

# WHAT TO DO IF YOU WIN THE LOTTO?

Over the last few weeks there have been some big winners in the national lottery with two lucky people sharing a jackpot of nearly R60m. I have met a few lotto winners over the years and most of them have sad stories to tell about their “good fortune”. In the USA, nearly 70% of the people who win massive lotteries are broke within 7 years and I expect South African winners have the same experience. Sadly, there are real risks involved in winning the big one. Suicides, murders, drug addiction and divorces are common themes in the stories of these previously ordinary people whose lives were ruined by big jackpots. So my first piece of advice to a big winner is, **DON'T TELL PEOPLE!**

## TAKE THINGS SLOWLY

Take two or three months to think about what you are going to do before you do anything with your winnings. If possible speak to people who are wealthy and find out how they live their lives. You can learn a lot from other people's experiences so that you don't repeat their mistakes. Get used to the idea of being wealthy and try to plan your life ahead before you start splurging. Don't quit your job immediately as this is a sure sign to all your friends and family that your life has changed. If you really hate your job or your boss, try to develop a plan for what you are going to do with your time before telling the boss where to go. It will seem strange to most but the combination of real wealth and boredom is very dangerous. Remember that there is no rush to do anything with your money, it is not going to disappear if you take a few months to start making investment decisions.

## STICK TO THINGS YOU KNOW

The fact that you have been lucky enough to win the lotto does not mean you have suddenly become an expert investor or business owner. When you have large sums to invest, it will not take long for people to offer you opportunities to buy into private businesses, buildings or property developments. These are the situations where you should exercise extreme caution. If you are interested in becoming an entrepreneur, make use of experts who are paid to advise you properly rather than commission earning agents who want to sell you something. More importantly, take all the time necessary to arm yourself with information so that you can protect yourself from bad investment decisions.

## YOUR ACTION PLAN

I realise that if you have won a large amount of money, it will be impossible to convince you not to spend some of it. So, give yourself a spending budget, for example if you have won R50m, you could allocate R10m to discretionary spending. Here are some examples of sensible examples of how to spend this money:

- Pay off all debt including home loans
- Pay off debts for children or parents – if you want to share your good fortune with them
- Buy another home if desired
- Buy assets that have a long history of appreciating in value

Try not to

- Spend millions on expensive cars, they will cost a fortune to insure and they will lose value rapidly.
- Donate lump sums to family and friends. Rather give them a source of monthly income that continues for the remainder of their lives. History has repeatedly shown that very few people can handle the swift transition from relative poverty to instant wealth.

#### CREATE A CASH SAFETY NET

Set up an emergency fund that equates to 6 months' of expenses which should be used to cover unforeseen expenses only.

#### CREATE AN INCOME GENERATING ASSET BASE

If you want to ensure that you can live off your remaining capital for the rest of your life, you will need to invest it so that you can earn a sustainable income from your capital. This income will also need to increase with inflation so you be careful about how much you spend relative to the value of your remaining assets. Try to draw a maximum of 4% per year from your capital (e.g. 4% of R40m) as an annual income. If your capital is invested in a diversified portfolio of shares, bonds and property, it should continue to grow by more than inflation even after the effect of your income withdrawals. You should invest a minimum of 60% of your capital in productive assets such as shares and commercial or listed property.

An annual income of 4% of R40m equates to R133,333 per month. From this money you will need to pay income tax and provide for any friends, family and charities so don't plan to spend it all on yourself. Try to draw a smaller percentage in the beginning so that you give you get used to your new lifestyle gradually.

#### GET AN ESTATE PLAN

There are many examples of winners of large jackpots being knocked off by family members who wanted their share of the pie. This may sound like the plot of a bad movie but this has happened on numerous occasions in the past. In order to prevent this temptation, ensure that you have a proper Will that specifies where the money will go on your death. I would also seriously consider starting a Trust. If, on your death, your assets are left to a trust managed by independent trustees, there is little point in crazy relatives ending your life prematurely. There will also be little chance for them to squabble over your money like the greedy grandchildren of a certain famous man we all love.

If you feel that the burden of managing this money is too much to deal with, you could consider placing the money in a trust immediately and then appoint professional independent trustees to look after your interests for you. This is an option that is used by many very wealthy people around the world. Just make sure that you have the right mix of trustees who are paid in the right way. As an example, I prefer one accountant, one lawyer and one independent investment expert. More importantly all of them are paid a fixed monthly fee and they cannot earn any money directly or indirectly from the capital of the trust. This tends to keep everyone honest and focussed on their jobs.

In summary, I think that it is nearly impossible for people to adapt to becoming instantly wealthy, especially those who have not had much experience with wealth. Those who are best able to cope,

are usually not motivated by material wealth. I think that our lotto should follow the American example where winners are not given all the money at once but are paid an annual amount for a long period of time. For example, if you win a R50m lotto, then you are paid R1m per year for 50 years. This gives you time to get used to the idea of being wealthy and limits your ability to make catastrophic mistakes with all your wealth.