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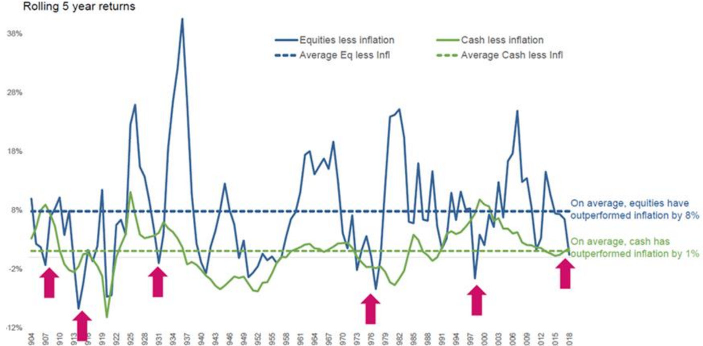
BUDGET 2019

The 2019 Budget Speech, which was delivered last Wednesday by Minister Tito Mboweni was always going to be a difficult one. Faced with reduced tax collections, dismal growth and SOE bailouts, the minister tabled what some have referred to as a 'holding pattern' budget. The Budget brings about no adjustments to the income tax brackets for the 2019/2020 tax year which, as a result of inflationary bracket creep, is expected to net an additional R12.8 billion in taxes. The Capital Gains Tax inclusion rates remain the same for individuals, special trusts, companies and other trusts. However, heavy sin taxes on cigarettes, wine, beer, spirits and sugared cooldrinks were imposed in an attempt to raise additional revenue. The government proposes to increase the general fuel levy by 15c per litre with effect 3 April 2019, as well as the RAF levy by 5c per litre. Government also intends to start taxing electronic cigarettes and tobacco heating products in the near future.

MARKET OVERVIEW

Both global and local investment markets have had a torrid five years. To put this into perspective, in the past five calendar years growth assets (i.e. shares and equities) have under-performed in relation to cash for only the 6th time since 1900 on a rolling five-year analysis. The Investec graph below demonstrates this phenomenon very well. This means that if an investor had invested his money in cash in the last five-year period, he would have generated more favourable returns that if he had remained in a diversified equity portfolio. However, over any six-year term his equity portfolio would out-perform a cash investment. If we were to extrapolate this to a 25-year investment period, such as a normal retirement horizon, a cash investment would generate returns of inflation +1% per year (before tax implications) whereas an equity portfolio would achieve returns of inflation +8% per year. In other words, after 72 years of being invested in cash with no tax consequences, the investor would have doubled the purchasing power of his investment. However, if he remained in equities over the same time period, he would have 256 times the purchasing power of his investment - meaning he would be 128 times better off! It is no wonder that Albert Einstein referred to compounding as the 8th wonder of the world.



The primary purpose of investing is to beat inflation. As an investor, you have the option to invest in (i) shares or equities, (ii) property, (iii) bonds and cash, and (iv) a combination of the above. Historical investment data reveals that an investor can expect before-tax investment returns of inflation +1% from cash and inflation plus 2-3% from bonds. It further reveals that investors can expect inflation plus 5-6% from property and inflation plus 7-8% from shares. In a nutshell, the greater the investment risk, the greater the investment reward. However, remaining steadfast in times of market volatility and staying focused on the long-term goals are key to the success of such an investment strategy. While cash never produces negative returns, bonds, equities and property can and do – over the short-term. Over the long-term, equities, bonds and property will always out-perform cash. The table below demonstrate the asset class performance over the past 20 years, assuming a tax rate of 30%. Each block represents the single-year performance of each asset class. The green highlighted blocks show the years in which negative returns were experienced.

year	SA shares	SA bonds	SA cash	SA property	Inflation
1999	60.5%	28.1%	10.9%	47.3%	2.2%
2000	0.0%	15.7%	7.7%	23.4%	7.0%
2001	29.8%	14.3%	7.4%	3.6%	4.5%
2002	-6.7%	12.6%	8.1%	27.1%	12.5%
2003	16.1%	14.9%	8.8%	37.8%	0.3%
2004	25.4%	12.3%	4.9%	38.6%	3.4%
2005	47.3%	8.0%	4.9%	47.9%	3.6%
2006	41.2%	2.5%	5.2%	26.2%	5.9%
2007	19.2%	1.3%	6.0%	24.6%	8.9%
2008	-23.2%	14.3%	8.2%	-7.0%	9.5%
2009	32.1%	-3.8%	6.1%	11.5%	6.3%
2010	19.0%	12.5%	4.6%	27.3%	3.5%
2011	2.6%	6.2%	3.8%	6.7%	6.1%
2012	26.7%	13.5%	3.7%	33.8%	5.7%
2013	20.9%	-1.8%	3.5%	3.2%	5.3%
2014	10.3%	7.6%	4.0%	25.0%	5.3%
2015	4.5%	-6.5%	4.3%	6.6%	5.2%
2016	2.0%	12.8%	4.9%	8.7%	6.7%
2017	20.4%	0.6%	5.0%	15.5%	4.7%
2018	-9.2%	7.5%	4.8%	-29.5%	4.5%
average	**15.3%**	**8.3%**	**5.8%**	**17.3%**	**5.5%**

The resurgence in the markets in 2019 is further evidence that long-term investments should not be managed with a short-term mindset. If an investor had pulled his investments at the end of the tough 2018 investment year, he would have missed the 6.6% market growth that the JSE has experience since the beginning of 2019, proving once again that one has to remain invested in order to reap the rewards.

ONLINE COLUMN

As improvements in medical science and technology allow us to live longer, incapacity – both physical and mental – is becoming a growing local and global problem. Dementia is a devastating degenerative brain disease that leaves people mentally incapacitated and unable to look after their financial affairs. Unfortunately, our legislation and policy have not kept pace with the growing need for the affairs of those with diminished capacity. In Mind over matters we explore the legal options available to the families and loved ones of those suffering from this disease.

With 15 years' experience in retirement planning, we confidently believe that there is no such thing as a 'stress-free' retirement. In fact, half of life's most stressful events are destined to occur either at the point of retirement or in retirement itself. We believe that we need to change the narrative and start exploring retirement stressors that are not mentioned in glossy retirement brochures. Proper planning for traumatic events such as the loss of a spouse or partner, disability, moving into a retirement home, chronic illness or the death of a close friend forms part of the financial, mental and emotional preparation for the retirement life stage. In The stress-free retirement myth we have explored the top five stressors that retirees face and how to plan for a smoother transition into the so-called golden years.

As always, thank you for your ongoing support of Crue Invest. We are privileged to be your financial planning partners.

Warm regards

Sue, Craig, Eric, Devon, Gareth, Corlene, Cindy, Erin, Dominique, Shana, Shaneez and Chantelle