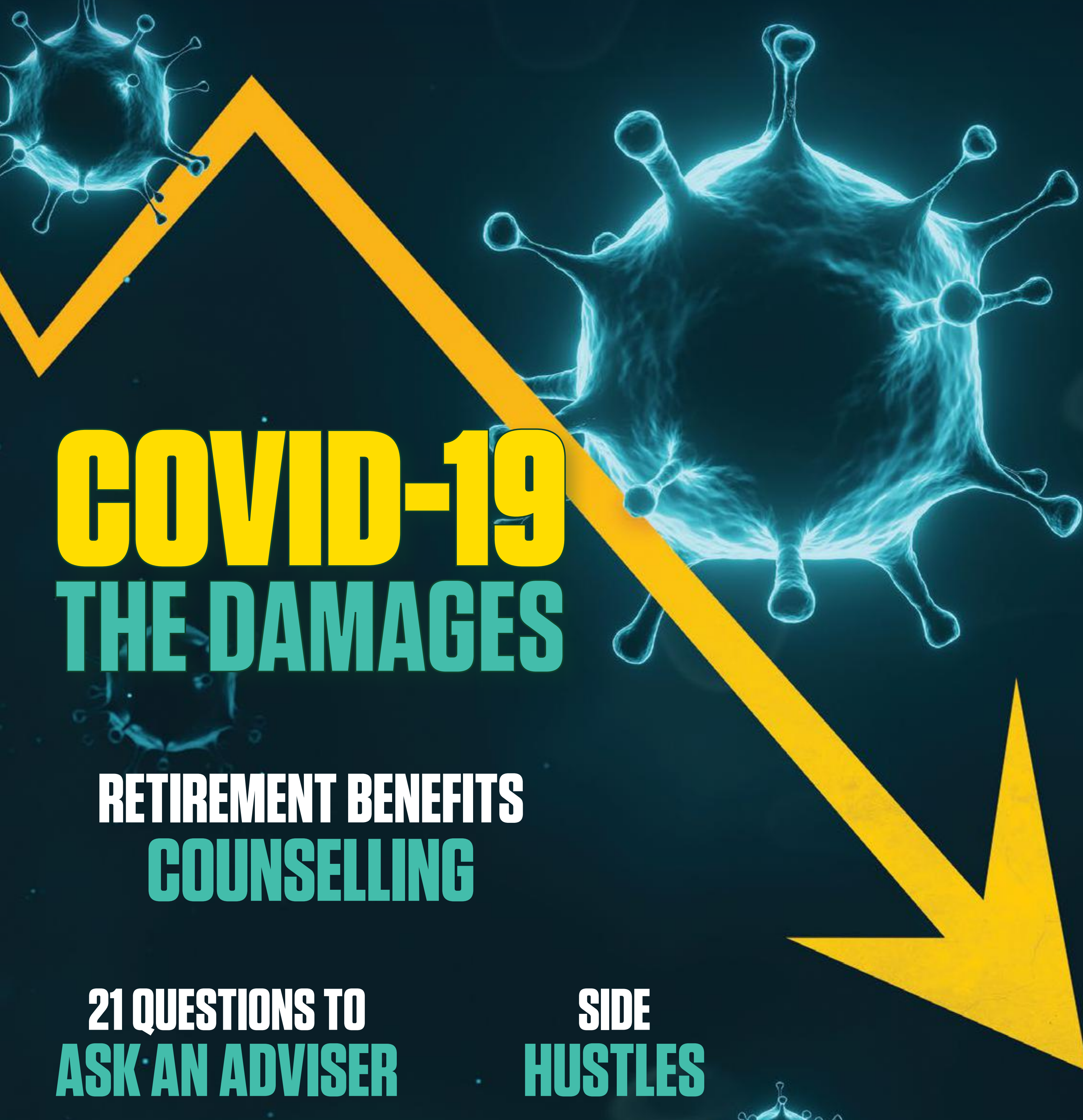
VOLUME 83 • 2ND QUARTER 2020 WWW.PERSFIN.CO.ZA

PERSONAL FINANCE

WEALTH • INVESTMENT • PROSPERITY



COVID-19 THE DAMAGES

RETIREMENT BENEFITS COUNSELLING

21 QUESTIONS TO ASK AN ADVISER

SIDE HUSTLES

TRACK YOUR FORTUNE WITH OUR DATABANK

CONTENTS

COVER STORY

Short, sharp shock or another Great Depression?
Will economies bounce back relatively quickly once Covid-19 is brought under control, or will the damage be so severe that it takes years to recover? **10**

FEATURES

16 Your employment contract in a crisis
Can your employer invoke a "force majeure" clause to retrench you?

18 Something on the side
The things people do to supplement their income.

23 First-quarter bloodbath
Don't make rash decisions after seeing the unit trust results.

24 Joining a medical scheme in a crisis
Restrictions and penalties that schemes may inflict on you.

26 IMF aid: help or hindrance?
Why seeking IMF assistance may be to our benefit.

30 21 questions to ask a financial adviser
Now more than ever, you need an adviser you can trust.

