consult • partner • manage

# The Trendline

## Third quarter 2024



## A quarter 's worth of progress - and then some

## Investment overview

### Market commentary - It's not about the headlines, it's about the trendlines

In previous market commentaries, we have spoken of the old adage 'it's not about timing the market but rather the time in the market that matters'. This past quarter re-affirmed this message. Whilst a myriad of global factors continues to threaten a further protracted economic and investment market recovery, investors who have exited the market (in their pursuit of timing it) would have been denied the meaningful investment return bounce over the past quarter.

**Over the quarter:**

- Local equities ended the quarter up +9.6%, well ahead of Developed Market Equity and Emerging Market Equity indices in base currencies. The month of September alone reported a +4.0% gain as investor sentiment turned positive on the back of global and local monetary stimulus.
- The local Listed Property sector led the way with an +18.7% rally followed by a +13.9% bounce in the Financials sector and +11.6% in the Industrials sector. While subdued global commodity prices rebounded in September, the listed Resources sector still ended the quarter in the red, down -1.1%.
- Improved global growth sentiment spurred a rally in bond purchases from both local and foreign investors, propelling the local bond market (+10.5%) to outperform local equites over the quarter and come in ahead of local cash (+2.1%). The South African Reserve Bank (SARB) cut interest rates 0.25% to +8.0% over the quarter as headline inflation (CPI) cooled down to +4.4%.

- In September, the US Federal Reserve exceeded market expectations by cutting interest rates by half a percent to 5.0%, instead of the anticipated quarter of a percent. Fed Chair Jerome Powell stated that overall, the US economy remains strong and that such strength will allow the central bank to continue decreasing rates over time. The European Central Bank lowered its key deposit rate by +0.25% for the second time, in line with market expectations, while the Bank of England held its key rate steady at +5% during its September 2024 meeting.
- China's unprecedented stimulus package announced in September led to market optimism about forthcoming global growth and pushed the MSCI Emerging Markets Equity index up +8.7%, ahead of the MSCI World Equity Index at +6.4% for the quarter in USD.
- The price of Gold ended the quarter $2634 an ounce, up 13.2% amid continued demand for the commodity by central banks seeking to de-dollarise, as well as by safe-haven asset seekers. Subdued global demand prospects along with increased global supply pulled the price of Brent Crude oil down -12.1% over the quarter. The greenback (US Dollar) continued to weaken against the rand over the quarter some -5.6%, detracting from rand-denominated offshore market returns.
- Overall, global investor sentiment was mixed over the quarter. While the short-term outlook is still unclear, the longer-term picture remains positive.

GTC remains cautiously optimistic about the future-outlook of investment markets. We reiterate our stance that patience, especially through periods of difficult investment performances, afford markets the time needed to filter out what is relevant from the noise. It allows market drivers the required time to achieve a new state of normalcy and portfolios the time needed to compound growth on growth.

Though the investment road may be bumpy, GTC has designed its solutions to hedge out much of the inherent investment risk while still positioning the portfolio for the highest probability of delivering on its investment objectives. It is crucial to stay invested in line with one's investment objectives when trying to achieve one's financial goals, and not be swayed by short-term sentiment.

(These last two paragraphs are a repeat from last-quarter's report, though GTC believes these to be as important, or perhaps even more so, than last quarter. Accordingly, no apology is given for this repetition).

**Investment market returns as at September 2024**

| Investment market returns (%) | 3M | YTD | 1YR | 3YR | 5YR | 7YR | 10YR | 20YR |
|---|---|---|---|---|---|---|---|---|
| Local Equity Market | 9.61 | 15.91 | 23.93 | 14.73 | 13.67 | 10.39 | 9.41 | 13.99 |
| Local Property Market | 18.70 | 30.04 | 51.34 | 15.97 | 5.37 | 0.91 | 4.30 | 13.14 |
| Local Cash | 2.07 | 6.33 | 8.55 | 6.87 | 6.12 | 6.45 | 6.63 | 7.02 |
| Local Bond Market | 10.54 | 16.68 | 26.14 | 11.14 | 9.84 | 9.67 | 9.06 | 8.97 |
| Offshore Developed Market USD | 6.36 | 18.86 | 32.43 | 9.08 | 13.04 | 11.11 | 10.07 | 8.59 |
| Offshore Emerging Market USD | 8.72 | 16.86 | 26.05 | 0.40 | 5.75 | 3.65 | 4.02 | 7.30 |
| Offshore World Bond Market USD | 6.95 | 2.72 | 11.02 | -4.41 | -2.05 | -0.59 | -0.15 | 1.94 |
| Gold (USD) | 13.23 | 27.73 | 42.53 | 14.46 | 12.35 | 10.87 | 8.10 | 9.64 |
| Brent Crude (USD) | -12.12 | 2.90 | -10.52 | 14.16 | 13.74 | 12.31 | -1.26 | 1.54 |
| USD / ZAR exchange rate | -5.60 | -6.10 | -8.52 | 4.63 | 2.59 | 3.54 | 4.23 | 4.91 |

All returns greater than 1 year are annualised. All returns are gross of fees.

# CEO Editorial



There's an old adage about never looking a gift horse in the mouth. Coinciding our quarterly investment report with a strong three months of investment performance is kind of a gift horse and GTC is enjoying the opportunity of presenting this good news.

Despite there still being potential obstacles (and it's probably prudent to temper the prevailing positive investment news), as per the investment reports that were sent out last week, local markets had a good three months, global markets enjoyed the same, and the rand strengthened against the dollar (or more accurately, the dollar weakened against the rand). Nearly half of that performance came about in September.

