



INSIGHT

Investment perspectives from the Harvard House Group

EQUITIES FOR RETIREMENT

Essential or Foolish?

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Harvard House Investment Management

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Agenda

 Key Retirement Risk Considerations

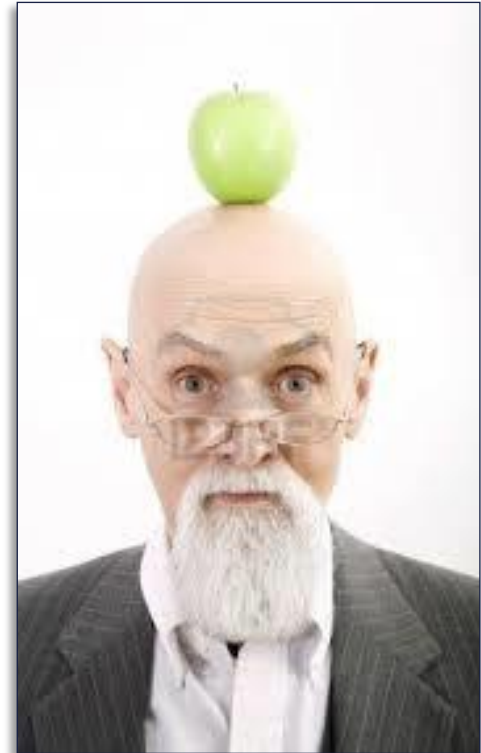
 Options for Investment

 Can History teach us anything?

 Unit Trusts vs Managed Portfolios

 Building an Appropriate Portfolio

 Questions



Key Retirement Risk Considerations

4 Major Risk Areas every Retiree Faces

Inflation Risk



Key Retirement Risk Considerations

4 Major Risk Areas every Retiree Faces

 Inflation Risk

 Income Risk

Years before your income will start to reduce

		<i>Investment return per annum (before inflation & after all fees)</i>				
		<i>2.50%</i>	<i>5.00%</i>	<i>7.50%</i>	<i>10.00%</i>	<i>12.50%</i>
<i>Annual income rate selected at inception</i>	<i>2.50%</i>	21	30	50+	50+	50+
	<i>5.00%</i>	11	14	19	33	50+
	<i>7.50%</i>	6	8	10	13	22
	<i>10.00%</i>	4	5	6	7	9
	<i>12.50%</i>	2	3	3	4	5
	<i>15.00%</i>	1	1	2	2	2
	<i>17.50%</i>	1	1	1	1	1

Key Retirement Risk Considerations

4 Major Risk Areas every Retiree Faces

 Inflation Risk

 Income Risk

Approximate Income Yield (after costs) to achieve income and inflation beating growth:




