INVESTING YOUR PACKAGE
PACKAGE: all you need to know

INVESTING YOUR

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BIBLIOGRAPHY
In this book I try to offer, in simple language, objective and independent personal financial advice and information on investing a package.

**THIS BOOK WILL HELP YOU TO MAKE A MORE INFORMED INVESTMENT DECISION**

Many decisions about the investment of a package (or any lump sum) will be discussed briefly. You should note that each decision is unique because your personal financial situation is unique. Therefore the investor must know his or her own risk profile, financial risks, financial needs and financial objectives. It's also important to know that investment planning, income tax planning, estate planning and retirement planning should all be kept in mind when you are considering the various investment possibilities for your package. As potential investor, you should also be aware of the various pitfalls along the investment road.

We'll look at the confusion caused by the media – among others by 'media brokers' – and at the methods you should use when you evaluate your broker. We also give guidelines about investing packages for those

- who are to remain in the service of the same employer and have to choose a specific fund (pension fund, provident fund, defined benefit or defined contribution fund)
- who are going to work for a new employer
- who want to establish or buy a business
- who have to invest their packages for retirement and have to choose from all the various investment options
- who want to invest their money offshore

We'll also discuss how you, the investor, can protect yourself and will point out that your matrimonial property regime (anteuplial contract), divorce, insolvency or emigration are important considerations when investing a package.
READING THIS BOOK WILL HELP YOU UNDERSTAND ALL THE FACTORS THAT ARE INVOLVED WHEN YOU HAVE TO DECIDE HOW TO INVEST YOUR PACKAGE

I hope that you’ll find it a positive experience.

NICO SWART

PS: Before I am inundated with protests from charming female – and feminine – investors and brokers, I hasten to add that I have usually used the pronoun ‘he’ when referring to investors etc merely to avoid the awkward repetition of she/he, her/his and herself/himself.
1 A PACKAGE - WHAT NOW?

1.1 WHAT INVESTORS DON'T WANT TO HEAR ANY MORE

'Just sign here next to the cross at the bottom of the page,' says the broker.

You answer: 'I'd like to think about it first and then come back to you.'

'No, sign now. We can always make changes later,' replies the broker.

You feel embarrassed because you don't know what to do next.

The broker hands you the application form and says: 'YOU KNOW, I AM NOT REALLY ASSOCIATED WITH A SPECIFIC INSURANCE COMPANY OR FINANCIAL INSTITUTION AND BASICALLY I CAN SELL ANY FINANCIAL PRODUCT.'

You sign the form reluctantly and hand back the black pen.

Shortly after this the broker leaves the room or you leave the broker's office - still feeling uncertain whether you have made the right decision.

AS SOON AS YOU COME TO YOUR SENSES A FEELING OF HELPLESSNESS AND FEAR OVERCOMES YOU. Will you be able to afford your actions? Have you made the right investment in the right place? More and more questions arise in your mind and soon you start suffering from 'buyer's blues'.

For most of us this situation is not new. We've been there ...
1.2 WHAT WOULD INVESTORS LIKE TO HEAR AND SEE?

Investors are looking for a broker

• who has the necessary knowledge, training and qualifications
• who acts with integrity
• whom they can trust
• who does more than expected of him
• who helps potential investors to make an informed decision
• who spends sufficient quality time with them
• who always acts in good faith
• who gives them the time they need to make a decision about their investments
• who does not pressurise them to close a deal
• who is not looking only for commission but is prepared to enter into a long-term relationship with them
• who realises that he is working with other people’s lives, not only with their money
• who knows the financial products that are available
• who knows the total field of investment
• who knows what effect a certain decision about an investment will have on income tax planning, estate planning, and retirement planning
• who is well informed about the broad spectrum of personal financial management

Yes indeed, the investor’s biggest concern is:

Who can help me to invest my money? That is to say
Who can help me to invest my package?
You need a partner who can and is willing to help you.
This book will be your partner.

1.3 UNCERTAIN TIMES FOR PACKAGES

WHY ALL THIS UNCERTAINTY?

Potential investors are very uncertain about their financial future. Some of the reasons for this uncertainty are:

• They are afraid that the provision they made for retirement might not be
enough now that life expectancy is about 80 years.

- The government is constantly introducing higher taxes on retirement money and retirement funds.
- The government and employers are placing more and more pressure on employees to accept responsibility for their own retirement and to make the necessary provision for funds for their retirement.
- Employees are pressurised to transfer their retirement money to provident funds. This holds an important benefit for employers as employees have to carry the risk themselves.
- Certain developments in the insurance industry have prompted insurance companies to change to financial services companies that offer investments in the entire investment field.
- Financial products are changing so rapidly that the public and brokers cannot keep up.
- Brokers’ responsibilities for the financial advice that they offer have increased tenfold.
- The media – particularly ‘media brokers’ – often manipulate the perceptions of a largely ignorant public at will.
- The value of the rand has decreased by about 100% against the American dollar over the last ten years.
- Investors are now better informed than before and realise that there are numerous factors that affect their financial future and wealth.

LARGE-SCALE CONFUSION

South African investors have never been more confused. They don’t know which broker to use, which products to invest in, or whether it would be better to invest part of their portfolio offshore.

Political, economic and social realities will continue to create uncertainty among South African investors – before and after elections. We can be sure that there will be increased demands to transfer money from the ‘haves’ to the ‘have nots’. These demands do not create a favourable climate for local and overseas investors.

The partial relaxation of exchange controls has confronted South Africans with difficult investment decisions. Nowadays an investor can choose from about 220 South African unit trusts and more than 35 000 worldwide. There are
numerous linked products offering attractive investment opportunities and they are constantly being adapted to meet the changing needs of the public.

