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PCH INSIGHT

PRIVATECLIENT HOLDINGS

Why you should not draft your own Will

You have a reasonable understanding of language and can make yourself understood to others; why then should you not draft your own Will? Certainly, if you are single and have no dependents, you might well be able to craft a Will which might just suffice - however, David Knott advises that if and how you are married, and if you have dependents, dictates how competent you are to draft your own Will.

If you are married in community of property, in truth, you only own one half of everything. Upon your death, your spouse would take his or her one half of the net estate and the remaining half would devolve in terms of your Will. This could cause inconvenience where you may have bequeathed a specified asset.

Should you be married in terms of the Matrimonial Property Act with accrual, upon your death the estates of both parties needs to be assessed and the estate with the larger growth would need to admit as a claim from the lesser estate an amount necessary to equalise the growth. The amount of this claim in favour of or against your estate could have a material impact on the size of your estate you intend disposing of.

There is also the Maintenance of Surviving Spouse Act which could impact your estate. If your spouse was dependent upon you for daily support, he or she would be allowed to claim a sum from your estate sufficient to provide for this ongoing support.

Bear in mind that a partner in a Civil Union or a Customary Union would also be regarded as a spouse should he or she be dependent on you. Likewise, should there be minor children from the relationship, their maintenance needs must also be catered for - and other people might also qualify as a dependent, for example an elderly parent - provided they can evidence that they required regular financial assistance from you.

As we all know, some marriages terminate in divorce. An agreement made as an Order of Court, in terms of section 7(1) of the Divorce Act, can endure long after the death of the paying party until the agreed termination. Such maintenance can take a meaningful bite from your estate after death.

When it comes to leaving assets to children and grandchildren, unless the Will names trustees, grants the necessary investment powers and provides for the creation of a trust to administer the award of any minor beneficiary, the wishes of the testator as regards minors will be thwarted. In the absence of the Will creating a trust with all the conditions spelt out, the executor will be obliged to pay any amount owed to a minor beneficiary to the Guardians Fund.

This Fund is essentially a savings account managed by the Master of the Court to which all funds accruing to a minor or unknown beneficiary are paid. The funds will earn minimal interest only. When the minor turns 18 or when the unknown beneficiary has been identified, the capital plus accrued interest can be claimed back.

> "Fully brief a fiduciary specialist before attempting to draft your own Will"

All of these aspects need to be considered when creating a legitimate Will. Even before one starts tallying up the assets and liabilities, calculating the estate duties and capital gains taxes.

We advise that before proceeding to draft your own Will you first fully brief a fiduciary specialist and be guided accordingly. Thereafter, your Will needs to be reviewed from time to time to ensure that it is still appropriate and kept in a safe place (preferably with a copy kept by a third party).

David Knott

Contact Sarah Love for more information on sarah@privateclient.co.za.

THE DIRECTOR'S DESK

THE QUESTION OF PROTECTION

With the JSE All Share Index close to record high levels the case for taking up some form of protection for your investments has picked up momentum. Probably the most famous instrument to carry such defensive qualities is Gold, which is often seen by some as a form of insurance policy.

We decided to look at the viability of adding some gold exposure to our share portfolios and determined that the three main arguments for adding Gold to our portfolios would be as follows:

1. The Gold price – Physical gold, unlike paper money, does not have counterparty risk, and gold preserves purchasing power over long periods of time.
2. Decoupling between the Rand gold price and the share prices of the Gold Miners - Over the last few years the share price of the locally listed gold mining companies such as AngloGold Ashanti, Gold Fields and Harmony have lagged the Rand gold price significantly, as operational and company-specific issues kept the share prices of the mining houses under pressure. While there is no denying that such concerns are warranted given the ominously thin profit margins, rising energy prices, underperforming mines and striking labour force, something will have to give to get those two lines back in sync and there's a case to be made, however risky it may be, that it could come from the miners' side.
3. Diversification benefits during downturns - Gold is one of the few 'safe-haven' assets found in the world of finance along with US Treasury Bills, the Dollar, and the Swiss franc to name a few. Demand for safe-haven assets will accumulate when markets turn south and thus these assets usually outperform during periods of financial turmoil.

However there are some definite risks involved. We thus decided to do some back-testing over the last 10 – 15 years and see how the different gold mining companies and Exchange Traded Funds (ETF's) performed during the periods when the JSE All-Share index retreated and compare their stats to that of the shares in our PCH Core Equity Segregated Share Portfolio Model. Analysis showed that a number of the companies that we hold in our models managed to hold their own remarkably well during periods of negative market returns.

We found that Harmony Gold in fact captures more downside than the market, whereas British American Tobacco, which has a negative down capture ratio, has gone up during market turmoil – the perfect hedge! It would thus make more sense from a risk standpoint to hold onto or increase our exposure to holdings such as these rather than initiate a gold exposure to obtain the needed protection and reduce the risk in our portfolios.

Once again the benefits of owning a well-diversified investment portfolio cannot be stressed enough as such a strategy will see you through the tough times without having to add any unnecessary risk or complicated hedging strategies (including gold) to the mix.

We believe that such an approach together with a thorough investment process should allow you to be better off in the bad times and keep up, and sometimes outperform, in the good times - which all adds up to solid out-performance on a cumulative basis.

Grant Alexander

PCH Rotary Charity Golf Day

A hugely successful PCH Rotary Club Cape of Good Hope Charity Golf Day was held at the Royal Cape Golf Club on 20 June 2014. Thanks to the PCH team for their hard work and the support of our incredible sponsors and clients - together with Rotary we raised over R40 000 which went towards the refurbishment of the False Bay Hospital antenatal clinic and emergency vehicle.

