OVERBERG MARKET REPORT

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Global Report

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Retirement 101: How to Ensure You Can Retire Comfortably

When it comes to retiring, there is no 'one size fits all.' Every single one of us has unique needs/lifestyles we are accustomed to, as well as a desired retirement age. Taking all of this into consideration, there are a few different tried and tested strategies, that many of us financial advisors have used over the years, which have helped our clients stay on track over the longest savings plan many of us will ever have.

RETIRING IS SERIOUS. TAKE IT SERIOUSLY. A staggering 36% of the country only, is saving for their retirement, of which only 6% will have enough to retire on. South Africans as a whole, are notoriously known as having one of the lowest savings rates in the world. This not only puts pressure on the next generation to support the elderly but can cause vast amounts of stress when you should be enjoying your well-earned time off. This is termed the "sandwich generation" whereby these children carry the financial burden of having to provide for their children as well as their parents. Let us help change this narrative.

BENEFITS OF SAVING FOR YOUR RETIREMENT: You spend your entire life working so that you can retire comfortably and live the life you have always desired. Retirement should be seen as your golden years where you have time to do all the things you have always wanted to do but have not had the time for. Make a bucket list of all the experiences you would like to do in retirement. Is there a cruise you would like to go on, or a hobby you would like to explore? Make a detailed list of how much all these luxuries will cost you so that you can add them into your retirement budget.

How can one best ensure that you are not another South African statistic? The first point to make, and to keep clear in your mind is to have a defined retirement goal. What level of income would you require if you were to retire today? Taking into consideration that the biggest expenses at retirement are mainly medical, your other fixed expenses will hopefully take a back seat as your houses, cars, and other loans will be paid off by then.

This forms part of the second point of your retirement journey - Estimate how much you will need in retirement savings to maintain your desired lifestyle. A qualified financial advisor will have the tools to do this exercise with you. Factors to take into consideration are the tax rebates, compound interest, inflation, and risk profile. Once you have this lump sum figure, it is easier to work out how much you need to contribute monthly, as well as calculate what the shortfall is, and how you can best bridge this gap.

CONSTANT REVIEWS OF WHERE YOUR INCOME IS GOING: Are you budgeting effectively to ensure that every month, you are maximizing your retirement annuity contributions? A great rule of thumb is to break down your salary monthly into wants, needs, and savings. This is broken down effectively by Forbes into the 50/30/20 rule. 50% of your income should go towards needs, 30% should go towards wants and 20% should go towards savings and debt payments. Out of this 20% of your salary- if 7-10% of your net salary can go towards retirement savings, from an early age, this is very achievable. The effect is also less painful if you are diligent and have your debit orders coming off on the same week that your salary is paid.

REVIEW YOUR RETIREMENT ACCOUNTS REGULARLY: Regardless of whether you have a work pension/ provident fund/ or private retirement annuity, make sure that you review your savings at least once a year. These funds are seen as long-term savings, so they should be invested in more moderate portfolios, so the true growth you will see is only after a 5-year mark. Reviewing your savings is not only about the funds they are in, but also the fees you are paying, tax rebates you are getting back, as well as being honest with yourself about whether you can/should save more in the following year.

BE FLEXIBLE: A retirement annuity is a 30/40/ even 50-year savings plan and life will happen along the way. Do not be so hard on yourself if you need to adjust along the way. If you need to pause your fund (Many of my clients exercised this option during Covid-19), but where possible, NEVER cancel your retirement savings. The compound interest will all be worth it in the end. As Einstein expressed, compound interest is the 8th wonder of the world.

PROFESSIONAL GUIDANCE IS KEY: Working alongside an independent, qualified financial advisor goes a long way. It is their job to make sure that they put you in the correct structure, diversify your investment, and adjust along the way. They are incentivized to make sure your money grows as fast and as steadily as possible as their earnings are linked to your growth.

CONSIDER ALL YOUR OPTIONS. NOT JUST LOCALLY, BUT OFFSHORE TOO: There are tax benefits associated with saving in a South African retirement annuity (RA), such as the contributions you make into your personal RA, which are tax deductible (up to 27.5% of your income). This is capped at R350,000 per year. Another benefit of investing in a South African retirement annuity, is that both the income gained as well as the capital gains earned within the pension, are exempt from tax. There are, however, stringent rules on the accessibility of these funds at retirement which require a lot of consideration. There are also rules on the funds you can invest in; this is called Regulation 28. This stipulates that no more than 75% of your investment can go into equities and that no more than 45% of your funds can be in offshore assets.