The emphasis is also shifting from the broker (who takes your investment) to the fund manager (who has to manage the investments in South Africa or choose an offshore fund manager(s) on behalf of the investor). The more conservative (or older) investor starts worrying about the safety of his money as soon as the investment is made.

Uncertainty is the order of the day – more than ever before. Investors view the risk of their South African investments in global terms. As our financial institutions start investing more and more in foreign countries the public start wondering whether they are spreading their risks or exposing themselves to even greater risks. This is not surprising, because who really knows what is going on with their investments when their fund managers are so far away!

Financial institutions have researched the global market and have appointed offshore fund manager(s) with two main criteria in mind:

• Fund managers should have more or less the same investment risk policy as the financial institution concerned.
• Fund managers should fit into the culture of the financial institution.

It is impossible for us as investors and potential investors to check the creditworthiness of offshore fund manager(s). We make an investment because we like a certain product. The offshore fund manager then invests our money on behalf of the institution where we make the investment. This means that the investment is no longer in the 'hands' of the local financial institution. (This is true for all local financial institutions or brokers.)

Many brokers are equally confused. They suddenly have to compete in foreign countries, but they don’t have the necessary knowledge, contacts and infrastructure. They also need additional training, because they can no longer answer investors’ questions convincingly.

People are so confused that they consult various brokers. Enquiries received by brokers show that would-be investors obtain proposals from 5 to 15 different brokers and still don’t know which proposal (or combination of proposals) to choose.

WHAT IS THE SOLUTION?

You should – and must – get an independent adviser to help you make an objec-
tive evaluation of all the proposals. Don't confuse independent advisers with brokers who regard themselves as independent. No broker is independent. Find an expert to act as your investment partner and not someone whose sole source of income is commission from investments. This expert is the only person who can give totally independent personal financial advice about investments, or can come very close to being independent.

Let someone from outside the brokers' profession who has the necessary expertise evaluate your package and the proposals made by the various brokers. Let this person make his own proposal(s). Only then will you be in a position to decide how to invest your package.

Unbiased investment advice is the solution to your problem.

1.4 WHAT IS THE MEANING OF THE WORD 'PACKAGE'?

The concept of a 'package' is not new in the new South Africa. In fact, the only question is when will we be offered a package and how will it compensate us for the loss of years of service and retirement benefits. Nowadays South Africans who decide to take packages – and there are many – are confronted with a large number of difficult decisions. Unfortunately they get very little assistance, if any, in the form of timely financial advice.

People may be offered packages because of

- the dissolution of the employer's pension or provident fund
- voluntary breach of service (resignation) by an employee
- compulsory breach of service (dismissal)
- staff retrenchments by an employer
- retirement

A PACKAGE MAY BE IN THE FORM OF A SEVERANCE PACKAGE OR A RETIREMENT PACKAGE. Remember that any large lump sum should be invested in the same way as a package. The same investment principles, investment criteria and investment alternatives will be valid and should be applied when investing lump sums such as

- policies that are sold
- a policy that matures
- the one-third lump sum of an annuity
• inheritances
• group benefits received on the death of a spouse
• money received when a couple divorce
• any investment that has to be reinvested
• when fixed or moveable property is converted into cash

1.5 HOW IMPORTANT IS YOUR PACKAGE?

YOUR POSSESSIONS ARE THE SUM TOTAL OF YOUR LIFE AND 
ENERGY

The capital amount of your package may be the sum total of your life at that 
moment – good or bad (in other words, a small or a large amount). This is what 
you own and you have to make decisions that will affect the rest of your life.

Your investment decision (the utilisation of your package) is of vital impor­tance because it will largely determine

• what the next few years of your life will be like
• what the rest of your life will be like

This decision is much more important than you could ever have imagined, in 
particular when you are an older person. A wrong decision or investment(s) 
could mean that you’ll outlive your financial resources in your retirement 
years. Your retirement shouldn’t become a race between inflation and death – a 
race that is won by inflation in the lives of 94% of retired people. Inflation 
devours their investments long before they die. You have to make a decision 
about your life – rather give back the application form unsigned than sign it 
while you are uncertain about the action you should take.

When a relatively young person receives a package the investment decision 
means more than a decision about a career or an own business. Those who are 
55 years and older will decide how to invest their packages with a view to 
retirement. Therefore retirement planning is more important for older people 
than for those who still have to build a career. During their career years people 
are also planning for retirement, even when they have established or bought 
their own businesses. Also keep in mind that your package represents your 
existing provision for retirement.
THE PACKAGE IS INTENDED TO PROVIDE IN YOUR RETIREMENT NEEDS AND THIS OBJECTIVE MUST BE PURSUED AT ALL TIMES

This doesn’t mean that you shouldn’t use money from your package to pay for that long-awaited overseas trip or new car: it depends on whether you can afford it at this stage. But remember that the package is intended to make provision for your retirement and that this long-term objective must be pursued at all times. Unless you have sufficient money for retirement, your package should not be used in any other way. Someone who is still relatively young can begin to make provision for retirement from scratch, but the closer you are to retirement, the less your chances of doing this. You may not even have the chance. Be extra careful with your package in this situation: preserve its capital value as long as possible.

1.6 SHOULD I TAKE MY RETIREMENT PACKAGE?

People often have a choice of whether to take their packages. It is difficult to provide simple guidelines for everybody, but a few facts will enable you to make a better-informed decision.

SHOULD EVERYBODY TAKE THE PACKAGE IMMEDIATELY?

The answer is an emphatic no! The financial situations of individuals differ to a large extent, so almost all of their personal financial decisions will differ too – even when it’s the same type of decision. Don’t allow people to confuse you. Those who don’t see a future in the country will want to take the package and utilise it as they think best. Their decisions are usually politically or emotionally motivated and have nothing to do with those who are not considering leaving the country. Many South Africans will have much less of a future in a foreign country and have no choice but to make the best possible use of their possessions in South Africa.

