

## Monthly Newsletter – August 2014

### The eighth wonder of the world

*“Compound interest is the eighth wonder of the world. He who understands it, earns it... he who doesn't... pays it.”-- Albert Einstein*

Fluctuations in the interest rate always bring a flurry of calculations in the newspaper that shows the effect of the increase in rates on a mortgage bond payment.

For example:

A mortgage bond of R1m at 10% over 20 years will cost you R9 650.22 per month [excluding fees]. At 10.5% this payment will increase to R9 983.80 per month, a difference of R333.58 per month, and a 3.45% increase in variance.

So where does this lead me to? Well, interest can either work for you or against you. Those who are dependent upon interest rates to generate a pension or monthly income will be much happier than those who are using their hard-earned cash to settle debts on items such as cars, houses, credit cards and so on.

Every South African should have access to funds in an emergency, of an amount of between three to six times your monthly spend, although this is easier said than done! This lump sum of money is often kept in a money market account for a rainy day.

Yet, often, prudent citizens with money market accounts have an access-type mortgage bond facility that allows withdrawals upon short notice. So, on the one hand, he or she is earning interest at 5% or 6% while interest is being paid on the mortgage bond at, say 8% or 9%.

This makes no sense, especially when one considers the ravaging effect of income tax and inflation on this money. Why not place the emergency fund amount in the access bond, thereby reducing the interest payable to the bank? (Continue paying your normal instalment of course, or, if you pay extra on your mortgage bond debt repayment, the outstanding term will be reduced accordingly.)

As a rule of thumb, although I believe that one should always strive to be as debt free as possible (ignoring income tax implications for a moment), careful consideration needs to be given, from a financial perspective, whether a debt charging 6% per annum or less (are there still any of those around, other than the BMW offers?) should be settled rather than money paid into an appropriate investment. This could be an interesting discussion with your financial advisor.

When investing, bear in mind the strategy that time in the market is a more effective and lucrative strategy than timing the market. Consider Mr A and Mr B, who each invested R1 000 a month, escalating at, say, 7% each year. This investment returned, say, 10% per annum over the investment period. Mr A decided that he would wait a year and rather use the R1 000 a month to buy a top-of-the-range name cell phone and started saving 12 months later. In 20 years' time Mr A will have R1 174 255 while Mr B will have R1 348 177.

Taking inflation into account, this will mean that Mr A will have R354 728 and Mr B will have R407 279 purchasing power today. All things being equal Mr A's R12 000 cell phone eventually cost him a pretty penny in the long run.

*-- Thayne Niemand, Head of Galileo Group in the Eastern Cape*

## Galileo Capital Advisory Services

We are happy to announce that Charl du Toit has joined the Galileo Group as director of Galileo Advisory Services. This is the part of Galileo that provides advice on wills, trusts and tax.

Charl is a Chartered Accountant with 13 years' experience in the accounting and tax fields. Galileo Advisory Services aims to provide a proactive and tailor-made solution for our clients' tax requirements.

The services that we will provide with regard to your tax include:

- Income tax registrations
- Personal income tax calculations and submissions to SARS
- Preparation of financial statements and bookkeeping for trusts
- Tax compliance

We asked Charl the following tax question: can a salary earner receive a tax benefit for making donations to public benefit organisations?

Charl's answer: "Donations made by salary earners to certain organisations established to carry out public benefit activities will qualify as a tax deduction. Your donation can also reduce your monthly employees' tax (PAYE), if your employer agrees to process your donation through its payroll. Should the employer pay this donation on behalf of the employee, the tax deduction will also reduce the monthly PAYE of the salary earner.

"If you wish to qualify for this tax deduction, you need to establish if the beneficiary of your donation can issue a receipt as intended under section 18A of the Income Tax Act No. 58 of 1962 (the Act)."

If you have any tax queries, you can contact Charl on [charl@galileocapital.co.za](mailto:charl@galileocapital.co.za)

## Galileo Asset Managers

We have briefly introduced you to Warwick Lucas, who is the head of our Asset Management business. In this newsletter we explain a bit more about his approach to investing in shares.

“We believe that stock markets offer the best inflation-beating returns over the long term,” says Warwick. “We consider equity markets to be fairly efficient, but not always rational. It is our view that only the purchase of attractively priced and well-managed quality businesses will provide sustained capital growth with increasing dividend income.

“We aim not to run the risk of permanent loss of capital. Nevertheless, risk assumption is tailor-made according to our clients’ requirements. We avoid (with some rare exceptions) the practice of timing the market, as long-term investments in quality businesses are the best risk management strategy of all!”

## 9 Time-management techniques for busy people

Somehow, 24 hours just don’t seem to be enough for most of us. Here are nine useful techniques you can use to boost your time management skills.

1. Be clear about goals and objectives. When you’re unsure about the objectives, you’re likely to waste time doing work that doesn’t need to be done. Get clarity before you start working.
2. Schedule your time. And not just your business appointments – the things on your to-do list also need to be scheduled and treated as priorities.
3. Delegate when possible. Instead of thinking of delegating as a loss of control, think of it as a way to empower others. That way you can concentrate on what you do best.
4. Monitor how you spend your time. If getting a virtual assistant or anybody else to assist you isn’t an option, then start monitoring your time and see how you are spending it daily. There are monitoring apps and programmes like Officemetrics or RescueTime that monitor what you do on your computer and give you reports to show you how much time you spend on social media, email, Internet or any other work files.
5. Avoid multitasking. Yes, women, that means you too. Our brains can switch between tasks, but they can still only do one thing at a time. Focus on one thing and finish before you move onto the next thing, and you’ll cut out the time you lose refocusing each time you switch.
6. Do a regular mind dump. Get a piece of paper and write down everything you need to do. Don’t categorize it. Just dump it all onto a piece of paper. Don’t separate work and home; they don’t have different compartments in the brain. Now that you have your list, schedule the things you need to do, and then do what your schedule tells you.
7. Work out. Richard Branson estimates that working out every day gives him four extra hours of productivity a day. Regular exercise will give you energy, reduce your stress and help you to focus.
8. Eat healthily. The right foods will keep you energised and focused. Regular small bites are less energy-sapping than large meals, and you need to eat every couple of hours to stabilise both your blood sugar and energy levels. And don’t forget to drink plenty of water – dehydration can cause fatigue.

9. Slow down and grab some O<sub>2</sub>. Lack of oxygen will make you slow and sluggish and affect your performance. Take some time outside, open the windows if you can, and breathe deeply to stay alert and energised.