

Investing in times of Uncertainty

Nerina Visser
ETF Strategist
etfSA.co.za

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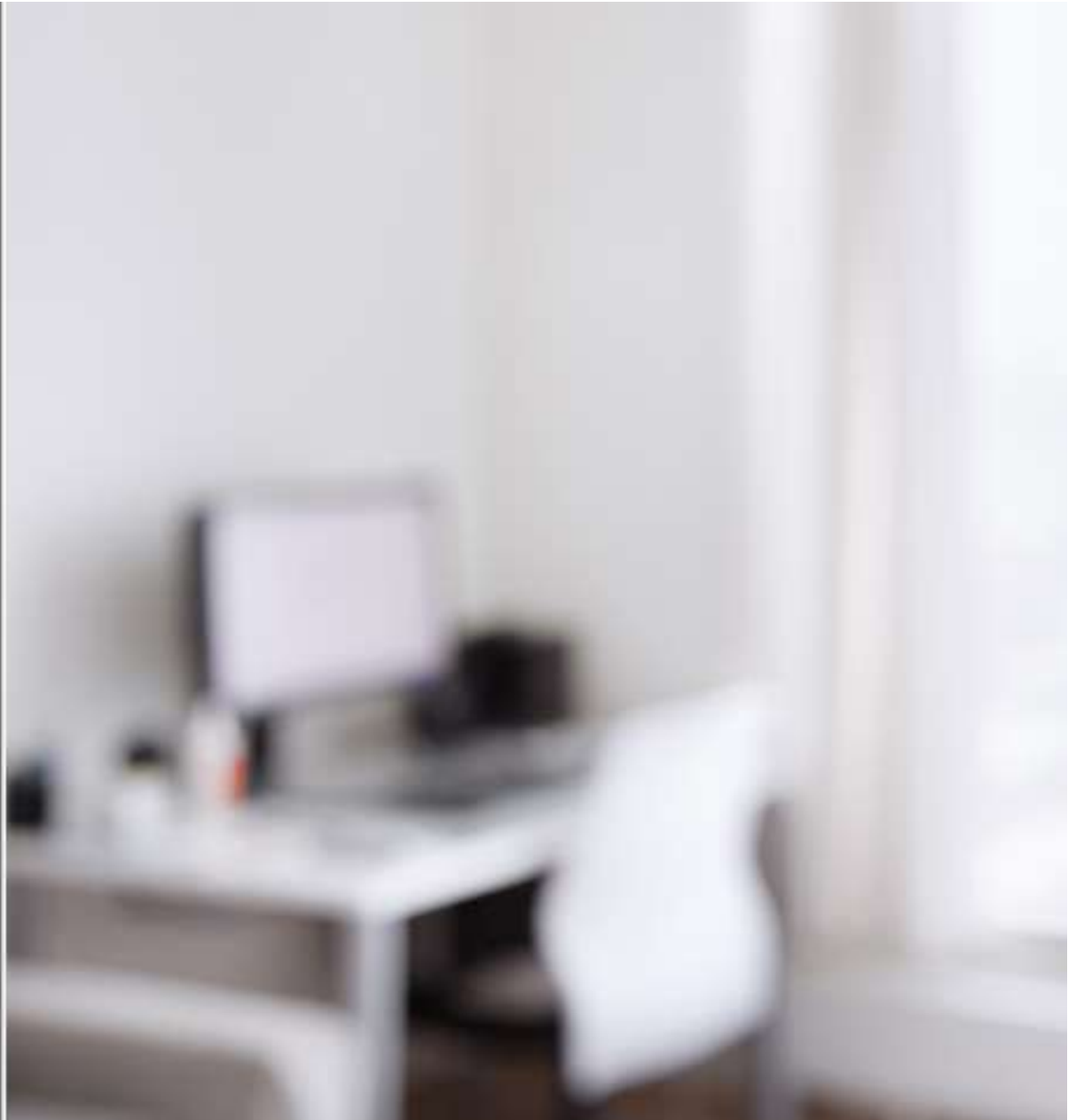
WHERE TO

