PF PERSONAL FINANCE

Local shares are looking attractive, experts say

WORDS ON WEALTH

MARTIN HESSE

IN THE past few months, South African asset managers have been bullish about local shares compared with overseas ones.

This may be too much of a generalisation, considering the differences in views and investment strategies of the many analysts and fund managers in the local investment industry, but there does seem to be an overall shift in interest from offshore to local.

The basic question, when it comes down to it, is: do the (generally) attractive prices of shares on the JSE outweigh the wider risks South Africa faces at present?

Adriaan Pask, chief investment officer at PSG Wealth, in a recent article "Is now the right time to invest in local assets?", says if you look at the news headlines, it's easy to become disheartened about investing in South Africa.

But he argues that compared with many developed countries, South Africa's position may not be as negative as we tend to paint it, and there may be "opportunities in this apparent chaos".

"Given South Africa's challenges, investors are looking elsewhere for returns, but things are not necessarily any easier in foreign markets. Developed markets around the world are grappling with rising interest rates and large debt burdens," Pask says.

He says South Africa's debt-to-GDP ratio, at around 70%, is still relatively good compared with global debt numbers, which have escalated significantly since Covid.

"The US, for example, is heading towards 140% debt-to-GDP and inflation is hovering around 8% (marginally higher than South Africa, at 7.5% in September)."

And because of a commodity boom over the last few years, our fiscus is in relatively good shape. "Compare this to the US, where the current account has been slipping consistently for a very long time," Pask says.

He says this means the gap between South Africa and the US as an investment destination "is less significant than many believe, and from a debt perspective, we're in much better shape.

"If we then look at returns, one can really start to see the case for investment locally. It's quite easy to generate a 6% yield on cash investments, and interest rates are still going up. Our bonds are yielding around 10% to 11%, which is extremely attractive. Valuations on our equities are at single-digit levels, and dividend yields are in excess of 4%.

"Importantly, our profit margins are very sound. The earnings yield from South African companies is almost double what you would receive out of the US, on average," Pask says.

At the recent Morningstar Investment Conference in Cape Town, a panel of South Africa's top fund managers debated the opportunities and risks in local versus offshore markets in what are admittedly turbulent times for investors.

Sean Neethling, portfolio manager at Morningstar Investment Management SA, who hosted the discussion, notes in a subsequent report, "How do local equities stack up in the current environment?", that while local valuations are attractive, there appears to be uncertainty about the different risks being priced into the market by investors.

Piet Viljoen, executive director and portfolio manager at Counterpoint Asset Management, suggested that local equities are pricing in particularly negative outcomes, which could provide scope for a potential uplift should these outcomes turn out to be less dire than expected.

Neethling says the panel agreed that although valuations are compelling, South African companies do face significant headwinds: the current environment has multiple geopolitical, financial and economic risks, which are all contributing to an especially uncertain period for investors.

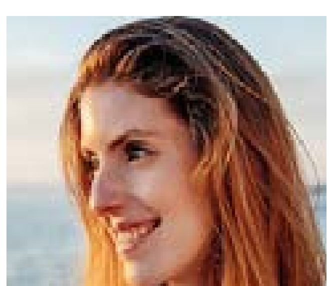
Gail Daniel, portfolio manager at Ninety One, pointed out that the growth outlook for local equities remained constrained by our economic and political policies. She cited the operating environment for South African companies as a specific concern.

Neethling says the panel was well aware of the relatively wide range of potential outcomes that could play out in the current environment.

"As part of the broader emerging market complex, it would be very difficult for South Africa to be insulated from the spillover effects of the multiple global risks evident in markets today," he says.

Investment managers broadly agree that investors still need to be diversified in offshore markets. In the panel discussion, Evan Walker, portfolio manager at 36ONE, said although South African equities were cheap, he cautioned against being "overweight" in these shares, given the size and breadth of the global opportunity set.

Financial **issues** to consider when making a career move



DOMINIQUE BOWEN
Freelance writer specialising in personal finance issues.

