

7 CITY CHILDREN IN THE POUND SEATS (A HOME)

• YOUR BEST INVESTMENT

Buying a home is the biggest investment in money terms that most people will make for much of their lives. It is certainly also the most important, because if you buy right you will be set for life and easily make a million more than the person who buys unwisely. Not everyone is in the privileged position of being able to buy well, for the following reasons, among others:



- They work in a small rural town with the result that their home will never be worth anything relative to a similar home in a city.
- They experience a lack of funds or have insufficient funds.
- They have no jobs and therefore no funds.
- They lack knowledge of the importance not only of driving poor and buying rich but of buying in the right place.

- WHERE SHOULD I BUY?

Always buy in the best possible neighbourhood (in other words the wealthiest, most expensive area) you can afford. The smallest house in the best neighbourhood is always a better investment in the long term than a larger house in a poorer and cheaper neighbourhood. This is also true of townhouses. Remember the value of a townhouse that is situated between residential houses is always higher than one that is part of a group of hundreds of townhouses all located together. Even more important is:

BUY WHAT YOU CAN AFFORD!

- THE DANGER OF RISING INTEREST RATES

Interest rates are the rates at which you pay for the mortgage bond for the purchase of a home. The price is paid in interest and this interest is expressed as a percentage, for example:

- For every R100 a home buyer borrows, R15 must be repaid in interest.
- The home buyer repays R115 per month to the supplier of the funds over a period of 20, 25 or 30 years (the mortgage term).
- The R15 represents interest at 15% per annum ($15/100 \times 100/1$).

Say a person buys a house for R200 000. A mortgage bond for this amount is applied for. The buyer (mortgager) will have to repay a total in excess of R800 000 over a period of twenty years to the supplier of the funds (mortgagee). This R800 000 plus consists of the R200 000 mortgage loan and more than R600 000 in interest at a rate of 15% per annum – the mortgage interest rate or, simply, the interest rate.

The mortgage payment is the amount the buyer has to pay to the mortgagee every month. On R200 000 the monthly instalment at an interest rate of 15% per annum over a period of twenty years is therefore R2 633,58.

Should the interest rate rise to 20%, the new monthly payment would be R3 397,65, which may be too high or not affordable for the buyer. Therefore, bear rising interest rates in mind when you buy.

Many home owners have bought a home when the interest rate was at, say, 15%. The same people had to sell these homes within two years because they could not afford their monthly instalment at an interest rate higher than 20%.

- SHOULDNT I RATHER RENT?

Most certainly not! To rent for several years is extremely unwise and a clear sign of a lack of informed personal financial planning. Thousands of people who don't know any better and who rent other people's properties for years and in the process pay them off could have paid off their own homes within the same period. They could even have paid off more than one!

- BUY A CHEAPER FIRST HOME

Remember, the price of property often rises more quickly than the rate at which you can save or invest for a deposit to put down on a home of your own.

BUY NOW ... IF NOT SOONER!

- WHO CAN ADVISE ME ON MY CHOICE?

Your father, mother, friend or, if you are prepared to pay for it, a developer or a sworn valuer. Alternatively, another estate agent will be able to give a valuable opinion on the property. However, be sure to choose an estate agent who works with the kind of property you are buying. For example, if you are interested in buying a townhouse choose an agent who specialises in selling townhouses.

- WHAT FEATURES INCREASE THE VALUE OF A HOME?

Apart from location, the following positive features increase the value:

- quality finishes
- a new house
- an older house without cracks
- a large number of different rooms even if they are smaller
- a veranda or a lapa
- an entertainment area with a swimming pool and thatched roof/tiled roof
- a neat garden with lots of plants
- brick instead of asbestos walls
- sunny rooms
- safety features of the house and the neighbourhood
- the proximity of schools, places of work, access roads, gyms, churches, entertainment spots, parks
- the absence of factories with noise, refuse dumps, industries that emit foul odours, lots of smoke or soot
- no servitude across the property/residence
- the absence of clay soil

- the possibility of enlarging the residence
- the distance to private schools

- ALL THE COST ITEMS WHEN YOU BUY

There are many cost items of which first-time buyers, in particular, are unaware because they are never mentioned in the media. Some estate agents will not disclose these costs because they are afraid buyers will be put off and they will lose their commission.

The following is an example. Say you buy a two-bedroomed house for R150 000 with a bond of R150 000 at an interest rate of 18% per annum.

Let's look first at general cost items that are incurred, regardless of whether or not you use a bond.

