
Business Studies

Section: Investment (Chapter 13)

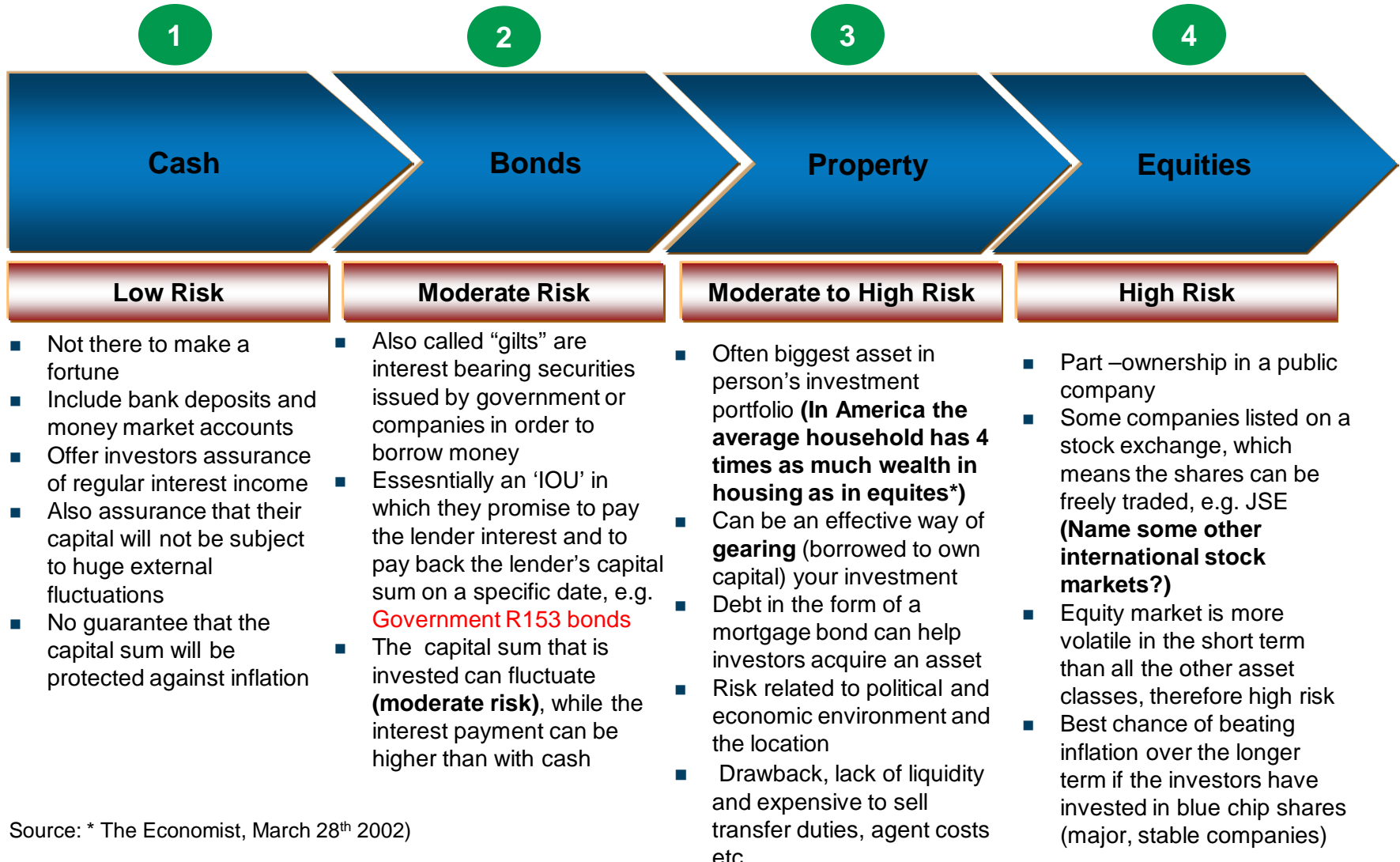
Key question: Critically evaluate different **investment opportunities** and substantiate a **choice** of investment in a particular situation?



Contents

1. Major Asset Classes and Risk
2. Risk Profiling
3. Investment strategies
4. Annuities
5. Endowments
6. The Stock Market
7. The Risks and Rewards of Interest-bearing Investments
8. Unit Trusts
9. Satrix Exchange
10. The Cash Option
11. Kruger Rands
12. Collectibles
13. Off-shore Investments
14. Investments and Taxation

An investor should be able to **differentiate** between the four major asset classes and the risk inherent in each



Source: * The Economist, March 28th 2002)

Diversification????

Contents

1. Major Asset Classes and Risk
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3. Investment strategies
4. Annuities
5. Endowments
6. The Stock Market
7. The Risks and Rewards of Interest-bearing Investments
8. Unit Trusts
9. Satrix Exchange
10. The Cash Option
11. Kruger Rands
12. Collectibles
13. Off-shore Investments
14. Investments and Taxation

To determine the best options for an investor most brokers and companies will first complete an investment risk profile



- Time horizon of the investment
- The current financial position of the investor
- Investment objectives
- Risk tolerance

After studying these areas the most appropriate combination of assets/investment options can be determined for an individual

Example of questions asked by a South African firm **Power Brokers and Financial Services in a risk profile analysis:**

1. Which one of these investments would you feel more comfortable owning?

- Fixed deposits
- Government stock
- Shares in older established companies
- Blue chip international investments
- Shares in overseas emerging markets

Risk profile analysis continued...

2. Is your future financial goal

- Vital, such as saving for your child's future education or saving for your retirement.
- Important such as paying off your car early.
- A luxury that you can do without, such as an overseas holiday.

Risk profile analysis continued...

4. Which of the following investment returns would most appeal to you if you were to invest an initial amount of R20 000 for one year?

- A Guaranteed amount of R21 000
- Any amount between R20 000 to R22 000
- Any amount between R18 000 to R23 000
- Any amount between R15 000 to R26 000
- Any amount between R0 to R30 000

Risk profile analysis continued...

5. Please select the statement most applicable to you:

- I would rather protect my assets, even though there may be limited growth potential.
- I would rather experience steady growth each year.
- I would like high growth even though it may mean very volatile returns in the short term.

