THE BUSINESS UPDATE

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IS YOUR INSURANCE UP TO SCRATCH? – REVIEW YOUR INSURANCE

Following the recent Cape storm and devastating fires along the Garden Route, many victims must begin the painful process of rebuilding their lives. With nearly 10 000 residents evacuated and homes, schools, structures, and power and communication lines destroyed, the impact on short-term insurance claims is likely to be substantial. Unplanned events or natural disasters such as these are a reminder to check your short-term insurance cover.

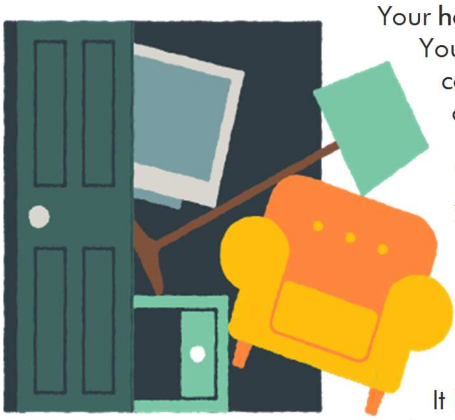
You need homeowner's and household contents insurance

Homeowner's insurance covers the structure of your home itself, including built-in features like plumbing and your geyser.

Household contents insurance covers the possessions you have in your home, which is basically everything that you own, other than the home itself.

These two types of insurance can be taken out separately, or together through the same insurer. If you have a home loan, your bank will have insisted that you take out homeowner's insurance, but insuring the contents is your choice.

Make sure that your home and its contents are insured for the correct value



Your **home** needs to be insured for its replacement value, not the original purchase value. You should have an assessor inspect your property to ensure that you have enough cover. Replacement value is currently between R7 500 to R10 500 per square meter of building, depending on the finishes, so check that you are covered for something in that region.

Your **contents** must also be insured at their replacement value. So even if that sofa you bought for R10 000 ten years ago, is probably only worth R3 000 today, the value estimate that you give your insurer must be for the cost of replacing it with a new similar item. Make sure that you keep the costs of your contents up to date with current market prices. Yes, it costs more to insure for replacement value, but Simon says that it's better to be slightly over-insured than under-insured.

It is also important to note that insurance on your assets, be it property or vehicles is not only necessary whilst you still have an outstanding bond or finance agreement on that item. It is vitally important that your assets are properly insured even though your bond or finance agreement is paid up. Following the recent fires, there were reported cases of wealthy farmers, whose properties burnt down, and they did not have insurance. They make the mistake of assuming that insurance is only necessary whilst still paying off a bond. Having a bond and having insurance are not related. Insurance covers the actual assets – the buildings, should they burn down. While still paying off a bond, the property technically belongs to the finance provider, therefore if damaged, it needs to be restored to its original state. Once the bond is paid off, the asset belongs to the individual, and if the property should burn down, it will need to be re-built – and this is achieved through having adequate insurance cover in place. It is therefore vital to ensure that your assets have full and correct insurance cover in place at all times.

What does it mean to be over or under insured?

Over insurance is when the amount of cover you have purchased exceeds the replacement cost (or actual cash value) of the risk, goods or property insured. Over insurance does not make financial sense as you will be paying for cover that will not be approved by the relevant claim assessor.

Effects of under insurance.

Under insurance occurs when the amount of cover you have is inadequate to replace goods or risk that you have insured. This could result in economic losses when you claim, as the claim pay-out will fall short of the actual loss that you'll need to recover.

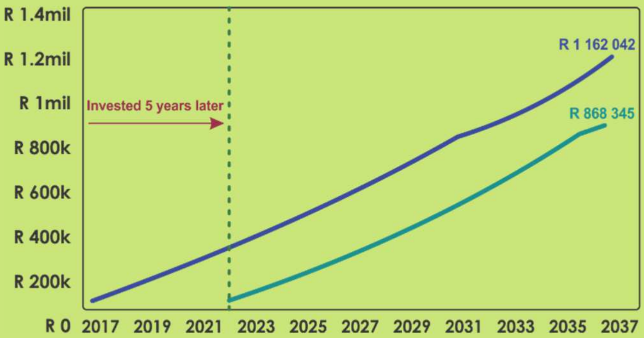
If your insurance assessor can tell from your claim that you were under-insured, you will only be paid out at a percentage to the rand - so if your contents were insured for R100 000, but the true value was R200 000, you'll only get 50c to the rand on the costs of replacing individual items.