## Some GTC unit trusts are having their names changed

Starting several years ago GTC set out to align our portfolio names for both our private investor and our retirement fund portfolios. We also wanted portfolio names to be as descriptive and informative as possible. Accordingly, after receiving the necessary regulatory approvals, four GTC unit trusts are changing their names. You will note these changes on the Minimum Disclosure Documents (MDD) and our website.

## This quarter's Trendline content

In addition to the favourable investment news (at least for the past quarter) that I'm able to communicate, several articles in the forthcoming Trendline are particularly noteworthy. Insightful, thought-provoking, and advisory in their content, I'd recommend a read of each of these:

Dave Johnson (an independent trustee and contractor to GTC) writes about the long-term process of educating and supporting a family of children (four sons in his case), as each of them progressively reaches their gradual independence.

Manty Seligman, head of GTC's Asset Management, has strong (GTC) views on the SARB's (overly) cautious rate cut announced in September.

GTC's wealth managers collectively reflect on what retirement fund members were using their Two-pot withdrawals for, cautioning that in many instances these withdrawals did not constitute 'emergency funding' as was originally envisaged by Government.

Kyle Jeacocks, representing a more Millennial GTC perspective (perhaps), writes about the lost investment opportunity caused by delay and procrastination. Over the years we have written many articles (and I'm sure we will continue to do so) that advocate the fundamental principles of time and compounding interest. Kyle's article is a more complex view of this.

## GTC's continued sponsorship of the Johannesburg Symphony Orchestra

Now in our 10th year, GTC is again hosting the JSO at the Linder Auditorium on Sunday 3 November at which 13 young and talented soloists will be performing together with the orchestra. We conventionally invite all our clients who have expressed an interest in the arts and who are domiciled in the Gauteng area. If you would like to attend these sort of social engagements and have not received an invitation, please do let us know at **marketing@gtc.co.za**.



# The SARB's missed opportunity: A case for a 1% rate cut to stimulate economic growth



Determining and managing a country's monetary policy is complex. There are many influencing factors. There are even more desired outcomes which ordinarily include stability and growth. This is the job of each country's central bank.

Locally, the South African Reserve Bank (SARB) is tasked with maintaining inflation targets and currency stability, while fostering economic growth. Recent decisions by the SARB have however sparked debate among economists and policymakers alike, with the contention that the South African central bank has missed the opportunity of creating policy certainty and kick-starting the economy by only cutting lending rates by 25bps on 19 September.

Amongst many other opinion makers, GTC contends that a more aggressive cut of 1% would have conveyed an appropriately positive message of relaxed fiscal discipline with sustained lower interest rates, showing the SARB's confidence in global inflation being under control whilst the rand is sufficiently strong so as not to require an abrupt reversal of policy. The conservative (and some would contest that it was timid) quarter of a percent rate cut which should progress over time with further cuts, did not communicate this same message, and has yet to achieve any stimulatory results.

## The current economic landscape

South Africa's economy has been grappling for a long time now with numerous challenges, including high unemployment rates, sluggish GDP growth, and previously persistent inflation. According to the latest data from Stats SA, the country's unemployment rate hovers around 34%, one of the highest in the world. This dire situation has been exacerbated by the lingering effects of the COVID-19 pandemic, supply chain disruptions, and rising global commodity prices. With economic growth stagnating, the need for stimulus has never been more pressing.




In this context, analysts and business leaders alike have argued for a decisive, proactive approach from the SARB. GTC contends that a 1% reduction in the lending rate could have served as a catalyst for economic recovery, enabling businesses to invest, consumers to spend, and ultimately economic growth to be stimulated.

## Encouraging investment and consumption

Lowering interest rates makes borrowing cheaper for businesses and consumers. With a 1% cut, businesses would have more incentive to invest in capital, technology, and workforce expansion. This increased investment would create jobs and drive innovation. Similarly, consumers would benefit from reduced loan and mortgage repayments, potentially boosting discretionary spending in the economy.

Certain business sectors, such as retail, manufacturing, and construction, are particularly sensitive to interest rates. A rate reduction would stimulate these sectors, all of which have been lagging, affected by (amongst other things) the high cost of borrowing. For instance, the construction industry, vital for job creation, could have seen increased activity with lower financing costs, leading to new projects and employment opportunities.

## Supporting small and medium enterprises (SMEs)

SMEs are crucial within South Africa's economic landscape, yet they often struggle to access affordable financing. A 1% rate cut in borrowing rates would have made loans more accessible for these businesses, allowing them to expand operations, hire new employees, and contribute to the overall economy. Supporting SMEs is particularly important in South Africa, where they account for a significant portion of employment.

## Global context

Many central banks worldwide have been adopting more accommodative monetary policies to combat economic slowdowns than South Africa. In the US, despite already experiencing growth in jobs and an expanding economy, went with a 50 bps (0,5%) cut off a far lower lending rate than our own. The SARB's decision to cut marginally by only 25 bps (0,25%), in contrast to global trends, raises concerns about our country's competitiveness - and even more so about any Government policy to be competitive. A 1% rate cut would have stimulated the economy (even though it may impact the currency and inflation negatively) and better aligned South Africa with international best practices, potentially attracting foreign investment and improving investor confidence.

## The Interest rate differential - South Africa vs USA

A crucial aspect of the SARB's decision-making process is the interest rate differential between South Africa and the United States, particularly in the context of inflation. Over the last few years, the US Federal Reserve has been adjusting rates in response to rising inflation, which our central bank has followed suit on. This has led to a sustained and pronounced interest rate gap between the two countries. This was both in an effort to maintain the value of the rand and to ensure that inflation did not rise significantly in SA.

## Understanding the differential



The nominal interest rate set by the SARB has often been significantly higher than that of the US. This disparity is primarily due to South Africa's historically higher inflation rate. While the US grappled with its own inflation concerns, its rates were comparatively lower, partly reflecting more stable economic conditions.