SHOULD I TAKE MY PACKAGE FIVE YEARS BEFORE RETIREMENT?

If you want to establish your own business and intend to use a large part of the package for this purpose, you may feel that the business will generate more retirement benefits than the fund (if everything goes well!). You may then leave
the money in the fund or appoint a broker to manage the package on your behalf. But is it wise to withdraw money from the fund in the last five years before retirement? Remember that the amount in the fund will more than double over the final five years, mainly because of the effect of compound interest.

Let's look at the example of two employees who invest R100 per month from the age of 40 to retirement. The annual growth rate is 15%. One of the employees retires at 60 while the other retires at 65.

The term, amount, interest rate and end value are given below:

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<tr>
<td>A: 20 YEARS</td>
<td>R100 PER MONTH</td>
<td>15%</td>
<td>R149 723,95</td>
</tr>
<tr>
<td>B: 25 YEARS</td>
<td>R100 PER MONTH</td>
<td>15%</td>
<td>R324 563,96</td>
</tr>
</tbody>
</table>

B will therefore receive more than twice the amount that A does, because he is prepared to work five years longer – mainly because of compound interest.

Another example: a person who takes a package three years before retirement will lose, among others, the following benefits:

• three years' salary
• three years' growth in his present fund
• three years' contributions by the employer
• possible promotion over three years
• salary adjustments
• accumulated leave pay-outs

HOW WILL THE NEW LEGISLATION AFFECT ME?

The amended legislation will affect you whether you take a package or not. It is expected that the amount of R120 000 in the tax-free lump sum calculation will be lowered to R50 000. It is also expected that higher tax will be levied on the lump sum, and this makes estimates and calculations even more difficult. These aspects should be weighed against what you may lose in the years to retirement (as mentioned above) as well as the capital growth of your investments if you don't take the package.

AND THE RETURN IN THE FUND?

In South Africa investment funds are usually placed with pension and provi-
dent funds, insurance companies, and deposit-taking financial institutions (banks and building societies). There will be more and more pressure on these institutions to provide for the never-ending needs of the new South Africa and its reconstruction programmes. It is only logical to assume that when these funds are utilised elsewhere their eventual yield will be considerably lower. Only time will tell precisely when this is going to happen. The illustrative yields of earlier policies were 12% and 15% - at the moment they are only 9% and 12%. In future they will drop even further. The same will happen to the yields of other funds. Therefore risky investments with a high capital growth (30% – 60%) have to be seriously considered.

WHAT ABOUT FUTURE PACKAGES?

Funds will probably not be able to offer packages much longer, mainly because the level of funding will eventually become too low. This is one of the main reasons that fund members wish to lay their hands on their money while the money is still available and there is still money in the funds. To decide whether to take a package is therefore no easy task and there are no answers that are absolutely correct or completely wrong.

WHERE SHOULD I INVEST MY PACKAGE?

It's just as important to know what to do with a package as it is to decide whether to take a package. The personal situation or objectives of the individual or fund member will be crucial in both cases. Different investment instruments will have different tax implications. The Receiver of Revenue expects people to use their packages to make provision for retirement. The package should be deposited in the retirement fund of your new employer or in an annuity or preservation fund, otherwise you will be penalised by having to pay tax. Whether you start working for a new employer, or want to start your own business, or choose to retire, will to a large extent determine how the package should be utilised (as we'll see later).
2.1 ‘MEDIA BROKERS’ CONFUSE ME, WHAT SHOULD I DO?

Some people in the media and some brokers who have personal interests in publications on personal finance are confusing the South African public. They are creating an erroneous impression about matters pertinent to the personal finances of investors. Some who earn a living by writing articles – and some who want to market their private businesses by creating fear and mass psychosis among the public – often quote a few particular investments and investment yields (of 1% or less) out of context to prove their point.

Self-interest has become so common that the interests of the public are no longer part of the agenda.

BEWARE OF GLOSSY BROCHURES AND BUZZWORDS

Buzzwords, catch-phrases, ‘golden rules’, ‘last warnings’, ‘ultimate wealth’, ‘golden opportunities’ and ‘golden schemes’ are all aimed at catching public attention, like any scheme that is marketed with glossy brochures.

Brokers use the media to tell the public that they need only make one more ultimate investment – as soon as they have invested money in this particular scheme they will have arrived.

The media broker who catches enough people with this strategy is actually the only person who ‘arrives’ – with the millions he earns as commission.

INVESTORS NEED MORE INFORMATION

The time has come for people to be more assertive and to demand objective personal financial information so that they can make informed decisions and assume responsibility for their own personal finances.
For example, certain advisers compare owning a house with the yield of unit trusts over a period of twenty years. You may wonder where these people are going to stay in this period - in unit trusts?

And then second properties! Here they concentrate on the selling price of the second property after a certain period. What about all the tax deductions, the fact that it is a business opportunity, and the financial discipline it has established? Your return is increased, because much more is tax-deductible.

People certainly don't need to make a new investment every week to replace their existing investments or to change them.

**SOLID FINANCIAL PRINCIPLES ARE THE KEYWORDS**

The driving forces behind your personal finances are the economic and social realities of our country, as well as financial principles - not buzzwords.

Nor should you be guided by what the richest people in the world have done - these are only pretty stories and pipe dreams. Use your own personal financial situation - based on your own financial resources - as the starting point and
keep your household budget constantly in mind. Then you should start investing for prosperity before and after retirement.

Purposeful personal financial planning is the answer – not mass planning for own profit, based on buzzwords and fear.

