Perspective

Autumn 2022

"Autumn…the year's last loveliest smile"- *William Cullen Bryant*

The Summa team has had an energetic start to 2022.

Aside from my professional commitments, I leapt into the theoretical background required for completion of a South African Sailing Day Skipper qualification and I've recently completed the certification in Knysna. In the world of sailing, as in the financial world, there's always something new to learn and challenging conditions to navigate.

The conflict in Ukraine has had an impact on world markets, as have the lockdowns in China.

In the business of 'long-term planning', I often remind people that whatever macro challenges exist now, we can expect them to change. To use a sailing analogy, vessels seldom, if ever, travel in a straight line. One is constantly working with natural elements and ever-changing weather conditions.

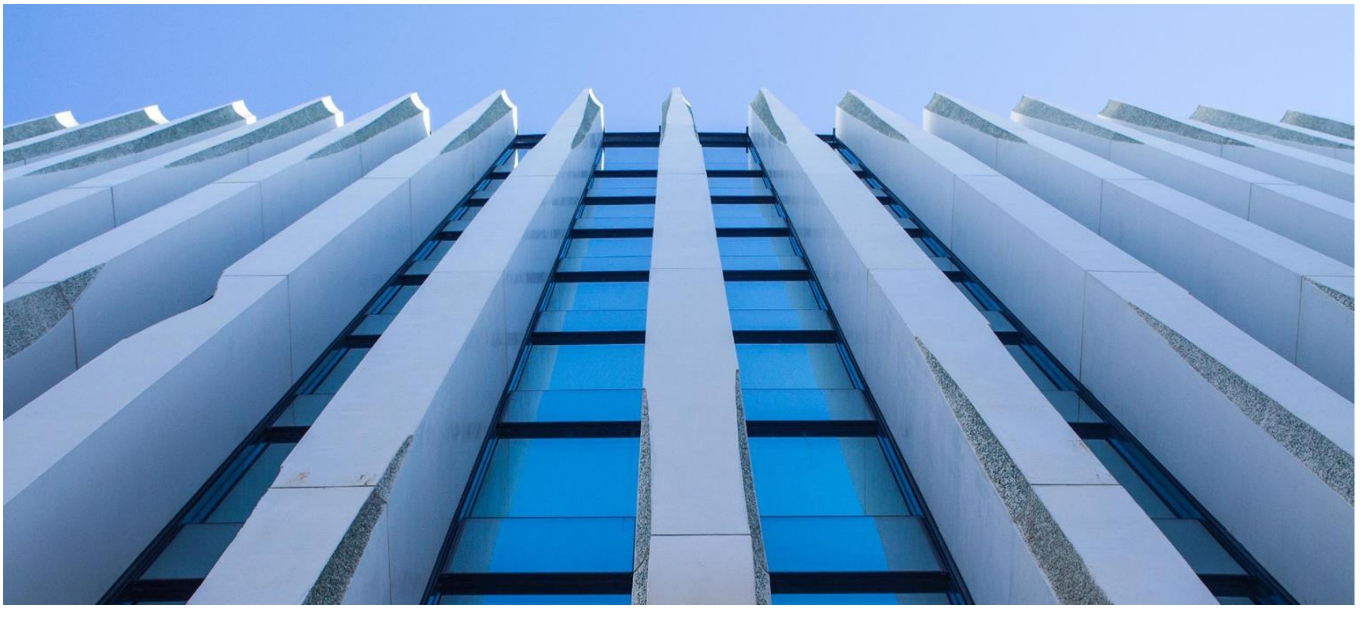
In setting your financial goals, you have to aim at a point and regardless of the prevailing currents and/or winds that may redirect you or throw you temporarily off course, skill and grit are required to regularly adjust your sails to reach you're objectives in the long run. While it's important to acknowledge the new conditions ─ identifying what is within your control and working with that─ it's essential to stay focused on where you're going.

