

A Useful Guide to your Statement

A recent engagement with a practicing Chartered Accountant and the questions he asked around his statement made me realise that many others may need some guidelines on how to read their statement. While we realise there are a significant number of clients who just look at the bottom line, drop it in a drawer or file and move on, some education can never be a lost exercise.



**Robin
Gibson**

In a recent discussion with a client, who happened to also be a practicing Chartered Accountant, he expressed disappointment that the market value of his portfolio as per his statement was showing only a marginal improvement over the cost column, despite having been invested for some 7 years (see Figure 1 below.) It was necessary to explain to the client that the cost column reflected

FIGURE 1

ZAR Cost	ZAR Value
302 091	309 257
96 163	130 340
77 489	46 900
83 305	91 077
45 134	40 940
177 849	187 790
96 271	100 530
81 577	87 260
329 143	258 625
36 314	32 574
205 033	137 851
87 796	88 200
238 979	297 439
95 946	143 898
34 435	72 410
61 510	71 488
143 033	153 541
31 188	37 380
15 839	16 145
3 931	4 208
68 933	66 600
23 142	29 208
91 826	91 826
91 826	91 826
91 826	91 826
3 486 592	3 612 781

Extract of a HH statement reflecting a list of the shares held and the Base Cost versus Market Value.

SPEED READ

- Investment terminology is extremely confusing to the man in the street. Often terms have a meaning relative to their context besides just a base meaning per the dictionary.
- To confuse matters more, accounting terminology related to tax calculations also becomes part of the mix. It is therefore no wonder that the less financially literate choose to avoid the whole caboodle or end up with a deeply flawed interpretation.
- Unlike a cash deposit where the movement in the value is linear and easily calculated, stock market investments change value in both directions daily, making it almost impossible to know where you are at any point. This makes an understanding of how to read your statements quite critical.
- Most people read their Harvard House statement just on the most recent value and confuse base cost with initial capital. This is highly risky as it gives a skewed interpretation and masks what compounding and capital gains have been achieved.

a rolling base cost for Capital Gains purposes rather than a cost based on funds initially introduced.

To make this point clear, let me back up a little. When anybody invests in a managed share portfolio there are 2 basic ways that their investment can grow in value:

1. An increase in the share price.
2. The reinvestment of dividends (your share of the company profits) back into additional shares.

The first point above results in a widening between the cost column and the market value column. The second, however, results in an increase in both the cost column and the market column. This is because the payment of a dividend is made after the deduction of dividends withholding tax, and to correctly calculate any future Capital Gains Tax liability on any share sale, it is deemed to be a new purchase.

There is a further factor that can advance the cost value of the portfolio which cannot be easily determined by merely looking at the cost column. This is the event of realising a capital gain on a shareholding and then reinvesting the proceeds in a new investment. Let me use an example to illustrate:

- The portfolio manager buys share A for an all-in cost price of R40,000.
- After holding that share for a period, the manager sells out for a realised value of R65,000.
- The portfolio manager then uses R 65,000 to purchase share B.

Initially the portfolio reflected share A in the cost column at R40,000. However, after the sale of share A and the purchase of Share B, Share B now has a cost of R65,000

and the overall cost column has risen by R25,000 even though the client has seen his overall wealth grow from R40,000 to R65,000.

Consequently, a far better source of data to understand your portfolio history is the “Movement Summary” on Page 2 of the statement. This provides a concise but comprehensive summary of the portfolio’s contributing events over its lifetime. (see Figure 2.)

Let’s consider each line in detail and explain what is being recorded as an accurate reference:

- **Contributions:** These are external contributions made either since inception or over the period referenced at the top of the column. Usually, this takes the form of a transfer of cash into the Corporate Saver Capital Account from some external source, or the transfer of shares into the portfolio from another service provider.
- **Withdrawals:** These are payments from the portfolio bank account to an external bank account and may include regular monthly income payments, capital withdrawals, or even payments to SARS and the Harvard House tax department. In some instances, and especially on portfolios that we have managed for a long time, the client has withdrawn more than they initially invested, reflecting the success of the portfolio in achieving their financial goals. Clients also tend to forget their ad-hoc withdrawals and what impact those can have on a portfolio over the long term – especially a portfolio that is also supposed to provide a sustainable income.