A General cost items

- *Transfer duty*: Transfer duty is payable by the buyer if fixed property is bought. A natural person, in other words you, pays 1% transfer duty on the first R60 000 of the purchase price, 5% on the amount between R60 001 and R250 000 and 8% on an amount over R250 001. Juristic persons (close corporations, companies and trusts) pay 10% on the full purchase price. On R150 000 transfer duty amounts to R5 100 for a natural person and R15 000 for a juristic person.
- *Conveyancing fees*: These are paid on the transfer of property between persons. Conveyancing fees are determined according to tables that appear in the *Government Gazette*. On R150 000 they amount to R2 055 + VAT and constitute a fixed amount to be paid.
- *Occupational rent*: The buyer pays occupational rent if he or she occupies the property before the property is registered in his or her name. Where

- the seller continues to live on the property after it has been registered in the buyer's name, the seller pays the buyer occupational rent.
- *Loss of interest on capital:* If you have to pay a deposit try to keep it in your own account for as long as possible so that you can earn the interest on the money. Otherwise the attorney or the agent or financial institution earns your interest.
 - *Agent's commission:* The seller normally pays the agent's commission. The agency will determine the percentage of the commission, which ranges between 2% and 8% of the purchase price.
 - *Municipal accounts:* The registered owner must pay this account up to and including the end of the month, even if the property was registered in the name of the buyer in the interim.
 - *Valuation costs:* A buyer can elect to ask a sworn valuer to value the property. The costs are determined by the distance the valuer has to travel, whether or not a substantiated report must be drawn up, and a basic cost.
 - *Moving costs:* These costs arise when furniture has to be transported over a relatively long distance. The costs are determined by the distance, the time of the month, storage and insurance on the load.
 - *Telephone service connection costs:* The amount is determined by the type of telephone, the number of lines (different numbers) and their installation.
 - *Water and electricity:* Most city or town councils require a deposit of about double the buyer's previous electricity account. No deposit is required for water.
 - *Miscellaneous expenses:* Make allowance for expenses such as curtains, carpets and new furniture.
 - *Additional improvements (optional):* The residence may need repainting or new carpets throughout.

B Cost items with a mortgage bond

Bonds are used in the majority of cases, and entail the following cost items:

- *Deposit:* A deposit of no more than 10% is normally required once the purchase contract has been signed. Keep the deposit in your own account until the property is registered in your name.
- *Mortgage payments:* A mortgage payment of R2 315 is payable over a period of twenty years at an interest rate of 18%.
- *Bond registration costs:* On R150 000 these are R1 710 plus VAT.
- *Inspection fees:* An inspection fee is payable to the valuer of the financial institution which is granting the bond and is debited against the bond; in other words it is added to the bond amount.
- *Interim interest:* The financial institution which grants the bond charges interest from the date the property is registered but the buyer pays the first instalment only at the end of the next month. In this way additional interest for the account of the buyer arises in the month of registration.
- *Home owner's insurance:* Buyers must insure their home contents against theft, fire and political unrest. Make sure that the home contents are insured for the full replacement value and guard against underinsuring.
- *Bond insurance:* The financial institution which grants the bond expects the buyer to insure the house against fire and political unrest by means of a life policy so that its security for the bond (the house) is safeguarded.
- *Cancellation costs:* If you cancel a previous bond with another financial institution you will have to pay an amount by way of a penalty for the cancellation.

What follows is an example of a form home buyers can complete to determine what their new home will cost them.

● CHECK LIST FOR COST ITEMS WHEN YOU BUY A HOME

GENERAL COST ITEMS	
Transfer duty	-----
Conveyancing fees	-----
Occupational rent	-----
Loss of interest on capital	-----
Agent's commission	-----
Rates	-----
Valuation costs	-----
● Valuation	_____
● Costs for distance travelled	_____
Moving costs	-----
● Distance 0–100 km (21st to the 7th of the month)	_____
● Distance 0–100 km (7th to the 21st of the month)	_____
● Distance further than 100 km (7th to the 21st of the month)	_____
● Distance further than 100 km (21st to the 7th of the month)	_____
● Packing costs	_____
● Insurance costs	_____
● Storage costs	_____
Telephone connection costs	-----
● Installation for a single line	_____
● Rental for a single line	
– Protea telephone	_____
– Disa telephone	_____
– Erika telephone	_____

<ul style="list-style-type: none"> ● Installation for an extension <ul style="list-style-type: none"> – The same telephone number – A different telephone number ● Additional rental for an extension 	<hr/> <hr/> <hr/>
Water and electricity	-----
Miscellaneous expenditure	-----
<ul style="list-style-type: none"> ● Carpets ● Curtains ● Furniture ● Fittings ● Garden services 	<hr/> <hr/> <hr/> <hr/> <hr/>
Additional improvements	-----
COST ITEMS WITH A BOND	
Deposit	-----
Cash (balance of purchase price not covered by the bond)	-----
Mortgage payment	
<ul style="list-style-type: none"> ● Subsidy ● Member's contribution 	<hr/> <hr/>
Bond registration costs	-----
Stamp duty	-----
<ul style="list-style-type: none"> ● Collateral bond ● Additional property ● Notarial bond 	<hr/> <hr/> <hr/>
Inspection fee (financial institution)	-----
Interim interest	-----
Levy commission in respect of first bond, second bond, collateral security (if applicable)	-----
Home owner's insurance policy	-----

Diminishing term life insurance policy	-----
Endowment insurance	-----
Cancellation costs of existing bond	-----
• Cancellation cost	_____
• Penalty (where applicable)	_____
• Additional bonds	_____
TOTAL	R -----

(For more information consult N J Swart, 1996, *Personal Financial Management*, Cape Town: Juta.)