On the business front, we're bidding Athena goodbye as she pursues her passion for events and we wish her success in her new venture.
At the same time, we welcome the fresh talent joining us in May ─ Estelle and Chantal. Estelle brings her rich financial services experience and Chantal brings her creative and digital marketing expertise.

In this edition, our headline article unpacks Corporate Financial Planning. Culture Club features Johan Marais, Herpetologist, Author and Entrepreneur. I attended his Snake Awareness, First Aid and Handling Course recently and highly recommend the experience for those who enjoy spending time outdoors.

Enjoy the read and the homebody joys winter brings of winter fires and red wine.

From day one, set your business up for success



"Planning is bringing the future into the present so that you can do something about it now."* - *Alan Lakein

All businesses start with an idea. No matter how big or small, most businesses are similar in structure as well as in the risks facing them. The different elements relevant in any business can be illustrated as follows:

When an entrepreneur starts a business, the first important decision to be made is which business entity to use. It's a decision with far-reaching implications that should be given the necessary time and thought. Options include the following business entities:

- A sole proprietorship
- A partnership
- An incorporated company
- A company
- A trust

Once the business is created or registered, the business owner will generally open a bank account in the name of the business and register for income tax and possibly also value-added tax (VAT). All business owners should consult with a qualified tax practitioner from the outset. This ensures the obligations and benefits associated with the income tax legislation are used to their benefit – and prevents any 'innocent' mistakes that could be costly.

During the start-up, consider the continuity of the business, especially if business parties draft shareholder or association agreements. The continuity of the business is impacted when a business owner:

- Sells their share in the business during their lifetime
- Retires
- Becomes permanently incapacitated
- Dies

In all cases, an agreement will be necessary to outline the consequences of each potential event. Continuity following the possible sale of a share during a business owner's lifetime will generally be included in their partnership, shareholder, or association agreement. In most instances, the remaining business owners will be awarded the first right of refusal. This means the selling party has to offer the interest to the remaining business owners first. Only if they waive the first right to buy can the selling party source a third-party buyer.

To address the retirement, disability, or death of one of the business owners, a buy-and-sell arrangement can be entered into. This arrangement will make provision for the agreement creating the obligation to sell, on the retiring, disabled or deceased business owner and to buy on the remaining business owners. The agreement will also determine the purchase price and the funding mechanism.

The next step is usually to obtain funding for the business for working capital and to acquire the necessary equipment or assets to operate the business successfully. The funding is generally obtained by loans made to the business by the business owners, or a loan obtained from a financial institution, or a combination thereof.

When a loan is obtained from a financial institution, the business owners are generally required to provide unlimited suretyship – meaning they are pledging all their personal assets, should the business be unable to service the debt. Both funding mechanisms result in a real risk for the personal estate of the business owner. Therefore, it's important to eliminate or reduce the risk by implementing a contingent liability agreement or a loan account protection agreement. Both agreements will create a funding mechanism for the business to settle the debts to release the personal estate of the business owner – upon death, disablement, or even critical illness.

One of the most important assets in any business is its people. Every business is faced with a financial and operational risk if a key employee dies, becomes disabled, or is critically ill. This can result in financial impact for the business – especially small- and medium-sized businesses. Consequently, it's prudent for a business to protect itself financially against the risk of losing a key employee.

One should not forget to evaluate the following needs to mitigate risks that may arise:

- To build a capital asset to replace the personal estates of business owners as security for loans obtained from financial institutions.
- To build up capital to fund the purchase or replacement of assets or fund expansion in the future.
- To retain employees by providing them with meaningful incentives that compare favourably with other employers in that market.

It's evident that a business is like any individual – it needs a formal and detailed plan that ensures all risks are identified and dealt with effectively from the get-go. Although there's no formal rule about the prioritisation of risks, some risks are more pertinent than others. Here are eight priorities to focus on as a guideline:

1. Business continuity upon death or disablement of business owners.
2. Settlement of any liabilities owed to financial institutions upon death or disability of the business owner (s) who provided personal suretyship.
3. The settlement of any business owner's loan accounts owed to the estate of the deceased or disabled business owner.
4. The protection of the business against the death or disability of a key employee.
5. Building up capital in the hands of the business to provide alternative security for liabilities that are currently secured by the personal estate (s) of business owners.
6. Providing employee incentives to retain key employees.
7. Provide for an exit strategy when a business owner retires.
8. Build capital in the business for the future expansion or to replace capital assets.