CHANGING JOBS is a major life event, but just how disruptive it can be depends on how many loose ends you tie into a neat bow before you leave your employer.

One of those loose ends? Finances.

Remember those retirement fund contribution forms and risk cover beneficiary forms you had to complete when first joining your employer?

Well, neatly consolidating the impact of your departure on these can mean the difference between sailing straight into your next chapter with peace of mind … or being caught in a financial nightmare.

Two experts offer some pointers and surprising insights for navigating this life change so you can rest assured your finances are handled.

Going solo with retirement savings

Going independent, there's the option of transferring your existing savings into a preservation fund or retirement annuity (RA), which comes with unique tax benefits, or withdrawing those funds in cash, which experts tend to advise against because of the tax implications, among other things.

Transferring to your own retirement product comes with a few advantages, depending on how involved you would like to be in the planning.

"It allows you the freedom of choice in terms of product provider or platform, as well as many more fund choices and the flexibility to make changes when you want to," says Sonja Linde, a Certified Financial Planner (CFP) at Insync Financial Services.

That flexibility includes the option to contribute a certain amount (perhaps more than what an employer would have allowed), and being able to pause and resume contributions more flexibly.

One thing to watch out for is the fees attached to individually holding such a retirement product.

So, what steps can you take to put this in action?

As soon as you've handed in your notice of resignation, speak to a CFP about the product best suited to your needs, and once a solution has been chosen, and investment opened, ask your HR representative for the withdrawal claim form for a transfer of funds to the new product.

Also, ask for written confirmation of this transfer once submitted, and ensure that the deposit has been made into your new investment.

Moving savings to your new employer

Again, there are advantages and disadvantages to this. "The fees and costs payable via a group retirement fund are often much cheaper than through an individual product," notes Linde.

"If the new employer has a similar fund, it would make sense to transfer the [savings] to it, as you can continue with your [contributions] without interruption."

With this route, you are limited with the involvement you can have in the type of fund choices on the new retirement funding platform.

"Or the funds could be poorly managed funds, meaning they may not provide adequate returns, which could severely impact the outcome at retirement," she says.

A withdrawal claim form gives you the option to furnish the details of the new employer fund you'd like your savings to be transferred to.

What about risk cover?

When his clients share that they are leaving an employer with whom they've had group risk benefits, and are now going solo, independent wealth planner Lloyd Ellis at Solutions 2 Wealth discusses the option of replacing the previous cover with risk cover in their own name.

"We also look at whether they can afford the same or similar benefits completely out of their own pocket," he says, since group risk cover typically comes at a lower monthly premium than those of retail products.

Linde adds that it's worth asking about a conversion option for your group benefits, as employers often fail to mention this.

"This will allow you to convert the same benefits to an individual policy (at the same insurer) with minimum medical underwriting, which could be beneficial especially if you have developed medical conditions that might make it difficult to qualify for cover at standard rates," she says.

Even if you are moving to an employer that offers group risk benefits, go in with eyes wide open.

"In such a scenario, I ensure we do a full comparison of the previous benefits against the new benefits to make sure my client is aware and understands any changes that will be implemented, and how this will impact their financial planning positioning going forward," Ellis says.

He adds that this assessment is also critical for ensuring you are neither under- nor over-insured. Medical aid should also be a part of the risk cover discussion.

The maths behind your mortgage – how to save thousands

RANDS & SENSE

JOHANN ROSSOUW

BOND AMOUNT	R1 500 000	R1 500 000	R1 500 000	R1 500 000
INTEREST RATE	7.00%	9.75%	9.75%	9.75%
TERM	360 months	360 months	345 months	299 months
MONTHLY REPAYMENT	R9 979	R12 887	+ 100 = R12 987	+ 500 = R13 387
TOTAL REPAYMENT	R3 592 634	R4 639 433	R4 439 091	R3 841 537
INTEREST PAID	R2 092 634	R3 139 433	R2 973 491	R2 490 537

LATELY, HOMEOWNERS have been dreading announcements from the Reserve Bank's Monetary Policy Committee.

