

MANAGING FINANCES

Northwood Financial Services CC



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SERVICES OFFERED:

- Financial Planning
- Short-term Insurance
- Risk Management
- Mortgage Loans
- Wealth Creation

IMPACT ON CONSUMERS

Consumers have benefited from the economy in recent years. The current changes in the economy will impact the consumer. This article looks at this impact on consumers.

For three years consumers were favoured by good employment gains, even better real wage gains (as inflation plunged), enormous wealth gains (as property and equity prices tripled) and redistribution gains (as welfare support grew from 3 to 12 million recipients). Now, three of these drivers are no longer as strong. Only employment gains – based on fixed investment and net exports – will remain.

Wage gains will not keep up with the expected jump in CPIX inflation. This will increase pressure on real incomes. Overall house prices stopped rising a year ago. Equities were hit as global risk tolerance moderated. Finally, the welfare

recipient growth also matured this year.

We should finally see less boisterous household spending. This will happen as consumers start to feel the pinch of rising prices, tighter monetary policy and a weaker Rand.

Everything is not all doom and gloom. The household consumption growth will moderate towards 4-5% – from 6%-7% the last three years. It will also ease imports, which in turn will have a positive impact on the *external deficit* – a big concern of the South African Reserve Bank.

In conclusion, the person on the street will spend less, as things tighten. We should adjust our plans accordingly.



ECONOMIC OUTLOOK

Inflation: CPIX will rise to above 6% by early 2007.

Interest rates: Expect 50 basis points hikes in October, and in December, but not much in 2007.

GDP: 4.5%-5% growth in 2007 is seen as the maximum growth potential.

Currency: The Rand is likely to slide during the remainder of the year.

[Based on Information in the Media]

[The content of this report is provided for information purposes only.]

THE ACCRUAL SYSTEM

The division of assets of spouses are crucial in estate planning. It is therefore important to understand how assets are determined at the dissolution – through death or divorce – of a marriage.

The accrual system generally ensures that wealth acquired by the two spouses during their marriage is shared equally at dissolution. When determining the amount of the accrual, the following factors are important:

The commencement value, taking inflation into account;

Amounts accruing by way of damages (for pain and suffering, defamation, loss of amenities etc.);

Inheritances, legacies and

donations;

Inter vivos donations between spouses; and

Provisions for the exclusion of assets (or proceeds from these assets) from the accrual system.

If the commencement value is not declared upfront, it will be deemed to be nil. The commencement value cannot be less than nil even if liabilities at commencement exceed assets.

The division of assets is an important, but complicated, part of estate planning. Contact us if you want to discuss it further.



POST-DEATH RETIREMENT PLANNING

It is important to consider what will happen to your retirement benefits after your death.

The general rule on benefits states that your dependents will receive your retirement benefits. It also defines dependents.

If you are not survived by a dependent, but you have nominated a non-dependent, the benefit will be paid to the nominee. This benefit will only be paid if your estate assets equal or exceed the liabilities.

If you are survived by a dependent and a nominee is appointed the benefit will be paid to the dependant and nominee in proportion to what the board deems equitable.

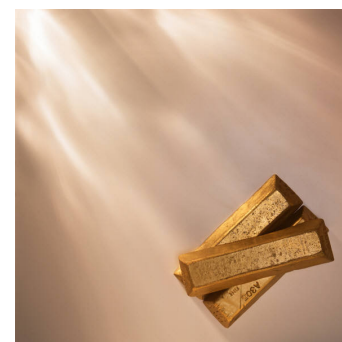
If you leave no dependent and designated no beneficiary, the benefit will be paid to your estate.

It is also worthwhile to note that a payment by a retirement fund to a trust for a beneficiary is deemed to be a payment to the beneficiary.

Contact us if you need an expert opinion on how to plan for what will happen to your retirement benefits after your death.

To live a creative life, we must lose our fear of being wrong.

– Joseph Chilton Pearce



LIFE ASSURANCE IN INVESTMENTS

Many people question the use of life assurance in investment planning. This article explores the value that life assurance can bring to your investment planning.

To understand the value of life assurance you need to understand risk over the duration of your investment. Many attractive investment options place the risk with the investor. For example the estate of a deceased investor in unit trusts will receive the repurchase price of the units when the investor dies. This does not make it a bad investment, as long as you understand (and accept) this risk.

Life assurance presents a cost effective option to manage this

risk – especially early on. It is and always has been the only method of providing a large sum of money on the death or disability of an investor by means of a relatively small regular payment. A life assurance policy can therefore play a unique role in an investor’s portfolio of investments.

Explore the appropriate role and place of life assurance in your investment planning carefully. It remains an attractive option to manage the (early) risk of an otherwise attractive investment option.



A “BUY-AND-SELL” AGREEMENT

A “buy-and-sell” agreement is often presented as the answer to any business assurance question. This article explains this important tool.

A “buy-and-sell” agreement, properly funded with life assurance, is the only effective solution to the problems that arise on the death or disability of a business partner. It ensures liquid reserves are immediately created which will enable the survivors to pay out the deceased’s share to his or her estate and carry on the business as a going concern.

A business “buy-and-sell” agreement contains the following two essentials:

A definite agreement made by the partners **obligating** each partner to sell, at death, their interest to the surviving partners, and **committing** the surviving partners to purchase the deceased partner’s interest.

A method of valuing each partner’s interest and an agreement on the price to be paid based upon this valuation. The valuation will be subject to periodic reviews.

A “buy-and-sell” agreement may seem simple and straightforward – and it is. But, the optimal application requires knowledge and expertise, as the application to each situation is unique.

We all have big changes in our lives that are more or less a second chance.

– Harrison Ford





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C R E A T I N G W E A L T H

Check your credit record.

Newspapers have been full of horror stories about credit records. I will tell you mine.

I wanted a new R18, 000 printer. I was prepared to pay cash.

The salesperson asked the credit department to check if I was good for R 18,000.

The credit department telephoned ITC and asked if I was good for R 18,000 per month for 5 years (R 1,080,000).

My bank informed them this was R80,000 more than they were prepared to cover. So she changed my credit record to reflect **loan declined**.

Her stupidity gave me a bad credit record.

I know of someone who received a bad credit record when they closed their clothing account and forgot to cancel their club membership at the same time.

The credit bureau has to give you one free look at your record every year. Use this benefit.

P R E S E N T A T I O N P O I N T E R S

We all make hundreds of presentations – even if they are never formal presentations. This article offers a few points that may improve your next presentation.

Create rapport: Usually the most important thing your audience is sizing up is **you**. So relax a little and create a personal connection.

Important points first: Be very clear about your key points and get to them. Don't let the discussion wander.

Be prepared: Preparing a formal presentation is a good discipline for figuring out what you want to say even if you

don't use this presentation.

Practice: Practice your presentation a number of times before you present it. Use these attempts to sharpen your message and skills.

Prepare Answers: Before you start, anticipate as many possible questions and have clear concise answers ready. That way, you won't be caught of guard.

Doing a presentation can be nerve wracking, but when you apply these points you will be better prepared for a successful presentation.