The inflation differential between the two countries is currently as low as 1,5% on core inflation, yet our government bond rate differential with the US treasury market is just short of 6% in the 10 year area of the curve. This disparity shows a rare opportunity to cut rates without having a large impact on the currency, where a blow out of the rand/dollar may otherwise occur.

## Confidence and risk spread

The current wave of general optimism in SA on the back of the amongst other things the GNU and the stability of power supply, have created an environment of reduced risk for foreign investors. The risk premium that is inherent in our interest rate spread has not narrowed and is a variable that has not gone unnoticed by foreign investors. This is a large contributing factor to the prevailing strength of the rand.

## Inflation differential

The inflation rate in South Africa has fluctuated though has consistently been higher than that in the US. When inflation in South Africa exceeds that of the US, it creates a situation where the SARB's higher interest rates can deter fixed investment and borrowing. A 1% cut in the lending rate could have reduced the differential, making South African assets more attractive to both domestic and international investors.

Putting this in some perspective, the US Fed's reduction of 0.5% from 5.5% to 5.0% represents a 9% change. The 0.25% adopted by the SARB from 8.25% to 8.0% makes only a 3% difference.

## Investment Implications

A lower interest rate environment in South Africa would inevitably lead to increased capital inflows, as investors seek returns relative to the inflation-adjusted rates. This scenario is particularly vital for a developing economy like South Africa, where attracting foreign direct investment can catalyse economic growth. With (only) a 1% rate cut, the SARB could have positioned the country as a more appealing destination for investment relative to the US showing confidence and opportunity.

## The risk of capital outflow

It is always true that some investors will seek better yields elsewhere, once a meaningful rate cut has been made, and this capital flight could weaken the rand and exacerbate inflationary pressures, further complicating any SARB objectives. It is however our supposition that the risk of outward capital flows versus the growth opportunity provided would be a risk well worth taking in a global environment where many central banks are cutting rates, taking on this same risk.

## The risks of maintaining high rates

While the SARB has cited inflationary pressures as a reason for maintaining interest rates, it is essential to consider the broader economic context. High interest rates do stifle growth by discouraging borrowing and spending. The trade-off between controlling inflation and stimulating growth is delicate, however, the SARB's choice of prioritising the former may lead to prolonged economic stagnation… a scenario we as a country can ill afford.



## Consumer confidence

High-interest rates erode consumer confidence. Individuals who fear increased costs associated with loans and mortgages are less likely to spend, leading to a vicious cycle of low consumer activity and subsequent economic decline. A substantial rate cut would have sent a positive signal to consumers, encouraging them to re-enter the market and contribute to economic vitality.

## Long-term economic growth

Stagnation today can lead to more significant challenges tomorrow. By failing to cut rates, the SARB risks creating a cycle of low growth that can have lasting implications for the economy. Over time, lower growth rates can lead to reduced tax revenues, higher public debt, and increased social pressures from unemployment and poverty.

The SARB's decision to reduce lending rates by less than our trade partners, amid a stagnant economy represents a missed opportunity to catalyse growth.

## Stand up and be counted

As South Africa continues to navigate a challenging economic landscape, the SARB must reconsider its strategies, aligning monetary policy with the urgent need for economic revitalisation. By adopting a more flexible approach, the SARB can fulfil its dual mandate of maintaining price stability while fostering sustainable economic growth, ultimately benefiting all South Africans. Surely an economy with job creation and stimulus that puts bread on the table has to be preferred to a moderately higher inflation rate.

Whilst the US dollar is weak and South Africa's growth is low, bold and decisive central bank leadership is needed to steer our economy onto a path of sustained strong growth.

# The multi-faceted layers of educational costs

I am sure that many financial plans include the provision for educating children and getting them started in life. Having gone through this with my four sons (actually still going through it), I realise that my original planning was considerably inadequate. Back then, I based my views on the costs my parents incurred getting my siblings and I started in life. I have since discovered that the world has changed significantly since then.



Some of my experiences and observations relate specifically to my own situation whilst others are first-hand experiences of other parents.

## Years of study

My original financial planning anticipated a student being at university for three to four years. I have got this one wrong. For example, to qualify at UCT as a Chartered Accountant requires a four-year Business Science degree, another year for the Post Graduate Diploma in Accounting, and then three years of articles on a minimal salary. It's actually eight years before this child of ours becomes self-funding! Lawyers require a three-year undergraduate degree, two years for the LLB and then two years as an articled clerk - earning even less than the accountants. Doctors spend six years at university followed by two years as interns and then a year of community service, albeit medical interns are at least reasonably well remunerated.




While many degrees and diplomas are indeed structured so that a student graduates after three years, it is also increasingly true that these degrees or diplomas are in themselves not sufficient for young graduates to compete within the marketplace and they accordingly need to study further to improve their employability.

From a financial planning perspective, I believe a more accurate assumption is to plan for children to require eight years of financial support before they become self-funding.

This provision should not necessarily be based on the duration of an undergraduate degree. This has become the 'Eight-year Rule' in our household financial planning.

Providing for one's children's education requires another financial planning procedure. In our family's financial planning this is called the 'Catch-up Rule'. By this, I mean the period between 'children-related costs' and retirement. It goes without saying, but it is a reality that spending money on children is an emphatic and immediate spoiler as regards your own retirement savings. During the period after children expenses are completed, at a time when one should have extra disposable income, the Catch-up Rule applies. This is often psychologically difficult, requiring discipline when so many other more exciting opportunities present themselves rather than the objectives of funding retirement.