4.5 – 5.5% Yield

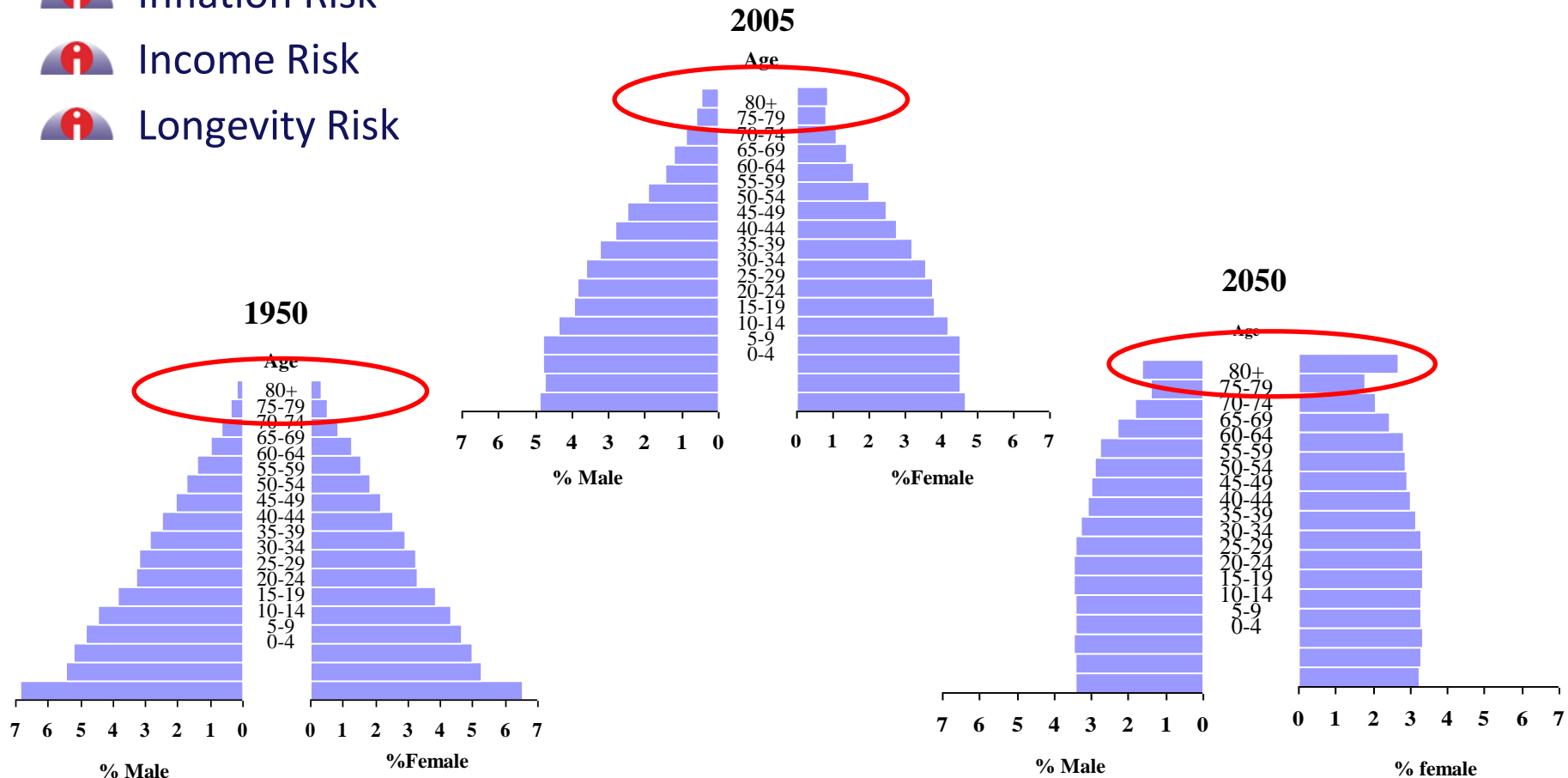
Implies, Capital required per R 10,000pm Income

