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"It's a good habit to trumpet your failures and be quiet about your successes."
Charlie Munger

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EDITOR'S CHOICE



PF Podcasts

How private debt has become a lucrative investment alternative

It is our Pension Plain episode for March, the monthly feature where we talk about everything retirement-related, whether product, platform or policy. The discussion is on private debt and how it remains a growing part of pension plan portfolios. It is actually the fastest-growing asset class in the world. To talk us through private debt as an asset class, and the potential it holds for local institutional and retail investors, we have Dino Zuccollo, head of product development and distribution at Westbrooke Alternative Asset Management as our guest, to help examine the approaches to private debt investments that can be considered by mandated money managers. The primary objective is to review the status quo and understand opportunities and challenges in enabling the region's investor capital to benefit from the returns and diversification options presented by the asset class.

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PERSONAL FINANCE MAGAZINE: 1ST QUARTER EDITION IS NOW AVAILABLE ONLINE

The Personal Finance magazine has also moved from the Zinio platform to Issuu and is now available in digital format for free. In this quarter's edition:

RAGING BULL AWARDS RESULTS: PSG Asset Management (PSG), who have frequently featured in the top three in past years, cruised in ahead of last year's winners, Ninety One, to take the crown as South African Manager of the Year. More on the certificate and trophy winners.

OTHER STORIES:

- The impact of tax on retirement-fund pensioners
- Meet SA's newest Financial Planner of the Year - Palesa Dube
- Top citizen-by-investment options for South Africans.

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STUART GREEN

INVESTING is a key aspect to creating personal wealth. Broadly speaking, an individual can select the stocks or bonds themselves, or outsource this to a fund or investment manager. Making the right choice when selecting a fund manager is key to long-term gains. This can be done directly into a unit trust or through a savings product, such as a Retirement Annuity, Tax-Free Savings Account, etc.

The fund or investment manager plays a crucial role in helping individuals and families reach their financial goals. When trusting an investment professional to manage assets, it is essential to have a deep understanding of how the investment will be managed. This knowledge can help clients make informed decisions and ensure that their strategy is aligned with the overall financial goals set out by their adviser. Selecting the right fund manager is a critical decision that requires careful consideration.

Some factors that should be considered carefully, include:

1. Investment Philosophy

A strong appreciation of the philosophy and investment style of the manager is important so it is understood how this investment strategy fits into a portfolio, and the overall financial plan. Consistent evaluation of the investment will show if the manager is true to their philosophy, especially when current market factors do not favour that particular style.



2. Experience and Expertise

Einstein said the only source of knowledge is experience, and your appointed fund manager should be accomplished in this role. Experience in managing money is essential, rather than only in analysing stocks or bonds. In addition, the investment and operational support of the fund management business must be sufficient for the manager to do the work properly.

3. Track Record

A good fund manager's reputation will precede them and they should have

a proven track record of delivering strong returns. This should be evident not only over an extended period, but through tough market cycles too.

That said, it is vital not to simply choose last year's winners as these managers often under-perform in subsequent periods. Protection from permanent capital loss carries enormous magnitude for any investor over the long term.

4. Fee Structure

The fee structure of the investment strategy is a necessary consideration,

as it will impact the return that the investor receives at the end of the day. It's important to know the structure of how the fees are applied, if any performance fees are levied and if so, if the benchmark or hurdle is appropriate for the strategy.

5. Communication, Transparency

The fund manager should have a clear and open communication policy and be transparent about their investment strategies and decisions.

Think of the Ponzi scheme run by Bernie Madoff as an example where

the lack of transparency should have raised immediate flags.

The fact that he was able to get away with many people's money goes to show that people were too quick to trust based purely on reputation, and as a result were easily hoodwinked.

6. Target Return and Risk Profile

Attention must be given to the desired return of the strategy and the level of risk that the investor is exposed to. It is not advisable to invest into a return profile that will not achieve the financial goal, or one that exposes the investor to excessive risk that is beyond their tolerance.

By taking the time to carefully evaluate these factors, financial planners and investors can make informed decisions and select the right fund manager for their needs in order to maximise the probability of achieving their financial goals.

All unit trusts are governed by the Collective Investment Schemes Control Act and regulated by the Financial Sector Conduct Authority (FSCA).

Unit trusts are also required to act in accordance with certain codes of conduct and guidelines laid out by the Association for Savings and Investment South Africa.

To source if a particular investment is approved, go to www.fsca.co.za and look under the "Regulated Entities" tab.

Green is an analyst, Multi-Manager Solutions, at Platinum Portfolios, a boutique fund management company.

QUICK READS

ZERO CARD FRAUD

Hot on the heels of its announcement that its customers have experienced Zero card fraud, Bank Zero this week announced a second "Zero milestone". In the 18 months since its launch, not one of its customers has fallen prey to the phishing scams that are taking in people and businesses all around the world. Kaspersky, a leading security software company. According to Fortinet, South Africa was one of the top 20 countries in terms of phishing attacks in 2022. This figure is supported by Surfshark research, which indicates that South Africa has the sixth-highest cybercrime density in the world. Michael Jordaan, chair of Bank Zero, says that the stakes have been raised significantly since the Banking Ombud recently ruled that customers are responsible for losses if they divulge sensitive authentication details.