You can achieve financial independence after retirement even when following a different financial route from the one propagated by certain smart-talking media brokers (who have their own profit in mind).

2.2 HOW DO I CHOOSE A BROKER?

Of course you expect the following:

- You will realise your investment objectives.
- You will have peace of mind.
- The broker will have the necessary knowledge, qualifications, resources (computer system, research team).
- You will receive transparent advice.
- The fees will be reasonable.
- You will be part of the eventual investment decision.
- Investment planning will be proactive.
- Investment strategies will be based on your risk profile as well as your expected return.
- The broker will look after your interests.
- You will continue to receive dedicated advice and after-sales service for the duration (life) of the investment.

WHAT DO YOU EXPECT OF YOUR BROKER?

If you take up a broker’s time and pay for it (which is the right thing to do) you are entitled to expect a lot from him. If you only want advice you should expect less than when you want to make an investment, in which case you could
expect a proper after-sales service. If you expect a quarterly summary or report from your broker you should ask for it and make sure that you receive it. Make sure that you get service for the fee (for advice only) or the fee and commission (if you invest money) you pay your broker.

If you don't pay anything you should not expect too much as you won't be entitled to much. Nor can you expect much time or advice for R20 or R50. People often expect to pay a small one-off fee and then make use of the broker’s time and knowledge repeatedly.

Remember, the broker’s time and money are just as valuable as your own. You shouldn’t ‘steal’ his time and knowledge.

WHAT DOES YOUR BROKER EXPECT OF YOU?

Brokers naturally expect to get money from you. This is what the occupation is all about. There is nothing wrong with this principle as long as they earn the money.

DON’T ALLOW A BROKER SIMPLY TO TAKE YOUR MONEY – HE MUST EARN IT

A broker will expect the investor to be serious and not to shop around for 10 to 15 quotations (investment options) from different brokers in a short period.

Show that you are serious as soon as you have decided on a course of action, particularly if you have decided to use the services of a specific broker. This broker also expects you, the client, to enter into a long-term relationship based on honesty, openness and good communication.

Inform your broker of any changes in your financial situation so that you can discuss the effects on your financial plans. These include changes in your income, expenses, assets, liabilities, the composition of your family, and the standard of living you intend to maintain after retirement. Allow your broker to become an integral part of your life.

REMEMBER, BROKERS ALSO BECOME FRUSTRATED WHEN INVESTORS STUBBORNLY FOLLOW THEIR OWN WAY AGAINST SOUND ADVICE. IS IT WORTHWHILE FOR THE BROKER TO HAVE YOU AS A CLIENT?
Before we have a closer look at a few types of financial advisers, we should discuss some misconceptions that are prevalent among the investment public. Some people think all financial advisers are 'policy hawkers'; others think all financial advisers are brokers or stockbrokers. The man in the street often feels that all ‘policy hawkers’ want to make money quickly and easily without fully informing the policy owner or providing proper after-sales service. Another misconception is that legal advice should be obtained only when people are getting married, divorced, or want to draw up contracts of purchase and sale. Some people think that tax matters only crop up when drawing up financial statements (income statements and balance sheets) while others let people in the industry work hard (provide a lot of advice and waste a lot of time) and then buy a policy from or invest money with a member of their own family. Unfortunately people don’t always get what they pay for (in reality it’s seldom or never) – so be careful!

Other obstacles to choosing a financial adviser are conflicting financial advice, advertisements in the media, people’s attitudes to risk, their financial position, and the political and economic situation in South Africa.

The media – plus some local experts – cause public concern over the long-term results of certain investments. If newspapers and magazines are to be believed, investors will have to call up their investments every week and regularly change most of their personal financial plans. The short-term nature of this advice keeps the public wondering. Certain ‘experts’ have established their own businesses and they are interested only in, say, unit trusts or shares. They eat, talk and sleep unit trusts and shares and want to channel all potential investments in this direction. All other types of investment are taboo to them and they often mislead people.

Potential investors should know that an investment portfolio should include various types of investment, and that these make provision for different needs over differing periods of time. For instance, people’s needs may increase (cost of living), decrease (debts that are paid off), remain constant, or be permanent, temporary or unpredictable. It’s therefore only logical that the individual should make different types of investments. (Note at this stage that most needs and risks are covered by insurance products.)

So if we don’t like ‘policy hawkers’ we should find a way of distinguishing
between the good ones and the 'others' (we should establish criteria). Our dis-

cussion is aimed specifically at helping the investment public to choose a finan-
cial adviser, particularly when a package has to be invested.

It's certainly not our intention to offend any type of broker or group of people. We
also accept that any group or type of broker will have its specialists in the field of per-
sonal financial management.

TYPES OF BROKER

Traditionally brokers have been divided into four main categories: insurance
agents, bank brokers, independent brokers and stockbrokers.

We can differentiate between financial advisers in insurance companies
(employees of insurance companies) and those outside insurance companies
(individuals who work for themselves or a financial institution).

The following people market insurance products for insurance companies:

- representatives
- insurance advisers
- senior insurance advisers
- financial advisers
- senior financial advisers

The new trend in the market is to have advisers licensed to sell specific prod-
ucts and service specific markets. The onus is on the consumer to find out
which products an adviser is entitled to sell. You should therefore find out
whether the adviser is licensed and what his qualifications are.

Independent brokers and bank brokers operate outside insurance companies.
Their experience, knowledge, level of education and training, and therefore
ability to provide effective personal financial advice, will place them on any one
of the five levels above.

By now it should be clear that 'broker' is a very wide concept.