An enormous amount of work was done by the Rotary Club Cape of Good Hope team and a specific thanks to Bev Frieslich, Susan O'Hagan, Derek Johnston (pictured above) and Alan Ferguson.

When is a Trust not a Trust?

It is a relatively straightforward and inexpensive exercise to create a trust and many founders of trusts will continue to hold assets in these structures in the mistaken belief that their trust is valid.

However - a trust must comply with certain strict formalities for it to be sound and it is usually only when a challenge is launched against the trust assets that the trust is found to be invalid.

A trust will be found to be invalid if:

- The trust deed has not been lodged with the Master of the High Court and he has not authorised the trustees to act.
- The trust was created with a view to defraud creditors.
- The purpose for which the trust was created is unlawful.
- The trust founder for one or other reason becomes the sole trustee and no additional trustees are appointed within a reasonable time period.

It is acknowledged that a trust is a cost effective and neat structure to pass wealth through generations. However, it needs to be properly created and administered with proper records in order to withstand any attack from a creditor, Revenue Services, a former spouse or even an errant beneficiary.

> **"It is highly recommended that one contracts the services of professional fiduciary experts when setting up a trust"**

For more information contact Sarah Love on +27 21 671 1220 or sarah@privateclient.co.za.

HAVE YOU HEARD?

PCH offer regular Retirement Planning Seminars

PCH wealth manager Mark MacSymon is running regular Retirement Planning Seminars which highlight the importance of expert retirement planning and the pitfalls and hurdles involved in adequately saving for retirement. If you would like to attend one of these valuable hour long retirement planning seminars please contact Michelle van Wyk on +27 21 671 1220 or michellevw@privateclient.co.za.

New wealth manager assistants join PCH

A warm welcome to PCH's new wealth manager assistants Anshe Jooste and Lameez Sarlie. Anshe, who is currently studying towards her Wealth Management qualification, will be supporting Alan Ferguson, whilst Lameez, who has her BCom in Accounting from the University of Johannesburg, will be Bryan Leach's assistant.

Anshe Jooste Lameez Sarlie

REAP student feeling the ropes at PCH over holidays

Brandon Draaier, the Rural Education Access Programme (reap.org.za) student that PCH is currently sponsoring to do his B.Com Financial Accounting Degree at UCT recently survived a vacation job at the PCH offices. Well done Brandon – it was great to have you in the office.

PCH in-house Discovery Medical Aid champion

If you are battling to navigate your medical aid or need assistance with medical claims, Private Client Holdings now offers all Discovery Health members the option to contact our in house Discovery Medical Scheme expert ***Venessa Visser*** who can assist you with all queries or issues. Contact Venessa on venessa@privateclient.co.za.

ITU world triathlon series

PCH took part in the inaugural ITU world triathlon series held earlier this year at the V&A Waterfront – and our team performed brilliantly. PCH staff members turned out in force with their families – all dressed in their Team PCH kit - to cheer on our sponsored tri-athletes. We are extremely proud of their achievements!

Retirement tax changes coming into effect from 1 March 2015

In a bid to simplify and standardise the tax treatment of contributions to, and withdrawals from, pension funds, provident funds and retirement annuities, from the 2016 tax year individuals will for the most part be able to receive an increased tax deduction on contributions made to a retirement fund.

This tax deduction will be up to 27.5% of remuneration from employment or taxable income - subject to a maximum amount of R350 000 per annum.

Individuals were previously allowed to contribute up to a maximum of 15% of non-retirement funding income into retirement annuity funds, whilst employers could contribute up to 20% of retirement funding remuneration into pension and provident funds.

The basis for determining the pensionable salary (retirement funding income) versus the additional remuneration, allowances and bonuses has always been difficult and has led to participants of company pension funds either under-contributing to retirement annuity funds and missing out on available tax deductions, or over-contributing and having a large balance of disallowed tax deductions carried forward.

It is also worth noting that taxable income may be higher than remuneration in a year where capital gains are realised. Going forward this allows for contributions to retirement funds to be offset against realised capital gains, something which to date has not been allowed.

Please contact Jeremy Burman (jeremy@privateclient.co.za) or any one of our PCH financial service experts if you are currently contributing to a retirement fund and require any assistance with regards to these impending changes.

PCH's new coffee table brochure available

Our new Private Client Holdings brochure not only looks like a coffee table book with its spectacular Cape Town images taken by wonderful local photographer James Gradwell - but it also provides a succinct overview of the benefits of working with Private Client Holdings to manage your wealth. This publication is certainly something you will want to share with others.

Please contact Michelle Hawson on michelle@privateclient.co.za, should you want a copy.

PCH Seminars review - Look beyond the "daily noise"

Private Client Holdings continues to strive to share expert opinions with our clients and select invited guests through our seminar series.

At our most recent seminar, held in August at the beautiful old Cape Town Club in Queen Victoria Street in Cape Town's CBD, we had John Kinsley, the Managing Director of Prudential Portfolio Managers Unit Trusts who encouraged investors to look beyond the "daily noise" in the markets and focus on the true drivers of building a sustainable investment portfolio.

Please contact Michelle van Wyk on +27 21 671 1220 or michellevw@privateclient.co.za if you are interested in attending the next seminar.

WHO TO TALK TO

Our Private Client Holdings experts are available to field your questions. Don't hesitate to contact us for expert wealth management advice.

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