• YOUR PURCHASE CONTRACT

Read the contract before you sign it and ask an objective third party to explain anything you do not understand. The purchase contract is for the most part a standard document, certain clauses (sections or parts) of which are deleted. The buyer usually makes an offer to buy the property of the seller. Once the seller has signed this offer it becomes a legal purchase contract between the two parties. The buyer must know what is being bought and what conditions have to be met before the property can be registered in his or her name.

The purchase contract usually contains a suspensive condition which stipulates that the buyer must secure a bond for a certain amount within thirty days or the purchase contract becomes null and void.

The purchase contract is always a written contract in the case of fixed property and no verbal agreement has any force of law whatsoever.

Remember, your matrimonial property system (see chapter 10) will

determine whether or not your spouse (if you are married) or the person you are living with (see chapter 12) has to sign the purchase contract too.

- HOW DO I FINANCE THE PURCHASE?

First-time home buyers usually use a bond. Find out if your employer pays a housing subsidy and what you have to do (documentary proof you must provide) to qualify for one.

- HOW DOES A MORTGAGE BOND WORK?

This type of loan, which is obtained from a financial institution, is called a mortgage bond. Other people or institutions also grant bonds but bonds are mostly secured from deposit-taking institutions, namely banks and building societies.

The term of the bond varies between 20, 25 and 30 years. The twenty-year term is the most common and is the recommended option. If someone borrows R100 000 on a mortgage loan, that person will repay more than R400 000 to the financial institution over a period of twenty years. Therefore, pay your bond off as quickly as possible and save a lot in interest. If, for example, you repaid R100 extra a month on your bond you would pay your bond off seven years faster and save thousands of rands in interest. Your payments rise and fall with the interest rate. Try to keep your payment the same at all times.

The Access type of bond gives you the option of using the portion of your bond that you have already repaid (say R20 000) by simply transferring it to your current account and withdrawing it at an automatic teller –

without having to apply specially to do so or discussing it with the financial institution beforehand.

- WHAT SIZE OF BOND WILL I BE ABLE TO GET?

The bond you get is determined by the requirement that your mortgage payment may not exceed 30% of your and your spouse's gross monthly income. Therefore, calculate what 30% of your joint income is and compare it with the mortgage payment on the property you want to buy.

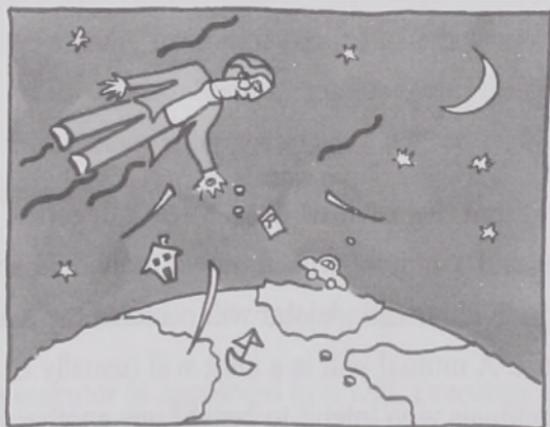
Remember, the bigger your deposit, the smaller your mortgage payments will be and the smaller the amount of interest you will be paying during the period of the bond.

YES, DRIVE POOR TO STAY WEALTHY!

8 MY POSSESSIONS AFTER MY DEATH ... (WILL)

- WHAT IS A WILL?

A will, or testament, is a document which you draw up and in which you say what must happen to your possessions after your death. In it you say what person(s), juristic persons (close corporations or companies) and/or body/bodies must receive your possessions and in what proportion.



- WHO MAY HAVE A WILL?

Every person of 16 years of age and older may have a valid will.

- WHO SHOULD DRAW IT UP?

Any person or body may draw up your will. You may even do it yourself.

- IT MUST MEET CERTAIN LEGAL REQUIREMENTS

The person whose will it is, that is the testator (man) or testatrix (woman), must sign each page in full. Two witnesses over the age of 14 years must sign the last page in full in the presence of the testator/testatrix. The testator/testatrix and the witnesses must acknowledge all alterations to the will by making their full signatures next to each alteration. No witness may be a beneficiary/heir under the will.

- WHAT IS A CODICIL?

A codicil is a separate document which supplements and contains additions to an existing will. It is subject to the same legal requirements. Instead of making an entirely new will, you can effect alterations to your will in a codicil.

- TYPES OF WILL

The ordinary will can be divided into three categories, namely an individual, a joint and a mutual will. A single individual records his or her wishes in an individual will. A joint will contains the wishes of more than one individual. A mutual will is a joint will (usually of two people) drawn up by individuals who intend to benefit one another reciprocally.

- THE HEADING

It is important that the will should indicate whose will it is, for example

whether it is an individual will or a joint will. The forenames, surnames and identity numbers of the testator(s)/testatrix(es) are required here.

- REVOKE PREVIOUS WILLS

All previous wills and codicils must be revoked if you are making a new will.

- HEIRS/BENEFICIARIES

Any person or body who is to benefit under the will of the testator/testatrix in the future must be named. The will should also indicate precisely which beneficiary(ies) are to inherit which asset(s).

- APPOINT AN EXECUTOR

The executor is the person (father, mother, wife, friend or attorney) or body (bank, building society, insurance company) who must administer your estate after your death. 'Estate' means everything you own and 'administer' means how your possessions will be dealt with (passed by inheritance) after your death.

