Perspective

Summer 2022

"A little bit of Summer is what the whole year is about"- *John Mayer*

Things took a positive turn in December in the pandemic, with South Africa leading the way. Despite the initial shock of South Africa being closed down by the UK at the beginning of December, the world soon realised that while it was more contagious, the new variant was less harmful. Within weeks, global reports were asking, 'Is it Omicron, or is it a cold?'

While the S.A. government did the right thing in warning the world early on, the world's over-reaction initially turned things upside down for travellers especially. The "FourthWave" has moved through and it's now looking like we can perhaps consider getting on with our lives.

Catching up on some reading on my break, an interesting BusinessTimes.com article popped up in my newsfeed titled, Here Come Hot Desks and Zoom Rooms. And Holograms? It's just one article of many that speak of modifications being made to office buildings to accommodate hybrid work models. In general, it's clear that big business worldwide is radically reviewing its real estate needs. Corporates are exiting leases where they can and reinventing those buildings they own — in Johannesburg, for example, one firm has converted their old office block into a massive apartment development moving it into the build-to-rent asset class.

This budgetary reprioritisation mentioned above is among many emerging from the disruptions and economic contractions experienced during the pandemic. An even more thought provoking piece I read proposed that funding previously spent on expensive office rental and property maintenance should be allocated to employee retirement benefits.

On this topic, our headline article this month focusses on retirement planning in which we highlight retirement planning challenges, a refresher on why you need to plan for retirement, and cover some ideas on how to approach it wisely to ensure your retirement is prosperous. We share a recent view and current perspective of the markets, and in our Culture Club article, we profile Gert de Beer, a Senior Wireless Engineer and South Africa's Under-21 Men's Indoor Cricket Coach from Centurion.

That said, I trust you all had a thoroughly enjoyable season spent with family and friends and look forward to connecting with you in 2022.

The Retirement Funding Conundrum

Retirement is a blank sheet of paper. It is a chance to redesign your life into something new and different. - Patrick Foley

Retirement done right should be a time to re-passion your life: a time to thrive rather than merely survive. With good financial planning and preparedness, there is nothing to fear. It can be a chapter to look forward to. How you'll fund your version of retirement and boost your retirement savings may be something you're considering in the first quarter of 2022.

Retirement Reality Check for South Africa

Highlighting the current state of South Africa's Retirement Crisis, in the annual 10X Retirement Reality Report of 2021 (RRR21), 71% of South Africans indicated that they had no retirement savings plan at all, or only a vague idea of one. 74% of survey correspondents believed they would need to generate some income after they retire. The 10X Report tracks lifestyles of 15 million economically active South Africans in households earning over R 8000 per month —this excludes a whopping two-thirds of households in South Africa. If the statistics interest you, a good reference can be found here.

Wherever you are placed on the statistical scale, there are solutions to improve your retirement position. It's a good aim, if you're not already there, to be within the top 7% of the retirement reality statistics—those who are confident of a comfortable retirement. Whether you've been contributing to a retirement fund for years or you're just beginning, it's important to return to why you're saving for retirement. It's also a good idea to do an annual review of where you are and where your retirement trajectory is leading you.

The 4% Rule: still a good guideline to work out how much you need to retire.

Since the 1990s, retirement professionals and savers have relied on the 4% rule to work out how much to save for retirement and the right level of annual income through retirement. This means that if retirees withdraw 4% of their savings annually — adjusting the amount for inflation each following year —their retirement nest egg should last approximately 30 years (based on retirement savings split equally between shares and bonds). While the relevance of this rule and retirement theory has its critics and its challengers, it's still considered a good measure and starting point.

The 4% represents the income that you're going to draw from in retirement. If you have R1 million rand in invested or saved capital, that means that you can draw R 40 000 p.a. To ensure your money lasts, your underlying capital should grow by inflation plus the 4% you'll be drawing each year to live on (or percentage you've planned for). Consider that you'll be drawing 4% on the basis that you do get growth on inflation plus 4%. The inflation portion gets reinvested which means your income increases each year.