34 Why retirement benefits counselling is good for you
Regulations demand that you are counselled on your savings.

39 Boutique firm is Manager of the Year
Raging Bull Awards for unit trust performance to the end of 2019.

46 Selling property properly
A new Act directed at estate agents will benefit you, the consumer.

50 Accrual: beware the pitfalls
Each marital regime has its drawbacks and this one is no exception.

52 A novel way of investing offshore
The ins and outs of actively managed certificates.

REGULARS

4 Upfront
An unforeseen catastrophe

6 Your letters
Readers' queries answered by experts

8 Book review
Our pick of financial books

54 Fund focus
The Mi-Plan IP Global Macro Fund

56 On the contrary
Keeping perspective in times of fear

DATABANK

57 A list of the adjudicators and the ombuds who can assist you with your complaints, followed by the unit trust quarterly results, tax rates and annuity rates

21 QUESTIONS

to ask a financial adviser

Trust should never be given lightly. Now more than ever you need to be 100% certain that the person you appoint to deal with your finances is both trustworthy and has the necessary expertise. The South African Independent Financial Advisors' Association has compiled a list of questions you need to ask, writes **Martin Hesse.**

Isn't it funny how discerning we are when it comes to spending money on personal goods, particularly big-ticket items, and yet on vital matters concerning our future financial security we can be so casual?

If you're buying a car, for example, you will probably spend hours gathering information about different models on the market, weighing up costs versus benefits, before making a final decision. But do you do the same when buying a life insurance policy, making an investment, or, at retirement, converting your retirement benefit into a pension (annuity) product?

The chances are that you're likely to accept the recommendations of a financial adviser or insurance broker, without asking too many questions.

The world of investments and finance is intimidating. People instinctively tend to trust someone who is in the business of financial services and appears to be knowledgeable on the topic – just as they would trust a medical doctor on health matters or an attorney on matters of law.

But it's a big mistake to assume that the person who is advising you on your finances has the professional standing of a doctor or lawyer and has your best interests at heart.

Take, for example, three pensioners who contacted Personal Finance after the Pretoria-based financial company Ecsponent set alarm bells ringing by informing its preference shareholders it would not be paying them their dividends in March this year. Each of these people had invested a substantial portion of their life savings (one of them nearly R4 million) in these preference shares, which, they were led to believe by the unscrupulous advisers selling them and by the outrageously misleading investment "fact" sheets, were almost as safe as a bank deposit.

Whether these poor pensioners will see their money again is debatable at the time of writing, because with the added pressures of the Covid-19 crisis, Ecsponent may well not survive.

The bottom line is that you need to thoroughly investigate the adviser or broker through whom you buy any financial product. A probe into whether an investment or company is worth investing in or not is known in the industry as a "due diligence" assessment. Your adviser is compelled to do due diligence on products he or she offers you. But you, for your own peace of mind, need to do a due diligence assessment of your adviser.

Trust is key. But it should never be given lightly. It must be established first and foremost through a knowledge of an adviser's qualifications, background and track record, among other things.

The Financial Sector Conduct Authority's Retail Distribution Review (RDR) programme, which began a few years ago and which will reform how financial products are distributed in South Africa, aims to differentiate between advisers who are in the employ of product providers such as Sanlam, Old Mutual and Liberty, and those who operate independently. A discussion paper, released by the FSCA in December, aims to solidify the distinction between the former, termed a Product Supplier Agent (PSA), and the latter, termed a Registered Financial Adviser – currently known as an Independent Financial Adviser (IFA).

Whatever the final agreed-on terminology and exact definitions, in the future you should confidently be able to tell between these two basic types of adviser: those who essentially sell the products of their employer and those who may have sales agreements with a range of product providers, but who are not in the direct employ of any such provider.

However, you cannot simply assume that an IFA will give more objective advice. Even an IFA may have behind-the-scenes interests that may conflict with yours.