- WHAT IS THE POWER OF ASSUMPTION?

Normally an executor is appointed in a will. Executors are, however, not always (in fact, very seldom) able to administer the estate from a legal point of view, usually because they lack the necessary expertise. If the testator grants the executor the power of assumption in his will then the incompetent executor may appoint a professional person such as an

attorney or financial institution to administer the estate on his or her behalf. The two executors now share the executor's fee in terms of a percentage division, as agreed between them.

- EXEMPT THE EXECUTOR FROM FURNISHING SECURITY

In fact, every executor is obliged to furnish security to the Master of the Supreme Court. This means that the executor must have sufficient assets or capital before the Master will permit him or her to administer the estate (wind up the estate according to the legal procedure). These assets or capital must therefore be approved by the Master beforehand. However, not all executors are wealthy enough to pass this test. Likewise, not everyone will be prepared to act as an executor if he or she has to undergo this kind of selection process. This is why it is important to exempt the executor from furnishing security to the Master.

- TRUSTS AND AN ADMINISTRATOR

A testator/testatrix nominates an administrator if his or her estate or a part of it must be put in a trust.

Important matters here include the following: the names of the trust, income and/or capital beneficiaries, the name of the administrator, names of trustees, the content of the trust deed and when and how the trust is to be terminated.

- LIST YOUR ASSETS AND LIABILITIES

It is especially important for the executor to know about all the assets and liabilities in the estate he or she must administer.

- SIMULTANEOUS DEATH

A will should make provision for different scenarios (possible situations or events). In the case of an individual will, alternative (in the event of death) beneficiaries, executors, administrators (if applicable), trustees and bodies should be named. Similarly, provision should be made against a husband and wife dying together and leaving behind a joint mutual will that no longer serves its purpose.

- GUARDIAN FOR MINOR CHILDREN

It is vital to appoint a guardian for minor children (any person under the age of 21 years) since the husband and wife may die at the same time.

The guardian of a minor child usually receives immovable (fixed) property and other property on behalf of the child. It is recommended that a trust be created for minor children.

- MAINTENANCE OF DEPENDANTS

Indicate how the needs of dependants should be met during the administration of the estate.

- INHERITANCES AND FUTURE MARRIAGES

The testator should exclude all inheritances from heirs' matrimonial

property systems. This is very important in order to keep an estate in the hands of heirs for future generations. A child can marry into the most unsavoury family imaginable. Fortune hunters as relatives by marriage could mean that the child's spouse (husband or wife) could initiate a divorce and walk away with half of the testator's/testatrix's (and the child's or heir's) estate.

- DEATH WITHOUT A VALID WILL

Should you die without a valid will, your property is passed by inheritance intestate, which means that individuals you do not like and whom you would never have made beneficiaries may inherit your property.

- SEVERAL COPIES

Keep a number of original copies of your will in safekeeping at your house, with your parents or with an attorney.

9 I ONLY INVEST IN ... (INVESTMENTS)

- NEWSPAPERS AND MAGAZINES CONFUSE ME – WHAT SHOULD I DO?

Even if the media create the erroneous impression that it is imperative to invest in a different product every month or two or replace one investment with another, there are many investment strategies that will put you in a position to retire financially independent. No single investment is so important that it can replace all the other investment alternatives.

- YOU NEED SEVERAL INVESTMENT OPTIONS



Just as people's financial situations differ, so do their objectives and their personal financial needs. Investments must help you to achieve your objectives (meet your needs) in the short, medium and long term. Consequently, you must make a range of different investments.

● HOW DO I COMPARE DIFFERENT INVESTMENTS?

You can use the following investment criteria to compare different investment alternatives (your specific need(s) will determine what criteria are important for your specific personal financial situation, risks and objectives):

- *Income*: A young person should invest for capital growth and not in an investment that generates a return.
- *Capital growth*: Choose investment options with capital growth (for example general unit trust funds and specialist funds, property and shares). Take as much of a risk as you can with your investments while you are young. This way you will be investing against inflation.
- *Safety of capital amount*: Capital should be relatively safe in the long term with most investments.
- *Flexibility*: This is a reference to the possibility of converting one investment into another quickly – not necessarily important at this stage (age).
- *Liquidity*: Very important. Unit trusts, for example, can be encashed within ten days, which is useful if you suddenly need money (emergency, vehicle breakdown, bargain on a car).
- *Taxability*: Choose an investment(s) with capital growth so that there is no income on which tax is payable.
- *Easy to manage*: Most investments are managed by experts (fund managers). Decide for yourself if you want to speculate with shares in your own time and on the basis of your acquired know-how (courses you can do).
- *Risk*: Take as much risk as possible with your investments (for example, choose the most risky unit trusts with up and coming growth companies).