- **Dividends:** These are income payments received from companies held in the portfolio, after the deduction of withholding tax and include both normal and REIT (property) dividends.

- **Interest:** Almost all client portfolios have a Nedbank Corporate Saver account associated with the portfolio or in the case of a Glacier product, a DMA cash account. This line reflects any interest earned as a result of cash balances in these accounts.

- **Distributions:** In many instances, clients hold units in one or more of the Harvard House BCI Collective

FIGURE 2

Movement Summary	Since Inception
Opening Value	-
Contributions	2 961 111
Withdrawals	-
Dividends	355 366
Interest	48 525
Distributions	175 297
Management Fees	(104 602)
Expenses	(78 964)
Realised Gains/Losses	94 837
Change in Market Value	161 210
Closing Value	3 612 781

Extract of page 2 of the Harvard House Statement where a more detailed analysis reflects the entire portfolio event history under the From Inception column.

Investment Schemes (Equity, Property, Worldwide, or Flexible Income). This line reflects income earned from an investment in any one of those unit trusts.

- **Management Fees:** This is the fee that Harvard House charges for the management of the portfolio, encompassing asset management, financial advice and the administration thereof. Fees are levied in arrears, so statements generally don't reflect the current month's fee, rather only up to the end of the prior month.
- **Expenses:** This reflects any fee payment external to Harvard House. This can be a Glacier product fee, DMA custody charge, or Nedbank Corporate Saver (NCS) fee (where clients are on the old fee basis a portion of the NCS fee is paid to Harvard House).
- **Realised Gains/Losses:** This value reflects the accumulated value of all share sales that resulted in either a profit or loss. (Invariably this number is built

into the 'cost' column of the statement as discussed earlier).

- **Change in Market Value:** This is the combined change in the value of the current holdings in the portfolio relative to the purchase price.

“Clients also tend to forget their ad-hoc withdrawals and what impact those can have on a portfolio over the long term.”

So if we look at our example in the two portfolio extracts highlighted, the client has a cost of R3,486,592 and a market value of R3,612,781, a difference of R126,189. However, further examination demonstrates net

growth of R651,670 (Market value less Contributions) which is comprised of dividends, interest, reinvested gains, and changes in the market value, less costs. The difference between R651,670 and R126,189 is substantial, and would greatly affect your perception of how the portfolio is performing. This demonstrates the importance of reading the statement correctly! If you have any doubts, please discuss it with your financial consultant, who will be only too happy to explain it further.



It is often worth taking a closer look at your portfolio statements to see the picture more clearly.



Topic: **Topic to be confirmed**

Natal Midlands

Date:	15th September 2022
Venue:	Oasis Conference Centre, 72 Main Road, Howick
Morning Time:	10am for 10.30am
Evening Time:	5.30pm for 6pm

Johannesburg

Date:	20 September 2022
Venue:	Rosebank Union Church, Cnr William Nichol and St Andrews Road, Hurlingham
Time:	7am for 7.30am

The next topic for our Insight seminars will be announced in due course.



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Performance figures quoted for the portfolio is from Morningstar, as at the date of this document for a lump sum investment, using NAV-NAV with income reinvested and do not take any upfront manager's charge into account. Income distributions are declared on the ex-dividend date. Actual investment performance will differ based on the initial fees charge applicable, the actual investment date, the date of reinvestment and dividend withholding tax. Performance fees do not apply to any funds managed by Harvard House. The manager does not provide any guarantee either with respect to the capital or return of the portfolio. A schedule of fees, charges, and maximum commissions are available on request from the manager.

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