This article is adapted from the Introduction to Momentum's Business Insurance Manual

Johan Marais

Age: 64
Herpetologist, Author & Entrepreneur
Education: Saamwerk High School, Durban, Kwazulu Natal

When a herpetologist searches for reptiles and amphibians, he is herping: he is peeking under rocks and in the mud to find a slithery creature lurking there. The name has its roots in the Greek word, herpeton which means 'creeping animals'. A herpetologist like Johan specialises in the study of snakes, lizards, crocodiles, and frogs.

The field of Herpetology throws one into a wild Indiana Jones kind-of life. While Johan's contribution to publishing reference books and reptile conservation has been enormous, his education has been in the field and nature. He has collaborated with many world-class academics in writing several books and one of his greatest finds with academic associates was discovering a new species of lizard in Mozambique, now called the Cordylus maculae. Another discovery was a gecko from coastal Namibia named Pachydactylus maculae.

He grew up as a highly-independent outdoor explorer. His first encounter with snakes was around the age of eight on farms, growing up in Montclair in Kwazulu-Natal. By high school, he had a few snakes in a cage in his room. Johan's home menagerie once included a crocodile held in an enclosure in his garden. It was a regular escapee. He knew his pet croc was on the loose when he'd be en route home from work as a Durban City policeman and he'd see housewives with brooms trying to corner it.

Johan has authored 14 books since 1984 and is currently writing and publishing another four. His book 'A Complete Guide to Snakes of Southern Africa' has been the top-selling Natural History book in South Africa since 2004.

After the police, Johan had intended to do a BSc degree but had a few months spare before the new academic year and landed a job at Fitzsimons Snake Park in Durban. Soon after, he joined the Transvaal Snake Park in Johannesburg and was quickly promoted to the curator. At the time, this was one of the very best snake parks in the world with the most modern facilities. As his new career launched, his studies were thwarted.

Johan is a natural entrepreneur who considers one of his finest business achievements to be the creation of the national Fascination Book chain from scratch. He built the business up to more than 50 branches and 500 employees over 14 years.

Personally, outdoor photography is a big part of Johan's life. He also enjoys fishing with friends, breakfast runs, and treasures time with his daughter who he is proud of.

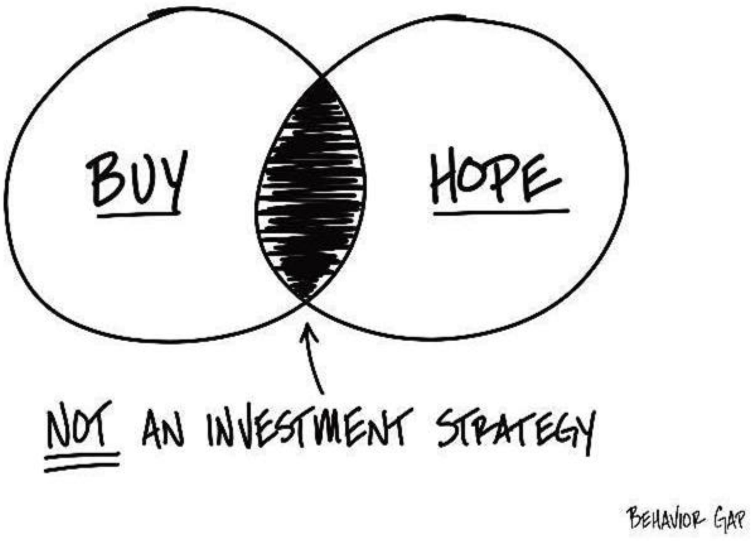
> ***"What doesn't kill you makes you stronger. Except for black mambas… they kill you!"***

With his rich experience in the field, Johan shares what he has learned generously. He trains over 1000 doctors a year with his anti-venom programmes on how to treat snake bites and likes to end every training by saying, "watch your fingers."