- *Return:* Choose investments that generate the highest return after tax and after inflation.
- *Term:* Do not invest money for, say, five years when you are going to need it in a year's time.
- *Amount:* The amount you want to invest will determine what you should invest in, for example R50 per month or R50 000 as a lump sum.
- *Transaction costs:* Be aware of the costs associated with the buying and/or selling of investments.
- *Timing:* Long-term investments are handled differently from speculative investments (for example the buying and selling of shares). When it comes to speculation the timing of buying and selling is vital.
- *Diversification:* By making more than one kind of investment you spread your investment risk and bring down the average risk of all your investments.
- *Control:* If you are young, control over your investments has yet to become very important.
- *Know-how or managerial skills:* Very important if you want to speculate with shares or invest in a hotel or a holiday resort.
- *Inflation:* Invest to counteract inflation; make investments that have capital growth.
- *Investor's objectives:* Your objectives are always the most important consideration in choosing an investment.

● WHAT INVESTMENTS SHOULD I START WITH?

Start with a life policy, a retirement annuity and unit trusts. If your funds permit, start with all three at the same time.

Life policy

Take out a life policy to cover domestic risks. In the event of your death, your parents could benefit, debts could be settled, or a spouse and children could benefit. You could also use the policy later for the purposes of bond insurance, business insurance and the estate duty which is payable on your estate if you die.

Retirement annuity

Invest in a retirement annuity and enjoy the tax benefits permitted by the law. An annuity is a series of payments or investments which are made in equal amounts.

A retirement annuity is a tax-efficient way of providing for your retirement. For every R100 invested in a retirement annuity you get R45 (45%) back from the Receiver. The investor therefore pays only R55 for every investment of R100.

If you already have a four-year post-school qualification take out a PPS annuity. The return on these is higher than with other annuities because of the lower risk involved for members. A PPS annuity is only for professional people with a four-year qualification and it is offered/underwritten only by Sanlam. PPS stands for the Professional Provident Society of South Africa. A PPS annuity functions in much the same way as an ordinary retirement annuity, except that provision is also made for the following:

- the buying of shares
- disability cover
- membership of a medical aid fund

Between the ages of 55 and 70 years, the retirement annuity's option must be exercised, in other words

- the investor must take a third of his or her total investment and reinvest it, and
- the remaining two thirds must be used to buy a compulsory annuity

The compulsory annuity can be either a traditional annuity or a modern living/flexible annuity. A traditional annuity can be on the life of a single individual or on the lives of both spouses (husband and wife, for example). After the death of the single individual all further benefits lapse. In the event of a death with a joint annuity the surviving spouse earns an income until his or her death. Normally this income period does not exceed ten years. Where both persons are still living (after the option has been exercised) they must choose between different income combinations. Older people and people who smoke, for example, receive a higher income for a shorter life expectancy. On the other hand, women receive a lower income than men because of their longer life expectancy.

The two thirds (compulsory annuity) can also be invested in a living/flexible annuity. Under this system the investor can choose his or her own level of income on the basis of current needs, for example between 5% and 20% of the two-thirds capital amount. This choice is far more favourable for heirs because even after the death of the surviving spouse (in the case of two persons) the heirs

- either get the remaining funds over a five-year period, or
- may continue with the annuity in the same way as the original investor

Unit trusts

Unit trusts offer high capital growth (high tax-free returns) and can be encashed quickly because they are very liquid. This kind of investment can be used for a deposit on a home if you do not already have one.

Unit trusts allow the relatively small investor to invest indirectly on the Johannesburg Stock Exchange. Investments are made in the shares of companies – usually in those of about twenty companies at the same time. You can invest in unit trusts on a monthly basis.

There are three broad categories of unit trusts:

- general funds
- specialist funds
- income funds

The first two aim at capital growth while an income fund provides a retired person, for example, with a regular income. Young people should invest in the first two categories and never in income funds. Risk varies considerably from unit trust to unit trust and young people should invest in risky unit trusts with a view to long-term capital growth – for example, the unit trusts of up and coming (new) companies. It is also possible to invest in unit trusts with international interests – an international fund of one kind or another.

One of the newest kinds of unit trust is money market funds which provide investors with income and protect capital. Money market funds currently entail the lowest risk of all unit trusts.

Buying unit trusts involves a small initial deposit, for example R50 for

some trusts. After this even smaller monthly amounts can be invested. You can buy unit trusts –

- by completing forms with a broker or organisation
- by completing newspaper and magazine advertisements
- by e-mail
- on the Internet
- by telephoning tollfree numbers and consulting client services
- at Computicket
- before long, at various shops

Unit trusts offer high capital growth – especially when the investment is kept for longer than three years – it should be kept as long as possible for capital growth (up to thirty years). Unit trusts protect the investor against inflation. They are also very liquid; in other words the total investment can be called up within ten days should the investor need the money urgently for some other purpose.

Some sources of information on unit trusts and their returns/results over different periods (1, 3, 5, 10, 15 years) are the following:

- books
- newspapers
- brokers
- banks
- insurance companies
- the Internet

Here are some Internet addresses:

- Bureau for Financial Analysis (UP) – <http://www.bfa-net.com>

- Brantom – <http://www.brantom.co.za>
- Stones – <http://www.infostones.co.za>
- Easyinfo – <http://www.investment.co.za>
- TMA – <http://www.tma.co.za>
- Guardbank – <http://www.guardbank.com>
- Norwich – <http://www.norwich.co.za>
- Plexus – <http://www.plexus.co.za>
- Old Mutual – <http://www.oldmutual.com>
- *Business Day* – <http://www.bday.co.za>
- *Financial Mail* – <http://www.atd.co.za/fm>
- *Finance Week* – <http://africa.com/mags/finweek>
- *Business Times* – <http://www.btimes.co.za>

You can also link an investment in unit trusts with a life policy, a retirement policy or a retirement annuity. This kind of product or investment is called a unit trust-linked investment.

