galileocapital
Challenging Conventional Wisdom

NEWSLETTER

Monthly Newsletter – October 2012

Galileo climbs to new heights

September was a seminal month in our company's life – our financial planning business has grown by more than 80% over the last 12 months. This type of growth does not take place by accident and is largely due to very hard work over the last seven years.

All of the businesses in our group have invested heavily in hiring and training staff as well as in new IT systems to ensure that we maintain and improve our service to our clients. This investment, we believe, will propel us to even greater heights

Good and bad news

One of the major international ratings agencies (Moody's) downgraded South Africa's credit rating in September, which means that our government bonds have become more expensive. In future, our country will have to pay more to borrow money from international markets.

The primary reasons for the downgrade are due to concern about Government's uncertain economic policies and the recent violent strikes by mine workers. This is one of the signs of the damage caused by the ANC's inability to deliver on education, job creation and a clear economic plan for our future.

On a more positive note, South Africa has officially become part of the World Government Bond index, which means that index tracking funds around the world will start buying our bonds in October. In addition, our rugby team finally seems to have found its mojo, which is always positive for our stock market (even if only for a day or two).

Later in this newsletter, we look at Government's initial discussion paper on retirement reform. As you will see from our article, we have some serious concerns about how living annuities will be treated in future. It is important to note that the reforms will not affect those who are already retired and invested in living annuities. We hope that our submissions to Treasury, along with those by our industry colleagues, will persuade Government to find a new way to reform the industry.

Travel trend: Holiday courses

There's a new trend in travel – combining the usual menu of sightseeing with a bit of an education. Whether it's learning a new language, making jewellery, writing your novel, or learning to snowboard, paint or cook, travel that sends you home a little more skilled than you were when you left is all the rage.

In recent years more and more holidaymakers have been looking for something a little bit more interesting than simply a couple of weeks of rest and relaxation. Retirees in particular are seeking out holidays breaks that engage their minds too. And it's not just learning about the place that you are visiting. If you visit a website like www.golearnto.com, you will find a plethora of holiday courses just waiting to be explored, with almost any skill you can think of on offer.

There's nothing wrong with a holiday that just involves sun, sea, sand and sangria, of course, but it you're looking for something a little different, why not learn to tango in Buenos Aires or to cook Vietnamese in Saigon? Combining your trip with a skill you've always wanted to try might be just the ticket.

Retirement reform going wrong?

Government, working through the National Treasury, is in the process of reforming the retirement savings industry. As part of this reform, they recently published a discussion document called *Enabling a better income in retirement*. We are troubled by the conclusions they reached.

We agree wholeheartedly that the "pension" industry needs to be reformed. The Treasury, however, seems to view the life assurance industry as the potential solution. In essence, they are thinking about compelling people with limited means to move into old-fashioned compulsory pensions, and we feel this is a move back to the Dark Ages.

Treasury is concerned about the cost of living annuities and the reckless investment behaviour displayed by uninformed investors, but pensions provided by life assurance companies will provide a fixed income that is unlikely to beat inflation for the remainder of the investor's life.

Once the investor dies, his or her spouse will then receive a reduced pension that ends when the surviving person dies. This means no money will be available for children and other dependents as is the case with living annuities.

Sadly, Treasury is entrusting our future to the same life assurance industry that has proved so adept at charging us excessive costs over many decades. And if we've learned anything from the recent financial crisis, it's that large financial institutions are not necessarily safer or ethical in their treatment of clients.

In addition, Treasury simply cannot afford to employ enough actuaries and other financial experts to monitor the legion of actuaries employed by life assurance companies. This means that the life assurers will always have the upper hand in creating investments that appear to meet Treasury's objectives. We cannot help but feel that this move will be great for the life assurance industry, but not so great for retirees with limited means.

The fact that a number of advisors and certain product providers have charged excessive annual fees on living annuities does not mean that all living annuities are bad. A better solution would be to regulate advice fees and product costs in living annuities. In addition, we should regulate how much investors are allowed to withdraw from their retirement funds, based on objective criteria such as age and financial well-being.

To effect these changes would require slight tweaks to a transparent, highly effective industry that has been moving in the right direction consistently over the last decade instead of a regression to old systems that are likely to benefit the wrong people.

Energy drinks industry is probed in the US

It's become a habit for many people to grab an energy drink every time they go to gym. Have a chat with your local dietician, however, and she'll probably tell you that unless you're doing an hour or more of strenuous exercise, you don't need anything other than plain water.

In addition, South Africa's labelling laws aren't optimum in this area, and if you see 'energy' written on any food product, chances are the primary ingredient in that foodstuff is sugar. If you're lucky, it has some caffeine in it too.

But moves are afoot to change all that in the US, which could have a knock-on effect in South Africa in the future. New York's attorney general is investigating whether the multibillion-dollar energy-drink industry is deceiving consumers by misrepresenting the ingredients and health value of its products.

Energy drinks are among the fastest-growing products in the beverage sector, according to a report in the *Wall Street Journal.* Retail sales of the drinks rose 16% in the US last year to US$8.9 billion, accounting for 12% of the carbonated-soft-drink category, according to *Beverage Digest*, a trade publication and data service. But the drinks are regulated more loosely by the FDA than traditional sodas like such as cola.

Investigators will be examining whether companies are overstating the benefits of exotic-sounding ingredients while understating the role of caffeine, a common stimulant that industry critics believe to be the main active ingredient.

If energy-drink makers are found to have violated certain New York state laws regulating food and drugs, they could be forced to pay civil fines and penalties, and to change their labelling and marketing.

Client profile: ACB Link (Pty) Ltd

From time to time we profile one of our existing clients; this month we feature ACB Link, a privately owned business focusing on debit order collections and credits (or payments).

Following up with debtors can be a time-consuming and uncomfortable process, but the debit order mechanism allows your revenue to be regularly collected, allowing staff to merely focus on the transactions that were rejected.

ACB Link supports a range of industries including schools, charities, IT companies, churches, security companies, sports clubs, accounting firms and residential road closures. They also offer credits for some of their clients for salary and commission payments or processing of refunds.

Because of the high volumes of transactions they process and their beneficial relationship with their bank, they are able to offer debit order collections at low cost. This can save a great deal on banking charges. Banks require a guarantee or funds to be ceded, usually at 100% of the monthly collection value. ACB Link requires no such cession of funds, freeing up your capital to use as needed.

Many of ACB Link's clients have been with them for over 15 years, thanks in a large part to their professional staff, who have 100 years of experience in debit order processing between them. They don't charge a set-up fee as many of their competitors do. Instead, they charge a monthly fee and transaction fees per debit order and per unpaid.

ACB Link is offering a special for six months for any Galileo clients who sign up in the month of October 2012. Please contact them for more information by e-mailing info@acblink.co.za, visiting their website, www.acblink.co.za or calling them on (011) 462-9300/1 or 083 326-1294 (Kathy).

How does it work?

- Your clients sign a debit order mandate (or authority form), giving you permission to debit their accounts. ACB Link can provide the standard and legally accepted wording of this mandate.
- The banking details are transferred into a simple spreadsheet, submitted to ACB Link a few days before the strike date (debit date).
- ACB Link validates this file and provides feedback on any errors. Once the file is ready for submission, ACB Link submits the file for processing.
- Funds are transferred after an agreed period, allowing sufficient time for unpaids (or rejections) to come through from the banks.
- Reporting provided allows you to know the totals collected on which dates, fees deducted and payment totals as per the payment advice provided.

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