Getting married later in life (a trend which continues - late in life for my generation friends and peers was in their early 30s, it's even later nowadays), meant that you had children when you were older and the Catch-up Rule was reduced. If you then factor in my Eight-year Rule the window of opportunity almost disappears. I turned 60 when the youngest son finished school. I will be 68 when his Eight-year Rule finally expires...

## Cost per year



Obviously, children-related costs differ widely depending on the choice of learning institution, and the selected course. Based on typical middle-class Capetonian standards the annual fees that I am seeing are getting close to R100 000 per annum - and another spoiler, that's just the cost of tuition. I would not suggest that any financial modelling assumes access to bursaries or scholarships - which seemed so readily available back in the 1970s when I was building my financial plan. And then there's accommodation. This is going to double your costs. Recent discussions with colleagues centered around the accommodation and food budget for Stellenbosch students as being over R100 000 per annum.

So, you can plan for them to stay at home, though you must then also plan for restocking the continually emptied fridge of anything edible or drinkable. You may save on rent, though you will need to provide for the cost of transport. At one stage in the recent past, our family driveway was occupied with six cars. I'm sure the neighbours thought we were running an Airbnb. Apart from the acquisition costs of the vehicles, I've learned to budget for petrol, insurance, licensing, and servicing. And repairs!

Reviewing my financial plan a while ago, I arrived at a sobering calculation: 4 sons x 8 years x R200 000 per annum = R6.4 million! I concede that during the final few years when they were working - for a minimal wage, the funding was less than R200 000 per annum per child.

## Getting them out of the house

I started my working life in the days of employer-subsidised housing loans. Such benefits no longer exist and the banks have become seriously risk averse when it comes to credit. The requirement for a first-time buyer to pay a 15% deposit seems crazy. In Cape Town currently for R2 million, you can buy a flat only slightly bigger than a walk-in cupboard!

To be eligible for purchasing said walk-in-cupboard/apartment a prospective buyer will need to pay R300 000 as the minimum deposit. Few first-time buyers - who are also first-time employees - have R300 000 in the bank.

I recently heard of a case where, in addition to the 15% deposit, the bank required the parents to provide security against the loan! What happened with the flat being the security?

If you (as the parent) are unable to assist with the home loan (because you spent all your spare savings getting them educated…), they may move home to save money to enable them to accumulate funds towards that deposit! I think we might all be surprised to learn how many 30-something-year-olds are living at home (and not paying rent or contributing to the household costs).



## Weddings



I am not sure if as many relationships end in weddings as before, and many people are getting married later in life - but the cost of weddings seems to have gone crazy!

Whilst the tradition of the bride's parents paying for everything is long gone, it's still true that many young couples have wedding dreams which are aligned with either their or their parents income.

## Grandchildren

As both a parent and professional retirement fund trustee, I am amazed at how many grandparents need to fund their grandchildren's education from their pensions, on the basis that the parents of the children at school simply cannot afford to send their grandchildren to the same school they went to.

These same grandparents would rather give up some of their hard-earned pension than see their grandchild at some 'lesser' school.



Akin to electricity, it seems that the cost of private school education has risen at a rapid rate, and it is often true that private high school is materially more expensive than university.

Grandparents are also often free babysitters and school transport services, though I'll agree these are usually actions of love and not commercially calculated.

## Financial planning

Of course, I encourage everyone to have a proper financial plan and to work with a professional advisor. I also want to remind readers that they must make provisions beyond the cost of three years of tertiary tuition.

*Note from the CEO editor: Dave Johnson is an independent trustee and, whilst GTC shares many of the opinions passed, this is Dave's article.*



# The hidden costs of delayed savings

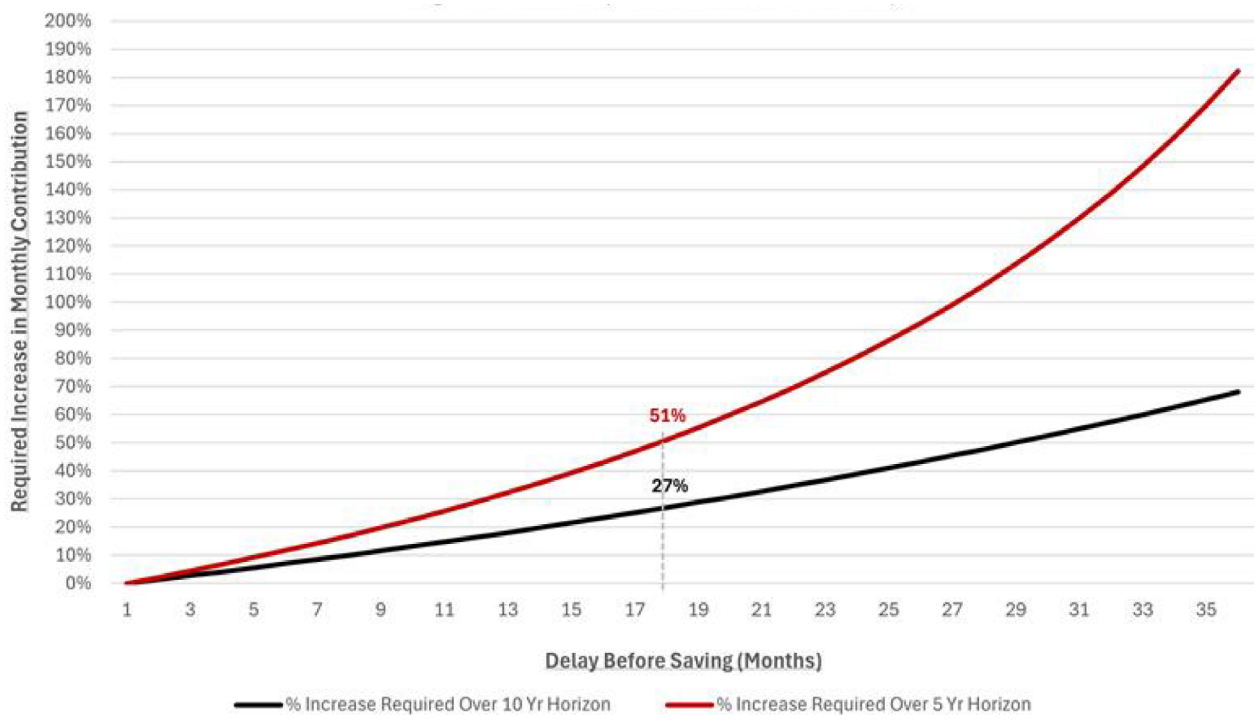
As the costs of life increase at a faster rate than one's salary might, funding an expense as and when it falls due, means that a greater component of your limited monthly income must be committed to that expense in the future. Against this backdrop, whether you're preparing to save for retirement, for your children's school fees, for a well-deserved holiday, or the acquisition of a new asset - the sooner one starts to save will significantly reduce the associated cost of that savings decision over time, and the mathematics backs this statement up.