Inflation has been running rampant due to the war in Ukraine and what we now call the post-Covid-19 hangover. This has led to central banks hiking interest rates to combat the rising cost of living.

But what do all these technical terms mean for you, and how does it affect your pocket? The answer to this lies in understanding the math behind your mortgage.

The effect of a rate hike on your bond

The prime interest rate is the basic rate of interest that commercial banks charge their clients when lending them money. In 2020, at the height of the Covid-19 pandemic, the prime interest rate was 7%. At the time of writing, the prime interest rate is sitting at 9.75%.

While a difference of 2.75% might not seem like much, over time the difference is massive.

Let's take an example. Sam finds her dream home, but, unfortunately, the price tag is R1 500 000. She contacts her bank for assistance.

Because Sam is such a loyal customer and has a good credit record, her bank offers to loan her the full R1 500 000 at a rate equal to prime (7%) over a 30-year period (see table). This means that, over the 30 years, Sam will have paid almost R2 100 000 to her bank for lending her the money to buy her home.

Now assume the interest rate increases to 9.75%. Not only has Sam's monthly repayment gone up by almost R3 000, she will have to pay an extra R1 046 520 to her bank over the 30-year term.

Paying an extra R100 a month

Sam is shocked to see the numbers and has decided to add an extra R100 a month towards her bond.

By paying an extra R100 a month on her bond, Sam reduces the repayment term by 15 months and saves R165 000 in interest (see table).

Paying an extra R500 a month

With an extra R100 looking so good, Sam tries to cut back on daily expenses to scrape together a total of R500. The effect is astounding. Sam has now reduced the repayment term by 61 months – more than five years! She has also saved a whopping R649 000 in interest (see table).

The math is simple – the more you pay (either a month or by way of a lump sum), the more you will save.

More tips to save on your bond

While the most obvious solution might be to pay extra towards your bond, this might not always be possible – especially with the tough economic conditions most South Africans are experiencing.

If you are not in a position to add extra funds to your bond, you can renegotiate the interest on your existing home loan.

This can be done directly with the bank that provided you with the loan in the first place.

You can also consider approaching a bond originator who will approach the different banks on your behalf and provide you with the best possible offer.

If interest rates rise further and you find yourself struggling to meet your bond repayments, here are a few things you can consider:

- Rent out a portion of your property as an Airbnb or an office.
- Rent your garage to neighbours who need extra space.
- Consider a house-share arrangement for short-term rental income.
- Start working your passion into a second stream of income. For example, if you love photography, offer your services for weddings or children's parties.
- If all else fails, consider moving to a more affordable property
- Becoming financially independent is the culmination of many small changes in your behaviour and your approach to money.
- Consider approaching a Certified Financial Planner (CFP) to better understand the options available to you and how they can change your life for the better.

Johann Rossouw, CFP, is a financial planner at Fiscal Private Client Services.

INTEREST RATES AT 10/11/2022

INSTITUTION	MONTHS 1*	3	6
Absa Bank	3.70	4.00	6.30
African Bank		6.00	7.00
Capitec Bank			6.25
F N B	5.30	6.00	6.50
GBS Mutual Bank			5.15
Grindrod Bank	5.70	5.95	6.95
Mercantile	6.50		
Nedbank	3.00	3.50	7.00
Sasfin	6.30	6.47	7.01
Standard Bank		5.18	5.97

	9*	12	24
Absa Bank	6.40	7.55	8.00
African Bank		8.16	9.00
Capitec Bank	6.60	7.50	8.00
F N B	6.85	7.95	8.25
GBS Mutual Bank		8.00	8.25
Grindrod Bank	7.65	8.25	
Mercantile			
Nedbank	7.00	8.15	5.15
Sasfin	7.62	7.92	8.05
Standard Bank	5.97	6.81	7.48

*One-month rate applies to fixed deposits only, not to notice deposits. Senior citizens may qualify for an extra 0.5% at certain banks on 12-month investments. Rates quoted are nominal, not effective. Rates are for interest paid monthly, apply to investments from R50 000 to R100 000, and are correct at the time of going to press, but are subject to change.

