



## WHAT'S IN THIS ISSUE

**CHOOSING THE  
RIGHT SHARES**

**SAFETY IN  
WEIGHTINGS**

**WHAT STOCKS  
WOULD YOU BUY?**

**YOUR QUESTIONS  
ANSWERED**

## THE IMPORTANCE OF INDEPENDENCE

**At Private Client Holdings, we understand just how imperative our independence is to the financial wellbeing of our clients. It's what gives us the credibility they have come to know, expect and trust. Andrew Ratcliffe outlines just what's involved in keeping Private Client Holdings proudly independent.**

Independence starts from the top. Private Client Holdings' ownership is independent. It is director owned and managed by Grant Alexander and myself, with Jeremy Burman a director and shareholder of the financial services company. We are at the helm and integral to the day-to-day management and decision-making of the organisation.

There is no institutional parent that can influence the way we think, act and operate. This is vital and instrumental to the advice we provide. We choose who we work with

according to the specific needs of our clients. Their financial needs are our top priority.

“ There is no institutional parent that can influence the way we think, act and operate. ”

So much of what we do is research based. We work closely with the independent research company, Avoir, who are highly regarded for their integrity, validity and reliability of information. We greatly value the intellectual input they bring to our business.

We also have access to research departments of larger suppliers such as Investec Securities, BJM, Sanlam Private

Investments and Standard Financial Markets. From there we create a Private Client Holdings path and formulate our own thinking in order to make the best and most accurate decisions.

Having started our business as accountants and tax consultants, our process has always been based on advice and not product sales. Our focus is the management of client wealth at compelling total expense ratios (TERs), underpinned by extensive research. We use various platforms, stockbrokers and offshore managers who we believe provide the best solutions for our clients.

Over the years we have successfully steered our clients clear of the perils of inappropriate investment advice or products e.g. illiquid property syndications, Ponzi schemes, foreign IPOs and toxic hedge funds. At the end of the day, our success is measured by the success of our clients. And for this reason, we continue to treat their wealth with the utmost of care.

# Choosing the right shares



**What do I invest in that will ensure that my wealth grows? It is important to realise that ultimate success in the creation of wealth will follow a series of ups and downs. It is more important to avoid the full impact of the “downs” than participate in the full extent of the “ups”. Firstly, this strategy will produce more in the pot at the end of the day and secondly, you will experience a ride that is far more comfortable.**

Thus, it is of critical importance that your portfolio is diversified across all asset classes in a manner that is appropriate to the amount of risk that you are able or willing to take on. The asset allocation decision is absolutely fundamental to delivering the maximum returns relative to risk. Only once you have determined the appropriate portion of the portfolio that ought to be exposed to equities should you start worrying whether that equity mix is producing the best returns.

Analysing shares in our in-house share portfolios and evaluating the various fund

managers in our unit trust portfolios keeps me rejuvenated. It is this search for Alpha (returns in excess of the market) that makes my current life as an asset manager far more interesting than the activities of my earlier career as a tax specialist. Although the Asian banking crisis, toxic debt instruments, dot com and currency bubbles do keep me awake at night...

When looking for that extra return from shares, the primary decision is how much sector exposure one would like and allocate to resources, industrials and financials. This decision, too, will drive performance more than the selection of a specific share. Then, within each sector one has to select specific shares. You could adopt various investment styles (or a combination) and could elect to purchase small, mid or large cap shares.

**“ Diversification is vital and applies to the selection of asset classes, the selection of sector weights as well as investment styles. ”**

Small caps are basically shares in smaller, less-established companies. For many investors, these offer a bit too bumpy a ride due to the volatility and risk, although there may be a bigger chance for growth. Mid cap shares are a popular investment because the companies have usually been through the growing pains that the small caps are yet to experience and are primed

for potential growth. Large cap, or blue chip shares are commonly more exciting to professionals because they are liquid and are the safest, most trustworthy, strong and steady.

Diversification is vital and applies to the selection of asset classes, the selection of sector weights as well as investment styles. At Private Client Holdings we don't try to hit the home run (with a chance of strike outs) with our stock picking and generally stick to the fundamentally sound and logical investment stories with the aim of holding for the long term.

More importantly though, it has been the right mix of attractive growth stories (MTN and Naspers, SAB and BHP Billiton) that has helped us to keep up with the market when commodities lead the way, outperform in times of turbulence and also look good when the growth counters make their move. I am pleased to report that we have excelled in generating that elusive Alpha.

The size of the market capitalisation you choose to invest in has a great deal to do with your current financial situation and the amount of risk you're willing to deal with. Younger investors are often willing to take bigger risks, they are keen to roll the dice and hope to win big. In contrast, retirees are risk averse and choose more stable and consistent share selections.

Meeting with a financial professional to assess your needs and goals, is one of the first steps towards creating a plan for the future. Feel free to consider various investment opportunities, but always ensure that they fit into an existing strategy rather than becoming the strategy.

Grant Alexander



# PCP CORE EQUITY PORTFOLIO - SAFETY IN WEIGHTINGS

The combination of a stable and relatively conservative sector weighting allocation together with a thorough yet not too aggressive stock-picking procedure has allowed us to outperform during the bad times while taking part in most of the market upside during the good times. AJ Van Der Merwe takes a closer look at the PCP Core Equity Portfolio and explains how safety in weightings adds up to a solid outperformance on a cumulative basis.