focus

WHEN YOU DON'T

KNOW WHERE

TO FOCUS



FOCUS
ON
WHAT
you
know

- Rosemary M. Wisom

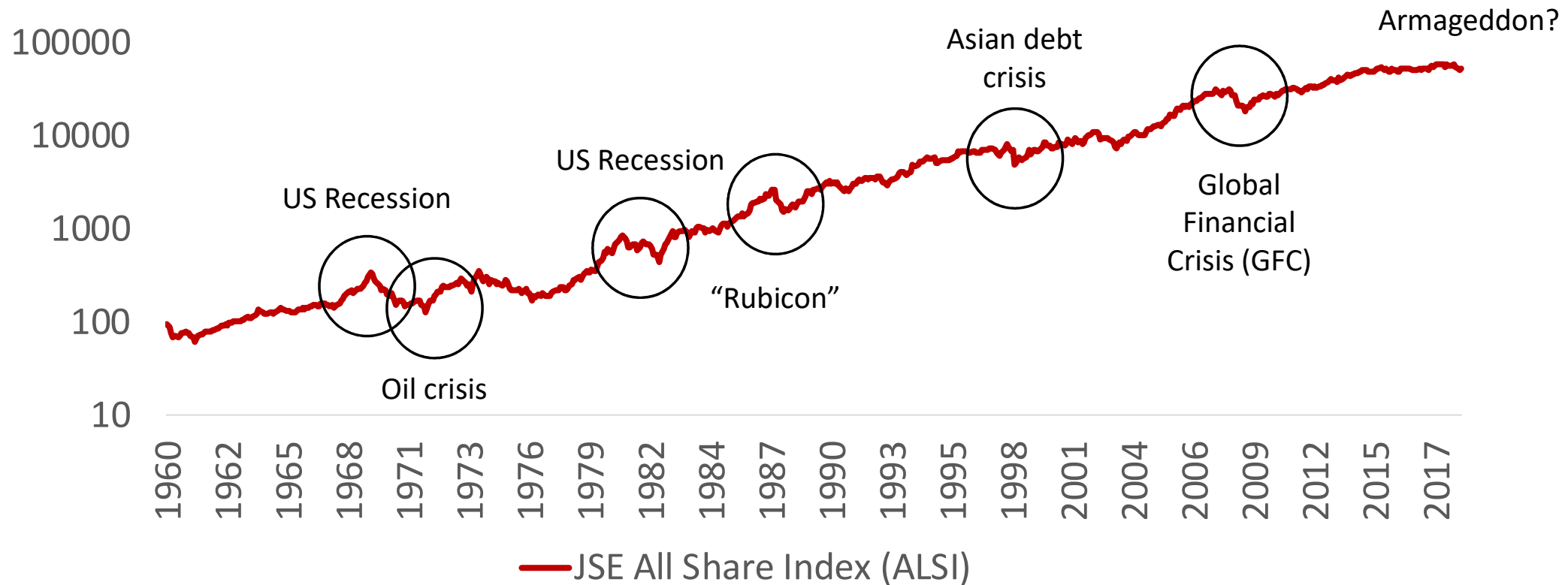
What do we know?

- We know what happened in the past
There is nothing unusual or unexpected about current events
- It pays to stay invested during cycles
Trying to time the market results in sell-low-buy-high
- Opportunities to save tax
Take full advantage of incentives offered by government

2018 was an *annus horribilis* for JSE...

- Down more than 10% (correction territory)
- First annual drop in 10 years (previous one in 2008)
- Sixth worst year on record (since 1960)
 - 1970: -30%
 - 2008: -26%
 - 1975: -19%
 - 1969: -13%
 - 1998: -12%
 - 2018: -11%