DUE DILIGENCE

In this regard, the South African Independent Advisors' Association (SAIFAA), which "promotes the value of independent financial advice in the modern financial services market", has compiled a list of 21 questions that need to be asked when appointing a financial adviser, whether a PSA or an IFA. The questions constitute, in effect, your "due diligence" of the person to whom you will be entrusting your money and future financial security.

Ideally, your relationship with an adviser should not be limited to when you want to take out a new insurance policy or have an extra few thousand rands to invest. The real benefit to you lies in a deeper, long-term relationship – when your adviser comes to know you and your family as intimately as a family doctor or parish priest.

On this note, Derek Smorenburg, founder and chief executive of SAIFAA, says one of the first signs of whether you can trust an adviser or not is whether he or she includes your spouse – and other family members – in the discussion.

There's little doubt about the value of such a relationship. Smorenburg says research from the United States shows that consumers who use financial advisers enjoy financial outcomes between 35% and 40% better than those who don't.

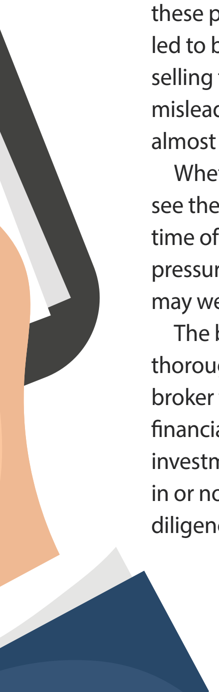
So whom do you choose? How do you choose?

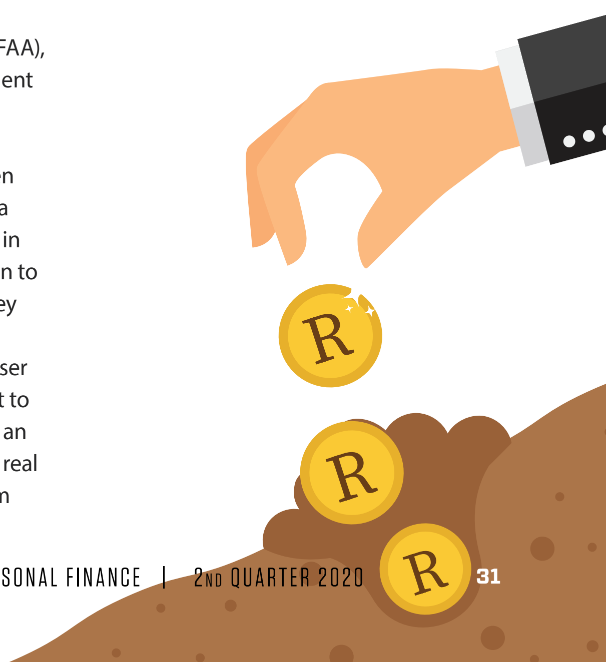
Smorenburg says most people actually don't know what they should be looking for or what questions they should be asking. And so, with input from SAIFAA members, he compiled a list, which began as seven questions and expanded to 21.

A professional adviser will cover some of these questions in a service level agreement, which should be drawn up on your first meeting. Moreover, some, such as the disclosure of fees and costs, are required by law.

Smorenburg says that for many of the questions there is no right or wrong answer. It's the way in which the adviser answers them that should give you important clues as to whether he or she is deserving of your trust or not.

The first six questions are general questions about the adviser, while questions seven to 21 dig down into the adviser's business and what it provides.





THE 21 QUESTIONS

1 **How can I be sure that you will put me and my family's best interests first and how do I know you are the right adviser for me?** Similar to what an employer would ask a prospective employee, the way the adviser answers this will immediately tell you whether to proceed further ornot.

2 **Do you have the relevant experience and knowledge to deal with our specific situation?**
This will indicate how good a fit the adviser is to you and your family's unique circumstances.

3 **What is your appropriate experience and your suitable qualifications as a financial adviser?**
You need to know how long the adviser has been in practice and the extent of his qualifications. For example, the Certified Financial Planner certification is internationally recognised, and may only be conferred on someone with a relevant university degree, a Postgraduate Diploma in Financial Planning and several years' experience.

4 **What ongoing educational and updating processes do you partake in annually to ensure that your advice and guidance is appropriate?**
A professional adviser will constantly keep up to date with developments in the industry and legislative changes. The adviser may be required by the professional body to which he or she belongs to earn ongoing CPD (continuous professional development) points.