We have stuck to a consistent sector allocation roughly in line with the 30%-50%-20% Resources-Industrials-Financial mix. While this strategy lagged the general equity market slightly during the commodity boom leading up to 2007/2008 – due to the JSE All Share's heavy resource bias (up to 50% weighting), it paid its dividends (literally and figuratively) in the downturn.

“ The objective of the PCP CORE EQUITY PORTFOLIO is to provide long-term capital growth through a diversified portfolio of JSE-listed shares. The portfolio aims to outperform the All Share Index over the medium term, assuming an above average level of risk in the short term. ”

What is also important is that while such a strategy has helped us to continue building on to that cumulative outperformance, a lot of the alpha is derived from our ability to choose the right mix of stocks within those sectors – as supported by our Core Equity Portfolio's outperformance relative

to the 30%-50%-20% passive sector mix.

We don't try to get too clever with our stock picking and stick to the fundamentally sound and logical investment stories with the aim of holding for the long term. The continuous support from our affiliated stockbroking houses, in the form of expert research and frequent investment meetings, has assisted us to closely monitor our stock holdings as well as facilitate the process of making informed decisions when portfolio changes are implemented.

Our long-term share selections have consistently held dominant weightings in our Core Equity Portfolio over the years. None of these stocks should be unfamiliar to the average investor and all of them have performed extremely well against the general market over the last five years.

## HAVE YOU HEARD?

### THE PRIDE OF PRIVATE CLIENT HOLDINGS RUGBY

The boys in blue have proven they are indeed a force to be reckoned with. After a nail-biting show down the PCH 6 down team were runners up in 2011 elite league in the final of the first division at Villagers in May, losing 5 - 4 to the SA Mixed Over 30s team. The lads have made us proud.



### IT'S SEMINAR SEASON. DON'T MISS OUT.

Private Client Holdings recently launched its new seminar series with two events in early June. Johann Els, a lead economist at Old Mutual, gave his opinion on the state of the South African and international economies. This was followed by a presentation by Cilma Heyns of Glacier explaining how a share portfolio can be incorporated into retirement planning. These seminars form the start of an exciting programme of Private Client Holdings' seminars. The next seminars are scheduled for mid August. Please let us know if you would be interested in attending ([mlamb@privateclient.co.za](mailto:mlamb@privateclient.co.za)).

### BRIDGE JUST GETS BIGGER

Private Client Holdings Wealth Managers have been attending regular and popular morning and evening Bridge meetings of various WPBU clubs in and around Cape Town. Not only have they had the chance to brush up on their Bridge, but they have managed to meet many WPBU members. We wish Peter Terblanche well in his new role as president of the Senior Golfers Society and welcome Brian Pincus into his new role on the WP Bridge committee.

### UNIVERSITY SA CYCLING CHAMPS

The UCT PCH cyclists raced to second overall and team leader Ed Green claimed the yellow jersey as overall winner of the South African University Cycling Championships.

# FINANCIAL SERVICES Q&A

**Q: Can I pay my provisional tax in instalments?**

**A:** No, payment amount must match the amount as per your provisional tax return. There is scope to adjust the first provisional tax estimate downward if a lower amount can be justified and supported, but there are strict parameters set to ensure that the second estimate is within the minimum amount. Underpayment will result in penalties being levied. The third provisional payment is voluntary; however interest will accrue on any outstanding amounts.

**Q: What are the current criteria for claiming home office expenditure against salary income?**

**A:** Home office expenses can be claimed in the following circumstances: remuneration consists mainly of commission income (translated as >50% of total employment income); or the employee is required to maintain a home office and is required to work mainly (again taken as being >50% of the time) from the home office.

**Q: Is there a tax advantage in paying a salary to my spouse for work done for my business?**

**A:** If the spouse is at a lower marginal tax rate then yes. However, any amount paid must be commensurate with the work done and will need to be reasonable and justifiable, as SARS can request details for their duties and responsibilities.

## WHAT STOCKS WOULD YOU BUY WITH...

GRANT ALEXANDER TELLS US WHAT STOCKS ARE ON HIS MIND.

### R5 000?

Satrix 40. We feel this is an easy and cost-effective way to gain exposure to the Top 40 counters of the JSE All-Share Index.

### R10 000?

Satrix 40.

### R50 000?

Anglo, Remgro and Standard Bank, which will give exposure to a reasonable number of underlying businesses.

### R500 000?

Anglo, Billiton, Sasol and Exxaro in Resources; British American Tobacco, Mr Price, MTN, Naspers, WBHO in Industrials and Standard Bank, Firststrand and Discovery in Financials.

### R1 MILLION?

In addition to the shares above, we would add some platinum exposure through Implats, some luxury goods as well as offshore exposure through Richemont and add Investec for its attractive dividend yield and cheap entry point.

### WHAT STOCKS/MARKETS ARE YOU KEEPING AN EYE ON?

Over the next five years the big money will be made in the global gorillas such as Pfizer, Microsoft and Berkshire Hathaway. As South Africans, we have the currency, relative valuations and mean reversion on our side.

### WHAT ARE YOUR GOALS WHEN INVESTING?

To achieve superior returns at lower risk from a diversified portfolio of investments over the long term. In English, growing wealth without the worry.

### WHAT WAS THE BEST INVESTMENT DECISION YOU HAVE MADE TO DATE?

Buying Mr Price and Naspers at the beginning of 2005, which have both increased by over four times the original cost.

## WHO TO TALK TO

**WEALTH MANAGEMENT**  
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### TEST YOUR SUDUKO SKILL!

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