R 2,200,000 – R 2,700,000

Key Retirement Risk Considerations

4 Major Risk Areas every Retiree Faces

-  Inflation Risk
-  Income Risk
-  Longevity Risk

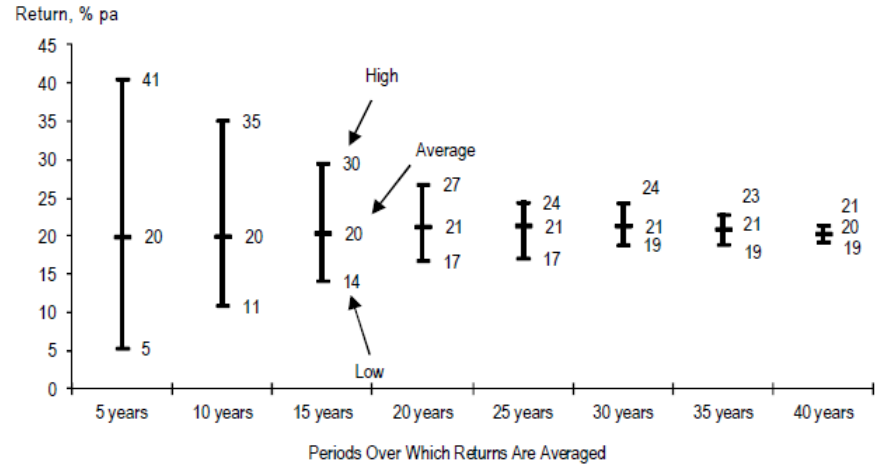


Key Retirement Risk Considerations

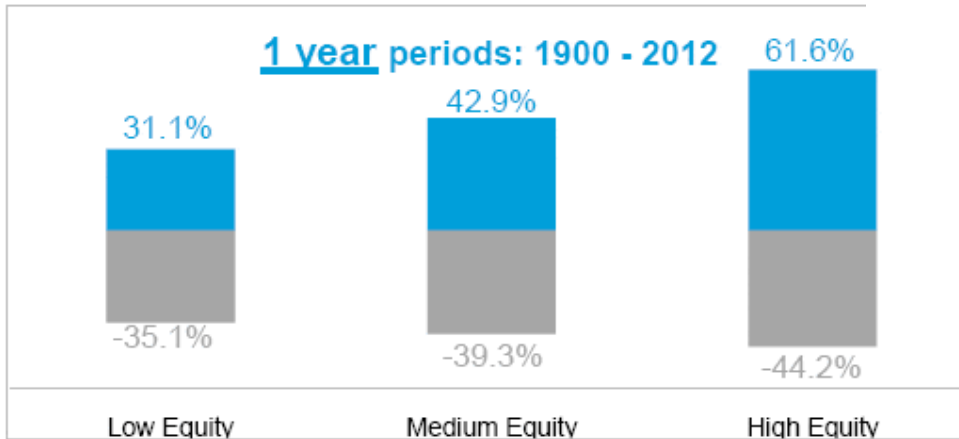
4 Major Risk Areas every Retiree Faces

-  Inflation Risk
-  Income Risk
-  Longevity Risk
-  Market Risk

Figure 4: Time diversification — ALSI — average range of returns, since 1960



Source: J.P. Morgan.



Source : Moneyweb, Data: Morningstar, Analysis : 10X

Options for Investment

How do retirees generate income?

CASH

Money Market
Fixed Deposits
Call

BONDS

Govt Bonds
Corporate Bonds

PROPERTY

Listed Property
Commercial
Residential

EQUITY

Listed
Private

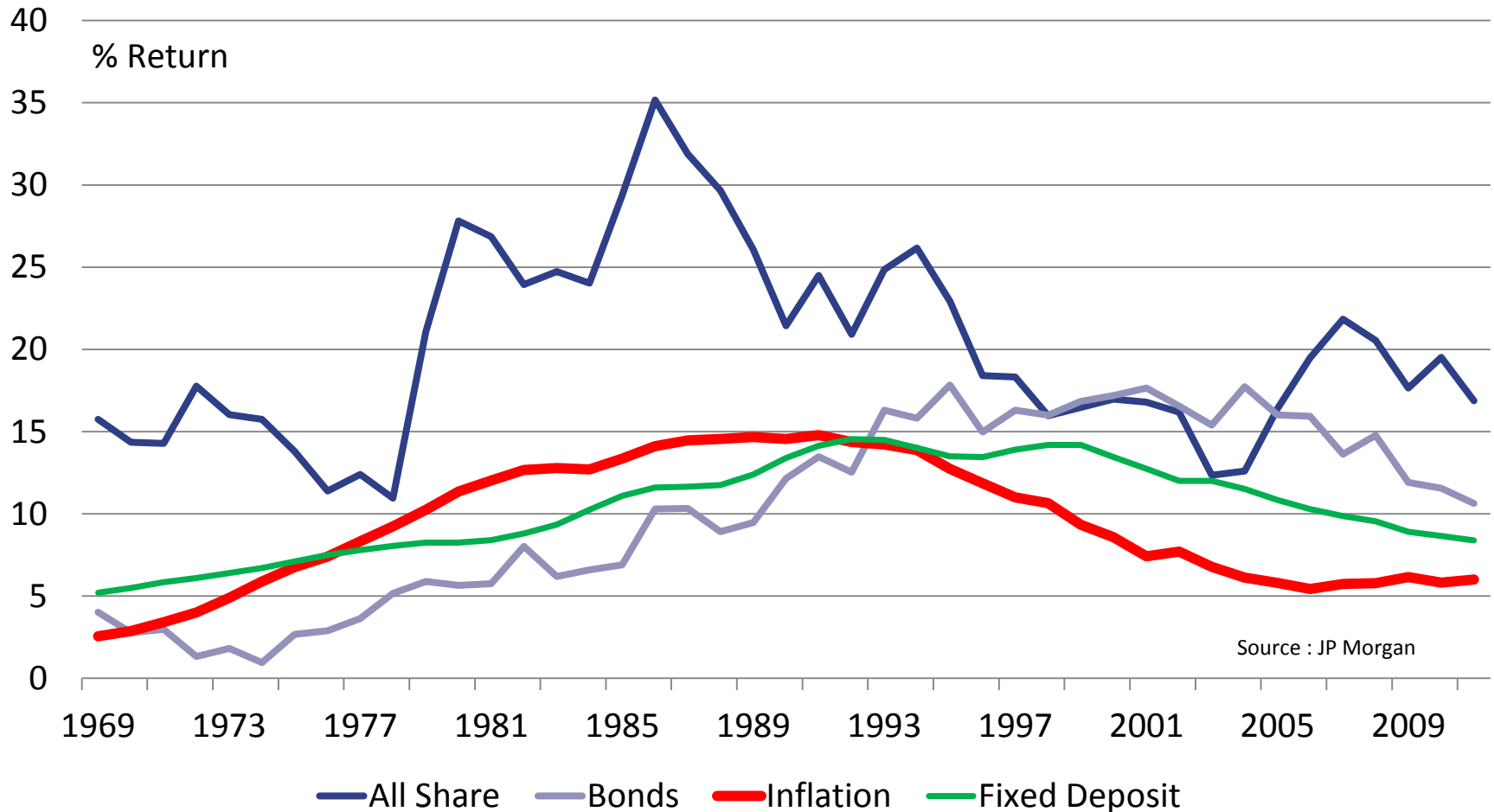
Options for Investment

How do retirees generate income?