The five categories or classes of broker or adviser employed by insurance
companies

The best advice will be provided by a fellow of ILPA. This is a marketer who
has obtained the professional qualification of the Institute of Life and Pension
Advisers. Only about 1,500 of the ±60,000 marketers in South Africa have this qualification. Only a few candidates are successful in the two examinations that have to be passed. About 17–30% pass the entrance examination and only 19% the final examination. In order to act in the best interests of their clients ILPA fellows subscribe to a very strict ethical code when they conduct their business. This professional qualification is endorsed by the Luyt Centre for Insurance Law at the University of the Free State. Fellows are entitled to levy a professional fee for services or advice and can therefore be held accountable by law for their advice. They provide advice over the broad spectrum of personal financial planning and are by far the best to consult when you want to buy an insurance product. In particular, fellows will be able to explain the long-term implications of investments to investors and therefore they should provide better advice than bank brokers or independent brokers who do not have these qualifications, or (worse) are family members who have been in the industry for only three months.

ILPA has three levels of membership:

• associate
• ordinary member
• fellow

In future, don’t blame ‘policy hawkers’ in the insurance industry when you choose some Tom, Dick or Harry to invest your money for you!

Bank brokers

Bank brokers may act on behalf of all insurance companies but they are often encouraged by the banking group that employs them to promote its products (eg Standard Bank and Liberty; Nedbank and Old Mutual; and Absa and Sanlam).

They have more knowledge of the products offered by different companies and should therefore be able to make better recommendations than, say, insurance representatives. (Obviously it is difficult to have an in-depth knowledge of all available products.)

Bank brokers usually earn commission only and have to pay part of their commission to the bank. They are often transferred, which means that they cannot provide a long-term after-sales service. The newly appointed bank broker will be expected to render an after-sales service for policies that were sold by
somebody else and on which he did not receive commission. (This may happen with other brokers as well.)

Bank brokers often have only a basic knowledge and work for a specific bank because the bank gives them business – they don’t have to generate business themselves. They get their business from the bank manager, who gets a percentage of the commission. As a result the product on which the highest commission is earned is often marketed (something which may also happen with other brokers).

These brokers often suggest that clients should mature their retirement annuities at an earlier date and replace them with savings plans – to the detriment of the client. They sometimes also suggest that clients’ policies be surrendered to settle debts and then try to sell new policies (at a higher cost) to clients. In some cases these clients cannot be insured, or life-cover cannot be obtained or is very expensive. Usually these brokers will also draw up a will ‘free of charge’. Later the broker will be the executor of the estate and will earn thousands of rands.

Independent brokers

Independent brokers have access to the entire financial market. They go to a lot of trouble to choose the right products and provide a good service to clients to ensure the success of their own businesses. Independent brokers are not pressured by a particular institution to sell only its products. However, they sometimes recommend products on which they earn a higher commission.

Independent brokers offer advice on estate and tax matters and can assist in drawing up a comprehensive financial plan. They earn commission on the products they sell or levy consultation fees when they only give advice.

Independent brokers should have proven experience or knowledge, or an ILPA qualification. But it is questionable whether a single individual could have knowledge of the entire spectrum of products, particularly when he is doing business on his own. To be able to give comprehensive financial advice any broker will need a research team – this is what is meant by the term ‘full-service broker’.

Stockbrokers

The following steps could be useful when you have to choose a stockbroker:
Advisers. Only about 1,500 of the ±60,000 marketers in South Africa have this qualification. Only a few candidates are successful in the two examinations that have to be passed. About 17–30% pass the entrance examination and only 19% the final examination. In order to act in the best interests of their clients ILPA fellows subscribe to a very strict ethical code when they conduct their business. This professional qualification is endorsed by the Luyt Centre for Insurance Law at the University of the Free State. Fellows are entitled to levy a professional fee for services or advice and can therefore be held accountable by law for their advice. They provide advice over the broad spectrum of personal financial planning and are by far the best to consult when you want to buy an insurance product. In particular, fellows will be able to explain the long-term implications of investments to investors and therefore they should provide better advice than bank brokers or independent brokers who do not have these qualifications, or (worse) are family members who have been in the industry for only three months.

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**Stockbrokers**

The following steps could be useful when you have to choose a stockbroker:
• Arrange a personal meeting with members of the broker's firm.
• Try to get to know a few brokers.
• Listen to what other investors have to say about specific brokers.
• Ask your bank manager to recommend a competent broker.
• Find out how long the firm you are considering has been doing business on the Stock Exchange. A good record and many years of experience will be a positive sign.
• Find out whether the research team includes an expert on the economy, tax matters, computers, statistical analysis and psychological aspects (how people react – the role of fear and greed).
• Find out whether the broker maintains a good relationship with his clients.
• Find out whether the broker is also interested in the small investor, not only in institutional investors such as pension funds and insurance companies.
• Make sure that the broker can or will offer the investment services you require.
• Find out whether the broker will require a cash deposit. He will keep this for a few years until he knows you better – particularly your creditworthiness.
• Consult a number of friends, investors and brokers before you decide on a specific broker.
• The broker must have passed the broker's examination(s).
• The business should have access to large international institutions and markets.
• The business must have an effective administrative section.
• Consult advertisements placed by brokers to find out what services they offer and in what markets they specialise.

Also decide what type of account you want to have with a stockbroker. You can manage your own share portfolio or authorise a broker to manage it on your behalf. When you manage your own portfolio, you instruct the broker to buy or sell shares on your behalf in terms of a direct agreement. When you have an indirect agreement a broker acts as an intermediary between you and a bank.

Under a non-discretionary agreement the broker will manage and administer your portfolio, but you reserve the right to decide which shares should be bought and/or sold. Under a discretionary agreement the broker will manage your shares and make all the decisions about buying or selling.
Attorneys

You should consult an attorney about all legal matters such as your will and establishing a trust (or trusts). An attorney with whom you have done business in the past and with whom you have a reasonably good relationship should be able to give you good advice. Don’t confuse an attorney with a financial adviser, even though they may be the same person.

