galileocapital

Challenging Conventional Wisdom

NEWSLETTER

Monthly Newsletter – April 2016

A Message from Theo and Warren

Retirement is about more than money

As a financial planning business, we spend a lot of our time with our clients talking about non-financial issues. Obviously there's more to life than money, but it is not always obvious that your financial planner is a good person to speak to about these non-financial issues.

One of the most significant topics we deal with is what your life will be like after retirement. Some of our clients are bemused when we start discussing this, especially when we ask about their hobbies and concrete plans after retirement.

There is sound reasoning for our questions and these apply to people of all ages. For example, if you are a married man, you might think it's obvious that your wife wants to spend more time with you. You are very likely to be wrong!

Fidelity Investments surveyed 9 372 people around the world between the ages of 55 and 80 who had yet to retire. They found that men and women tend to have different ideas about whom they're looking forward to seeing more of in retirement. Nearly 60% of men wanted to spend more time with their spouse or partner, but only 43% of women felt the same. More women (71%) wanted to spend time with their grandchildren. So, as a married man it would be wrong to assume that your wife is going to spend her retirement with you. It also means you need to consider where you will live after retirement. If you plan to be far away from grandchildren, you might be heading for trouble.

Why is this important?

Divorce in the first few years of retirement is quite a common occurrence, and some of the reasons relate to the differences described above. This is unfortunate because a few conversations about the future at regular intervals could have resolved these issues before they became critical.

The consequences of divorce are always severe, but divorce after retirement is really punishing. There is no time for people to recover financially, our ability to deal with change is compromised as we get older and there are real health implications.

There are many surveys and academic studies showing that men tend to have fewer social ties than women and are more emotionally dependent on their spouses, often with dire consequences. "It affects their overall health and longevity," says Eran Shor, an associate professor of sociology at McGill

University. In an analysis of 104 academic studies, he and his co-authors found that men generally were less healthy and had higher mortality rates than women when single, divorced or widowed.

A wake-up call

Couples could view the Fidelity study as a 'wake-up call' that provides some pointers for each partner as well as for the couple as an entity. Both of you need to focus on building social networks and developing pastimes that engage you mentally as well as physically.

It's not good enough to simply hope that you can spend more time playing golf or breakfasting with your spouse every day. You need to have real activities that will oblige you to perform certain tasks every day or week. In addition, you need to discuss retirement as a couple before it happens. This should involve sharing your plans for your time as individuals and as a couple.

If you are a few years from retirement, you could also try planning your diary for the first month of retirement. What are you going to do on each day of the week starting with your first Monday? If you are able to do so, try some test runs as you wind down your career. For example, you can take a month off to see how you would actually live on a daily basis.

Finally, if you are in the last months of work, consider whether you can scale down your work time gradually. Is it possible for you to work three days a week or mornings only? This will make the transition more gradual and less of a shock to both parties so that you can acclimatise more easily to your new life.

If you are interested in reading more, here is a link to the Fidelity Survey.

https://www.fidelity.com/viewpoints/retirement/time-to-retire

- Theo and Warren

Steady State stocks? *by Warwick Lucas, Galileo Asset Managers*

We prefer to be positioned in stocks that hold some kind of advantage that will see the company (and the share price) through day-to-day noise. Although we manage a portfolio as a composite entity, we thought we would share the thinking behind our selections.

Our broad strategy is that SA Industrials are currently slightly expensive, Resources are slightly below fair value (albeit distressed by market conditions) and that Financials are reasonably cheap. None, however, are free of risk. Glamorous industrials with steady earnings are only available at high ratings, while more cyclical industrials are cheap but responding cautiously to the interest rate cycle. Resources, having been sold to oblivion, rebounded very strongly, but their earnings outlook is very muted in the short term. Financials are cheap but subject to interest rate risk and financial market volatility, and are the most exposed if SA suffers a sovereign downgrade.

Old Mutual is an international investment, savings, insurance and banking group with more than 17 million customers in Africa, the Americas, Asia and Europe. Started in South Africa in 1845, Old Mutual listed on the London Stock Exchange and JSE in 1999.

The era of serial under-performance in its early days of listing has long since gone. It has a coherent and more easily comprehensible strategy and business model that has the potential for unlocking of value over the next few years.

This isn't reflected in its rating, which on a price to book of 1.1x, is lowest of its peers. This has obviously particular importance due to the decision in principle to unbundle into four components – Old Mutual Wealth, Nedcor, a global asset management business and OM Emerging markets. Old Mutual's foray into first world markets was long on effort and short on return and the costs of being headquartered in London had long outweighed the benefit. This is a development that will be good for Old Mutual and its shareholders alike.

Deutsche Bank ETF EuroZone & Japan – the Deutsche ETF fund series are trackers benchmarked against relevant MSCI indices. ETFs are one of the greatest financial product inventions investors have ever seen. They're low-cost, tax-efficient and transparent.

Best of all, they're extremely convenient, offering diversified or niche strategies that would have been nearly impossible for most investors to put together themselves in the past. For the purposes of offshore investment for a South African resident, the Deutsche series is no exception to this. They are cost-effective, the tracking errors are good, they are highly liquid and the market maker maintains tight spreads.

These funds are excellent portfolio diversifiers. They also makes basic offshore investment easy – the funds are regularly traded on the JSE and thus the rigmarole of applying for tax clearance and forex allowance is bypassed.

Our current view inclines towards markets that are commodity consumers and engaged in quantitative easing by their central banks. This is why we are weighted towards Europe and Japan in these funds.

- Warwick Lucas, Galileo Asset Managers

Four ways to increase productivity

Productivity versus procrastination is a battle many people fight daily. Here are four simple ways to improve your personal or team productivity:

1. Find ways to block out the noise – nearly 30% of office workers are distracted by co-workers' conversations, and men are more impacted by women. You can't ban workplace conversations, but you can listen to music (no lyrics) or invest in a pair of good earplugs.

2. Use a carrot – find ways to reward staff for productivity. It doesn't have to be monetary: a special parking spot, an award, providing lunch, or holiday parties, can all help employees to feel appreciated. Economic motivators can include year-end bonuses and pay-for-performance incentives.

3. Calendars as a to-do list – instead of making a list that you use to tick things off once they've been completed, use a calendar to assign a place and a time to your tasks. By doing this, you're holding yourself accountable to getting a specific task finished by a specific time. The

top productivity experts all agree that a list of to-dos without an assigned time in which to do those jobs, is an exercise in futility.

4. Manage your inbox better – email is one of those necessary evils, and we need it to keep business running, but it can take over your day if you're not careful. Don't check email till lunchtime – get your important tasks out of the way first. And batch your email time – set aside specific times to check and respond rather than responding to things as they arrive.

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