	Income Growth	Capital Volatility	Current Yield
Cash	None	None	5.5%
Bonds	None	Low	7.95%
Property	Inflation + 2%	Medium	8.0%
Equity	Inflation + 4 to 8%	High	3.0%

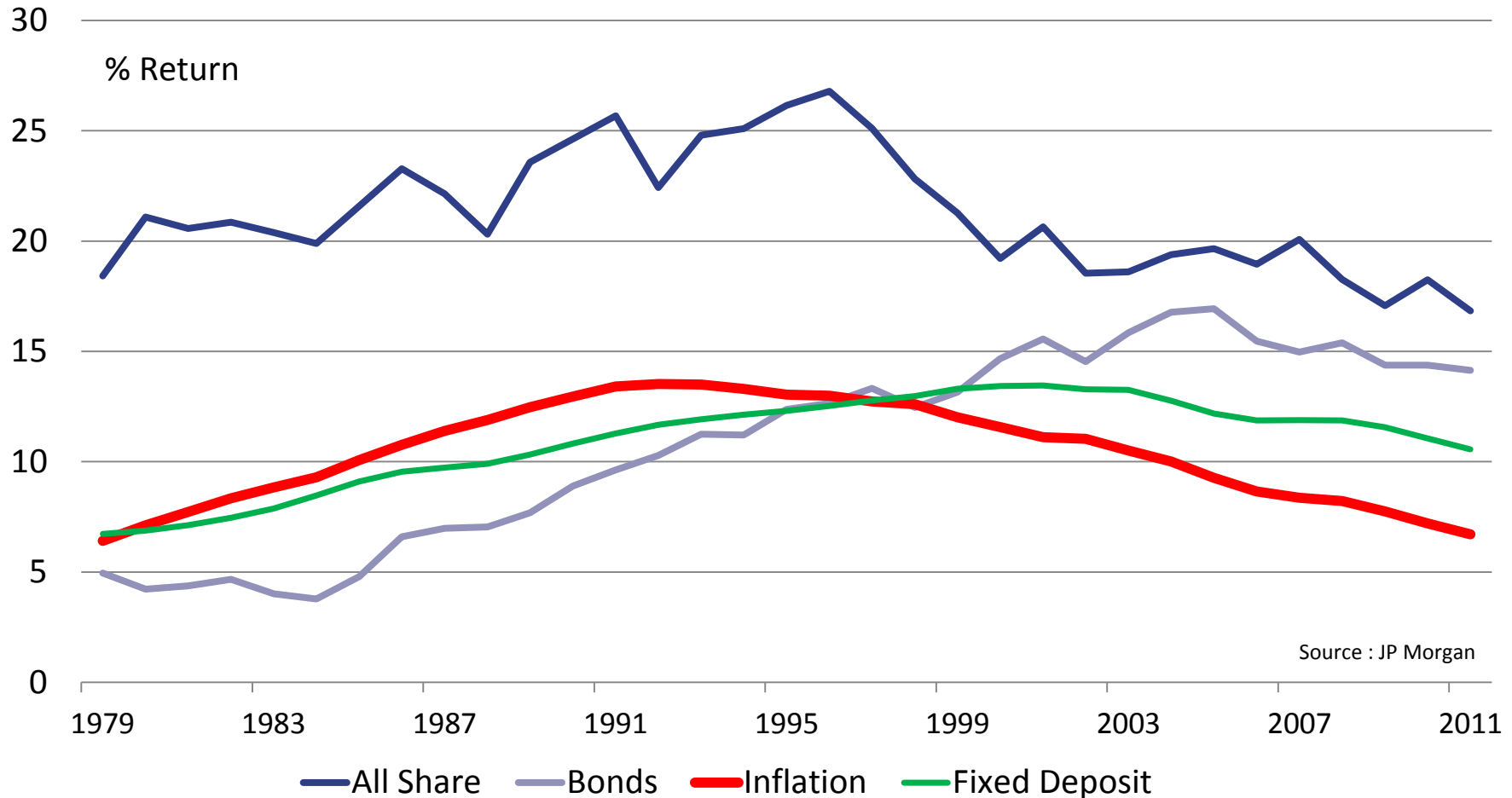
Can History Teach Us Anything?