Contents

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4. Annuities
5. Endowments
6. The Stock Market
7. The Risks and Rewards of Interest-bearing Investments
8. Unit Trusts
9. Satrix Exchange
10. The Cash Option
11. Kruger Rands
12. Collectibles
13. Off-shore Investments
14. Investments and Taxation

Investment Strategy	Investor objectives	Asset classes	Additional comments
Conservative	<ul style="list-style-type: none"> • <i>High degree of income</i> • <i>Maintain capital investment</i> • <i>Very low risk</i> 	<ul style="list-style-type: none"> • <i>Bonds</i> • <i>Property</i> • <i>Cash</i> 	<ul style="list-style-type: none"> • Less investments in equities
Defensive	<ul style="list-style-type: none"> • <i>Stable income</i> • <i>Growth in capital</i> • <i>Low risk</i> 	<ul style="list-style-type: none"> • <i>Bonds</i> • <i>Property</i> • <i>Cash</i> 	<ul style="list-style-type: none"> • Relatively low weighting in equity
Balanced	<ul style="list-style-type: none"> • <i>Combination of growth in income and capital</i> • <i>Moderate risk over the medium to long term</i> 	<ul style="list-style-type: none"> • <i>Equities</i> • <i>Bonds</i> 	<ul style="list-style-type: none"> • none
Growth	<ul style="list-style-type: none"> • <i>Long term capital growth</i> • <i>Little concern regarding earnings of current income</i> • <i>High risk (although less than the market as a whole)</i> 	<ul style="list-style-type: none"> • <i>Equities</i> 	<ul style="list-style-type: none"> • The higher the growth requirements, the higher the risk will be

Contents

1. Major Asset Classes and Risk
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3. Investment strategies
4. Annuities
5. Endowments
6. The Stock Market
7. The Risks and Rewards of Interest-bearing Investments
8. Unit Trusts
9. Satrix Exchange
10. The Cash Option
11. Kruger Rands
12. Collectibles
13. Off-shore Investments
14. Investments and Taxation

Annuities



- Usually bought with retirement savings
- (RA) retirement annuity
- Monthly premium paid, in return for a lump sum and monthly pension after you retire (age between 55 and 65)
- Income may be made monthly or annually and may be for a specified term or until death
- Government gives a tax relief on premiums paid towards an RA **(WHY?)**

Contents

1. Major Asset Classes and Risk
2. Risk Profiling
3. Investment strategies
4. Annuities
5. Endowments
6. The Stock Market
7. The Risks and Rewards of Interest-bearing Investments
8. Unit Trusts
9. Satrix Exchange
10. The Cash Option
11. Kruger Rands
12. Collectibles
13. Off-shore Investments
14. Investments and Taxation

Endowments

- Savings plan
- Monthly amount invested for a specific period of time (usually 5 or 10 years)
- Then the assurer (e.g. Old Mutual) agrees to pay out on the maturity of the policy
- Offers choices with regard to where money should be invested
- Life assurance can also be added (on death it will pay out the larger of either the agreed death benefit or the investment return)
- Pure endowment policy will have no death benefit, i.e. If the policy holder dies before the maturity date, the policy will only pay the accrued value (contributions less admin fees) up to that time

Contents

1. Major Asset Classes and Risk
2. Risk Profiling
3. Investment strategies
4. Annuities
5. Endowments
6. The Stock Market
7. The Risks and Rewards of Interest-bearing Investments
8. Unit Trusts
9. Satrix Exchange
10. The Cash Option
11. Kruger Rands
12. Collectibles
13. Off-shore Investments
14. Investments and Taxation

The Stock Market



Comparatively South Africa was one of the better performing countries in terms of stock market performance in 2008

WORST PERFORMING STOCKMARKETS 2008*

- * Iceland: -94%
- * Bulgaria -80%
- * Ukraine -73%
- * UAE - 72%
- * Serbia -71%
- * Lithuania -71%
- * Romania -70%
- * Slovenia -68%
- * Vietnam -67%
- * Greece -66%

*Local Currency Valuations

BEST PERFORMING STOCKMARKETS 2008*

- * Tunisia: +10%
- * Costa Rica: -4%
- * Morocco: -6%
- * Venezuela: -9%
- * Botswana: -15%
- * Slovakia: -19%
- * Lebanon: -21%
- * Chile: -23%
- * Mexico: -25%
- * South Africa: -27%

