

Monthly Newsletter – March 2018

A Note from Theo and Warren

Corporate scandals are bad for everybody

When we have high-profile corporate scandals like Steinhoff, and the associated frenzy that affected companies like Capitec and Aspen, every person in the country is affected. Shareholders and bondholders lose billions, while pensioners and unit trust investors also take losses.

These losses and increased speculation unsettled the entire stock market, but these are just the short-term effects. The longer-term damage will only be felt in the months and years ahead.

Investor confidence

In the aftermath of a corporate scandal, private investors who are not that familiar with stock markets and the risks of investing, will start to question why they have money in shares. They will be wondering if their money would not be safer in cash deposits, residential property or under the mattress.

In a country with shocking savings rates, this is a real blow to economic growth. If we had a better savings rate, there would be more money to be invested in companies that could employ more people. This would place less strain on social grants, etc. Anything that damages investor confidence and reduces the willingness of people to save for the long-term, is destructive to our economy.

Auditors questioned

The audit profession has taken a series of blows over the last two years. Fundamental questions need to be asked about the role of the profession and the ability of auditors to monitor large entities.

In 2008, we became familiar with the phrase “too big to fail” as justification for the US government bailing out large financial companies like AIG. One must ask if multi-nationals are becoming too big to monitor? Is it possible for directors of these companies to know what is happening within the business, and can they trust the information provided by the internal finance department, internal audit and external auditors? The example of Steinhoff would indicate that size is the enemy of transparent financials.

We have yet to see a high-profile sanction of an accountant for the corruption that has taken place within state-owned enterprises (SOEs) over the last eight years. We cannot recall any disciplinary action

taken by the Independent Regulatory Board for Auditors (IRBA) where people have been barred or sanctioned for the corruption within SOEs.

Blood nose for asset management

Steinhoff has also given the asset management industry a bloody nose. It is only natural for investors to ask the fund managers who bought Steinhoff how they missed the lies told by management. We have sympathy for asset managers because their mistakes will always seem obvious with hindsight, but it does show how difficult it is to be a stock picker.

Excess regulation that stifles business

It is nearly inevitable that regulators will look at the Steinhoff debacle and try to determine how they can tighten and increase regulation to prevent this kind of incident from happening again. This will lead to increased compliance costs, higher audit fees, more complexity in reporting and even less clarity to investors.

Ultimately investors carry the cost of the regulation, as they bear the brunt of increased regulatory costs. As we have seen in the case of Steinhoff, increased regulation is not always the answer. Perhaps it is time to consider how to simplify auditing and accounting, so that more people can understand what is going on.

Keep calm and carry on

When markets become frantic, it is always best to remain calm, keep saving and investing your money. Try to ignore the media hype that causes us to make bad financial decisions.

It is important to remember that patient investors have profited handsomely from their investments despite market crashes, corporate scandals and lousy politicians.

- Theo and Warren

This month's video

March 2018 Newsletter video link <https://www.youtube.com/watch?v=jkaBoDafdFM>

BUDGET 2018 – How will it impact you?

The weeks leading up to the 2018 Budget Speech were full of speculation as to how the government was going to offset the ever-increasing budget deficit.

For the first time since 1993, an adjustment to the standard VAT rate has been proposed. South Africa's current VAT rate is lower than global and African averages, and Minister Gigaba proposed that the VAT rate be increased by one percentage point, from 14% to 15%, with effect 1 April 2018.

The increase in the VAT rate is reason for concern for lower income households, which are likely to feel the impact far more than higher earning households. Government has, however, proposed structures to alleviate the effect of the increased VAT on these households by adjusting the zero-rated basic goods list, together with an above-inflation increase in social grants.

During the past few years, personal income tax has increased substantially. In an attempt to limit the burden of the increase in income tax rates, the bottom three tax brackets have been adjusted by below-inflation rates, while no adjustments were made to the top four income tax brackets.

Ad valorem taxes are taxes applied to items that are mainly consumed by wealthier households. These items include cosmetics, perfumes and electronics. It is proposed that these taxes (currently 5% to 7%) be increased (to 7% to 9%) from 1 April 2018. Furthermore, the maximum ad valorem excise duty on motor vehicles will be increased from 25% to 30%. These increases will ensure that households spending more on luxury goods will proportionately contribute more to revenue.

It is proposed that estate duty on estates of R30-million or more be increased from 20% to 25%, effective 1 March 2018. Any donations in excess of R30-million in one tax year, will also be taxed at 25% in an attempt to limit the staggering of donations as an attempt to avoid higher estate duty.

Financial planners will have to reassess their clients' life cover and the effect of the proposed amendments on their clients' estates. Careful consideration should now be given to estates, and effective estate planning of high net worth individuals becomes a necessity.

- By George Robertson, Galileo Advisory Services

9 ways to be more mindful at work

Mindfulness is the word on the lips of many a wellness guru. But how do you practise it in the midst of emails, phone calls, meetings, and presentations on top of the demands of actually getting any work done? Here are 10 techniques to try.

But there are still a lot of destinations that won't empty out your piggy bank – here are five places you might not have considered:

1. **Decide to be present.** Mindfulness has to be a conscious decision – to pay attention to just one thing at a time, and to do so fully.
2. **Use short mindfulness exercises.** You just need a minute or two – to close your eyes and focus on one of your senses. Set a timer on your phone and focus on your breathing, or count the different sounds you can hear. It needn't take long.
3. **Give up multitasking.** It's a myth. You really can't do more than one thing at a time.
4. **Slow down to speed up.** Being in a panicky rush results in bad decisions. Effective leaders, workers, and entrepreneurs slow down and reflect to make the best decisions and take the best actions.
5. **Befriend your stress.** Research conducted among 30 000 people, by the University of Wisconsin-Madison, showed that people experiencing high levels of stress who believed that stress was good for them had among the lowest mortality rates. Perception matters.
6. **Practise gratitude.** Humans are much more likely to focus and dwell on something that's gone wrong than on things that have gone well. Gratitude is the antidote –

there's plenty of evidence to suggest that actively practising gratitude makes you feel better and has a positive impact on your creativity, health, working relationships, and quality of work.

7. **Keep your feet on the ground.** That means staying humble. Humble people have a quiet confidence about themselves and don't feel the need to continuously remind others of their achievements.
8. **Accept what you can't change.** This principle is at the heart of the serenity prayer for a reason. It also lies at the heart of mindfulness. To be mindful means to accept this present moment just as it is – even if things have gone horribly wrong. As soon as you accept that, you can move forward and try to deal with the situation.
9. **Adopt a growth mind-set.** People with a fixed mind-set don't seek to develop themselves, because they think that talent alone leads to success. People with a growth mind-set believe that they can improve their intelligence and talents with effort. They see brains and talent as the starting point, and build on them with hard work and determination.

(With reference to: <https://www.mindful.org/10-ways-mindful-work/> By Shamash Alidina | June 8, 2016)