"What doesn't kill you makes you stronger. Except for black mambas…they kill you," are Johan's wise words on the African Snake Bite Institute's best-selling T-shirt.

Connect with Johan via Facebook, www.johanmarais.co.za, or the African Snake Bite Institute, www.africansnakebiteinstitute.com (a website managed by Johan, offering training courses in snakes, reptiles, snake handling, snake bite first aid, and environmental impact assessments, reptile safaris, and corporate talks).

Hope is not an investment strategy



The following is a message from the Center for Personal Finance Disease Control about a particularly dangerous virus called Pretend Investor Disease (PID).

There are many types of Investor Diseases, but PID is an especially malignant one that, if left untreated, can suck your savings dry.

PID works by convincing you to buy an investment at a silly price for no other reason than the hope that it will continue to go up so you can sell it to someone else at an even sillier price.

WARNING: This. Is. Not. An. Investment. Strategy.

There's actually a name for the behavior PID causes—it's called The Greater Fool Theory. It's the idea that we can get away with doing something foolish because we assume that somebody else is going to come along and be even more foolish. See: Ponzi Schemes.

It is important to understand that PID is incredibly contagious. The more you hang around pretend investors, the more you will be exposed to dangerous disease-spreading agents like insider tips, hot stocks, and hashtags.

If the thought, "I'm going to buy this and hope it keeps going up," occurs to you, you may already be infected.

1- Stop what you are doing immediately.
2- Do. Not. Buy. That. Stock.
3- Seek help from a trained professional (e.g., a REAL financial advisor).

So far, the only way we know how to combat PID is to have a rock-solid investing plan, based on your values and goals, that you don't change when other people around you are doing things that look foolish.

At this point, PID appears to be all over the world. You may even run into asymptomatic carriers who have gotten wildly wealthy off of hope-based investing by sheer luck. Just remember that for each of them, there are ten more investors for whom PID has caused financial ruin.

Be safe out there, people, and stay vigilant.

Source: Carl Richards | Behavior Gap | 15 July 2021

"In it together"

That's not what we usually hear. To have "us" we often need "them."

To make a profit (or a commotion) in social media, the math is usually division, not addition.

And as media has crept into every corner of our lives, it often thrives on discord.

The irony is that the network effect that powers our culture (it works better when others are using it too) depends on connection.

When Stewart Brand put a picture of the Earth from space on the cover of the original Whole Earth Catalog, it was a revelation for many. The photo was new, but the image was also a timeless reminder of how futile it is to forget the very nature of our finite world.

Ideas can spread and multiply, creating new opportunities and new frontiers. But we're still on the same planet, no matter how much a few people spend to go (almost) into orbit.

As we begin to move beyond a century of industrialism, all of us are coming to grips with the impact that the industrial engines we depend on have created. The chronic shift in the climate of the entire planet is going to be the most significant driver of change of the next twenty years. For all of us, not just a few.

Unlike current events or politics, this is neither local nor temporary. It's hard to fight the weather, as it changes all of the inputs and the outputs of our life.

The first step is to realize that we're in it together.