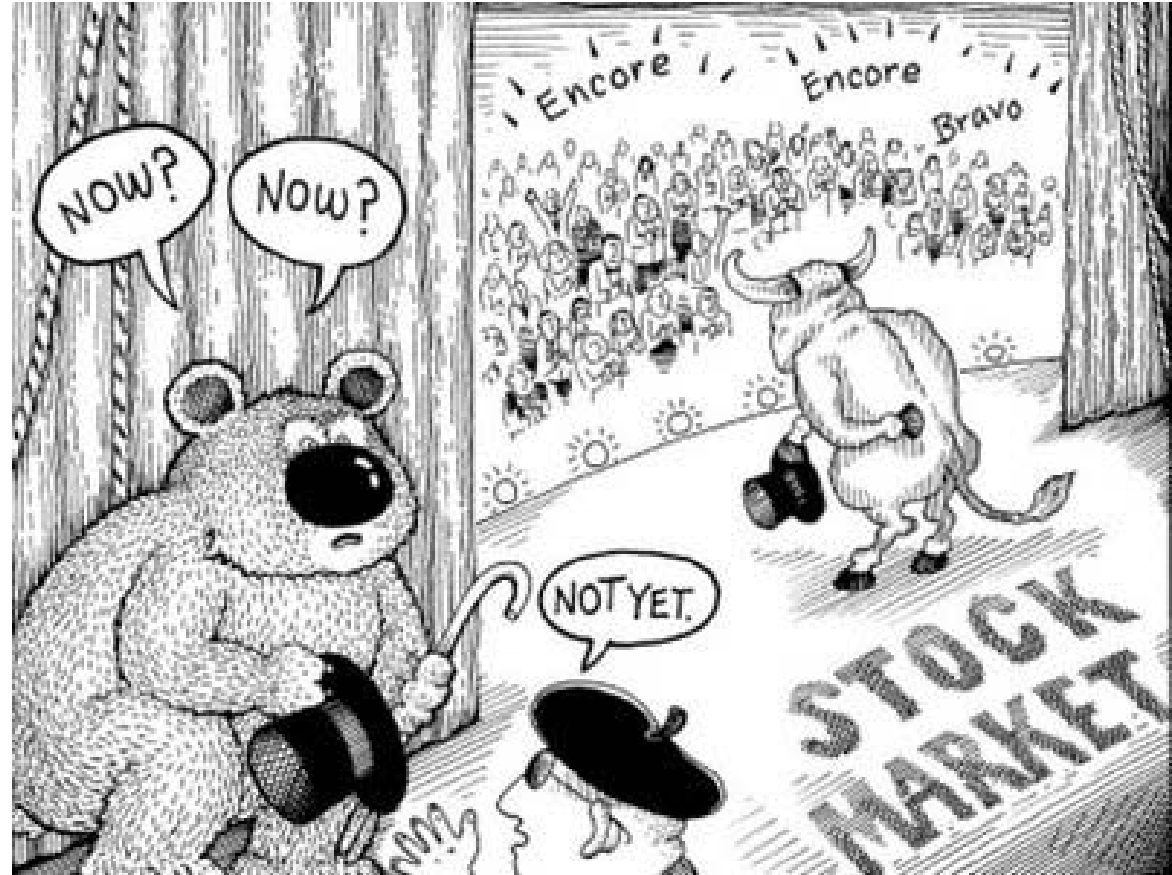
* Local Currency Valuations

Cost of buying equities

- **Stockbroker's fee-** Charge around 1% of the value of your trade (between 0.4% and 1.5%) depending on the size of the trade and the nature of the service required
- **MST** or marketable securities tax- is currently 0.25% of the traded amount
- **VAT-** 14% on all brokerage and other fees charged
- A **STRATE** levy (share transactions totally electronic)- The administrative costs of the system are funded by a levy of R6.00 per trade
- **Administrative costs-** Brokers charge for administrative charges on a quarterly or annual basis; e.g. For the collection of your dividends and interest, keeping your share certificates and Kruger Rands in safe custody, insurance and exercising corporate actions (such as name changes or share splits) on your behalf

Stock market terminology:

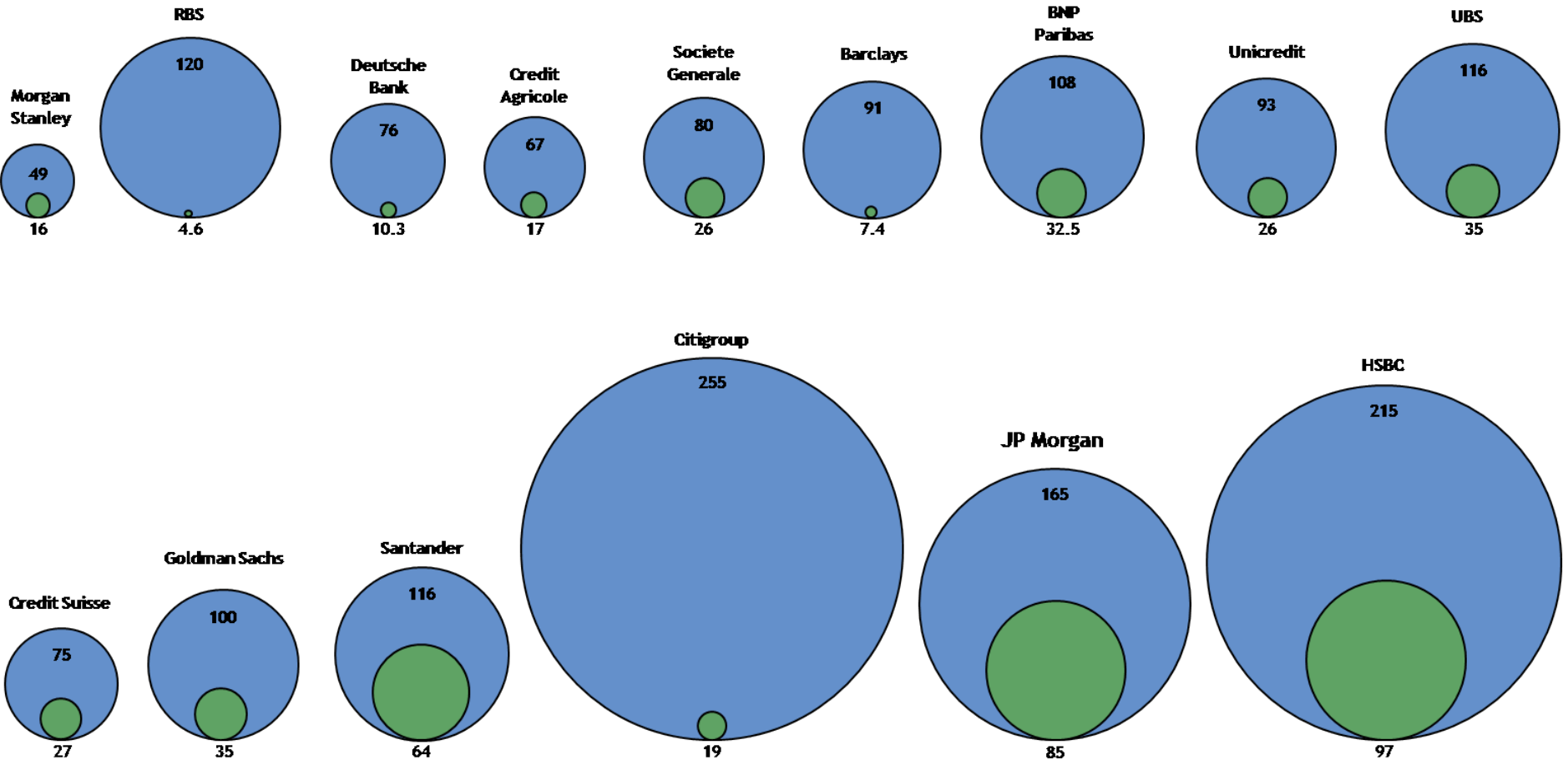
- Bull/bear market
- Preference shares
- Spread
- Market capitalization
- Rights offer
- Blue-chip shares
- Green-chip shares
- Black-chip shares
- DY- Dividend Yield
- EY- Earnings Yield
- PE ratio- Price Earnings ratio



Banks: Market Cap

● Market Value as of January 20th 2009, \$Bn

● Market Value as of Q2 2007, \$Bn



While JPMorgan considers this information to be reliable, we cannot guarantee its accuracy or completeness

Homework for Monday 2 February:

■ Find the following information from any news source on the weekend:

