

OPINION PIECE

SURVIVING IN TIMES OF ECONOMIC UNCERTAINTY

BY RICARDO TEIXEIRA CFP®

CHIEF OPERATING OFFICER AT BDO WEALTH ADVISORS



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The current South African economic environment is challenging, to say well the least. The economy has slowed, and concerns are being raised as to whether economic growth pick up or slow down, the looming credit rating downgrade, and following the tabling and subsequent withdrawal of fraud charges against the Finance Minister Pravin Gordhan, if he will still hold his position come February 2017's budget speech. Although the charges were dropped, fears still loom that a higher political conspiracy is at play, adding to the already unstable economic environment.

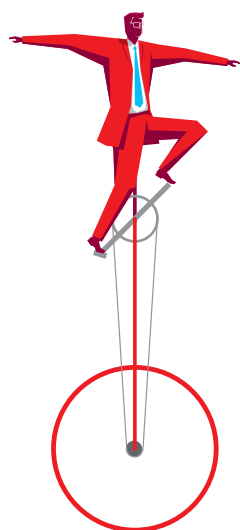
Tax revenues have fallen short of expectations. In an effort to remedy this, spending must be cut and taxes raised. The Mid-term budget speech held in October

2016 was the last opportunity for Gordhan and South Africa to validate to credit ratings agencies that the country is making progress and should not be downgraded in December 2016. A lower rating signals a higher investment risk, which translates to a higher cost of borrowing for the country and increased capital outflows. With the budget deficit estimated to continue narrowing, higher taxes being indicated, and political instability, how likely is it that he succeeded?

The political context in which Gordhan presented his budget cannot be ignored. Political stability is vital in order to nurture investor confidence. It may be uncertain whether or not SA will be downgraded by the rating agencies. Yet with the context

of all that has been laid out by the Minister of Finance, it is likely that we have tough times ahead.

“...all that has been laid out by the Minister of Finance, it is likely that we have tough times ahead.” It is in the tough times that our decisions need to be unemotional and prudent. Using professional advice will help you find the right solutions to help you make better decisions today so that tomorrow isn't tough



1 | STAY INVESTED

It's been said that if we could just close our eyes for the next 18 months, we'll be able to ignore all the noise and turbulence that goes with all the economic uncertainty we're facing. And then when we open up our eyes again, things will appear to be normal. Unfortunately economic hibernation is not an option, so here are a few time tested tips for surviving in times of economic uncertainty that you may want to try out:

As humans, our brains are wired with behaviour biases that regrettably drive irrational investment decisions.

Often, 'pension and provident fund' savings are not seen as regular savings. In times of economic uncertainty, they are seen as an emergency fund. Don't resign from your employment just to gain access to your retirement savings. Stay invested. Stay employed; the cycle of uncertainty will pass and investment returns will start to look appealing again. Avoid the natural urge to get out when the market seems to be scary. That's just fear getting the better of a rational investment decision.

Stopping regular savings, or worse yet, disinvesting savings to use to fund lifestyle expenses is a 'no no'.

When times are tough and money is in short supply, it's easiest to take from savings to supplement our daily living and cash flow needs.

If you do change jobs during these times, and any time as a matter of fact, transfer your retirement savings to a preservation fund and keep them invested. The magic and power of compound investment returns is way beyond our rational understanding so avoid the temptation of dipping into these savings to balance your budget when times get tough.

2 | REGULARLY CHECK IN ON YOUR SPENDING HABITS

Just as a country needs to balance its budget of tax revenue against spend, so do we need to keep our personal budgets in check. Are we balancing the books? Are we prioritising the right spend? Are we on track for our long term projects and dreams?

The budget is simply the means to the end. Not the end itself. Knowing what's important to you and your family, and where you want to be is the starting point of the conversation. Putting numbers and a plan to the end is the purpose of your budget.