The Association for Savings and Investment South Africa (ASISA) offers guidelines on safe withdrawal amounts (or drawdowns) from investment-linked living annuities to show how many years it's likely to take before your pension starts diminishing.

As part of *why* it's important to ask: How will I spend differently in retirement?

"How much you save for retirement is only half the battle. The other less-discussed consideration is how much you spend. The more you spend, the more savings you need when you retire to sustain your standard of living. And Kitces thinks we are allowing ourselves to spend too much before we hang up our spurs...If you spend 85% of every raise you earn (while saving the other 15%), your standard of living rises so quickly that you'll never really be able to save enough for your retirement. That's why Kitces wants workers, especially young ones, to adopt a new mantra: "Save half of every raise," writes blogger, Michael Kitces: On the Right Way to Save for Retirement.

Having clarity on what your spending profile is likely to be in retirement is vital to planning well towards a prosperous retirement.

Investment approaches: What are your options?

One approach is life stage modelling that is phased and assigns investment goals and activities to particular age groupings (age 25 to 40, age 40-55, age 55-65). With decades to go to retirement, it suggests young professionals should have a higher allocation in aggressive instruments like equity. Approaching the traditional retirement age of 65, life stage theory advises progressively moving an increasing percentage of one's retirement portfolio into conservative instruments like bonds or cash when one cannot afford to take capital risks.

This model discounts living longer—with Medbeds, CRISPR (gene editing), and other exciting medical innovations coming our way, we are going to be living longer and longer.

There is much debate around the merits of the Life Stage model. Linear models like this are out of synch with reality in that markets are non-linear. Markets experience long periods of underperformance and sometimes unpredictable corrections, for example. With the potential to live 30 or more years after retirement, if your entire retirement savings were invested in bonds —as suggested by the life-stage model—you would not realise a real return of 4% p.a. and are likely to consequently run out of money.

New approaches have evolved and retirement planning and retirement itself should be a seamless process. While the core idea of reducing the risk on route to retirement is good, what you actually lose out on is the return in your highest earning years. In a seamless process, you should keep your asset composition the same throughout, on the basis that you're going to draw 4% or more. You're always going to be in a situation where you want to draw a portion of the growth and if you get that going properly from the beginning, whether you have volatility in the market or not, nothing changes.

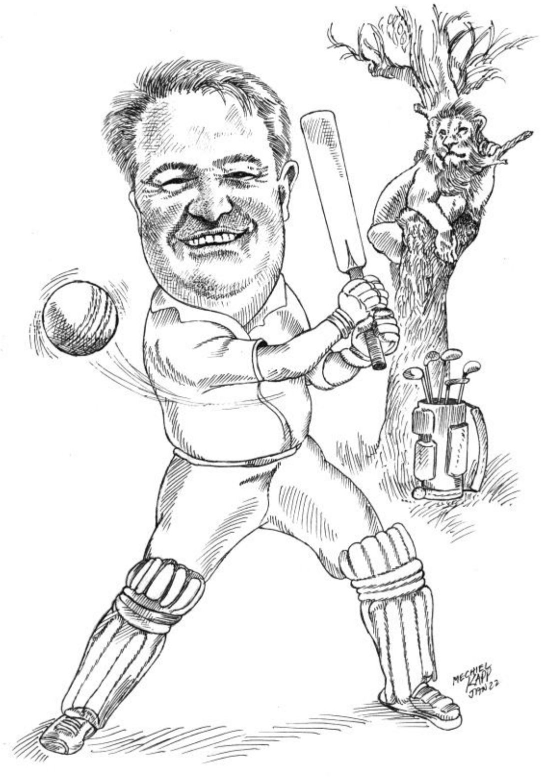
There are solutions

You can contribute up to 27.5% of your annual income tax-free. If you're just getting going, allocate as much as you can to allow compound interest to grow (the ability of your assets to generate earnings that are reinvested to generate earnings).

