards, the trend seems to be on the up. Non-farm payrolls have been gaining solid ground and the level of US employment is now a substantial 3.3 million above the peak prior to the global financial market crisis. The US has created more than 12 million jobs since the financial crisis ended. The labour market improvement is expected to translate into higher inflation, raising it gradually towards the US Federal Reserve's 2% target.

At its latest meeting the US Fed kept rates on hold as expected. Janet Yellen has reiterated that even once rate hikes commence, US monetary policy will remain extremely accommodative and that the pace of increases would be gradual and well below the long term average. The current expectation is for the first rate hike to occur either in the latter part of 2015 or March 2016.

The US 10-year yield has broadly been rising since January in response to the lower risk of deflation and higher economic growth/employment.

Clouding Europe and stirring global markets, the Greek debacle continues, with investors concerned about the risk of possible contagion if Greece leaves the euro and exactly what effect it will have on the rest of Europe and global markets. The Greek economy has shrunk by 30% since 2007, and makes up only 1.8% of Eurozone GDP. While the impact may be uncertain, given the size of Greece's economy, it would likely not be significant on a longer term view.

Elsewhere across the globe, China cut interest rates by 0.25% again, their 4th cut in the last 8 months, in line with the government's intent to prop up growth.

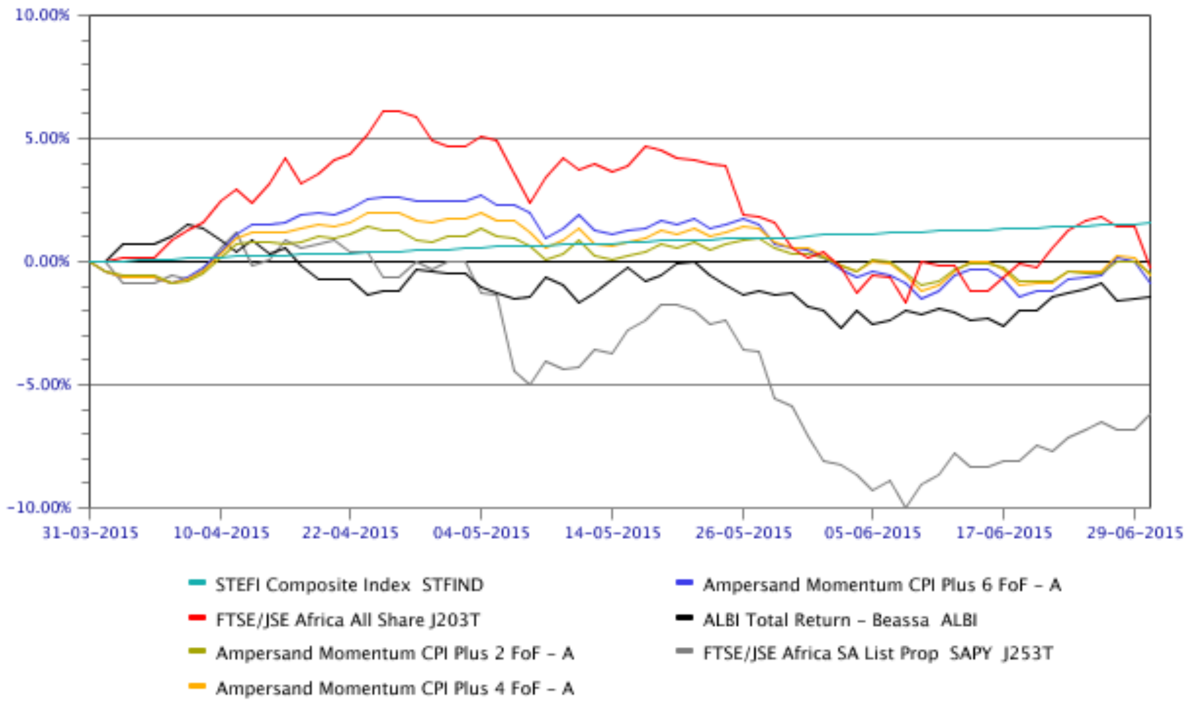
Performance – *what added and what detracted?*

It has been a volatile quarter for markets with not many places to hide.

The portfolios retracted some of the previous quarter's gains through to June with widespread losses across asset classes. The biggest losses were seen in local listed property which fell -6.2%. Local equity declined -0.2% but certain sectors took the brunt of the reversal. Resources lost -4.9% and Financials fell -2.3%. Local Bonds gave back -1.4% while global bonds lost -1.5% in rand terms. Industrial shares bucked the trend, gaining +1.7%. Offshore equity also saw positive gains of +0.5% over the quarter.

Although performance has softened over the last quarter, the portfolios have held up reasonably well in an environment fraught with volatility where positive momentum was scarce.

Performance Report - Performance - 31/03/2015 To: 30/06/2015



Presented by: MoneyMate Limited
The figures shown are based on the following:
South African Rand , Nav to Nav, Gross income re-invested on Ex-dividend date
Past performance is not necessarily a guide to future performance; Unit prices may fall as well as rise
Indices shown in South African Rand (ZAR).

Index prices are end of day values.

Annualised Fund Performance for the Period Ending 30 June 2015

Fund and Benchmark	1 Year	2 Year (Annualised)	3 Years (Annualised)	5 Years (Annualised)	6 Years (Annualised)	Inception (12/05/2008) (Annualised)
	Return	Return	Return	Return	Return	Return
Ampersand Momentum CPI + 2% FoF	**7.49%**	**9.69%**	**10.61%**	**10.68%**	**10.60%**	**9.26%**
Portfolio Benchmark (SA CPI + 2%)	6.19%	7.45%	7.51%	7.45%	7.24%	7.70%
Ampersand Momentum CPI + 4% FoF	**6.51%**	**11.29%**	**12.43%**	**11.53%**	**11.52%**	**9.18%**
Portfolio Benchmark (SA CPI + 4%)	8.09%	9.46%	9.55%	9.51%	9.31%	9.79%
Ampersand Momentum CPI + 6% FoF	**3.84%**	**11.93%**	**13.38%**	**12.36%**	**12.59%**	**8.68%**
Portfolio Benchmark (SA CPI + 6%)	9.98%	11.47%	11.59%	11.57%	11.37%	11.87%

Disclosures
Performance is calculated for a portfolio/portfolio class. Individual investor returns may differ as a result of fees, actual date(s) of investment, date(s) of reinvestment of income and withholding tax. Annualised returns, also known as Compound Annualised Growth Rates (CAGR), are calculated from cumulative returns; they provide an indication of the average annual return achieved from an investment that was held for the stated time period. Actual annual figures are available from the Manager on request. Performance figures quoted are from MoneyMate, as at 30/06/2015, for a lump sum investment, using NAV-NAV prices with income distributions reinvested on the ex-dividend date. CPI/Inflation figures are lagged by one month.

Position going forward

Concerns remain around global economic conditions and asset class valuations and as a result we continue to prefer a diversified approach in the portfolios. We remain diversified across geography, asset class, industry and currency and wait patiently for the opportune time to increase our overall risk exposure.