Create the habit of scheduling your annual family budget day as well as your medium term family budget review. This is dedicated time to take stock of what you're earning, how you're allocating it and if you need to make any tweaks to where you should be allocating your money.

In time of economic uncertainty, it is the uncontrollable variables we want to anticipate and cater for. Looking ahead, it's very likely that taxes will be increased over the next 2 to 3 years. The impact?

Anticipating how these changes are likely to impact on you balancing your personal budget will give you the upper hand and avoiding any surprises of finding yourself in a budget deficit.

It is not an exact science. It's more a focus on scenario planning. If my net income after tax reduces, how will I re-allocate my spending? Do I need to cut back or re-direct spending?

i.Low inflation environment with matching low growth in real earnings and income;

ii.Lower take home net pay after tax from the effect of higher personal income taxes;

iii.Possibly a higher VAT rate resulting in increased net cost of living expenses.



3 | ADD A R100 TO YOUR DEBT REPAYMENT

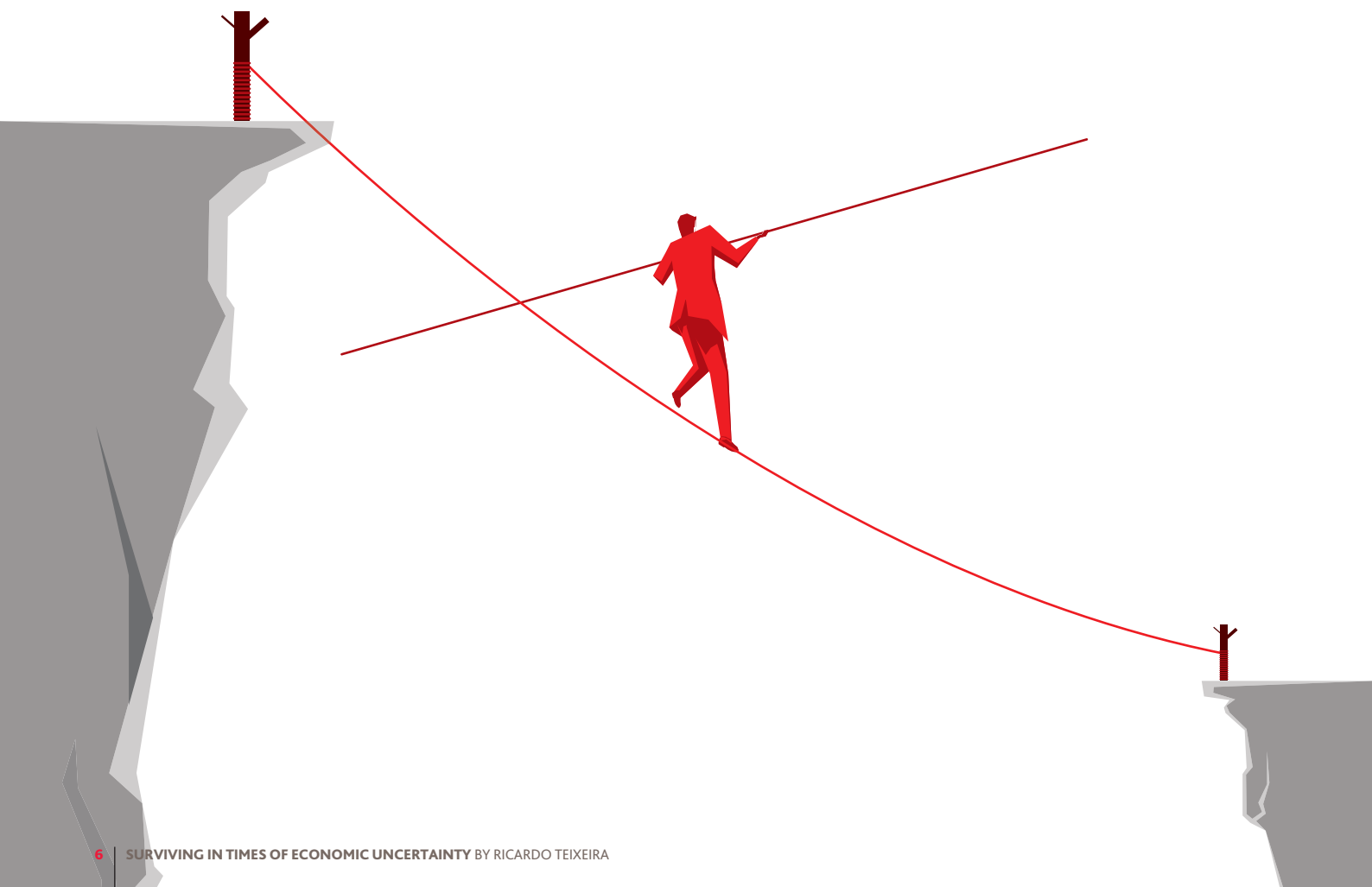
Interest rates are variable. They are determined by the Reserve Bank and are independent of what we see as the general economic sentiment. Interest rates are a lever that the Reserve Bank uses to largely control inflation.