If you're already invested in your company's retirement or pension scheme and you'd like to strengthen your retirement position, there are tailored retirement solutions to consider. Of course, professional advice in navigating the complexities is invaluable. In an interview with the New York Times, the creator of the 4% rule, Bengen himself said, "Go to a qualified adviser and sit down and pay for that."

May you grow bolder and plan for your retirement with the attitude that retirement isn't the end of the road, it's just a turn in the road.

Culture Club



Gert de Beer

Age: 51
Senior Wireless Engineer &
SA U21 Men's Indoor Cricket Coach
Education: Centurion High *(previously Verwoerdburg Hoërskool)*

In The Information Age: Economy, Society and Culture Manuel Castells captures the significance of the Information Age when he writes of our global interdependence and the new relationships between economy, state and society, what he calls "a new society-in-the-making." As with many kids who were raised in the 70's and early 80's, Gert de Beer cut his teeth on The Information Age as in the early days of gaming, avidly participating in contests of Asteroids, Pac-Man and Tetris. Little did he know that it would inspire him to embark on a career at the cutting edge of the new economy.

Born and raised, as one of five, in Pretoria, undertook his schooling at various schools in Pretoria, completing the final leg in, what was then relatively rural, Centurion. With a twinkle in his eye, he relates to this period as a very happy time in his life filled with mischief.

It is no surprise that he is an enthusiastic Bulls rugby supporter, given that his childhood heroes included Louis Moolman, who coincidentally finished school at his alma mater, Verwoerdburg Hoërskool, and Burger Geldenhuys.

Gert chose to fulfil his military conscription obligations by joining the South African Police Services. It provided him with opportunity to further his education in Information Technology, which he embraced enthusiastically, and led to his involvement in mainframe technology and the brand new world of wireless. He recalls participating in one of the first installations of its type between what was then known as Pietersburg (now Polokwane) and SAP HQ in Pretoria. One of the technicians remarked, "Wow! Look at that speed!" Given that the only alternative for transferring information at the time was by road, a speed of 2,400 bits/sec was remarkable.

Gert comments, "We have come a long way since with the entry level for home fibre now in the region of 25 megabits/second."

His service in the South African Police Services also facilitated an introduction to Belinda, now his wife of 28 years. The two of them have a daughter and son, who both share Gert's passion for golf and indoor cricket.

Gert's interest in indoor cricket developed from the need to have an outside interest, which he found in club cricket. He discovered his ball sense and yearned for more. He quickly moved up the ranks, initially as a member of the Police Third Cricket team and finally as a member of the Police National Interprovincial Cricket team.

This sparked an interest in indoor cricket in 1991, for which he soon was awarded provincial colours. In 2004 he accepted the role of coach to the U19 provincial team and in his first outing as coach won a silver medal at interprovincial champ's. He has since coached U17, U19, U21 and U23 and won gold at Open Interprovincial Indoor Cricket Champ's.

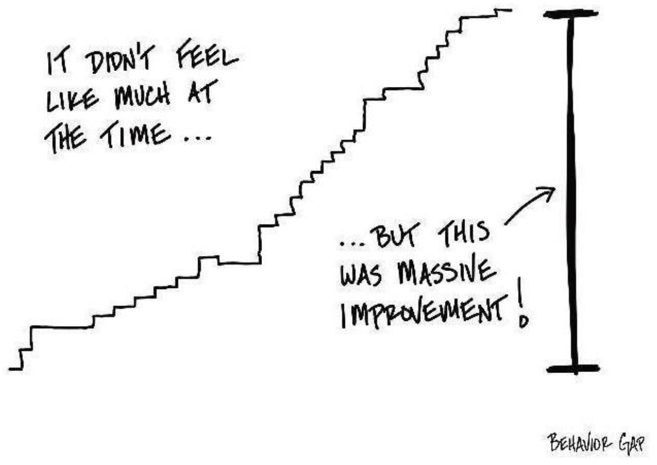
> ***"Dedication is fundamental to achievement."***

According to Wikipedia, "**Indoor cricket** is a variant of and shares many basic concepts with cricket. The game is most often played between two teams each consisting of six or eight players."