5 **Are you registered with the Financial Sector Conduct Authority for the services offered to me and my family?**
This is essential. Your adviser must be registered and have a valid financial services provider (FSP) licence, as required by the Financial Advice and Intermediary Services (FAIS) Act. There are different levels of licence according to the types of products an FSP can give advice on. The Act also contains a code of conduct, to which FSPs must adhere.

6 **Do you belong to a relevant industry body that indicates a certain competency level?**
Bodies include SAIFAA, the Financial Planning Institute, the Financial Intermediaries Association and the Institute of Retirement Funds Africa.

7 **What is the full range of services you and your practice provide?** Some practices are more specialised than others. You need to ensure the practice offers the range of services you require, which may include tax management and estate planning.

8 **Do you represent a wide range of insurance companies' products and a variety of investment houses, which ones and why?**
A PSA will represent only his or her employer's products, although the employer's investment platform is likely to carry a wide range of underlying investments from an array of asset managers. An IFA should be able to offer products from a variety of suppliers.

9 **How will our relationship work, how often will we meet, and will this be based on a written agreement?**
Smorenburg says a service level agreement should be easy to understand and fully explained. You may also require the adviser to invest on your behalf, and this would need an investment strategy agreement mandate signed by you.

10 **How do you get paid?**
The adviser may receive a commission from the product provider on the products you buy. Otherwise, he or she may charge a fee based on a percentage of your assets, or a time-related fee according to an hourly rate.

11 **Who is your employer?**
In the case of a PSA, this would be the product supplier. An IFA may be self-employed or work for an advisory practice.

12 **Do you or your practice have any direct or indirect interests in any third-party administrators or financial services providers, and would this create conflicts of interest?**
Smorenburg says the adviser may be a shareholder in a third-party company providing services to the practice, from which he or she may receive dividends. The arrangement may also result in an additional layer of fees. There may be benefits to you – for example, the adviser may be aligned with a discretionary fund manager (DFM) to invest on your behalf at a low institutional rate instead of the higher retail rate. But these business relationships must be fully disclosed so that you can be the judge of whether or not they conflict with your interests.

13 **What are the all-in costs of products and services, including and excluding advisory fees?**
It is a requirement of the FAIS Act that all costs – which would include investment costs, administration costs, commissions and adviser's fees, as well as any possible penalty charges on the early termination of contractual endowment policies and retirement annuities – are fully disclosed to you. If the adviser is aligned with a DFM or using a third-party investment platform

such as Glacier by Sanlam, there may be an extra layer of costs.

14 **To what degree and how often do you conduct a due diligence of the products, services and companies that you recommend?** Again, this is a requirement of the FAIS Act. PSAs would have the support of their employer organisation, which would be responsible for such assessments. IFAs would need to do such work on their own, particularly on "alternative" types of investments that may carry higher risks. The Ecsponent case is an example of failure in this regard on the part of advisers.

15 **What happens to our investments and services when you retire or sell your business?** Smorenburg says IFAs often don't give enough attention to succession planning. Your adviser should be able to tell you how you will be served if he or she is no longer there to do it or if the business changes hands.

16 **Can I obtain references from two other happy clients?**
References from other clients are as essential as employer references from a prospective employee.

17 **Have you been sued or have any reported legal actions against you or your practice, and what recourse do we have if something goes wrong?**
The protection you have in the case of loss owing to negligence is dependent on the adviser's professional indemnity cover. You need to ensure that the adviser has such cover in place and the extent of the cover.

18 **What are your views on investments?**
What is your investment philosophy, what asset allocation will you use, and what investment benchmarks do you use? Investment strategy and asset allocation should vary from client to client depending on each client's risk profile and investment horizon.

19 **Who are your compliance companies/service providers and are they independent from your practice?**
Large advisory practices may have internal compliance officers, who ensure that the practice is adhering to regulations. However, this function is increasingly outsourced to external compliance firms.

20 **Do you subscribe to the Treating Clients Fairly principles?**
These are the outcomes on which current reforms in financial services legislation are based. Your adviser should not only be aware of them but actively promoting them and putting them into practice, Smorenburg says.

21 **How would you answer the following: "Is your client's money your client or is the client your client?"**
Smorenburg says an adviser who has your best interests at heart will look at more than just your finances and take a holistic approach to you and your family's well-being. For example, if you are close to or in retirement, an IFA who has completed SAIFAA's Certified Post Retirement Professional programme would be able to guide you on lifestyle issues such as post-retirement accommodation and your mental and physical health in retirement. PF