What that means is that if the economy is weak but our inflation rate is rising (for example because of a weak Rand and rising fuel costs), interest rates are likely to be increased. When interest rates increase our cost of debt increases. Meaning that our minimum monthly repayments increase. Now couple that with a lower net take home pay after increased taxes and what do you have? A perfect recipe for a budget deficit.

Just reflect back 8 years to June 2008 after the global credit crisis hit and prime interest rate was 15.5%. Our current prime interest rate is 10.5%. What impact will a 1%, or worse yet a 4%, increase in prime interest rate have on your cash flow and monthly budget?

It's a simple habit. Yet it is an effective method of anticipating changes in your debt repayments, by forcing a re-allocation of money in your budget now so that you're prepared for what may change.

A golden rule for managing debt is anticipating the impact of future interest rate increases. The simple way to manage this uncontrollable event is to simply increase your monthly minimum debt repayments now. Try adding a R100 to your debt repayment for every R1000 or part thereof that you pay towards settling debt. So for a car repayment that is currently a minimum of R4,200, increase that to R4,700 today. If and when interest rates increase, you're already paying a higher amount that is likely to cater for the increased debt repayment.



4 | REVIEW YOUR FINANCIAL PLAN OR PUT ONE INTO ACTION

Being able to live the life that you want to live needs you to define what that life looks like. Our lives are not just about money, but rather how we apply the money we have to living out the life that we want.

If you don't have the objectivity and discipline to do this on your own, take advice from a financial planner. Someone who can walk the path by your side, guiding you in making decisions that are likely to get you to where you want to be.

A financial plan is simply a road map of how you are likely to achieve the vision you have for you and your family with the monetary resources you have at your disposal now, and possibly in the future.

Having a plan is one thing. Putting it into action is the key to surviving and thriving.

As the economic environment around us changes, it's critical to go back to the plan and reassess if anything needs to change so that you can still achieve your vision.

It may be a stark reality that all is not well with the SA economy and that we are likely to face a rollercoaster ride over the coming months and years. Getting off the rollercoaster is not an option. So getting into action and taking steps towards anticipating what you need to do differently to survive an economic downturn is your only game plan.

**WE TAKE IT PERSONALLY.
FOR FURTHER INFORMATION, PLEASE CONTACT US:**

CAPE TOWN

Lisa Griffiths
LGriffiths@bdo.co.za
T 010 060 6415

JOHANNESBURG

Peter Harten, CFP®
pharten@bdo.co.za
T 010 060 5813

DURBAN

Hedley Lemarque, CFP®
hlamarque@bdo.co.za
T 031 514 7028

PRETORIA

Allan Heynen, CFP®
aheynen@bdo.co.za
T 011 488 1872



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