- Buy
- Sell
- Last
- PE
- DY
- H
- L
- DM
- YM%
- DV



■ Please find this information for the following listed companies:
IMPLATS, DIDATA, SASOL, WBHO, FIRSTRAND

Homework summary

Company	PE	Closing price= Last	High (12 month)	Low (12 Month)	% change from highest price to lowest price
SASOL	7,2	27600	51800	21656	58%
FIRSTRAND	7,9	1490	2005	1105	45%
IMPLATS	5,8	11892	36800	8655	76%
WBHO	7,7	9718	15480	8300	46%
DIDATA	9,9	531	830	400	52%

Strategies to Limit Losses

■ Stop-loss strategy



■ Rebalancing

Contents

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5. Endowments
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8. Unit Trusts
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10. The Cash Option
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The risk and rewards of interest-bearing investments

- Focus of interest-bearing investments is not on capital growth but rather on the provision of a steady income stream (often at a fixed rate)
- They are often perceived as a safe haven for investors (low return but low risk)
- However, this 'safe' asset class is not safe from inflation
- **Question: What is the current inflation rate in South Africa, and what is the main measure monitored by the South African Reserve Bank to keep inflation in check?**
- Interest bearing investments often do not beat inflation, and **N.B.** Interest income is taxable if it exceeds the threshold



The face behind inflation targeting in South Africa, the Reserve Bank governor Tito Mboweni

Contents

1. Major Asset Classes and Risk
2. Risk Profiling
3. Investment strategies
4. Annuities
5. Endowments
6. The Stock Market
7. The Risks and Rewards of Interest-bearing Investments
8. Unit Trusts
9. Satrix Exchange
10. The Cash Option
11. Kruger Rands
12. Collectibles
13. Off-shore Investments
14. Investments and Taxation

Unit trusts

Diversification

- Definition?
- Three parties to a unit trust investment:
 - The unit trust Management Company that manages the investment on behalf of the investors. The Management Company employs a team of portfolio managers to manage the unit trust's investments
 - The trustee company, usually a bank or insurance company, which is responsible for the safekeeping of the portfolio of assets
 - The unit holder, i.e. You and a whole group of other investors
- Investment strategy 'rand cost averaging'
- Unit trusts are divided into three broad categories:
 - Domestic funds (max. Of 15% outside SA)
 - Worldwide funds (between 15% and 85% outside SA)
 - Foreign funds (more than 85% outside SA)

Contents

1. Major Asset Classes and Risk
2. Risk Profiling
3. Investment strategies
4. Annuities
5. Endowments
6. The Stock Market
7. The Risks and Rewards of Interest-bearing Investments
8. Unit Trusts
9. Satrix Exchange
10. The Cash Option
11. Kruger Rands
12. Collectibles
13. Off-shore Investments
14. Investments and Taxation

Satrix Exchange

- **Satrix** securities are **Collective Investment Schemes**. They provide the same returns as would be received if the investor had directly purchased shares in each company in the relevant JSE index
- **Satrix** is designed to give low-cost exposure to the JSE. Firstly, there is only a single transaction cost when you buy Satrix. Secondly, the stocks that make up Satrix change very seldom. Unlike actively managed funds, where the managers are constantly dealing and adjusting the portfolio, investors in Satrix don't have these costs. You get transparency, value for money and instant access
- **Advantages:**
 - Well diversified investment
 - You can buy or sell at any time, at a price which reflects net asset value
 - You can invest at a low cost, Sales and transaction costs are external to the fund
- **SATRIX funds:** (TOP40, INDI25, FINI15, Swix Top 40, RESI 20, Dividend Plus)

Contents

1. Major Asset Classes and Risk
2. Risk Profiling
3. Investment strategies
4. Annuities
5. Endowments
6. The Stock Market
7. The Risks and Rewards of Interest-bearing Investments
8. Unit Trusts
9. Satrix Exchange
10. The Cash Option
11. Kruger Rands
12. Collectibles
13. Off-shore Investments
14. Investments and Taxation



Contents

1. Major Asset Classes and Risk
2. Risk Profiling
3. Investment strategies
4. Annuities
5. Endowments
6. The Stock Market
7. The Risks and Rewards of Interest-bearing Investments
8. Unit Trusts
9. Satrix Exchange
10. The Cash Option
11. Kruger Rands
12. Collectibles
13. Off-shore Investments
14. Investments and Taxation

Contents

1. Major Asset Classes and Risk
2. Risk Profiling
3. Investment strategies
4. Annuities
5. Endowments
6. The Stock Market
7. The Risks and Rewards of Interest-bearing Investments
8. Unit Trusts
9. Satrix Exchange
10. The Cash Option
11. Kruger Rands
12. Collectibles
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Contents

1. Major Asset Classes and Risk
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4. Annuities
5. Endowments
6. The Stock Market
7. The Risks and Rewards of Interest-bearing Investments
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9. Satrix Exchange
10. The Cash Option
11. Kruger Rands
12. Collectibles
13. Off-shore Investments
14. Investments and Taxation

Contents

1. Major Asset Classes and Risk
2. Risk Profiling
3. Investment strategies
4. Annuities
5. Endowments
6. The Stock Market
7. The Risks and Rewards of Interest-bearing Investments
8. Unit Trusts
9. Satrix Exchange
10. The Cash Option
11. Kruger Rands
12. Collectibles
13. Off-shore Investments
14. Investments and Taxation

The more legal formalities involved in starting the business, the more **expensive**, **difficult** and **time consuming** it will be to establish the business

1

Sole traders

- First point
 - Sub point A
 - Sub point B
- Second point

2

Partnerships

- First point
 - Sub point A
 - Sub point B
- Second point

3

Close corporations

- First point
 - Sub point A
 - Sub point B
- Second point

4

Private and public companies

- First point
 - Sub point A
 - Sub point B
- Second point

These are the standard colours to be used; this is the lower row of colours in your colour pallet, the top row should only be used for exceptions

150 150 150	Dark Grey
192 192 192	Light Grey
2 61 98	Dark Blue
4 120 192	Light Blue
0 66 33	Dark Green
1 153 77	Light Green
157 19 19	Dark Red

This is a standard text slide; title always in Arial 20 and preferably only two lines

FLAG ALWAYS IN FONT 12, NOT BOLD, IN CAPITALS

Subhead in font 16, located here

EXAMPLE

ILLUSTRATIVE

- Always use English UK spelling
 - This is a sub bullet
 - And this is the standard for a sub sub bullet
- Writing for prices is: € xx mln. or R xx mln.
- Notes always at the bottom of the page located such as is shown here
- References to the notes (numbers in the text itself) always with Format, Font and brackets⁽¹⁾
- Always work within the gridlines on the far side of the slides and never go outside these gridlines
- Use tables from standard template so without the bold edges
- FTE's always spelled like this

This is the Agenda or Contents page for a presentation

- Role of the ExCo
- Status Update and Key Decisions
- Work stream Review and Key Decisions
 - Track & Trace
 - Vision & Design
 - ...