Accountants

The same arguments hold. Because of their qualifications, accountants should be able to give you excellent advice on tax matters and the different business forms (sole proprietorship, partnership, close corporations, companies, etc). But remember that accountants usually work with accounting principles: your entrepreneurship, financial goals and challenges are not so important to them. Nevertheless, you may use the services of an attorney or accountant who meets the criteria for choosing a broker (we’ll discuss this later) when investing your package.

Pension fund, provident fund or personnel officers

One of the most unethical practices of our time is that such officials sometimes abuse their positions and earn commission by acting as intermediaries between brokers and investors. Of course the innocent investor will know nothing about this. I have received hundreds of complaints and enquiries about officials who are guilty of this. One or more of the following scenarios are possible when people who are taking their packages (potential investors) are given details about their retirement benefits:

• The potential investor is handed a business card from the official’s own broker (the commission for investing the package is later shared).
• The official praises that specific broker.
• All other brokers and their products are criticised.
• Practical examples with fictitious figures are quoted to discourage the potential investor from using other brokers.
• The official makes it sound as if his broker will put an end to the potential investor’s financial concerns about investing the package.
Imagine what this official could earn in commission! Every year when people take packages he could receive his own ‘package’ from the broker for referrals.

Of course only a few officials are guilty. But beware of those who hand out business cards. If you do use the card be sure to follow the guidelines (discussed later) before you make your final decision. (Of course a business card will not always mean commission for the referring official. He may have perfectly good intentions, or maybe you don’t know a broker – just keep the guidelines in mind.)

‘Share-lecturers’ (also stockbrokers)

If we were to divide the subject of Personal Financial Management into its constituent parts, shares would be only one of 30 subjects. Imagine what effect an adviser whose knowledge is limited to shares could have on your other financial needs. (Of course there are people who are knowledgeable about shares and other subjects in the field of personal finance.) Shares play an important role when investing financial assets as part of investment planning. Investment planning in turn forms part of one of the various planning areas in the wide field of personal financial management. (Consult N J Swart, 1996, Personal Financial Management, Cape Town: Juta, for more information.)

At the moment shares is a buzzword in South Africa. You don’t HAVE to invest in shares, but if all your other financial needs have been provided for, you should invest directly in shares in order to obtain capital growth (given your age).

Journalists

Very few journalists have been trained in the occupation about which they air their views every day or every week. Journalists report mainly on something that has happened and do not always place it in a context you can understand or which suits your needs. However, they provide a valuable service in supplying general information about the industry.

Trust companies

A visit to a trust company may be the answer for people with larger estates who have to invest their packages when they are already involved in comprehensive
estate planning. A trust company may be consulted when trusts, companies, etc, have to be established and have to be included in a will.

Remember, the above remarks are intended only as guidelines; they are not generalisations.

YOUR RELATIONSHIP WITH YOUR BROKER

Eventually you will have a certain relationship with your broker and this relationship – which will be based on the investment of your package – should last for many years. As this is no simple matter, you should choose your broker with a long-term financial relationship in mind.

A TRANSACTION HAS REMUNERATION AS ITS OBJECTIVE AND NOTHING MORE
A RELATIONSHIP HAS A LONGER-TERM AIM

WILL THE BROKER MANAGE YOUR RELATIONSHIP PROPERLY?

In other words, can you trust the broker with your financial needs, objectives, time and money over a long period of time? You should not only make good investments but also appropriate investments continuously. Managing this process involves, among others, the following:

• understanding and respecting your financial situation
• providing continuous financial advice in line with your financial objectives
• following up and controlling your investment portfolio continuously
• communicating regularly (over the telephone and in writing)
• reporting opportunities and dangers regarding your investment(s) immediately
• managing aspects other than your account
• understanding your risk profile, the time horizon of investments, and expected returns (investment performance)

GUIDELINES FOR EVALUATING BROKERS

The criteria for choosing a broker may be divided into three main categories:

• academic qualifications, professional qualifications and training
• the specific firm the broker is working for
• the person (broker) who is sitting in front of you

Academic qualifications, professional qualifications and training

In theory you should consult publications (positive and negative) about the broker and by the broker. Are there indications of media involvement, and does he for some reason enjoy high esteem? Ask him for a CV (curriculum vitae) based on his achievements in the field of personal finance. Follow up personal references supplied by the broker and contact existing and potential clients for references as well. Consider the reasons given by satisfied as well as dissatisfied clients. Does the broker have adequate knowledge and/or the applicable professional qualifications? Does he perform well and can his performance be substantiated (eg by awards)?

The specific firm

Make enquiries about the broker’s business (either as employer or employee). What is the history of the business (positive or negative)? Does the business enjoy positive media coverage? (But remember that some ‘media brokers’ will invariably put other businesses in a bad light because of the financial benefits this will hold for them.) Does the firm employ other brokers as well? Does it have a competent research team?

The person (broker) sitting in front of you

• Note how your negotiations with the broker are going. Do you like what he is saying?
• Is the broker interested in a long-term relationship or do you get the idea that he is only interested in a quick commission?
• Try to determine the extent of the broker’s integrity. Beware of an attitude of ‘give me all your money’.
• Does the broker have empathy with your financial problems and/or needs? Get away as soon as possible from a broker who immediately start criticising other brokers and their investment proposals. Remember that there are various ways of attaining your investment objectives.
• Be wary of a broker (any broker) who immediately wants to call up all your
policies and invest this money as well – not only your package (or will this money be invested for the broker?).

