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WEALTH WORLD
Professional Financial Planning

Wealth focus
JANUARY 2011

The A-Z of investments

Jeremy Gardiner, director at Investec, takes a look at the challenges and opportunities of investing in 2011

Africa:
Increasingly being seen as the next India. By 2040 Africa's workforce should exceed China's and India's. Africa will apparently produce more oil than North America in the new year and should produce roughly 20% of global oil by 2020, up from 10% today.

Brazil:
Not all countries have to be austere. Brazil is buzzing with confidence, undoubtedly because they are going to be hosting the 2014 Soccer World Cup and 2016 Olympics.

China:
Now the world's largest exporter, they consume more cars than the Americans, they have the world's largest foreign exchange reserves at USD2.4trillion and they are nearly the world's largest economy.

Dollar (US):
Influenced by a cocktail of negative factors. US Government finances are in turmoil and the world has had it with the dollar. Over 60% of China's reserves sit in dollars and they want out.

Euro:
Will it collapse or won't it? Basically, it's up to Germany, who are enjoying the euro as it is weaker than the Deutsche Mark would have been , thereby bolstering their exports. Those struggling Mediterranean countries would love a weaker currency as it would save their economies, but going back to their old currencies will mean their euro denominated debt will double overnight.

Football World Cup:
A huge success, rebranded South Africa by showing the world our first world infrastructure and showing that you can come here for a two-week holiday and not get attacked. Expect a significant influx of tourists starting this year, with a lot more US and Asian visitors than before. If you think that a 30-second TV ad during a primetime sports event like the World Cup costs approximately $250 000, we had every newspaper, magazine, TV and radio pumping out positive stuff on us for an entire month. You can't put a price on that!

Greece:
Only fifteen people admit to earning over €1 million, while according to tax returns the wealthiest suburb in Athens has 324 swimming pools, even though an aerial photo revealed 16 974! According to a report by RMB Morgan Stanley, Greece loses R232bn per annum because of tax evasion. Their additional loan will take public debt from 120% to 150% of GDP, - so although they may feel better over the short term but it's going to take a lot more to fix the problems over the long term.

Home loans:
Home lending in the US is at a quarter of 2003 levels, effectively back at 1993 levels. Roughly a quarter of all mortgages in the US are under water, i.e. you owe more on the house than it's worth – in Florida, that number is approximately 45%.

Ireland:
Ireland joined the Eurozone with German interest rate levels at roughly 2%. People borrowed every cent they could, fuelling a massive property bubble. On top of that, Ireland pegged corporate tax at 12.5%, resulting in a massive influx of corporates. Unfortunately, all good things eventually come to an end – commercial property fell 65% and house prices halved.

JSE:
While US stock markets went sideways for the last ten years, the South African stock market has returned around 15% per annum over the same period.

Korea – North vs South
Appears to be more about sabre rattling from North Korea in order to gain leverage for future negotiations with the West. So don't expect a significant escalation in hostilities, although with the Jong Il family one can never be sure.

Live longer:
There are currently 1600 centenarians in Britain alone, four times as many as thirty years ago. The reasons include medical advances, improved nutrition and better housing. According to the Office for National Statistics in the UK, there will be approximately six women to every man over the age of a hundred. The bottom line: plan your finances accordingly - this game could go into extra time.

Merkel:
As expected, the Germans have led a hard-working and prudent existence, while the Mediterranean countries have been enjoying a siesta. The future of the Eurozone effectively lies in her hands.

Nationalisation:
By all means, debate nationalisation, but at some stage the debate must end, as talk of nationalisation does not warm the hearts of foreign investors. Mining is a huge job provider and now ranks below tourism and car production in South Africa. We need to be more cognisant of global opinion.

Obama:
The Americans have 10% unemployment, lagging growth and a burst housing bubble and they are grumpy with President Obama because he hasn't fixed America. This was evidenced in the mid-term elections, with Republicans making significant strides against the Democrats.

Portugal, Italy, Ireland, Greece and Spain:
All had it too good for too long. They are going to have to cut wages, raise taxes, expect less from government, work harder and retire later. It's not going to be pleasant. Expect widespread riots across Europe as a result.

QE2:
Quantitative Easing – a politically correct term for printing money. Weakens the currency concerned, i.e. the dollar, and strengthens everyone else. Expect QE3, possibly QE4 plus European QE. In other words, it's not over yet.

Rand:
Driven by a cocktail of positive factors, including a shift out of the developed world into emerging markets, plus the fact that the rand offers a relatively high yield in a world of low interest rates. Also, it is a commodity currency and finally, from a government finances perspective, we are in better shape than most. So looks like 'stronger for longer'.