Template for three boxes

Subhead

The image shows three identical presentation boxes arranged horizontally. Each box is labeled with a number in a green circle in its top-left corner: 1, 2, and 3. Each box has a blue header bar with the word 'Title' in white. Below the header, each box contains a list of points:

- First point
 - Sub point A
 - Sub point B
- Second point

Green arrowheads point from the right side of box 1 to box 2, and from the right side of box 2 to box 3.

This is an example of a tombstone in a presentation;
16-Point bold

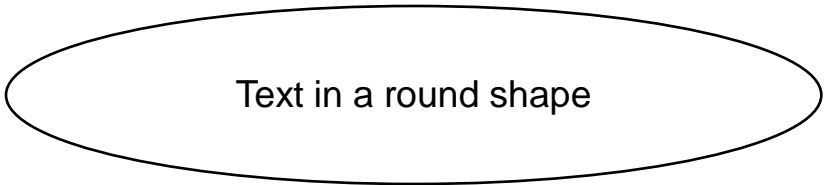
Several standard formats

- 1
- 2
- 3
-
-

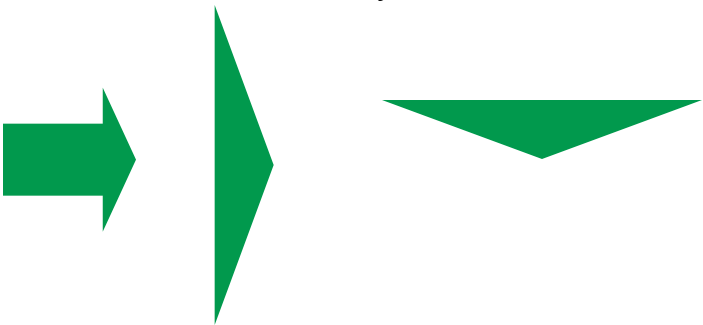
- Example of text box in colour, can be font 14 or 12
- ...
- ...
- ...

- Example of a text box in white, can be font 14 or 12
- ...
- ...
- ...

- Example of text without a box around it
- ...
- ...



Arrows on a slide always in this colour



Example of a table with bullets

Subhead

Column head	Column head	Column head	Column head	Column head
<ul style="list-style-type: none">▪ Bullet 1▪ Bullet 2<ul style="list-style-type: none">• Sub bullet• Sub bullet	<ul style="list-style-type: none">▪ ...▪ ...	<ul style="list-style-type: none">▪ ...▪ ...	<ul style="list-style-type: none">▪ ...▪ ...	<ul style="list-style-type: none">▪ ...▪ ...
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Total	Total	Total	Total	Total

Example of a table without bullets

Subhead

Column head	Column head	Column head	Column head	Column head
Total	Total	Total	Total	Total

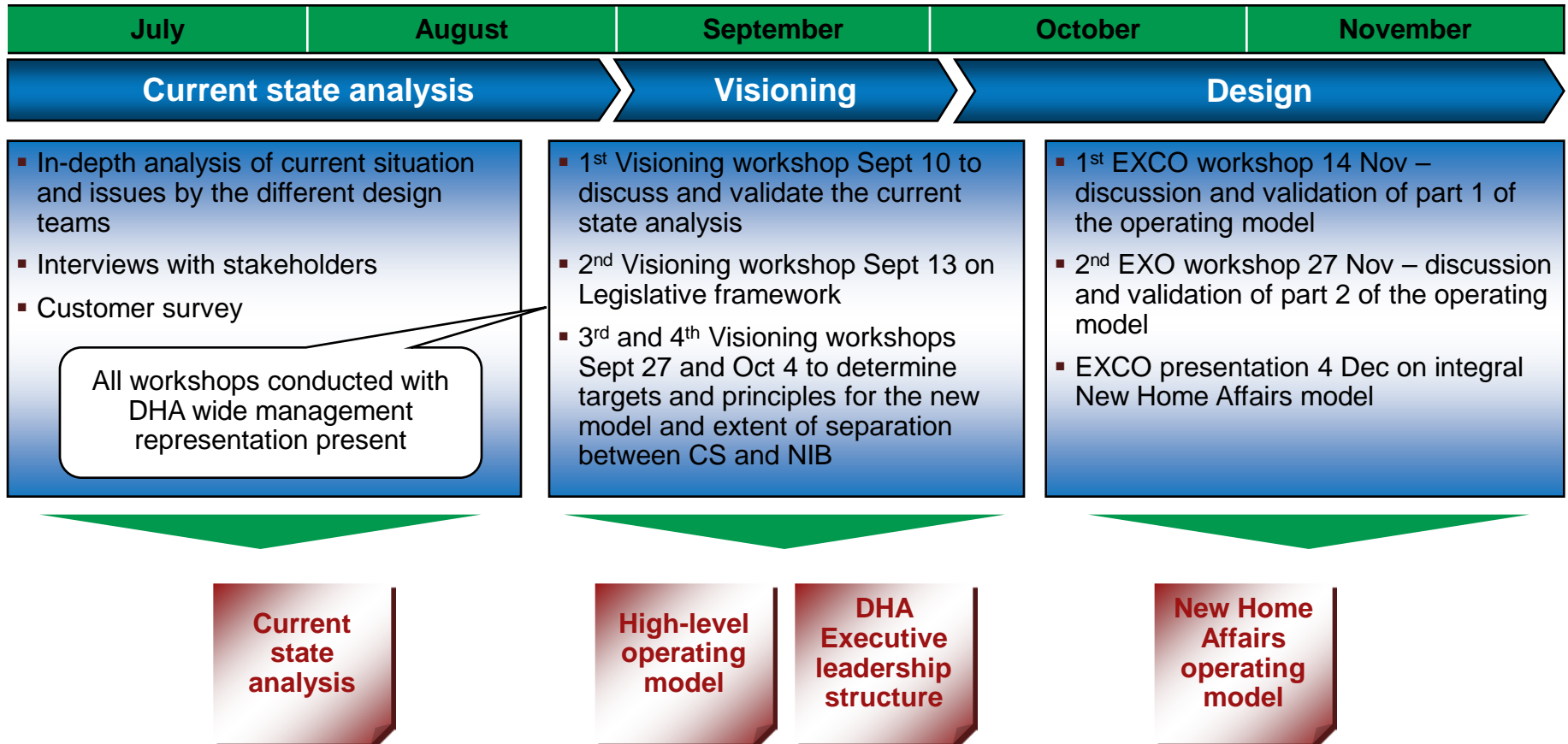
Appendix (this can be used when your appendix has subsections)