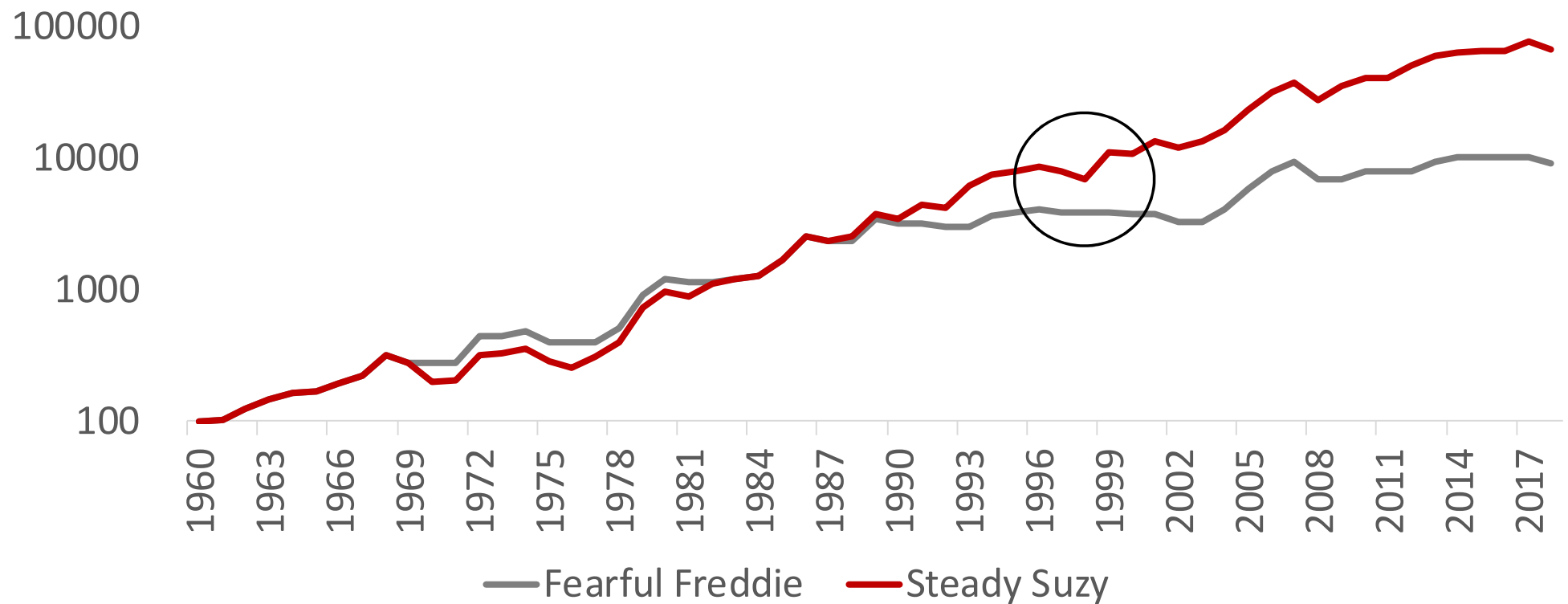
... but let's put it in context



Fearful Freddie vs. Steady Suzy

- Fearful Freddie
 - Sell after panic (i.e. “low”) and
 - Buy after good performance (i.e. “high”)
- Steady Suzy
 - Stay invested
 - Continue to invest regularly (buy more “units” when market is “on sale”)
 - Benefit from compounding
 - Save on transaction costs and tax

Fearful Freddie vs. Steady Suzy



Fearful Freddie: Sell every time after a negative year — Buy every time after a positive year

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Strategies to Save Tax

- Tax-Free Investment Accounts
Maximise annual contributions for all family members
- Contributions to Retirement Savings
Build up your own retirement fund in a low cost, flexible fund
- Tax Harvesting
Lock in capital gains throughout your life to reduce tax liability

Tax Free Investment Account

■ Benefits

- No tax whatsoever – no capital gains tax, no dividend withholding tax, no interest tax
- No restriction on withdrawals – timing or amount

■ Disadvantages

- Annual and lifetime contribution limits
- Restrictions on underlying investments, e.g. only ETFs/unit trusts without performance fees

■ Note

- Don't "waste" your tax-free allowance on a bank savings account

Retirement Annuity Fund

■ Benefits

- No tax *inside* fund – no capital gains tax, no dividend withholding tax, no interest tax
- Tax deductibility of contributions, within limits

■ Disadvantages

- Only accessible at 55, unless specific, exceptional circumstances
- Restrictions on underlying investments (Reg. 28), e.g. limits offshore (25%) and equity (75%) exposures

■ Note

- Protected from creditors; No estate duty / inheritance tax

Get SARS to pay for your investments

Taxable income of R400,000 p.a.

No RA contribution

- RA contribution = R0
- Taxable income = R400,000
- Tax payable = R78,972
- Net income = R321,028

Maximum RA contribution

- RA contribution = R110,000*
- Taxable income = R290,000
- Tax payable = R45,665
- Net income = R244,335
- Tax saved = R33,307

Stick it in your **tax free investment** account!

* Maximum of 27.5%

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Tax Harvesting

■ Benefits

- Lock in some capital gains every year – R40,000 tax free
- Use capital losses to offset capital gains elsewhere
- Use opportunity to rebalance / restructure portfolio is required

■ Disadvantages

- Can only do it after three years (capital gains vs. income)
- It could incur transaction costs, to minimise number of trades

■ Note

- Opportunity to switch to lower cost ETFs with same exposure

Tax Harvesting – example

- Invest R250,000
 - Base cost = R250,000
- After three years = R300,000
 - Capital gain of R50,000 (R300,000–R250,000) *CGT=R9,000 max*
- Lock in R40,000 capital gain by selling 80% of investment
 - $R40,000 / R50,000 = 80\%$
- Sell R240,000 (80% of R300,000) and reinvest R240,000
 - New base cost = 20% of R250,000 + R240,000 = R290,000
 - New capital gain = R10,000 (R300,000–R290,000)
 - *CGT = R1,800 max thus up to save R7,200 tax!*

“Be greedy when others are fearful”

- There is no need to panic
- Stay invested during times of uncertainty
- Make full use of tax incentives and opportunities

- Still not sure what to do?

Invest with the “ETF specialists”

Mike will tell us how...

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