

MANAGING FINANCES

Northwood Financial Services CC



OFFSHORING – THE NEW ECONOMIC REVOLUTION

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SERVICES OFFERED:

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

Economic revolutions are coming at an increasing rate and frequency. This makes for much disturbance, but also higher productivity, more income and wealth creation and the growing ability to spread these gains.

The latest revolution burst on the scene in the past few years. It does not yet have a formally accepted name, but *Offshoring* has been mentioned. It is an amalgamation of offshore and outsourcing activities. It is when service activities, previously mainly non-tradable and static, become tradable through improved technology.

Within a generation something like 30-40 million US jobs (20-30% of the current labour force) may become displaced this way. India and China will add over 300 million workers to the global skilled labour pool. This is equal to the labour forces of the United States and Europe combined. The result globally will be enormous productivity gains.

The South African economy hope to gain 100 000 plus inwardly Outshored jobs from this. Yet, actual gains have been limited to date. This is possibly because South African businesses have not yet fully awoken to the possibilities created by this revolution.

Any displaced labour will have to compete much harder with foreign labour to gain a foothold in the revolutionised job market. To do this require diligent education, working hard and clever (productively), and offering the minimal of hassle out of fear of being passed over by other foreign labour.

These labour market conditions and increased productivity offer much scope for income and wealth enhancement and inflation suppression – especially in South Africa.



ECONOMIC OUTLOOK

Inflation: CPIX rose to a three-and-a-half-year peak of 5.5% in March

Interest rates: There is a significant risk of rates increasing by .5%

GDP: GDP growth should expand by 4.8% this year and 5% next year

Currency: The Rand would

depreciate to R7.50 : \$ by end of year.

[[Based on Information in the Media]

[The content presented in this report is for information purposes only.]

TRANSFERRING ASSETS TO A TRUST

A trust can play an important role in your estate planning. It is however important to use a trust effectively. To get optimal benefit from your trust you need to transfer your growth assets in an appropriate manner.

If you sell your growth assets to your trust, the purchase price should be financed by a loan account in your favour. This loan can be interest free.

This loan will form part of your “dutiable estate” upon your death. However you and your spouse can donate R100 000 to the trust each year without attracting donations tax. This will reduce the value of the loan by

that amount every year.

In terms of the Income Tax Act donations between spouses are exempt from donations tax. Therefore if you have a substantial loan account in your favour whilst your spouse has a relatively small estate, the donation of part of this loan account to the respective spouse will utilize the estate duty abatement of R2 500 000 effectively.

Discuss the use of a trust with a trusted expert.



AN UMBRELLA FUND

There are numerous funds to choose from when you do your retirement planning. Your financial advisor can assist you with the necessary expertise in the field.

One of these funds is an umbrella pension or provident fund. This fund is a single fund which is established and usually managed by a life insurer. Any employer, or a group of employers, can apply for membership as a participating employer.

In joining an umbrella fund the employer joins a fund that:

- Is registered with the Registrar;
- Has already been approved by the Commissioner for SARS;
- Has an established board of

trustees; and

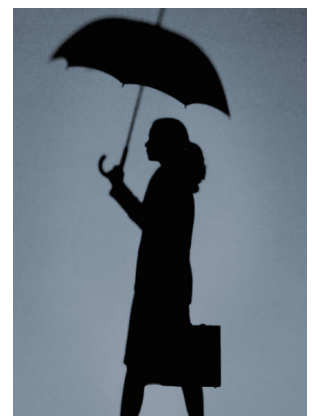
Has a master set of rules that governs all the employers that participate in the fund.

The umbrella fund makes it possible for smaller employers, who otherwise would not have been able to form their own funds, to join a fund. It also carries the advantages of higher free cover limits and lower administration fees.

An umbrella fund can be an attractive option, depending on your circumstances. Get your financial advisor’s opinion on the appropriateness of an umbrella fund in your financial plans.

A strong positive mental attitude will create more miracles than any wonder drug.

– Patricia Neal



INVESTMENT ALLOCATIONS

An important decision in investment planning is the allocation of assets and investments. This article explores things you should consider in this regard.