- The same is true of a broker whose investment proposal is limited to offshore investments or shares. Is he really a good broker?
- What type of client does he usually have?
- Are his financial or investment proposals clear enough for you to understand?
- Be wary of a broker who puts return first, without making sure that the financial product will satisfy your investment needs and objectives.
- What after-sales service can you expect?
- Does the broker have someone who can take over if necessary, or could your long-term relationship come to a sudden end?

I WANT TO INVEST MONEY – WHERE SHOULD I START?

STEP 1: Make time to evaluate advisers/brokers.
STEP 2: Choose one or more.
STEP 3: Get investment proposals from them.
STEP 4: Compare the proposals.
STEP 5: Accept one or more of the proposals if you are satisfied.
STEP 6: Are you worried about the proposals or do you feel uncertain about them?
STEP 7: Take the proposals to an independent financial specialist (not an independent broker – you have just come from one or more of them).

Explain your financial situation to the other broker (financial doctor) once again. Pay this expert for his financial advice.

It's your own personal responsibility to choose an adviser (or advisers) or a broker (or brokers) and your choice will hold far-reaching financial implications for your future. The wrong investment decision could cost you millions of rands over a period of
30 or 40 years. A smaller commission over the same period can save you thousands of rands. In the end these savings could equal the proceeds of an additional endowment policy.

**CHOOSE A BROKER WHO CAN OFFER YOU A LONG-TERM SOLUTION TO YOUR FINANCIAL NEEDS AND OBJECTIVES**

People with financial problems (about a will, investment, loan or tax) consult a financial adviser in the same way as people with health problems consult a doctor. Your broker should be your financial doctor.

In this discussion the term 'broker' will be used for people in one or more of the following categories, depending on the purpose of the advice:

- attorneys
- bank officials (managers, advisers)
- investment advisers
- accountants
- insurance brokers (from representatives to senior financial advisers)
- officials of trust companies
- stockbrokers
- short-term insurers
- estate agents
- independent brokers
- portfolio managers
- actuaries
- fund managers (local and international)

Don’t regard everyone who provides you with some form of information (advice) as a broker. Be particularly wary of your employer’s personnel officer or pension/provident fund manager. They are supposed to supply only figures about your retirement benefits and are not financial experts.

### 2.3 CAN I BE MY OWN BROKER?

Many people would like to make their own decisions about their personal finances and would prefer to invest their own packages. But can you do it on your own? Evaluate yourself and circle the mark for each criterion on the left in the table below:
<table>
<thead>
<tr>
<th>CRITERION</th>
<th>Low</th>
<th>Medium</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Knowledge (investments)</td>
<td>1</td>
<td>2 3 4</td>
<td>5</td>
</tr>
<tr>
<td>Training</td>
<td>1</td>
<td>2 3 4</td>
<td>5</td>
</tr>
<tr>
<td>Experience</td>
<td>1</td>
<td>2 3 4</td>
<td>5</td>
</tr>
<tr>
<td>Time (information, research)</td>
<td>1</td>
<td>2 3 4</td>
<td>5</td>
</tr>
<tr>
<td>Managerial abilities</td>
<td>1</td>
<td>2 3 4</td>
<td>5</td>
</tr>
</tbody>
</table>

Now add up your marks:

- **20–25**: You will definitely be able to handle your own financial matters.
- **15–19**: You will be able to make most decisions on your own, but you need the assistance of a financial adviser/broker.
- **1–14**: You will not be able to make any decisions about your financial matters on your own: you will need a financial adviser/broker.

These guidelines are only a rough indication to help you determine how much financial advice you might need.

Whether you decide to be your own broker or not, it is important to consult as many sources of financial information as possible:

- scientific books on personal finances
- academic books on personal financial management (these books cover the total area of personal finance – that is, personal financial planning. These are the only books that explain the structure underlying personal financial planning. They don't need to be updated every year because they contain pure financial principles that have been tested through the years. The authors are not trying to sell certain products to the readers)
- financial articles in magazines and newspapers (make sure that you
place the contents in perspective: don’t be prompted into changing your investment(s) every week

- brokers
- banks
- insurance companies
- the Internet
- suppliers of electronic financial information (Reuter’s, Intelligent Network, Dow Jones Telerate Southern Africa, McGregor Information Services)
- the South African Reserve Bank
- Statistics South Africa
- the International Monetary Fund
- the Bureau for Economic Research at the University of Stellenbosch
- the Bureau for Financial Analysis at the University of Pretoria
- the Bureau for Market Research at the University of South Africa (Unisa)

2.4 WHAT ARE THE COSTS OF INVESTING A PACKAGE?

We already know about commission, because all of us have taken out a policy at some stage (or have paid an agent commission). Traditionally brokers earn commission, a fee, or both. Because the investment has to be managed over a long term a management fee is levied as well.

- When you are investing in a single financial product (e.g. an endowment policy, a lump sum endowment policy, or a voluntary annuity) the cost of the investment usually amounts to 1,75% of the total amount of the investment.
- If an investment is made with a stockbroker, the broker’s fees may vary depending on the services that will be rendered in future. However, the following cost items will be involved in buying/selling shares:

  Buying: x number of shares @ x cents each
  plus: broker’s fees @ 1.5% of the amount invested
  plus: marketable securities tax (MST) @ 0.5%

  Selling: only broker’s fees (no MST)

- In unit trusts, the following costs will be involved:

  - Initial fees: The unit trust management company will charge initial fees of up to 0.25% on funds. Compulsory fees for MST at 0.25%, broker’s fees,
and VAT at 14% will also be levied.

- **Annual management fees**: An annual management fee, as determined by the trust deed, will be levied. These costs are therefore negotiable. The management fee will be deducted from the income before it is declared and paid out.