TAX EFFICIENT INVESTMENTS

Your savings goals should determine the type of investment vehicle that you use. Three possible scenarios are dealt with below:

Saving for your children:

A tax-free investment account should be considered for saving for your children. Investments in a tax-free investment account should be started as early as possible. The difference between starting an investment when your child is a new born and when they are five years old can be substantial. Below is an example of the effect that starting to save five years earlier can have:



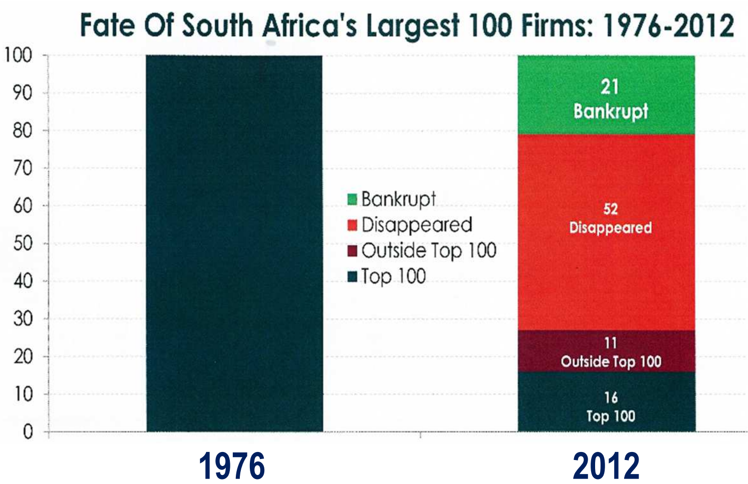
Graph obtained from RECM asset management

Saving for retirement:

Using a retirement annuity/pension/provident fund is the most tax efficient way that an individual can save for retirement. This is due to the large tax benefit that is available when contributing to one of these schemes. It is suggested that an individual contributes the maximum allowable amount before considering other options such as a tax-free investment account.

Saving after retirement:

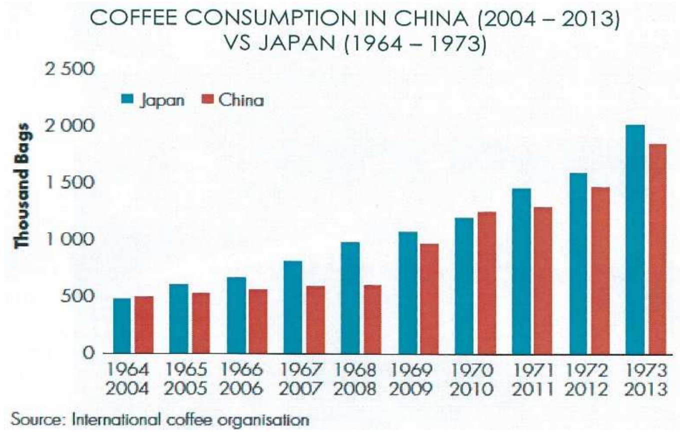
If you have excess money that you wish to invest after retirement, an endowment policy may be a good option (if you are taxed at a rate of more than 30%). Income received in terms of an endowment policy is taxed at 30% but there are restrictions in removing funds from the policy prior to the initial five-year period of the investment expiring.



THIS AND THAT

"In time, China will be our largest market, larger than the US"- Starbucks

- Plans to double number of stores by 2021
- 1 new store opens every 18 hours!
- Japan is now the 4th largest coffee consuming nation. (per capita consumption of 3.5kg pa)



UNDERSTANDING RISK

When you Google "Risk" you will get several different definitions and in most cases how you see RISK is different to how others see it. We want to invest your money considering your RISK PROFILE.

What is important to realize is that one's appetite for RISK changes from time to time and what should be remembered is that there is a difference between RISK and EXPECTATION.

NO RISK INVESTMENTS would be eg:

- Money Market accounts
- Fixed Deposits
- Government Bonds

One's capital is secured and you would receive an interest relating to the period you would invest for and the going interest rate at the time.

RISK INVESTMENT would be eg:

- Shares
- Most Unit Trusts
- Offshore / Currency

Here your capital or initial amount is not guaranteed. One is looking to grow capital rather than receive an "Income".

Clients EXPECTATIONS differ, so if we ask 10 clients what they expect their R100 to be after 1 year, we would get 10 different answers.

In the Investment Industry, they talk about a REAL RETURN, this relates to the "growth" above inflation for example: If inflation is at 6% and you are getting 8% in Fixed Deposits your REAL RETURN IS 2%.

Research shows that by taking a RISK over a long period of time the REAL RETURN is far greater than by playing safe and investing in cash.

Old Mutual Macro Solutions shows that from December 1929 to December 2016(87 years), R1 invested in 1929 real return in cash 87 years later would be R2 and in SA Equities would be R472.

In conclusion – cash is the safer option to invest in over the Shorter Term with Risk Assets more favorable over the LONGER TERM.

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