Everyone's view of risk or his or her risk profile (a risk taker or a risk avoider) will largely determine what kind of unit trusts are invested in. Nonetheless, a younger person should make far more risky investments than, say, a middle-aged person.

● WHAT OTHER POSSIBILITIES CAN I CONSIDER?

Money market funds

A money market fund is a unit trust that serves as a short-term investment instrument and functions to provide investors with a current income. South Africa is lagging far behind other countries when it comes to money market funds as investment instruments. The first money market fund was

established in 1971 in the USA and ten years later another was established in France. In South Africa the small investor has never been able to invest directly in the money market because of the size of the minimum amount that had to be invested (R100 000). However, money market funds now offer investors the opportunity of applying the 'stokvel' principle and earning a high return on joint investments.

Why do we say 'joint investments'? A money market fund invests the joint investment (funds) of a large number of investors in the money market. The capital is safe (it is a low-risk investment) because the investments are in state and other public securities, treasury bills, debentures, bank deposits and other permissible money market instruments with a running time (investment period) not exceeding 12 months.

Money market funds are particularly suitable

- for individuals with a minimum of R2 000 to invest
- if you want a monthly investment income
- if you are looking for a risk-free investment
- if you want to invest a relatively large amount for a short period
- for those who want to create an emergency fund but want the investment to be available within a day
- where estate money must be invested temporarily
- if the object is complete liquidity (available immediately)

Money market funds versus unit trusts

Although certain unit trusts provide an income (for example income trusts) the primary object with most (other) unit trusts is capital growth. Money market funds are aimed at the protection of capital and at high income. Unit trusts invest in the shares of listed companies but money market

funds invest in money market instruments. The risk entailed by money market funds is therefore much lower than that entailed by unit trusts. What is more, with unit trusts the investment term should be longer than three years, but with money market funds it can be as short as a day to 12 months long. The income from both is fully taxable. With unit trusts interest is paid every six months and with money market funds every month. Both are very liquid.

Money market funds versus fixed deposits

With money market funds the rates at which interest is earned fluctuate and with fixed deposits they are static. With money market funds the investment (excluding the minimum balance) can be obtained within a day, but fixed deposits can be obtained only after a fixed term. Money market funds are therefore more liquid. In the case of both the interest/income is fully taxable. Interest rates are higher with money market funds than with fixed deposits. The risk is lower with money market funds than with fixed deposits.

Pros and cons of money market funds

The benefits of money market funds:

- Small investors can invest in them.
- The investment is very liquid.
- There is a higher return than with other short-term investments (for example fixed deposits) that generate an income.
- The competition they give rise to between financial institutions results in a better service.
- The investor's capital is very safe.

- They are suitable for risk avoiders, that is those who are afraid to take a risk.
- They generate a high income during conditions of inflation.
- No sales commission is payable.

However, they also entail a few disadvantages:

- No fixed return is guaranteed.
- There is no South African history/experience for potential investors in this investment instrument.
- The fund managers are still relatively inexperienced.

● SHOULD I INVEST ABROAD?

Up to 1 July 1997 South Africans were able to make offshore investments only on a small scale, and mainly in only one of the following ways:

- a policy (insurance)
- unit trusts (about ten of them)
- shares
- a container (this calls for a larger amount – R25 000 to R150 000, depending on the number of joint investors)

A container is made of stainless steel and is used to transport food, motor cars, motor cycles, liquor, fluids and chemicals from country to country. An individual or a group of people can buy a container and lease it abroad to earn an income. The container is used with many other containers in a business which pays an income to investors. In this way investors earn an income on their investment abroad.

The primary reason that someone would consider investing abroad is to

spread the risk entailed by investments between a number of countries. Many South Africans regard South Africa as a very risky place to invest (perhaps one of the most risky) and want to invest some of their money (or all of it) abroad. Unfortunately, the South African Reserve Bank does not permit individuals to take everything they own out of the country. This control over a person's possessions is called exchange control. This means that an individual may take only certain assets and/or amounts of money out of the country, irrespective of the reason for the visit abroad (holiday, research, permanent residence/emigration).

If you are considering an investment or investments abroad, the return on the investment (income such as interest or dividends) would not be the primary consideration. The investor's intention would be to lower the risk of all his or her investments being kept in one country (or the wrong country – a country whose currency is weak or has a low value relative to other countries) by transferring assets/investments to another, 'safer' country (for example one with less crime, a more stable or competent government, higher productivity and a lower population growth rate).

However, since 1 July 1997 it has been possible to invest abroad on a far larger scale. The Reserve Bank has initially (1997) allowed one to invest an amount of up to R200 000 abroad. Income earned on this investment may be left in that country. Income tax is payable on foreign income, though, just as with any other South African income.