- **Be careful**: It could be expensive to transfer a certain unit trust investment to another fund. Timing is very important here, because you may incur a loss. The conversion entails selling units in the old fund and then buying units in the new fund. The new costs will amount to 0 and 1% if the same broker handles the conversion. The actual costs will be determined by the difference in the market value of the initial investment (buying) and the market value at the time of sale.

The costs of an investment in a product that is linked to unit trusts are made up of the following cost elements:

- **Initial costs (administration fees – 5–7%)**: These include annual management fees (1% for the unit trust company plus 0,5–1% as a management fee for companies with linked products, plus VAT).

- **Total costs**: These will of course depend on the amount that is invested, the product to which the unit trust is linked, and the broker’s commission.

- **Broker’s fees**: Besides the initial fees already included in the costs, brokers receive a further 0,5% per year.

- **Statutory or compulsory costs**: 0,75–0,25% marketable securities tax (MST) plus a broker’s fee of 0,5%.

When money is invested in fixed property the initial costs comprise transfer duty, conveyancing fees, interim interest, occupational rent, the costs involved when the property is unoccupied, and the agent’s commission.

When investing a package in a package product (an investment product in which all types of financial product are found and in which you may constantly switch between products at virtually no cost) the costs will be

5% of the amount invested (consisting of 2,5% commission and 2,5% administration fees). Remember that this commission is negotiable! The 5% does not include the management fee.

Suppose you invest R500 000 in such a product. The costs may be as follows:
### INITIAL FEES

#### SINGLE INVESTMENT (R500 000)

<table>
<thead>
<tr>
<th></th>
<th>Amount (%) VAT excluded</th>
<th>Amount (%) VAT included</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial adviser</td>
<td>R12 500 (2,50%)</td>
<td>R14 250 (2,85%)</td>
</tr>
<tr>
<td>Administration</td>
<td>R 5 500 (1,10%)</td>
<td>R 6 270 (1,25%)</td>
</tr>
<tr>
<td>TOTAL</td>
<td>R18 000 (3,60%)</td>
<td>R20 520 (4,10%)</td>
</tr>
</tbody>
</table>

#### RECURRING INVESTMENT (eg monthly)

<table>
<thead>
<tr>
<th></th>
<th>(%) VAT excluded</th>
<th>(%) VAT included</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial adviser</td>
<td>0,00%</td>
<td>0,00%</td>
</tr>
<tr>
<td>Administration</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>From       To</td>
<td>(%) VAT excluded</td>
</tr>
<tr>
<td></td>
<td>R0,00      R2 500</td>
<td>2,50%</td>
</tr>
<tr>
<td></td>
<td>R2 500     Plus</td>
<td>1,50%</td>
</tr>
</tbody>
</table>

### ANNUAL FEES

<table>
<thead>
<tr>
<th></th>
<th>% pa monthly payable (VAT excluded)</th>
<th>% pa monthly payable (VAT included)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial adviser: service fee</td>
<td>0,50%</td>
<td>0,57%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>% pa monthly payable (VAT excluded)</th>
<th>% pa monthly payable (VAT included)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administration</td>
<td>R0,00 R2 500 000 R5 000 000 Plus</td>
<td>0,50% 0,40% 0,30%</td>
</tr>
<tr>
<td>Service fee</td>
<td>R0,00 R2 500 000 R5 000 000 Plus</td>
<td>0,57% 0,46% 0,34%</td>
</tr>
</tbody>
</table>

**NOTE:** Annual fees will be recovered as a percentage of the investment funds.

The tables below indicate that the costs of your investment will decrease as the investment amount increases.
### Initial fee on single investment

<table>
<thead>
<tr>
<th>On the first R100 000</th>
<th>1,75%</th>
</tr>
</thead>
<tbody>
<tr>
<td>On the next R100 000</td>
<td>1,25%</td>
</tr>
<tr>
<td>On the next R100 000</td>
<td>1,00%</td>
</tr>
<tr>
<td>On the next R200 000</td>
<td>0,75%</td>
</tr>
<tr>
<td>On the next R500 000</td>
<td>0,50%</td>
</tr>
<tr>
<td>On the next R2 million</td>
<td>0,25%</td>
</tr>
<tr>
<td>R5 000 000 and more</td>
<td>0,00%</td>
</tr>
</tbody>
</table>

### Initial fee on recurring investment

<table>
<thead>
<tr>
<th>R0 – R2 500</th>
<th>2,50%</th>
</tr>
</thead>
<tbody>
<tr>
<td>R2 500 and more</td>
<td>1,50%</td>
</tr>
</tbody>
</table>

### Administration service fee (yearly)

<table>
<thead>
<tr>
<th>R0 – R2 500 000</th>
<th>0,50%</th>
</tr>
</thead>
<tbody>
<tr>
<td>R2 500 000 – R5 000 000</td>
<td>0,40%</td>
</tr>
<tr>
<td>R5 000 000 and more</td>
<td>0,30%</td>
</tr>
</tbody>
</table>

- **Financial adviser’s initial fee:** Can be negotiated – between 0% and 5%.
- **Financial adviser’s annual administration service fee:** Can be negotiated – between 0% and 1%.
- **Annual administration service fee:** Will be recovered monthly from the investor’s plan according to a sliding scale.

### CONVERSION FEES

- **Within the same management company:** No fees except compulsory costs are levied on conversions between investment funds that are managed by the same management company.
- **Between different management companies:** Compulsory costs and a levy of 0,25% on conversions between funds that are managed by different management companies.

### INVESTMENT DETAILS

*The smallest investment amounts:*
• Single investment R25 000
• Recurring investment R500 per instalment
• Ad hoc investment of R5 000

Choice of unit trusts: A maximum of ten funds may be chosen.

Beware of a broker who asks you to pay now for services that will be rendered over the next ten years (which may or may not happen)!