Looking at long term trends – 10 year rolling returns



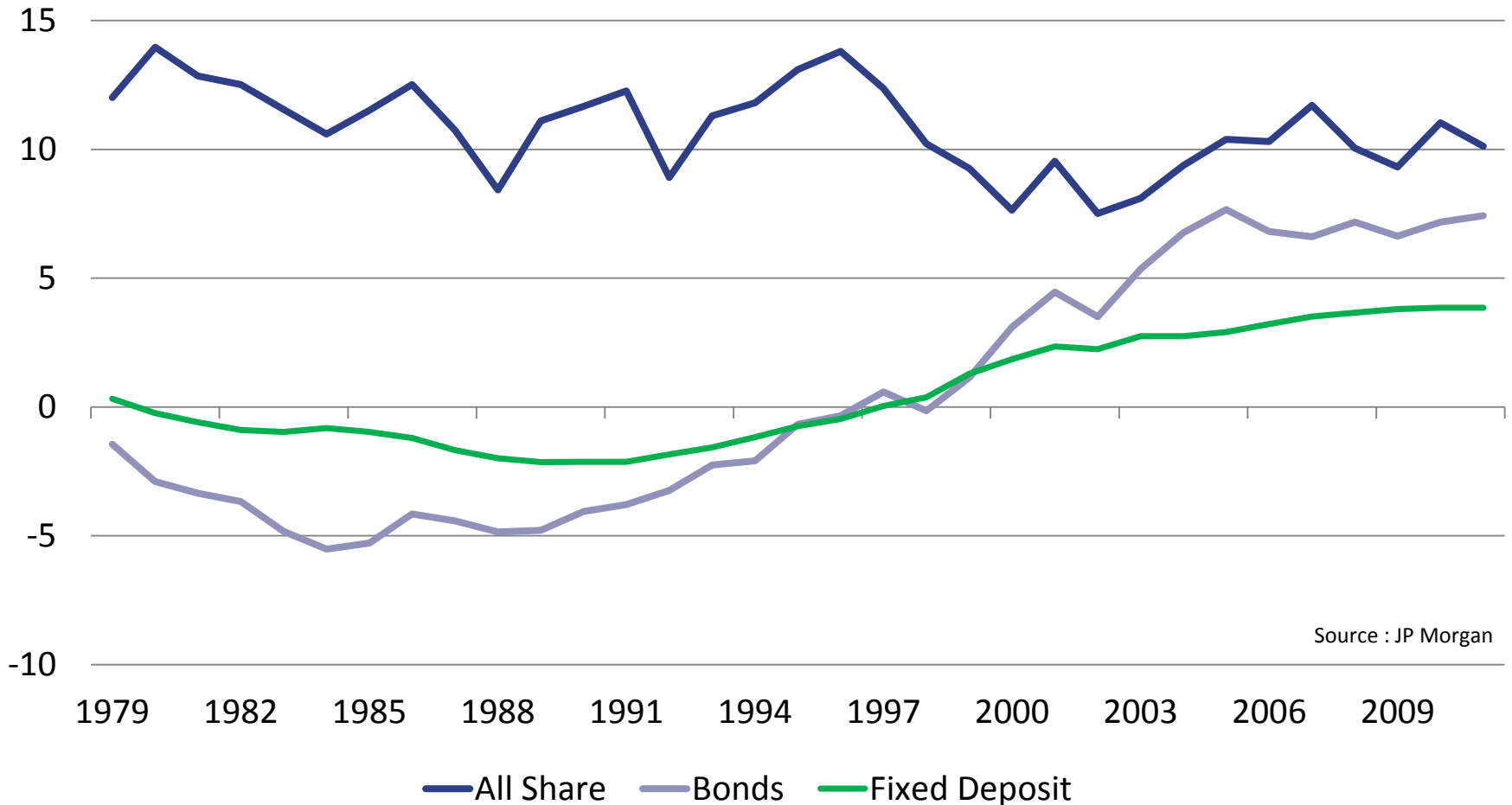
Can History Teach Us Anything?