- Highlighted Subsection 1
- Subsection 2
- Subsection 3

**Example slides (this format
can be used when you have
one appendix)**

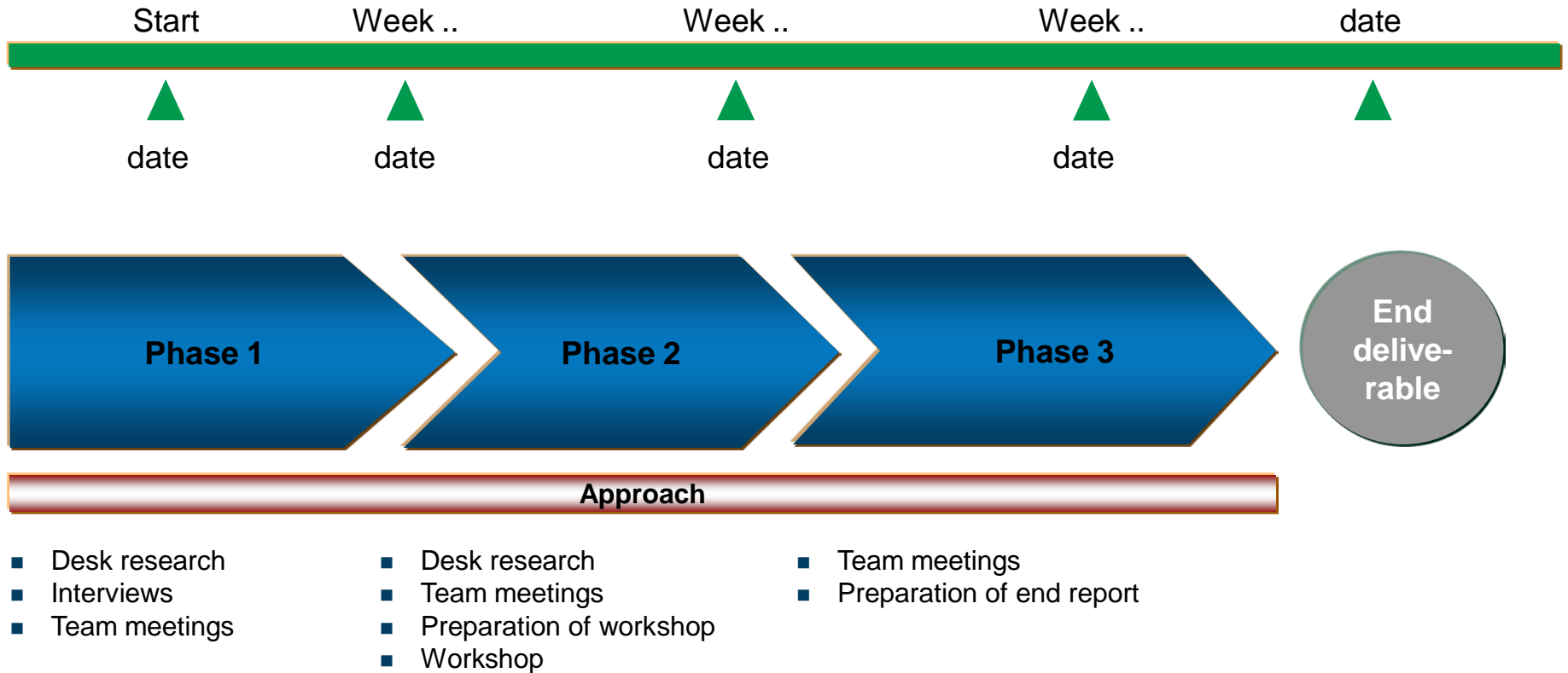
Template with timeline and phases

Overview of process followed and consultation



Another template with timeline

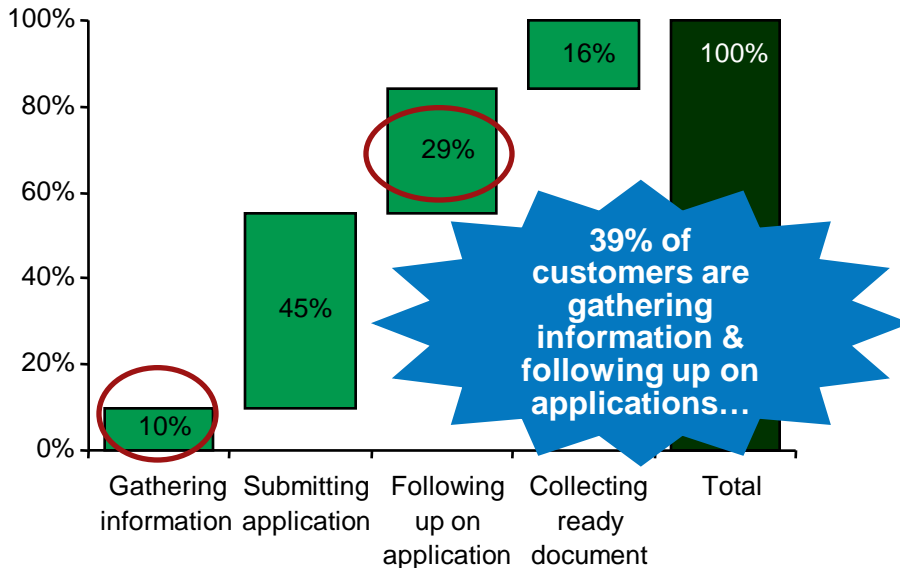
Subhead



Templates for different graphs

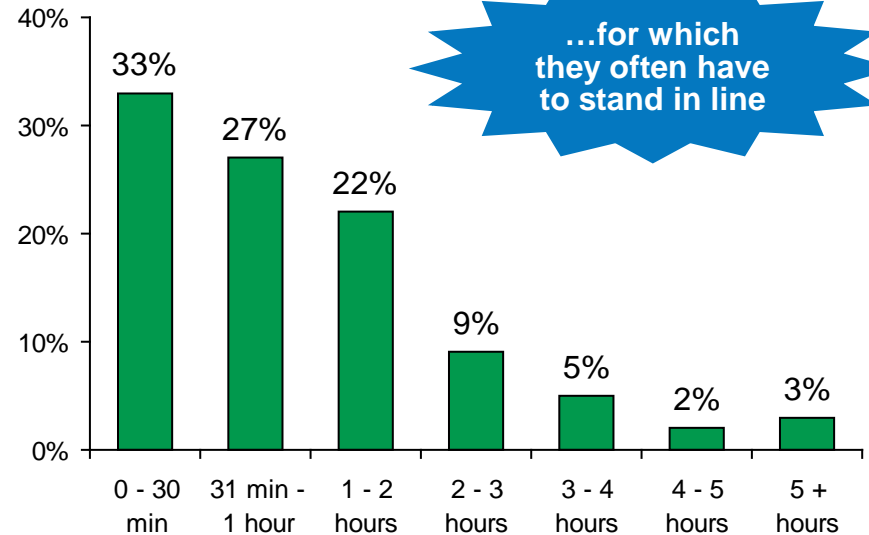
Analysis of customer visits to DHA offices

Reason for being at DHA office