Gert has been to the Indoor Cricket World Cup on three occasions, as coach to the SA U19 Girls and U21 Boys National Indoor Cricket Teams. 2022 is an Indoor Cricket World Cup year and he will attend as coach to the U21 Boys National Indoor Cricket Team. He tells me that he gets immense satisfaction and fulfilment from his interaction with the younger generation and contributing to their growth and achievements.

Gert values the time he spends with his family and regards perseverance and humility as fundamental to success: his advice to any aspiring athlete is that dedication is fundamental to achievement.

The magic of incremental change



Back when I lived in Las Vegas, I used to ride road bikes with a semi-competitive group. I remember when I first joined the group, it felt like a big victory if I could just keep up with them for the first 15 minutes. After a while, that became the first half-hour. Then an hour. One day, almost without even noticing it, I was suddenly able to stick with the pack for the entire ride.

It felt sudden at the time, but, of course, it wasn't. And although I was surprised, nobody else was because they had all seen it before with other riders or experienced it themselves.

This is the sneaky power of incremental change. Here's how it works:

1- You make a small improvement.
2- That becomes the new normal, and you get used to it.
3- You make a small improvement again.
4- That becomes the new normal again.
5- Repeat.

The result of incremental change is that we barely notice we are getting closer to our goal, and then (again, seemingly "all of a sudden") we're there!

I didn't feel a lot faster because I *wasn't* a lot faster… at least, not compared to yesterday or even last week.

In fact, I was just a little faster than I was last month. But month after month, ride after ride, it all added up. All those little bits of "faster" started to compound on top of one another.

Of course, this doesn't just apply to riding bikes. I specifically recall one time when I was working remotely for a large company. I got very little feedback on my work and was largely left alone.

I loved the independence, but I also struggled because I had no idea if what I was doing was valued by the people I worked for. I wondered if I was achieving anything at all.

To deal with this struggle, I started reviewing each week and noting what I had done. It felt weird at first because I didn't want it to be seen as taking credit for things, but as the weeks added up and the list got longer, it felt good. I was doing stuff, and that stuff was making a difference, for sure.

No one else needed to see the list. It still felt good. It helped me see in real-time how incremental changes add up.

If you build a process of reflecting every quarter, month, and year, you'll never feel like you're not accomplishing anything again.

And while that may spoil some of the surprise of suddenly and unexpectedly arriving at your goal one day, I promise it will be worth it to feel much better along the way.

Source: Carl Richards | Behavior Gap | 15 July 2021

Choice vs. convenience

You have more than a billion choices online. With just a few clicks, you could be just about anywhere. Thanks for reading this today.

What did you have for lunch yesterday? Of all the lunches in all your possible universes, was it your first choice? Best choice?

When someone tries to take our freedom of choice away, it's a problem. And yet…

We have far more choices than we realize. In school, we're bound by the course catalog, the schedule and the requirements of a degree, but even there, we had more freedom than we imagined. The organizations we could have started, the projects we could have launched, the people we could have connected…

It's convenience that holds us back. And it comes in many forms.

Social convenience: it's easier to sit through a boring cocktail party or a meeting than it is to tell someone you don't want to come.

Physical convenience: things that are handy are much more likely to be chosen than ones that require us to move somewhere to go get them.

Intellectual convenience: change makes us uncomfortable. Sunk costs are hard to ignore. Possibility comes with agency, and agency comes with risk.

Financial convenience: if it's cheaper in the short run, we're more likely to choose it, even if it costs satisfaction, opportunity or cash in the long run.

Cultural convenience: A combination of all of these, because culture likes the status quo and reminds of this regularly.