Whereas before, South Africans could invest in only about 130 local unit trusts, now they can invest in more than 30 000 different unit trusts all over the world. It is now even possible to invest in property abroad, for example in farms.

In addition, individuals may open an overseas bank account either in that overseas country or in South Africa. One can also appoint a fund manager to make and manage foreign investments. However, it is by no means simple to make such investments or to choose a fund manager because the majority of South Africans are still very green when it comes to these matters. Therefore, anyone wishing to invest funds/assets abroad should use the utmost caution.

A further option would be to place overseas assets or investments in an overseas trust. Remember that your will should make provision for these overseas investments. These assets, investments or trust(s) should therefore be specified by you. We recommend that you make a separate (second) will for overseas investments. This will make it easier to wind up your estate (all your assets and liabilities) after your death (this process is called administration of estates).

The Reserve Bank has, however, imposed a prerequisite for foreign investments. Two forms must be completed by South African investors that stipulate that all income tax has been paid and nothing is outstanding.

Do not give money to just anybody to invest abroad for you. Do the necessary reading (research) yourself first and then talk to expert investors. Only then should you consider making a foreign investment.

- OTHER GOOD INVESTMENTS FOR THE BEGINNER

- Buy a home. We have already referred in chapter 7 to the importance of a first home. This home should be bought as soon as possible because it makes far more sense to pay the money you would otherwise pay to a

landlord (rental) towards your own home. We have also stressed the choice between a home and a car. It is far better to buy a more expensive home and, in any event, younger people should spend as little money as possible on cars.

A home offers capital growth (growth in value) and is paid off after twenty years. Then a second property can be bought or other needs met with the monthly instalment you no longer have to make. The home can also be used as security for a further mortgage or loan (for example an overdraft facility).

- Invest in your health and in good friends in every way. Remember, your health will always be your greatest asset. It should therefore be safeguarded more than any other asset you have. Your health or lack of it has a tremendous effect on your prosperity or your financial situation after retirement. Therefore look after your health by doing the following, inter alia:
 - eating and drinking right (watch what you eat/drink and how much you eat/drink)
 - exercising regularly
 - reducing your stress (learn how to say no and don't take on too much work)
- Friends and friendships have to be preserved throughout your life. After retirement there will be more time to spend with these special people. Therefore, quality friendships should be cultivated from an early age.

- DO I NEED A BROKER?

You can consult various brokers and professional people for advice. Never regard a broker as a status symbol though.

- HOW DO I CHOOSE A BROKER?

Choose a broker by looking at the following:

- publications (by or about them)
- their CVs in the field of personal finance
- references from other people
- their studies in the field of personal finance
- training
- professional qualifications
- proven performance in this field
- local and/or international awards

WATCH OUT FOR FLY-BY-NIGHTS –
CHOOSE AN EXPERT!

10 GETTING MARRIED – WHERE MUST I SIGN? (ANTENUPTIAL CONTRACT)

- WHAT IS AN ANTENUPTIAL CONTRACT (ANC)?



Your antenuptial contract (ANC) is arguably one of the most important documents you will ever draw up.

The law requires that we marry according to a specific matrimonial property system (which we choose ourselves).

This matrimonial property system is registered and set out in an antenuptial contract.

- HOW IMPORTANT IS AN ANC ?

Your ANC will affect, in one way or another, every financial decision you

make for the rest of your life (buying and/or selling assets, investments). It is the most significant and pivotal foundation of all your financial planning for the rest of your life.

- WHO SHOULD DRAW IT UP?

It must be drawn up by an attorney. When a couple wish to marry they usually visit their nearest attorney, who is supposed to inform them in full about the financial implications of the various matrimonial property systems.

Unfortunately, this is seldom done, as is evident from the many court cases involving spouses who want to alter their marriage contracts because, for example, they were unaware that they could exclude the accrual system.

- TYPES OF MATRIMONIAL PROPERTY SYSTEM

- People who want to marry can do so in community of property after which they share and own all their assets and liabilities equally (50/50 basis) for the rest of their married lives.
- You can also marry out of community of property excluding the accrual system. Under this system each spouse (husband or wife) always owns only his or her own assets and has his or her own liabilities. This system is recommended in the strongest terms because it rules out the many hidden problems attendant upon the accrual system.
- A third option is to marry out of community of property, with the accrual system.

The accrual system applies to all marriages solemnised after 1 November 1984. People who have yet to marry therefore have a choice. They can marry out of community of property including the accrual system (which happens automatically) or out of community of property excluding the accrual system (which they must stipulate expressly in their ANC). It is important for each marriage partner to list in the ANC the assets and liabilities that belong to him or her (exclusively) and that should be excluded from the accrual system.