...for which they often have to stand in line

Waiting times of respondents when visiting an office



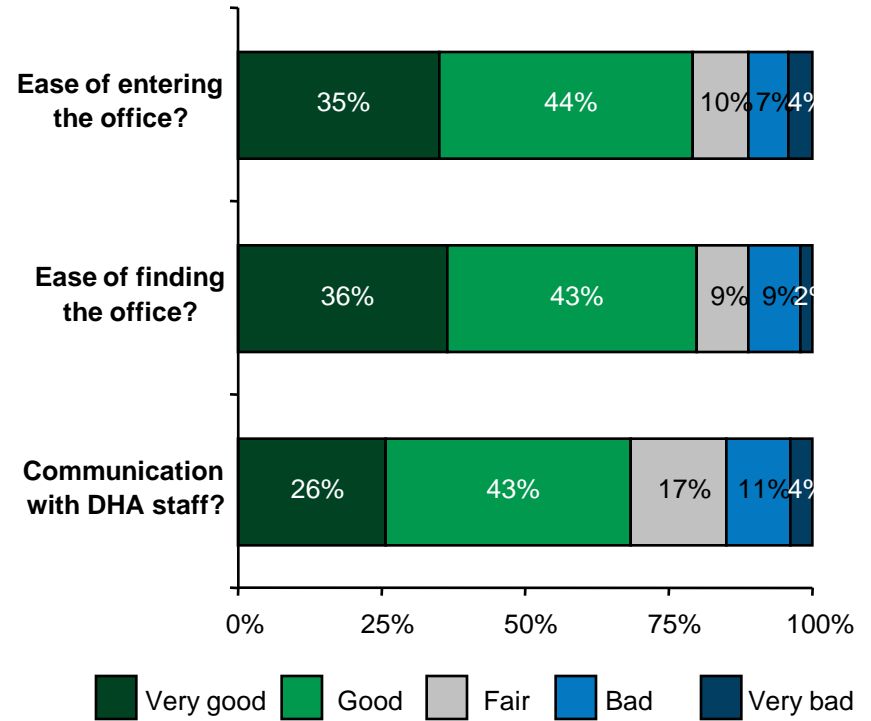
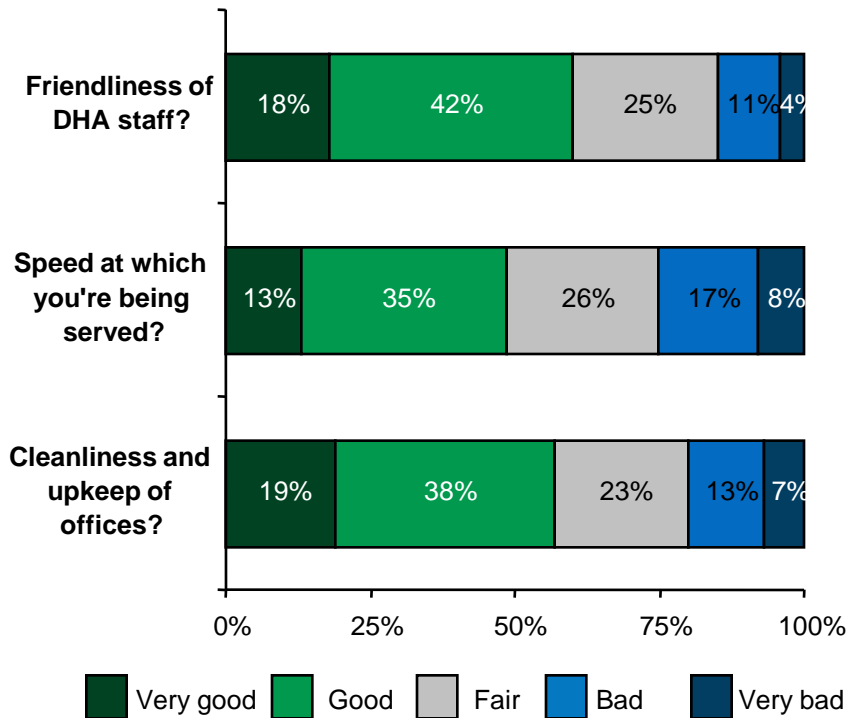
- Total number of Civic Services delivered is 7.3 mln⁽¹⁾
- If conservatively estimated each customer visits a DHA office twice to get that service, there are 14.6 mln. customer interactions for Civic Services through an office, of which around 5.7 mln. could possibly be dealt with through other channels