There are options offshore that may be worth considering rather than the standard retirement annuities in South Africa. You will not be able to receive the tax rebates, however, you will have access to global funds which you would not have access to in SA as well as complete flexibility of access to these funds at retirement age. Another benefit of investing offshore is that if structured correctly, these funds can never be repatriated, nor will they form part of your estate on death. There are no limits to what you can or cannot invest in and allows you a lot more freedom.

As you can see, there is a lot to take into consideration when thinking about your golden years, and planning is key. Our team at Overberg Asset Management has the skill set to help you plan your retirement effectively and efficiently. Reach out to us to go through all your options and find the most desirable solution for you and your family.

Local Report

Gielie Fourie

Revised Investment Strategy

INTRODUCTION: Overberg Asset Management's investment strategy for our South African (local) portfolios has been carefully considered and recently revised, taking into account the current and expected future South African economic, political, and social environment. Loadshedding is a major drag on economic growth and is the main reason for the low 0.4% and 0.6% (quarter-on-quarter) growth in our gross domestic product (GDP) in the first two quarters of this year. The investable universe of shares on the JSE is getting smaller and smaller, making it difficult to construct diversified portfolios. Some of our best companies have delisted from the Johannesburg Stock Exchange (JSE), the most recent being Distell and Mediclinic. More will follow.

South Africa is experiencing political uncertainty in the runup to the general election next year. We have issues like loadshedding, mentioned above, too many regulations, red tape and bribery hampering economic growth, and a ruling political party that is anti-West and pro-Russia. The big credit ratings agencies have downgraded South Africa debt to junk status. The Financial Action Task Force (FATF) has placed South Africa on its Grey List, complicating our trade with the rest of the world. The combined effect of these factors is a weak rand. International investors often refer to South Africa as being "un-investable." The International Monetary Fund's (IMF's) recommendations to fast-track growth in South Africa are to remove all the impediments to growth. If this can be done the investment landscape can change rapidly. But this might only be doable after the 2024 general election.

Despite the above-mentioned obstacles to growth there are pockets of excellence available on the JSE. The best performing shares in our portfolios are those with substantial offshore exposure. These shares include companies like Reinet up 46%, Naspers up 30%, Investec up 24%, Prosus up 21% and AB InBev up 18% over the past year. Our banks are financially strong and should be part of any portfolio – we have Investec and First Rand in our portfolios. Our mines like Anglo American and Glencore are solid investments – we have both.

As indicated above, attractive equity investment opportunities in South Africa are diminishing, especially when compared to attractive offshore opportunities. Direct investments in big biotech and technology companies, except for Prosus, are not available on the JSE. For this reason, our new strategy will include a selection of local exchange traded funds (ETFs) with underlying offshore exposure to various global regions and currencies.

LOCAL PORTFOLIO RESTRUCTURING STRATEGY – ADDING ETFS: Our revised strategy will involve reducing the number of South African stocks (individual companies) held in our portfolios and replacing them with an allocation to the best ideas from our Onshore Global ETF Model Portfolio. This is a rand-denominated portfolio comprising a selection of local ETFs with underlying offshore exposure to various global regions and currencies. This portfolio saw a return of 22% by the end of quarter 2 in 2023 and therefore represents a far more attractive option to deliver upside to investors. The percentage allocation to ETFs will be around 40% for balanced and growth portfolios plus a 10% allocation to a hedge fund.

For smaller portfolios, like the New Investor and Progressive Portfolios, where diversification is challenging through the conventional process of buying individual shares, our strategy will be to diversify by investing in three or four ETFs. The regular global related research received by Overberg is, and will, continue to be used to identify those regions globally which are likely to produce the most favourable market returns.

HEDGE FUND: A portion of the portfolios will be allocated to a hedge fund which has a proven history of consistently providing superior returns at a low risk. As mentioned above, the percentage allocation towards a hedge fund for balanced and growth portfolios will be around 10%. Therefore, the number of South African stocks (individual companies) held in the portfolios will reduce accordingly. This blended mix of investments consisting of ETFs, a hedge fund, and individual sharers, will feature various asset classes and is designed to meet the respective portfolio objectives.

BOTTOM LINE: The implementation of our new investment strategy will be phased in over 6-8 months, starting in June 2023. Since June we have made considerable progress in the implementation of our new strategy. The new strategy will shield our portfolios from economic and political disasters in South Africa. We are confident that the new strategy will minimise the downside and maximise the upside of our portfolios. Our goal remains to provide superior returns, at the lowest risk, for our investors.