For every month that you choose to spend, rather than save, it means that over and above the rand cost itself - you have actually spent time. The consequence this carries is that in order to meet your desired savings outcome, you will either need to increase the amount saved monthly over the remaining time horizon, or extend the date at which you expect to achieve the financial goal you've set.

The earlier one begins saving, the larger the potential impact of compounding on their investment, often resulting in a smaller amount than is necessary each month, when compared to what the actual expense may amount to when the time comes to utilize the investment. Time is of the essence, as it cannot be recouped once it has been spent.

Figure One's black line shows that if investments are returning eleven percent (11%) per year and you need to meet your financial objective in ten years' time (10), delaying the start of your savings regime by eighteen (18) months will increase in the amount you need to save monthly by twenty seven percent (27%). If the date at which you need to draw on the investment is even nearer in the future, the monthly increase as a result of the same delay is even more significant. Figure One's red line illustrates that were the investment horizon only five years (5), an eighteen (18) month delay results in a required increase in monthly contribution of over fifty percent (51%) to meet the obligation.

**Figure 1: The exponential cost of delay**



Given that markets are cyclical and that there is a myriad of factors that allow certain companies to thrive whilst others fail, might it not be better to begin the investment journey once the market has dislocated, affording your initial contributions the best opportunity to grow over time?

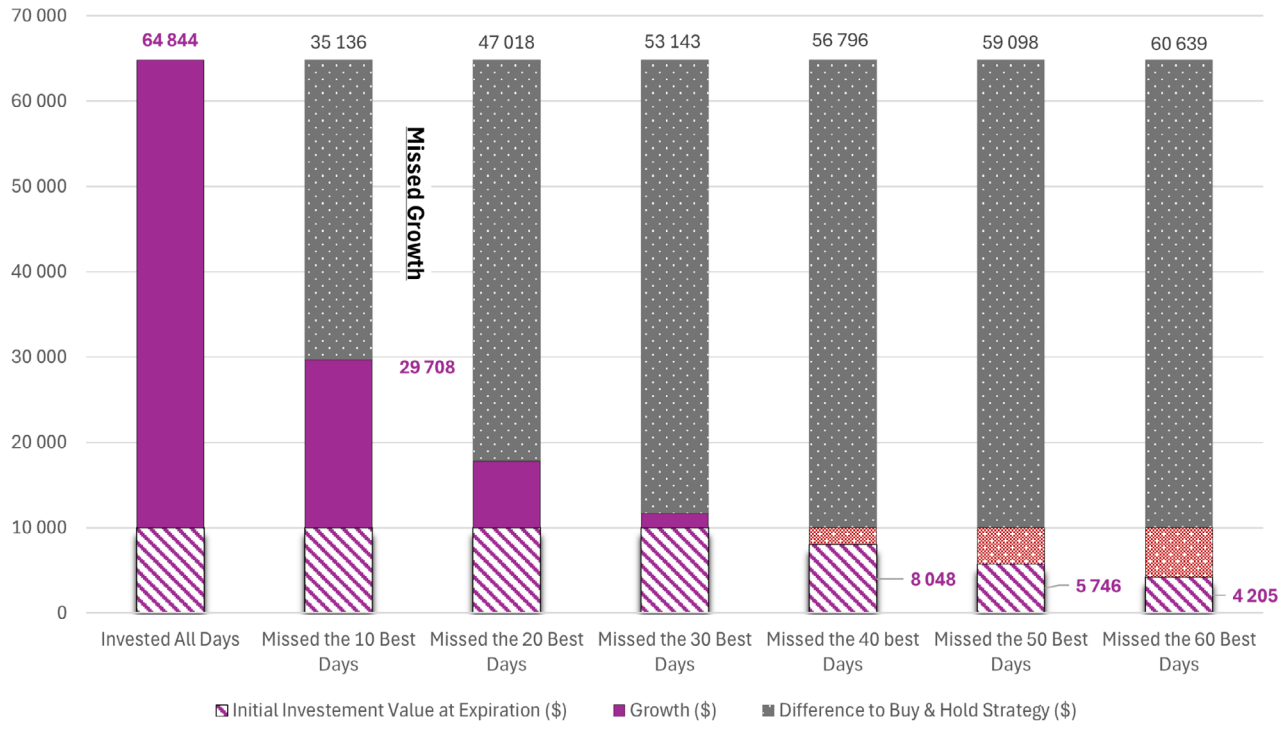
Bernard Buruch has famously said that 'The main purpose of the stock market is to make fools of as many men as possible', with this statement giving way to Warren Buffet's 'The only value of stock forecasters is to make fortune tellers look good' - why might these two great minds bare such hostility towards the act of seeking the best return on one's investment through the timing of the price one pays? Simply, it is because the short-term direction of stock prices is close to random and so time spent in the market is better than attempting to time the market in almost every scenario.