Source: Seth Godin | Seth's Blog | 09 October 2021

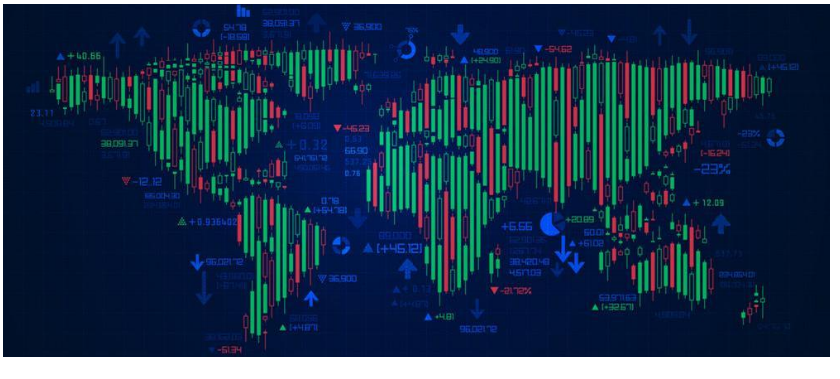
Market Wrap | Q1

	WORLD	SOUTH AFRICA
EQUITIES	Equities retreated on the Fed's more hawkish tone, Russia's invasion of Ukraine and Chinese COVID-19 lockdowns — commodity export emerging markets excluding Russia outperformed.	South Africa was the standout emerging markets equity performer in US dollars — as resources benefited from the commodity price rally and financials delivered earnings beats on undemanding valuations
BONDS	Developed market bonds sold off on expectations that inflation pressures would persist — on higher US wages and rampant energy and food prices.	The SA yield curve flattened marginally on higher short-term rates — high coupons resulted in the All Bond Index advancing for the quarter.
CURRENCIES	The US dollar rose against all the majors in anticipation of higher US interest rates — as the Fed turned decidedly hawkish.	The rand strengthened against major currencies on improved terms of trade — and SA's attraction as an emerging market safe haven given geopolitical headwinds in Russia and China.
COMMODITIES	Russia's invasion of Ukraine unsettled markets and sparked a sharp rise in energy and soft commodity prices — precious metals gold and silver rallied on the eruption of geopolitical risk and the prospect of stubbornly higher inflation	
ECONOMY	The fast pace of global economic growth slowed — as the base effect of post-lockdown economic re-openings started to fade.	Inflation accelerated on better-than-expected economic recovery — sharply higher global fuel and soft commodity prices should add to inflation pressures in the months ahead.
MONETARY AND FISCAL POLICY	The Fed raised rates by 0.25% and indicated that balance sheet reduction and more rate increases would happen quicker than previously guided — the US Federal Reserve is forecasting up to eight interest rate increases for 2022.	National fiscus projections improved with windfall tax receipts and mining royalties on the export commodity price boom — while SARB raised interest rates another 0.25% to combat inflation expectations.

Source: Foord Asset Management: *Investment Newsletter — Foreword | Issue 61 | 1st Quarter 2022*

Asset Class/Currency	CCY/Price	Index as at 31 March 2022 (Close 30 March 2022)	2022 Q1	1 Year	3 Years Annualised	5 Years Annualised
SA Cash						
STeFI Composite Index	ZAR	487,3	1,0%	3,9%	5,2%	6,1%
SA Bond						
BEASSA All Bond Index	ZAR	838,0	1,9%	12,4%	8,4%	8,9%
SA Property						
FTSE/JSE Listed Property Index	ZAR	1 662,4	-1,3%	27,1%	-3,8%	-4,9%
SA Equity						
FTSE/JSE All Share Index	ZAR	12 435,4	3,8%	18,6%	14,2%	11,4%
Global Bonds						
Bloomberg Global Agg Index	ZAR	138,4	-14,1%	-7,4%	3,7%	3,5%
Global Property						
FTSE EPRA Nareit Developed Rental Index	ZAR	2 315,4	-12,2%	15,7%	7,0%	8,7%
Global Equity						
MSCI AC World Index	ZAR	711,6	-13,0%	6,8%	14,8%	14,2%
Exchange Rates			**2022 Q1**	**1 Year**	**3 Years Annualised**	**5 Years Annualised**
Rand / US$	ZAR	14,6	9,2%	1,1%	-0,2%	-1,7%
Rand / Euro	ZAR	16,2	12,1%	7,3%	0,2%	-2,4%
Rand / GBP	ZAR	19,2	12,3%	6,1%	-0,5%	-2,6%
SA Inflation			**3 months**	**1 Year**	**3 Years (pa)**	**5 Years (pa)**
CPI (one month lag period)			1,40%	5,70%	4,40%	4,24%

Source: PortfolioMetrix



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