Here are some examples of the pitfalls one can encounter:

- Mr A (who has a large estate) and Mrs B (who owns only a car) marry and include the accrual system. A month later Mrs B's lover comes to collect her and three months later the marriage ends in divorce. Mr A acquired a property worth R1 million on their honeymoon. Mrs B is now entitled to half of the accrual of their marriage, namely R500 000, and Mr A is obliged to pay it to her.
- Mr C (many assets) and Mrs D (no assets) marry under the accrual system. He lists his assets in their ANC and gives their value as R500 000. However, he doesn't use a sworn valuer. The actual value of the assets is R1 million. Mrs D is a fortune hunter and six months later they are divorced. The law says that Mrs D is now entitled to the R500 000 by which Mr C undervalued his assets, regardless of whether or not he was/is able to assess their value and of where he is to get the money. Remember that, according to law, ignorance of the law is no excuse.
- Mr E (few assets) and Mrs F (three farms worth about R200 000) marry inclusive of the accrual system. Mrs F dies and the farms are by this time worth R500 000. The law says that there has been a R300 000 (R500 000 less R200 000) growth in Mrs F's estate and that half of that

(R150 000) must be paid to Mr E. Unfortunately, the estate is not liquid enough (it does not have sufficient funds or cash) and all three farms have to be sold in very uncertain times for R150 000. Her legacies are therefore worthless and her two children inherit nothing.

In view of the many practical problems it entails, you are advised to evaluate the accrual system very carefully before you marry under it.

- BE CAREFUL OF CONTRACTING WITH YOUR EMOTIONS

The contents of your ANC have nothing to do with your love for one another (this is an idea that may have held true once but has been dispelled by the laws of the country and the divorce court). You can declare your love for one another in any number of other ways – including in your will(s).

Couples are generally asked to list their assets only if they intend marrying out of community of property (inclusive of the accrual system or otherwise). The legal consequences and financial implications in the event of the couple divorcing (at present one out of every two marriages ends in divorce) are never explained to them. Nor do the loving couple themselves want to think about such an eventuality because they will never get divorced – funny, everyone is certain of that much.

When a marriage does end in divorce, a settlement (as to the division of assets, etc) outside of court is virtually impossible. Love often turns into hate and sometimes one party tries to destroy the other financially. At this point it is too late for reasonableness in the negotiations between the parties (husband and wife).

- YOUR PARENTS COULD LOSE 'EVERYTHING' IN THE EVENT OF YOUR DIVORCE

Parents do not always realise that their assets could be at stake when their children get divorced. For example, a father gives a building complex to his son and daughter-in-law.

The complex consists of a residential unit (for the parents) with an adjoining shop. They agree (verbally) that the father and mother have the residential unit (they may live there until they die) and life rights to usufruct on the shop that is being leased (they may live off the rental income). This is all the pension the parents have.

The son gets divorced five years later. He was married out of community of property inclusive of the accrual system. The former daughter-in-law decides to claim her share – among other things half of those buildings! The father and mother have to move without their pension because the complex has to be sold in order to give the daughter-in-law half of the proceeds.

An ANC can provide for all such cases.

- BEAR THE POSSIBILITY OF DIVORCE IN MIND IN A PURELY FINANCIAL AGREEMENT

What follows are a few examples of matters that should be addressed in such a contract (with a view to subsequent divorce):

- A list should be made of each party's possessions (mainly fixed assets, vehicles and furniture) with an indication of their market value, as determined by a sworn valuer.

- For marriages concluded in community of property, who is to retain what property in the event of a divorce, what is to be sold and how the proceeds are to be divided should be worked out beforehand.
- You are advised to stipulate in your ANC that all future inheritances (be they assets or income earned on assets or investments) should be excluded when it comes to dividing assets. Also stipulate that no income that is inherited in one way or another may be taken into account for determining maintenance.
- Parents should make similar stipulations in their wills regarding inheritances that may come to their children.
- After divorce a woman is no longer a dependant as far as medical aid funds are concerned. Therefore, stipulate in the ANC that in such an event the woman will not be able to remain on the man's medical aid fund. This can expose the man to many unreasonable costs. Children remain members of such a fund automatically. Also stipulate that the man will contribute only to reasonable additional medical expenses if he is able to do so.
- Determine how custody of the children will be arranged. Choose free access during the week (with the necessary arrangements), access every second weekend and alternate short and long holidays. This prevents a situation in which the children are used as emotional footballs after a divorce.
- No party should be entitled to any investment of the other party, even if it is ostensibly to be used for the children's education. The children should also not be entitled to any investment. A clause to this effect should be inserted.
- Possible claims for future maintenance should be dealt with at this early stage. Be careful of the R1 clause (which women's attorneys are inclined to ask for) which can be increased after a divorce to hundreds and even

- thousands of rands. Stipulate that a reasonable amount will be paid for the maintenance of the children. This maintenance should be indicated as a percentage of the man's net income. Also indicate how this net income will be calculated and stipulate further that the two parties will share equally the reasonable costs for the maintenance of the children.
- Stipulate that the legal costs will be shared equally if a settlement is reached outside court within thirty days or that the party who institutes divorce proceedings will have to pay all the legal costs. Otherwise one party may refuse to pay any legal costs or push up the costs in an unreasonable manner by making sure there are protracted and costly court cases during the divorce process.
 - Often money is borrowed from parents for a specific project. It is important to stipulate how such an amount (for example for a housing bond) will be repaid because if, after a divorce, one party flatly refuses to pay his or her share, this can leave the other party with a substantial financial burden.
 - Also stipulate that where fixed property is owned jointly the party who did not help to repay the mortgage bond will be responsible for repaying half of what has already been paid. This would be when that party has not contributed to the household in any other way (financially or otherwise).