Whilst it is true that one receives better value for money after the market has fallen to its low, rather than purchasing at any other point - no one can possibly know for sure what the market will do next at any given point, and so a consistent contribution over time, allows for a time weighted average purchase price that will be somewhere in-between the lowest possible entry point and that of the highest and most undesirable. This is not a phenomenon singularly associated with developing economies like South Africa and the below indicates that the statement holds true even in the deep and very liquid capital markets of developed nations as well.

The following graph showcases the impact of ten (10) thousand Dollars invested in the SandP 500 Index from January 2003 - December 2022 and how attempting to time one's investment exposure for the smallest fraction of time over that investment horizon causes a significantly different outcome. Adopting a buy and hold strategy for the full period has resulted in a total portfolio value at expiration of $64,844. Missing only the ten (10) best trading days in the series has resulted in a total portfolio value at expiration of $29,708 - representing a missed growth opportunity of $35,136 and ultimately a 54% reduction in portfolio value.

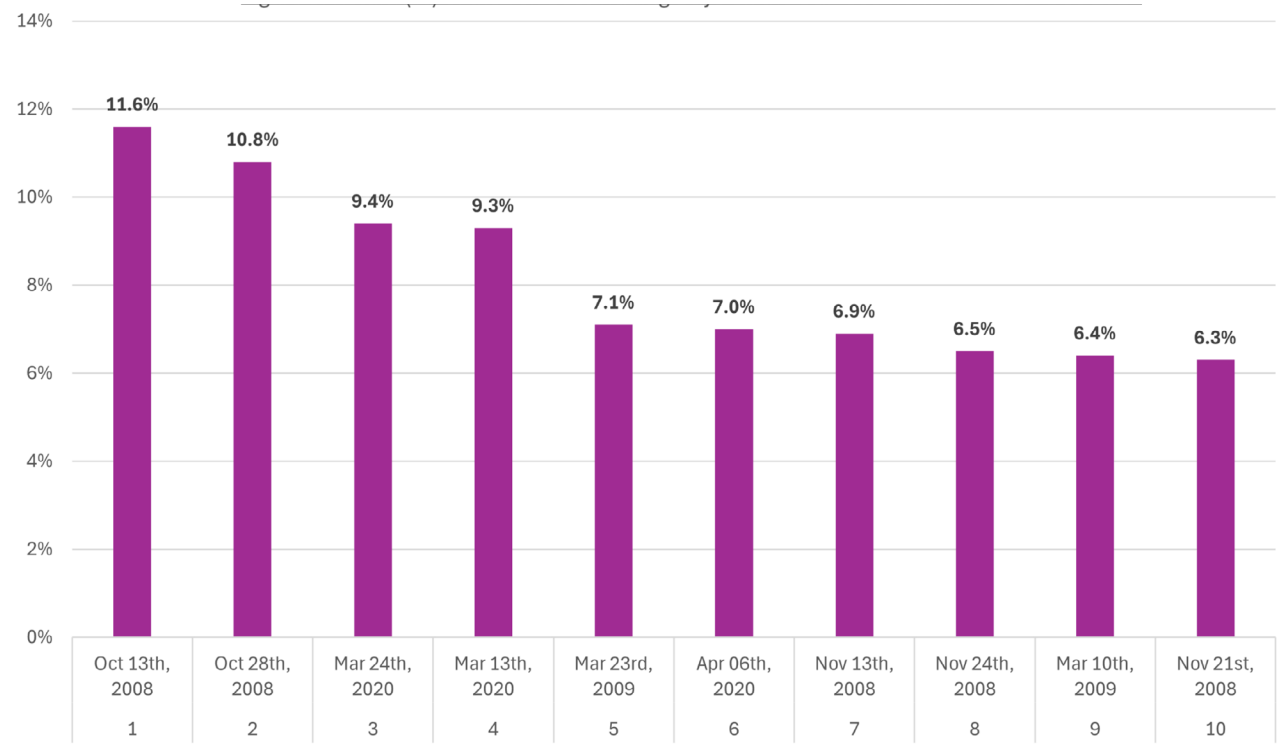
A more sobering realisation is that if one missed the sixty (60) best trading days in the series, their total portfolio value at expiration would have plummeted to $4,205 - representing a missed growth opportunity of $60,639 and ultimately a 94% reduction in the value that the buy and hold strategy would have returned. Most significantly to note, is that once the fourty (40) best trading days over the twenty (20) year series were missed, the growth on the initial investment actually turned negative. This is indicated by the red polka dotted areas.

**Figure 2: Value of $10 000 invested in the S&P 500 from Jan 2003 - Dec 2022**



The returns in percentage terms of the ten (10) best days missed are not outrageous in isolation either, as is shown in the graph below: so why is the impact of their absence so pronounced?

**Figure 3: Return (%) of the ten best trading days on the S&P 500 from Jan 2003 - Dec 2022**




This is because the best trading days often take place directly after the worst. An investor attempting to time the market, may switch out of their falling position and into a relatively safer asset class like cash and cash equivalents in an attempt to limit their losses in a falling market - whilst this action does carry with it downside protection, it locks in capital losses as well, in that the investor is no longer able to participate in the recovery of the market (whenever that may be) because they are holding cash. When they eventually do limp back in, the price at which they exited, and the price at which they re-enter are starkly contrasted - resulting in a greater cost than it would have, had they simply adopted the buy and hold strategy.