Looking at long term trends – 20 year rolling returns



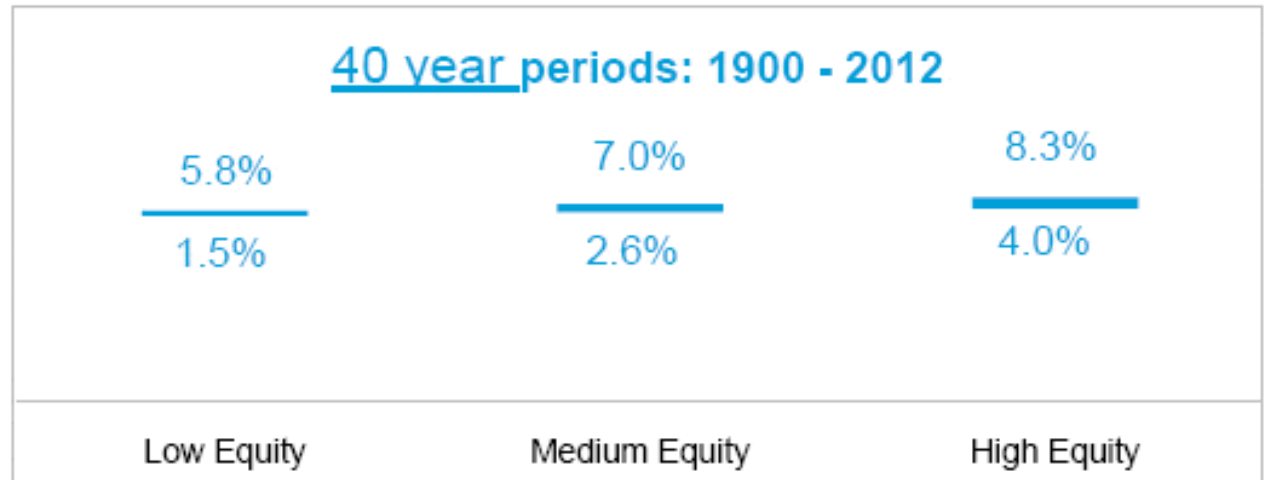
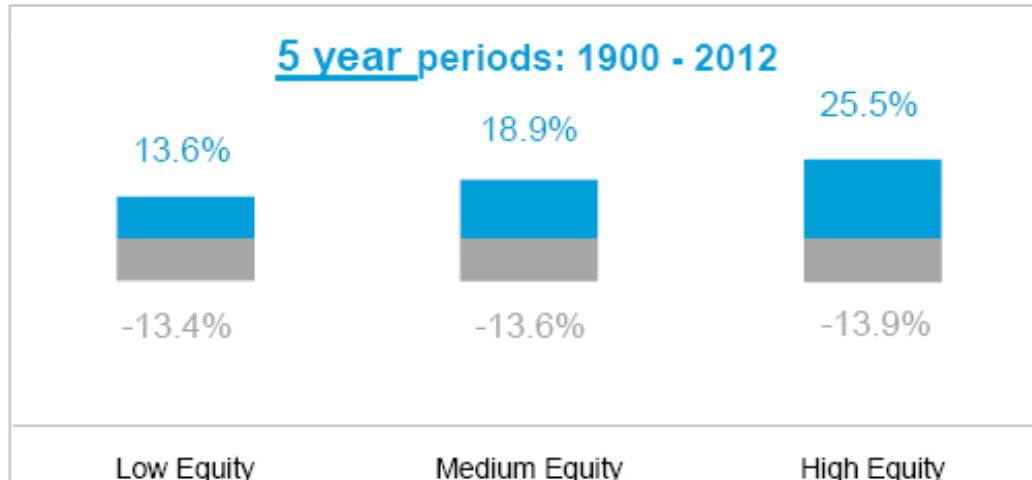
Can History Teach Us Anything?

Looking at long term trends – 20 year rolling **REAL** returns







Can History Teach Us Anything?

Or using other research (Source : Moneyweb data by Morningstar, Analysis by 10X)



Can History Teach Us Anything

Summary and conclusion

-  Inflation is relentless and destroys the buying power of your money.
-  Longevity is growing for retirees, *90 is the new 80!*
-  The amount of **income** you draw from your capital is as important a factor as the **return** you get on your capital.
-  In the **short term** equities can be **very volatile**. In the **longer term** they exceed inflation more than any other asset class.