You should start by determining the total funds available for investment. This may include existing investments that can be re-arranged. It may also include investments whose asset allocations cannot be influenced. These investments will influence how to invest your free funds.

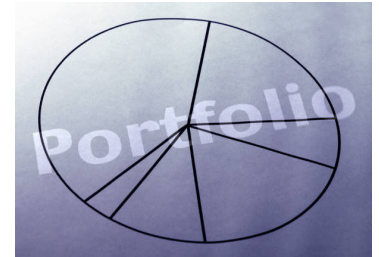
Your available funds are then divided into the following categories:

Cash and short-term deposits;
Medium and long-term capital market assets; and
Equities and hard or venture

assets.

Each broad category can be divided into a number of sub-categories. Under short-term deposits you would consider cash, call accounts, notice deposit accounts and money market funds. Under medium and long-term debt instruments you would be looking at bonds, annuities, fixed deposits, participation bonds etc. You would also need to decide whether you would include domestic equities, property and investment hedges. Within the equity section, you need to decide how you will allocate funds between different asset styles. This would apply both internationally and domestically.

It is advisable to consult a trusted expert to assist you in this investment allocation.



WHY BUSINESS ASSURANCE

Some people question the purpose and relevance of business assurance. Their argument normally suggests that personal life assurance can cater sufficiently for the individuals involved in a business.

This article explains the purpose of financial planning that focuses specifically on businesses.

Business assurance is particularly significant because it does much more than personal insurance. It provides for business continuity and even for the strengthening of business structures.

One of the main reasons why business assurance should differ from personal insurance is because a company is an artificial person or

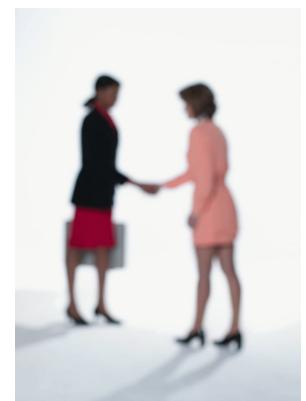
legal entity, distinct from its shareholders or directors. It therefore has separate and unique requirements that differ from those of the individuals involved. The company as legal entity also function under a specific legal framework that differs from the framework that governs human beings.

Business assurance aims at solving the problems that arise on the death, disability or retirement of a partner, shareholder in a company, member of a close corporation, sole proprietor or key person.

With appropriate help you can optimise the benefits available under business assurance.

Personality can open doors, but only character can keep them open.

– Elmer G. Letterman





**NORTHWOOD FINANCIAL
SERVICES CC
FSP NR 13296**

Nico Kleynhans
3 Texel Close, Marina Da Gama
Muizenberg, Cape Town, 7945

Phone: 0860 103 716
Fax: 0860 103 720
Email: nico@northwood.co.za
Website: www.northwood.co.za

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

Is it financial advice or is it product distribution?

There is an ongoing debate in our industry. Are we here to distribute products or are we here to design financial strategies. As a company we have grappled with the debate and over the past year have undergone some significant changes as a result.

We are going the financial strategies route. This means that reviews are significantly more complex. We have had to install new equipment, employee training budgets have increased ten fold, and my research time has increased twenty fold. I have signed up as a student at a Dutch Business School and hope to attain my MBA next year.

Clients would have noticed that reviews now take place in our offices. Those who have come through have been impressed. Feedback suggests that clients find the new format more empowering. We look forward to jointly unpacking your financial strategies soon.

CRISIS MANAGEMENT

Avoid the following responses to a crisis:

It's not fair. Whining about the unfairness of life is a waste of time.

Faultfinding: Finger-pointing distracts from the task of dealing with the problem.

Cover-up: Ignoring a problem usually makes it worse. It also undermines your credibility.

Follow these five steps to recover from a crisis:

See: To deal successfully with a crisis you must see it coming, or at least acknowledge it when it arrives.

Think: Analyse the problem and develop a plan of action. Think aggressively to create several alternative paths of action.

Tell: Without accurate information people speculate. Honesty is best, since it engenders trust.

Do: Make crisis recovery your top priority. Don't be distracted.

Review: When the crisis is under control, review the situation. Avoid the blame game.

With these steps to guide you, you can keep your cool and perspective during the excitement of life.