SOURCE: PERSONAL TRUST (independent agents for deposit-taking institutions). Telephone 021 689 8975. While all care is taken to ensure that these figures are accurate, Personal Trust cannot accept responsibility for errors at source.

MONEY MARKET YIELDS AT 9/11/2022

FUND NAME	TER	HY	EAY
10X MM - A	0.33	4.65	7.29
10X MM - T	0.33	4.85	7.29
27Four MM - A1	0.33	5.02	6.76
Absa Prud. MM - A	0.16	4.65	6.34
Afena MM Pres. - A1	0.19	4.47	6.27
Allan Gray MM - A	0.29	5.01	6.58
Ashburton MM - B1	0.36	4.87	6.71
BCI MM - A	0.35	4.47	6.59
Bidvest Prime MM - B	0.29	4.9	5.79
Cadiz BCI MM - A	0.31	5.12	7.27
Cartesian BCI MM - A	0.33	4.93	6.76
Citadel SA MM H4 - B1	0.55	4.66	6.59
Coronation MM - A	0.3	4.83	6.74
Coronation MM - P	0.18	4.94	6.86
Counterpoint SCI MM - A	0.27	4.74	6.31
Discovery MM - A	0.58	4.7	6.43
Fairtree MM Pres. - A1	0.25	4.6	6.39
Glacier MM - A	0.58	4.62	6.35
Glacier MM - B	0.47	4.74	6.48
Granate BCI MM - B	0.32	4.71	6.41
Gryphon MM - A	0.31	4.54	6.29
Hollard Prime MM - B	0.36	5.08	6.57
Legacy Africa Pres. MM - A1			6.05
Legacy Africa Pres. MM - A2	0.39	4	6.29
M&G MM - A	0.34	4.2	6.55
Marriott MM - A	0.31	4.59	6.38
Mazi Prime MM - A	0.6	3.22	4.53
Moment. MM - A	0.59	4.61	6.41
Nedgrp Invest. MM - R	0.59	4.67	6.25
Ninety One MM - A	0.18	5.07	
Ninety One MM - R	0.58	4.68	
Ninety One MM - E	0.24	5.01	
Ninety One MM - G	0.47	4.79	
Ninety One MM - H	0.58	4.68	
Oasis MM - A	0.38	3.91	5.51
OM MM - A	0.59	4.62	6.47
OM M-Mgr MM - A	0.62	4.62	6.39
Prescient Corp. MM - B2	0.26	4.96	6.68
Prescient MM - A2	0.3	5.05	6.77
PSG MM - A	0.59	4.49	6.2
Satrix MM - A1	0.32	4.86	5.68
SIM MM - R	0.58	4.65	6.39
SNN MM - A1	0.57	4.55	6.39
Stanlib MM - R	0.57	4.93	6.97
Sygnia MM - A	0.16	5.24	

TER (total expense ratio).
HY (historic yield) is the actual yield for the past 12 months.
EAY (effective annualised yield), calculated over seven days, is an indicative short-term yield.

SOURCE: PROFILEDATA

RSA RETAIL BONDS: NOVEMBER 2022

FIXED-RATE BOND*

Two years	9.50
Three years	9.75
Five years	11.50

* Rates are set every month

INFLATION-LINKED BOND*

Three years	2.75
Five years	3.00
Ten years	4.00

* Rates are in addition to capital adjusted for the Consumer Price Index twice a year

TOP-UP BOND

Three years	10.00

SOURCE: NATIONAL TREASURY

FINANCIAL DATA ONLINE

- ◆ For the current financial market indicators, go to www.iol.co.za/business-report/market-indicators
- ◆ For daily unit trust and ETF prices and NAV-to-NAV* performance, go to www.fundsdata.co.za/navs
- ◆ To look up the performance of a particular unit trust fund or ETF, go to www.iol.co.za/personal-finance/fund-look-up

** Total-return data shows performance when dividend income is reinvested, whereas net asset value (NAV) data records only the difference in the asset price.*

All data is provided by ProfileData.