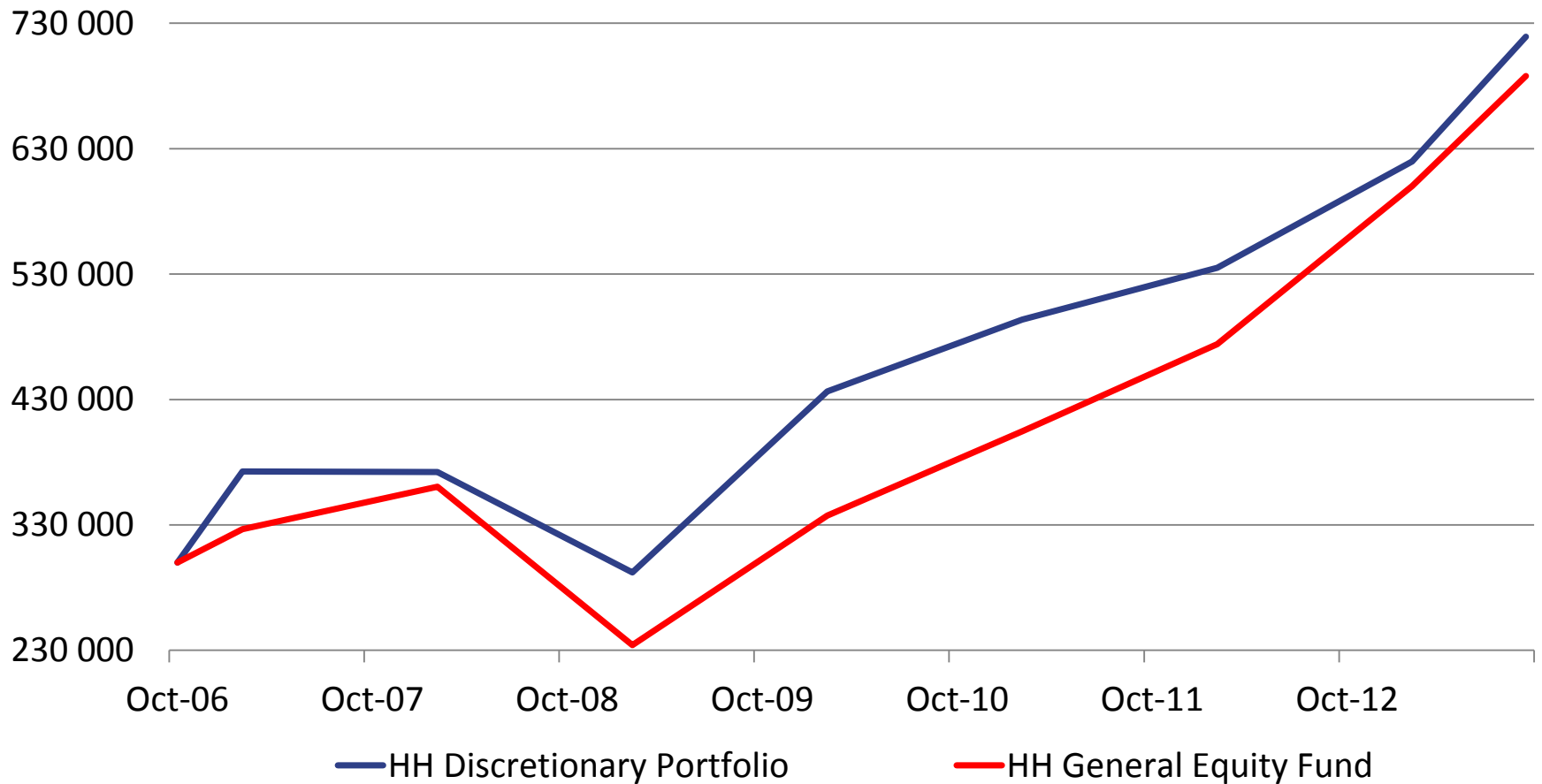
Managed Portfolio vs Unit Trusts

What are the differences?



Managed Portfolio vs Unit Trusts

Example: HH Portfolio vs HH General Equity



Managed Portfolio vs Unit Trusts

What are the differences?

Unit Trusts	Portfolio
1. Mandate is set, investor has no input (Take it or leave it).	Client may opt for specific details (no tobacco, alcohol etc).
2. Little transparency (only limited to fact sheet, unit price reported).	Detailed statement of purchases and sales and performance attribution.
3. Increased cost and regulatory controls (audits, maximum holdings).	More cost effective, no limits or restrictions and fewer statutory fees.
4. Capital invested immediately on date of investment.	Capital invested over a period to take account of market volatility.
5. Smaller investments enjoy full diversification.	Small portfolios are higher risk as a result of concentration of fewer shares
6. Capital Gains Tax only payable on redemption.	Capital Gains Tax payable on annual basis

Managed Portfolio vs Unit Trusts

CGT Advantage or Not?

Event	Unit Trusts	Portfolio
Initial Investment October '06	R300,000	R 300,000
2008 Tax Year	-	R544 Gain (exempt)
2009 Tax Year	-	(R4,462) loss c/o
2010 Tax Year	-	R 31,088 Gain (R17,500 exempt)
2011 Tax Year	-	(R10,059) Loss c/o
2012 Tax Year	-	(R12,246) Loss c/o
2013 Tax Year	-	R24,470 Gain (exempt)
Sale 30 Sept 2013 Proceeds	R688,020	R719,164 (Base Cost R431,544)
Gain	343,466	R277,998
Inclusion: 33% for individual tax	R103,444	R 81,839

Building An Appropriate Portfolio

Market Timing & Rand Cost Averaging



Rate of Purchase will depend on Market outlook:

- Bullish = quick purchasing
- Bearish = slower purchases.