Whilst the critics might rally to dismiss the above as a one sided argument, proclaiming that it is built on too pure a misfortune to have missed the best trading days and to have only participated in the worst, consider that over the above time series - seven (7) of the ten (10) best trading days above took place when the market was 'Bearish'. This is a term used to characterise a market when conditions are particularly uncomfortable for equity investors, and where share prices are carrying negative momentum over time.

Who then would be so bold to attempt timing their entry in that environment with conviction, had they not already held the position?

The above serves to illustrate that one should not put off their decision to save for fear that their entry could be better timed or that they might not have enough to begin the journey - simply deciding to start is the best possible outcome.

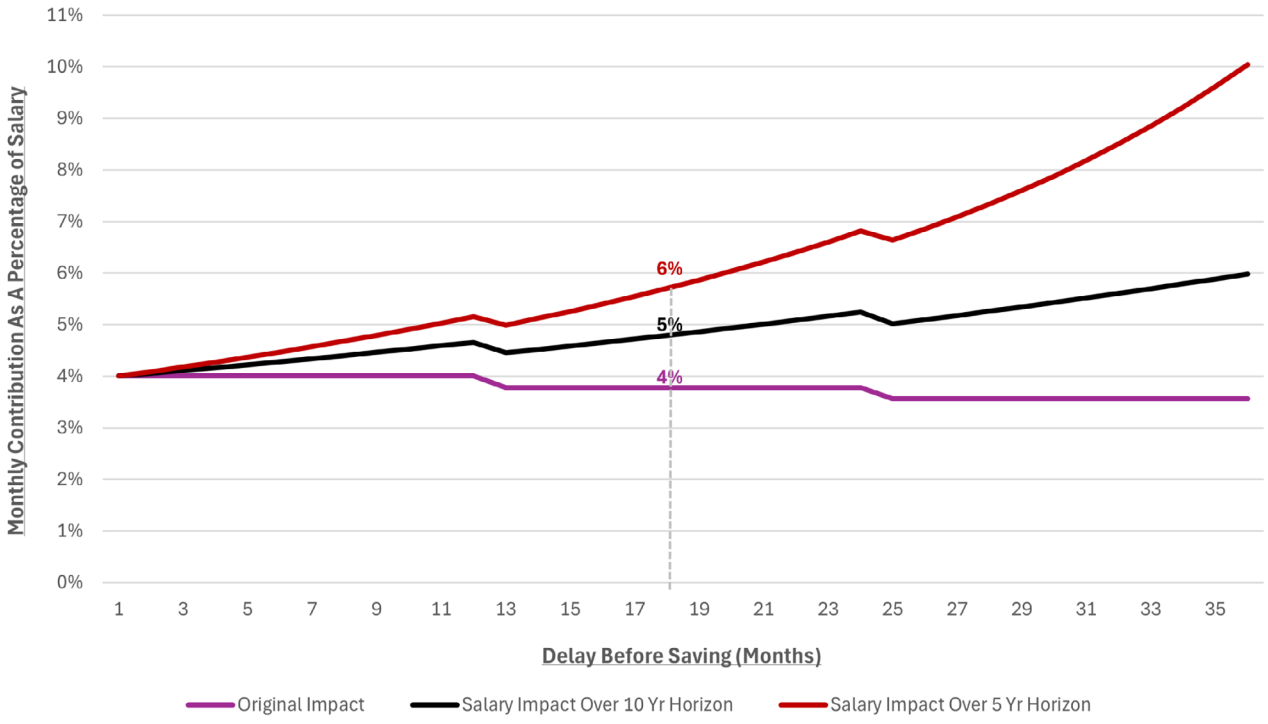
Whilst Figure One has displayed the nominal consequence of delay, and with Figures Two and Three, illustrating the cost associated with a lack of commitment to the long-term. Figure Four illustrates the impact on one's cost of living in the future.

Figure Four indicates the elevated cost of the monthly contribution towards the investment objective as a percentage of one's salary, whilst assuming that the salary increases year on year by an inflationary assumption of six percent (6%). The initial salary figure is R25,000 per month and the monthly contribution represents a fixed R1,000 per month which equates to four percent (4%) of the starting monthly salary. Here the cost of delay is represented in percentage terms on the salary structure, but where the percentage increases from figure One still apply.

Allowing for rounding discrepancies, the cost of the eighteen (18) month delay represented by the black line indicates a required increase of roughly twenty seven percent (27%) and the red line an increase of roughly fifty percent (51%).

What is important to take away is that through the adoption of a long-term approach to your savings regime, and where the starting figure is fixed at R1,000 - the percentage that this monthly obligation represents trends downwards over time rather than upwards as one's salary increases, affording some respite in the present without it coming at the expense of one's future. This is illustrated by the purple line.

**Figure 4: Contribution as a percentage of monthly salary**




The most important step in one's financial planning exercise is choosing an investment that is appropriate, both in terms of one's risk profile and the amount of time required to achieve the financial objective. Key information such as the investment vehicle's time horizon and the exposure it has to growth assets must be considered, as it directly informs the volatility of the vehicle's return profile over time. It is true that an elevated volatility profile usually accompanies portfolios with large exposures to growth assets, and so the loss of client capital is a very real risk. However, it is also true that without that risk present there can be no compounding growth, and ultimately, one's investment objective would be underfunded at expiration were it not to be there. The best possible mitigation of potential losses - is discipline.

Simply having the fortitude to remain invested through the inevitable turbulence that an equity market produces, allows the investment to achieve its targeted outcome in all but the most extreme of cases - this creates the greatest opportunity for the power of compound interest to increase the value of your money, and for your desired investment outcome to be achieved.

# Using the Two-pot System

## Two-(pot) wrongs don't make a right

Here at GTC the initial pent-up demand for Two-pot savings withdrawals is now sorted with all but the exceptional cases having been accommodated. We accompanied every withdrawal application with a detailed counselling engagement and it was enlightening as to the reasons and motivations that members had for these withdrawals.