South Africa:
Economically, in great shape. We are growing while others are slowing. Our debt to GDP is below 35% (versus 80% in the UK and 100% in the US); our budget deficit is 5.2% (versus 11% in the UK); we have no sub-prime; inflation is near the bottom of the 3% to 6% range and interest rates could drop another 50 basis points. Give credit where credit is due – government finances have been remarkably well managed for the past sixteen years.

TARP:
Originallyexpected to cost USD700bn, the Troubled Asset Relief Program will cost a fraction of that at approximately $25bn. This is because the auto and insurance company rescues were far cheaper than expected. The taxpayer will in fact make $6.8bn profit from the rescue of Citigroup.

US economy:
Starting to benefit from dollar weakness, thereby making their exports more competitive. The Americans are entrepreneurial by nature, so don't write them off. They will be back, but probably not as the world's only superpower.

Volatility:
Expect more and get used to it. The world is not fixed and while certain parts of the world will prosper, others will continue to threaten collapse.

What should you be doing?
Interest rates will stay lower for longer, so cash returns will remain poor. Bonds will at least offer a yield but are not without risk. So by default, investors will wind up overweight in equities. Watch out for bubbles and make sure you're diversified.

Xchange controls:
At R4 million per person per annum, exchange controls are essentially a thing of the past. Use this opportunity to diversify.

Yuan:
Artificially managed, kept low to keep the Chinese export dream alive. Impossible to compete against and they ignore American requests to allow the yuan to strengthen.

Zimbabwe:
Economically stabilising and even recovering, despite the political stalemate.

>>>>> FAST FACTS <<<<<

>> According to research by Alexander Forbes, **only 12% of people in South Africa who are members of a company retirement funds will actually succeed in maintaining their standard of living** in retirement. The primary reason for this: *failing to preserve retirement savings when changing jobs.*

>> In 2010, the **South African motor industry increased its exports by 36.9%** to 239 456 units worth an estimated R75 billion. SA-manufactured vehicles and parts find their way into some 125 foreign markets. Local sales were worth another R130 billion.

>> As from 1 October, **employers in the UK will no longer be allowed to force their employees to retire at age 65**, unless they can prove that their job performance has deteriorated. This new policy is intended to remove prejudice due to age but will also relieve pressure on pension systems as people live longer.

>> In response to a recent web poll asking: "How do you feel about your retirement savings", 54% of respondents indicated that they were unsure whether they have saved enough for retirement, while **31% said that they have not started saving for retirement at all**. 3% believe they are too young to be saving and only 12% feel confident that they are on track.

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Important Reminder

Particularly if you are self-employed or earning a salary without retirement benefits, you can benefit by making lump sum contributions into your Retirement Annuity. Instead of paying over income in the form of tax to SARS, taxpayers should rather be investing as much as possible into their own tax efficient retirement vehicles. Taxpayers can invest up to 15% of non-retirement funding income into an RA each year, and receive a tax concession against this amount, up to as much as 40%. Apart from the immediate tax saving, the compounding effect of years of annual investment returns can have a significantly positive effect on the final accumulation of savings for retirement.

SA Business Owners **remain upbeat for 2011**

While businesses were expecting a slump in South Africa following a buoyant 2010 FIFA World Cup, Grant Thornton's 2011 International Business Report's (IBR) optimism / pessimism index indicates business sentiment remains positive. An "optimism balance" is the proportion of business owners reporting they are optimistic less those reporting they are pessimistic.

The 2011 index reveals an optimism balance by SA business owners of 64%, which is up four percent on last year's index. This is against a global optimism balance of 23% for 2011, compared to 24% for 2010. Looking at South Africa's optimism balance at a regional level, Western Cape business owners are the most optimistic with a 72% balance, while Eastern Cape recorded the lowest optimism balance of 52% (KZN: 69% and Gauteng: 62%).

Global trends

Globally, confidence levels regarding economic performance are highest in Latin America as the region leads the way with an optimism index of 75%. Elsewhere, optimism in the Asia Pacific region (excluding Japan) is at 50%, whilst in North America it is just 26%, with Europe the least optimistic region at 22%.

"Latin America as a whole is expected to see GDP growth of around 4% in 2011 and if the current business confidence translates to widespread, sustained growth, the next decade could see Latin America truly realise its potential," said Ed Nusbaum, CEO of Grant Thornton International.

Optimism swings

In some key economies business optimism has seen a significant fall from the level reported in 2010. Mainland China is down to 42% from 60%, Australia is down to 37% from 79%, and New Zealand is down to 35% from 66%.

"Business owners in South Africa seem, on the whole, extremely optimistic about the economic conditions for the year ahead. We can only hope that the post-recession upturn results in sustainable business growth for dynamic organisations nationwide," concluded Leonard Brehm, National Chairman of Grant Thornton South Africa