We are aware this is not a 6 month or 1 year portfolio. A good company is not always a good investment – the entry price is important.



Rand Cost Averaging.

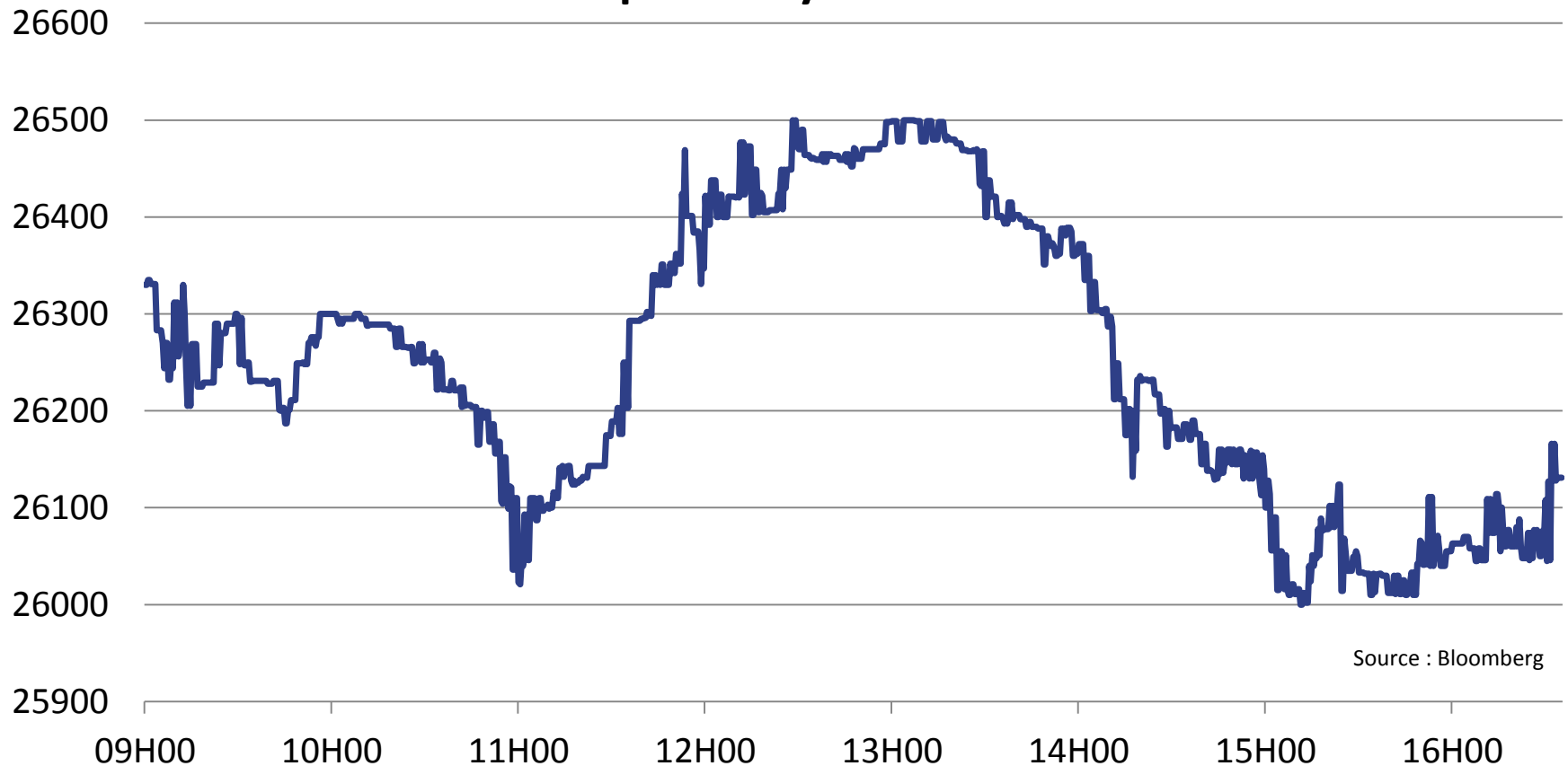


Using Intra-Day Moves.

Building an Appropriate Portfolio

Taking advantage of daily volatility

Aspen Daily Movement



Source : Bloomberg



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Q & A

Please feel free to ask questions

Thank you for listening

January 2014