In our pursuit of establishing GTC's Net Promoter Score (an international standard by which companies are measured by their customers) from affected retirement fund members (and GTC is proud of an overall score of 97%), we gleaned some useful information from the numerous responses we received. A relatively common trend was of members noting how easy the process had been, with them looking forward to repeating this same process next year, as they undertook this exercise for pre-determined expenses. These expenses were often noted as being school related, with other similar conventional family expenses.



As a professional financial advisory practice, we at GTC are concerned about this trending attitude toward using retirement savings for day-to-day routine expenses. In our counselling engagements it was a common realisation that members were seeking to access their retirement savings (through the euphemistically named 'savings pot'). It was apparent in these discussions that members had often not interrogated their own monthly budgeting, preferring to use their retirement funds for (say) school fees, DSTV premium subscriptions (prevailing at R929 p/m), cappuccino's and fast-food provisions, as well as other relatively luxury expenses. A prevailing theme was that investors seldom considered revising these expenses and considering the resultant savings as being a preferred alternative source of revenue for these same school fees.

In other words, many members were seeing the premature use of their retirement funds as being preferable (and easier) than the pain and discipline of revising an unnecessarily expensive or lax monthly budget.

There are undoubtedly lots of genuine examples of emergency funding that do justify prematurely raiding the retirement piggy bank (such as unforeseen medical costs, or the loss of a breadwinner). It can never be prudent financial planning that overrides the fundamental investment principles of compound interest and time, in favour of short-term expenses that could be met from some other source. For many, Two-pot has provided too easy an opportunity to avoid disciplined financial budgeting.

GTC's counselling process did work. Many members changed their planning once they had a better understanding of the consequences of compromising long-term financial principles and the less impactful ramifications of changing prevailing lifestyle conveniences. Even where genuine circumstances existed justifying and motivating a Two-pot withdrawal, members were more knowledgeable about the consequences and had the opportunity to establish mechanisms that would alleviate the necessity to undertake this process repeatedly.

Two-pot is here to stay. Overall, it has worked in that popular user opinion (driven largely by the trade unions) now endorses the preservation of a large part of one's retirement fund, with Two-pot being the negotiating concession, allowing this to be promulgated. It is no longer the only alternative to resign from employment to gain access to retirement funding.

Two wrongs however don't make a right. It is incumbent on every single retirement fund member to understand fundamental investment principles and undertake the prerequisite discipline and pain of long-term investing. Understanding and establishing emergency funding is neither easy nor quick. Each retirement fund member's financial destiny is in their own hands. This responsibility can never be deflected.



## Newsroom

The now fully-fledged Two-pot System has sparked significant debate. GTC gives an **alternative perspective** as we navigate the complexities of retirement planning in today's financial landscape.

Visit our **Newsroom** for the latest articles and videos from GTC's Thought Leadership team.



# Contact us


**Director - Asset Management**
**Manty Seligman**
**T** +27 (0) 10 597-6800
**E** mseligman@gtc.co.za

**Head - Multi Managed Portfolios**
**Clive Eggers**
**T** +27 (0) 21 713-8500
**E** ceggers@gtc.co.za

**Portfolio Manager**
**Samir Narotam**
**T** +27 (0) 10 597-6826
**E** snarotam@gtc.co.za

**Head - Healthcare Consulting**
**Jillian Larkan**
**T** +27 (0) 83 453 3344
**E** jlarkan@gtc.co.za

**Senior Servicing Consultant**
**Jenny Williams**
**T** +27 (0) 10 597-6840
**E** jwilliams@gtc.co.za

**Senior Benefit Consultant**
**Sabir Bacus**
**T** +27 (0) 10 597-6836
**E** sbacus@gtc.co.za

**Head - Risk Solutions**
**Roy Wright**
**T** +27 (0) 21 286-0037
**E** rwright@gtc.co.za

**Group Chief Operating Officer**
**Farhadh Dildar**
**T** +27 (0) 10 597-6830
**E** fdildar@gtc.co.za

**Group Chief Executive Officer**
**Gary Mockler**
**T** +27 (0) 10 597-6831
**E** gmockler@gtc.co.za

**Head - Finance**
**Andrea Diamond**
**T** +27 (0) 10 597-6877
**E** andread@gtc.co.za

**External Compliance Officer**
**Dale Nussey**
**E** dnussey@gtc.co.za

**Employee Benefits Administration**
**T** +27 (0) 21 713-8500
**E** clientservicing@gtc.co.za

**Wealth Management Administration**
**T** +27 (0) 10 597-6876
**E** wealthmanagement@gtc.co.za

**Fiduciary Services**
**T** +27 (0) 10 597-6800
**E** fiduciaryservices@gtc.co.za



formerly Grant Thornton Capital

**a** GTC, The Wanderers Office Park
52 Corlett Drive, Illovo, 2196
**p** P O Box 55118, Illovo, 2116

**t** +27 (0) 10 597 6800
**f** +27 (0) 10 597 6801
**w** www.gtc.co.za

GTC Holdings (Pty) Ltd.
**reg. no.** 1996/015043/07
**directors:** G.K. Mockler, F. Dildar, M. Seligman, A. Diamond.
**FSP no.** 731

**GTC is nationally represented in Johannesburg, Cape Town and Durban.**



**The GTC Privacy Policy can be viewed on the GTC website at https://gtc.click/Group-Privacy-Policy**

**GTC Group of products and services include:** Employee Benefits Consulting • Employee Benefits Administration • Private Client Wealth Management • Healthcare Consulting • Short-term Risk Solutions • Stockbroking • Derivatives Trading • Unit Trust Management • Asset Management • Fiduciary Services