If we ever saw precisely how much freedom of choice we have if we were willing to sacrifice convenience for it, we'd be paralyzed. But if the choices we're making now aren't helping us live the way we choose, it might be worth taking a hard look at why.

Source: Seth Godin | Seth's Blog | 28 Dec 2021

Market Wrap | 2022 Q4

	WORLD	SOUTH AFRICA
EQUITIES	Equities brushed aside the Omicron threat to rally into the year end—but markets have already begun to discount the changing real economy drivers and policy backdrops.	The FTSE/JSE Capped All Share Index followed global equities higher, led once again by resources counters—capping a very strong calendar-year performance.
BONDS	Developed market bond yields were remarkably little changed—given the spectre of structurally higher inflation and almost universal monetary policy tightening.	SA bonds were positive, especially the longer dated maturities—despite negative global emerging market sentiment, and rising SA inflation and interest rates.
CURRENCIES	The US dollar strengthened on the Omicron risk-off sentiment and expectations for rising US interest rates—but any policy U-turn by the Fed is likely to see the dollar weaken.	The rand weakened against the US dollar—on a combination of dollar strength and negative emerging market sentiment, despite monetary tightening by SARB.
COMMODITIES	The stronger dollar, strained global supply chains and higher energy prices buoyed commodity prices—these are all likely to stay well bid near-term, given heightened socio-political sensitivities.	
ECONOMY	Pandemic-related global economic growth uncertainties have started to fade—markets are now increasingly turning to the fundamentals of the real economy.	The economy continued to recover from the deep 2020 recession on sensible, data-driven policy response to Omicron—but early red-listing of SA by primary tourist markets hampered tourism.
MONETARY AND FISCAL POLICY	Global central banks are rapidly moving towards policy normalisation—with the US Fed planning to end its asset purchases program by March and hike interest rates three times in 2022.	The spike in mining royalties and tax receipts has helped the country's fiscal revenues—while SARB joined a host of other central banks in increasing the repo rate.

***Source: Foord Asset Management**: Investment Newsletter — Foreword | Issue 60 | 4th Quarter 2022*

Asset Class/Currency	CCY/Price	Index as at 31 Dec 2021 (Close 30 Dec 2021)	2021 Q4	1 Year	3 Years Annualised	5 Years Annualised
SA Cash						
STeFI Composite Index	ZAR	482,3	0,98%	3,81%	5,49%	6,25%
SA Bond						
BEASSA All Bond Index	ZAR	822,7	2,9%	8,4%	9,1%	9,1%
SA Property						
FTSE/JSE Listed Property Index	ZAR	1 683,7	8,3%	36,9%	-2,9%	-4,4%
SA Equity						
FTSE/JSE All Share Index	ZAR	11 975,3	15,1%	29,2%	15,7%	11,4%
Global Bonds						
Bloomberg Barclays Global Agg Index	ZAR	161,1	5,4%	3,5%	9,1%	6,6%
Global Property						
FTSE EPRA Nareit Developed Rental Index	ZAR	2 423,4	17,8%	39,9%	16,9%	11,3%
Global Equity						
MSCI AC World Index	ZAR	754,8	12,5%	29,2%	25,1%	18,4%
Exchange Rates			**2021 Q4**	**1 Year**	**3 Years Annualised**	**5 Years Annualised**
Rand / US$	ZAR	15,95	-5,5%	-7,9%	-3,4%	-2,9%
Rand / Euro	ZAR	18,12	-3,7%	-0,9%	-3,1%	-4,4%
Rand / GBP	ZAR	21,55	-5,7%	-6,8%	-5,3%	-4,7%
SA Inflation			**3 months**	**1 Year**	**3 Years (pa)**	**5 Years (pa)**
CPI (one month lag period)			1,3%	5,9%	4,3%	4,4%

Source: PortfolioMetrix

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Published by
Summa Financial Services (Pty) Ltd
FSP 7883

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