



Professional Financial Planning

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ROWAN RAATH, RFP™

Wealthfocus

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Entrepreneurship is key to economic growth and job creation

"I could choose to be either an entrepreneur, or work in a corporate environment, but knowing that I have the opportunity to leave a legacy of companies that people love to work for is probably the most exciting thing about being an entrepreneur." (Tyler Reed, technology entrepreneur)

According to international research by the Global Entrepreneurship Monitor, Tyler is part of just 6% of the South African population that views entrepreneurship as a potential career path. However, as unemployment continues to rise sharply toward 30% and corporates are no longer able to create new jobs, this ingrained belief that working in the corporate sector is safer than attempting an entrepreneurial venture is proving false.

While business owners admit there are some new opportunities for entrepreneurs, education remains a major hurdle for would-be entrepreneurs. It's no accident that the country's best success stories such as Mark Shuttleworth, Adrian Gore, or international rocket science guru Elon Musk, are highly skilled and educated individuals. Orrin Klopper, spokesperson for the Entrepreneur Organisation believes that much focus still needs to be made on entrepreneur education within South Africa. "Entrepreneurial ability without managerial ability would not be sustainable. Management and entrepreneurial skill and experience are the most frequently used selection criteria of venture capitalists. Entrepreneurs who have invested in education are more likely to have a growth strategy and run profitable businesses."

SA retirement industry in top 15 ...

The South African retirement fund industry ranks among the largest 15 internationally, with some 8 million members and R2 trillion in assets under management.

Black investors own 23% of JSE ...

Black South Africans (African, Coloureds and Indians) own 23% worth of the listed shares on the JSE. White SA shareholding represents 45%, foreigners 31% and the state 1%.

Offshore allowances reviewed ...

In an effort to encourage foreigners to invest in South Africa, the individual offshore limit for SA residents has been increased to R4 million per annum, from R4 million per lifetime. On formal emigration you may now take an unlimited amount out of the country (the previous restriction of R8 million has been lifted).

Growth in house prices slows ...

Over the last 12 months medium-sized homes (141m²-220m²) grew by only 1.4% in real terms, and large-sized homes (221m²-400m²) actually lost 1.9% in real value. The good news is that small homes (80m²-140m²) have risen in price by an average of 17%.

The price of a good education ...

Parents can expect to pay up to R1.5 million to take their children through 16 years of schooling and university.

Enjoying your retirement

With life expectancies being greater than ever, retirement could likely be the longest phase of your life. It is imperative that there be a plan in place that is well equipped not only to spend and enjoy your retirement years, but also to help avoid running out of money. Retirement planning is an extremely sophisticated process and retirees should not attempt this on their own. In addition to the risk of outliving your assets, other risks include taxes, inflation, the rising cost of healthcare, stock market and interest rate volatility.



The 9 Key Ingredients to a successful retirement plan are:

1. Growth Potential: You want your income to keep pace with things like inflation, taxes, technology changes, rising medical aid premiums, long-term care, etc. A well-diversified and well balanced portfolio will allow you to keep pace with your changing lifestyle over the long term.

2. Safety Provisions: Every retirement plan should contain clear strategies to help guard against suffering large investment losses and running out of income.

3. Tax Efficiencies: A successful retirement plan should entail two tax strategies. First, money should grow with as little (or no) tax consequences as possible. Second, income should be received in the most tax-efficient way that is legally possible. Working closely with qualified financial planner is a key component.

4. Income You Cannot Outlive: With the improvements in modern medicine, today's life expectancies are greater than ever. Many studies show that by the year 2030, more than 2/3rds of the people alive in the USA will be over the age of 60! Ideally your plan should make provision for income to last for at least 30 years after you retire.

5. Income Growth Potential: In order for your income to grow, a retiree's assets must grow at a rate that exceeds the withdrawal rate. This means that investing a portion in the stock market plays a vital role in retirement planning. Unfortunately many retirees make the mistake of investing too conservatively and failing to consider the impact of inflation.

6. Maintain Control: In the old days, retirees were given the option of buying a pension, known as a Life Annuity, in exchange for the accumulated savings in their retirement savings fund. Although a you were guaranteed not to run out of money, you essentially gave up control of your investment and when you passed away, so did your pension (unless you died within the initial guarantee period). These days there is the option of a Linked Life Annuity where you maintain control of your investment capital. The big advantage of this option is that, managed correctly, it can become a valuable asset in your estate.

7. Maintain Access: Every retirement plan should include setting some money aside for the unexpected emergency.


8. Professional Supervision: Retirement is a time to relax and really enjoy life. The very last thing you should be doing is

worrying over money and your financial plan. That's why it is important that you're taken care of by a professional planner.

9. Consolidation: Most retirees prefer to consolidate instead receiving multiple statements from many different companies. The advantage of retirement investment options these days is that you can still diversify your investment across multiple asset classes and/or investment companies, all under a single, easy to manage, investment plan.

ROWAN RAATH, RFP™

 082 464 2438

 (011) 462 4557

 086 500 3682

 rowan.raath@liblink.co.za

CONTACT DETAILS

www.wealthworld.co.za

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If you know of someone who'll be retiring in the next year, please encourage them to give me a call. Retirement is not just a change in lifestyle, but also involves some critical financial decisions. And the decisions taken now could influence the next 30 years.