MOYAAPP LAUNCHES R15 A MONTH PHONE INSURANCE

MoyaApp has launched R15 a month phone insurance for its more than 4 million users. The insurance policy covers damage to their mobile phones (including screens), irrespective of the age or value of the device. MoyaApp, the data-free super app has partnered with the Root digital insurance platform and Monitor Administrators, underwritten by Guardrisk, to make mobile repair insurance readily available to anyone. Root's insurance platform acts as the "operating system" that made it possible for Monitor to easily expand its insurance and administrative support systems to enable the product to be embedded in the app.



CONSUMER APPETITE FOR NEW CREDIT CONTINUED

TransUnion released the findings of its Q4 2022 South Africa Industry Insights Report report this week. The latest analysis reveals that total outstanding balances and new account originations were higher year-over-year (YoY) across most consumer lending categories as consumers looked to access greater liquidity to finance increased cost of living expenses. Consumer appetite for new credit cards continued to increase towards the end of 2022. Card originations (a measure of both demand and supply) increased by 40.1%, showing growth for the sixth consecutive quarter. Despite improvements in serious account delinquency rates, lenders remain cautious, primarily with younger and riskier borrowers.

How does your financial adviser get paid?

FINANCIAL advisers can earn their money in different ways, some less favourable to your financial health than others. Remuneration models have evolved over the years as the financial services industry has become more sophisticated, diverse and consumer orientated.

Do you know how your adviser gets paid? You should. It is incumbent on your adviser not only to disclose the costs of the financial products you sign up to, but how he or she will be remunerated and how much that remuneration will be. This can be negotiated up front.

There are three basic remuneration models, although advisory practices may employ a combination of these:

Commission-based. This is the traditional model used for decades by the insurance industry. The adviser receives a commission from the product provider on each financial product sold. It may be an upfront commission, an ongoing annual commission over the life of the product, or both.

AUM-based. AUM stands for "assets under management". The term generally applies to investments but not other types of financial products, such as insurance policies. Here, the adviser receives a percentage of the value of your investments annually, typically after taking a higher initial fee. For example, there may be an initial 3% charge on your investment followed by an annual 1% charge.

Fee-based. Under this model,



WORDS ON WEALTH

MARTIN HESSE

you pay the adviser directly, as you would pay directly for a consultation with a doctor or lawyer. There are various ways in which this can be done: the adviser could charge a simple per-hour rate or have fixed charges for certain services.

Rory Brachner is founder of the online advisory platform DoshGuide. DoshGuide represents a new version of the fee-based model whereby, for a monthly subscription fee, you enlist the services of a professional adviser on the platform.

Brachner says each remuneration model has its pros and cons, but ultimately it is the third that best serves your interests. Taking each model in turn, he looks at how aligned the adviser's incentives are with those of you, the client.

In the commission model the incentives of the adviser and client are highly misaligned, Brachner says. "Misalignment occurs because advisers are rewarded for pushing products rather than solving for the



needs of their clients. Not all clients need financial products, but advisers operating under this model can't earn a living offering product-free advice, such as advice on reducing debt," he says.

In the AUM model, there is a moderate misalignment of incentives. "In some ways this structure has better alignment, since advisers are incentivised to grow the assets under management in order to earn higher fees. However, misalignment does occur, because the remuneration is tied to the investment. For example, the adviser may be reluctant to clients pulling their money out, even when it makes sense to do so," Brachner says. He says the adviser is more likely to focus on your investments, neglecting other areas, including fun-

damental advice on managing your money, and the model is more suited to the higher-net-worth market where clients have large amounts to invest.

Which brings us to the fee-based model. Here, the incentives of you and your adviser are fully aligned. "Advisers aren't rewarded for pushing products or collecting assets and can only increase their reputation and business by providing great, objective financial advice. They work for the client, not a financial services provider. If a client ends up needing a financial product, they can advise on that too, but there's no incentive to sell," Brachner says.

The main reason this model is not more popular is that it involves a direct fee, unlike the other two, where, although you might agree to

the percentages, the fee doesn't come off your bank account.

But ultimately, you pay less and gain a great deal more if you pay directly. Commissions and AUM fees work out very expensive when you do the maths. For example, 1% of an investment of R1 million is R10000, while an initial fee of, say, 3% is R30000. So in the first two years you're actually paying your adviser R40000. Over the long term the cost can be staggering. The difference between a 4% and 5% annual return over 20 years on a R1m investment is R462174. And that's on just one investment product. You also save on zero commissions on insurance products. And because you're getting better-quality advice, you benefit in innumerable other respects.

DoshGuide offers subscriptions starting at R850 a month, which Brachner reckons is within the reach of young professionals. For less than the cost of a DStv Premium subscription you get the services of an independent Certified Financial Planner and member of the Financial Planning Institute – these are the top-echelon advisers in South Africa.

"The subscription version of the fee-based model has gained strong traction in markets such as the US and UK. In South Africa adoption is at an early stage, but is also seeing strong growth due to interest from younger clients and a small innovative community of advisers that have shifted to this approach," Brachner says.