Moving these interactions to other channels should be investigated

Note: (1) Civic services volumes from financial year 2006/2007

Templates for different graphs cont'd

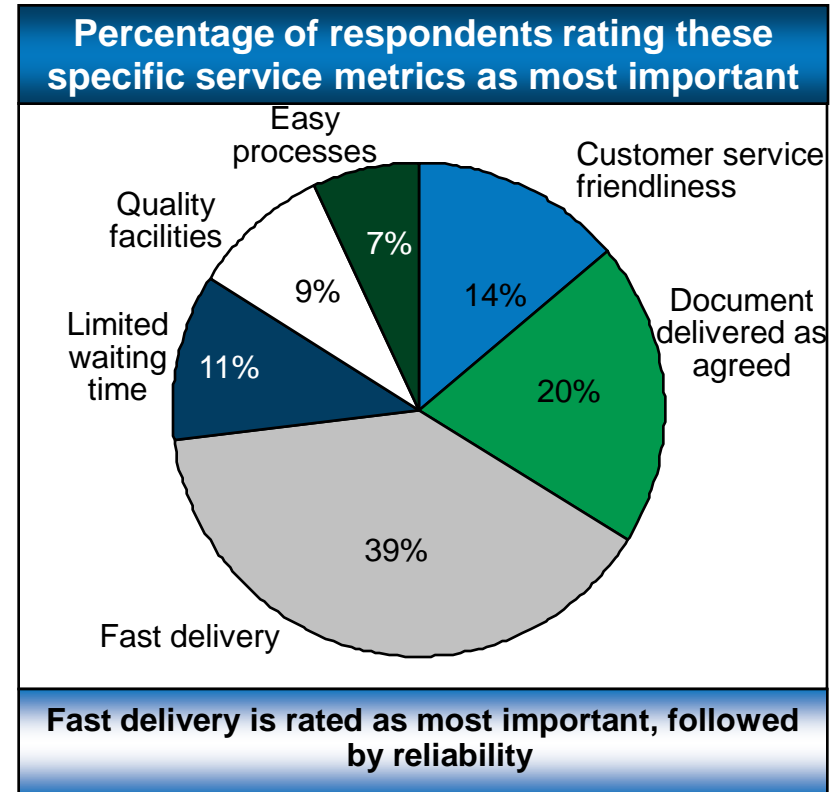
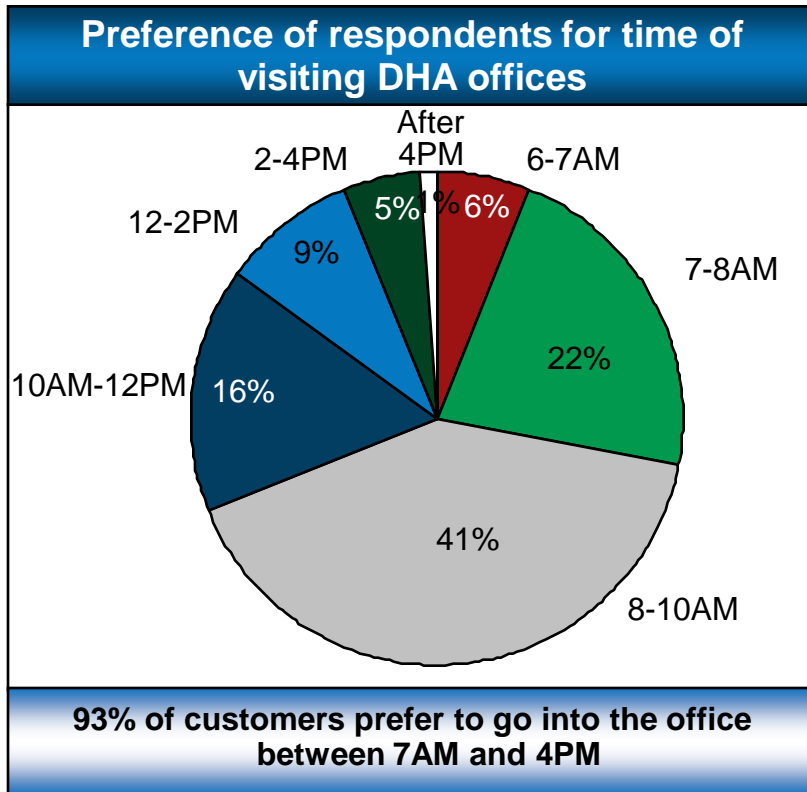
Analysis of customer satisfaction with current service delivery



The positive bias suspicion is based on the fact that, later in the survey, a large amount of customers expressed their frustration with DHA and mentioned room for improvement

Templates for different graphs cont'd

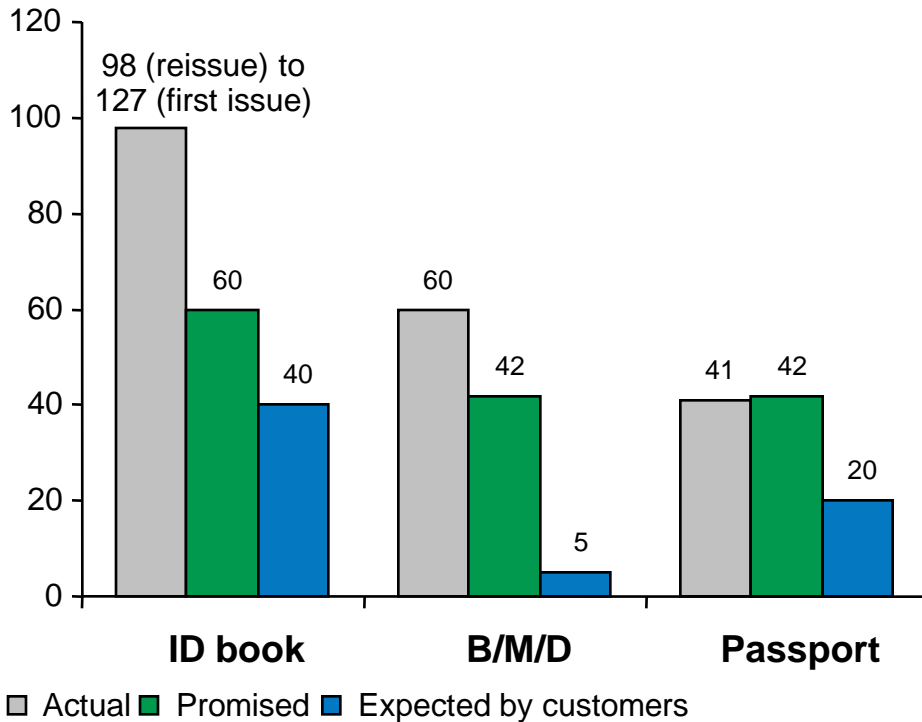
Preferences of customers



Opening at 7AM would meet customer needs; however, staying open past 4PM is not necessary

Templates for different graphs cont'd

Analysis of turnaround times in number of days

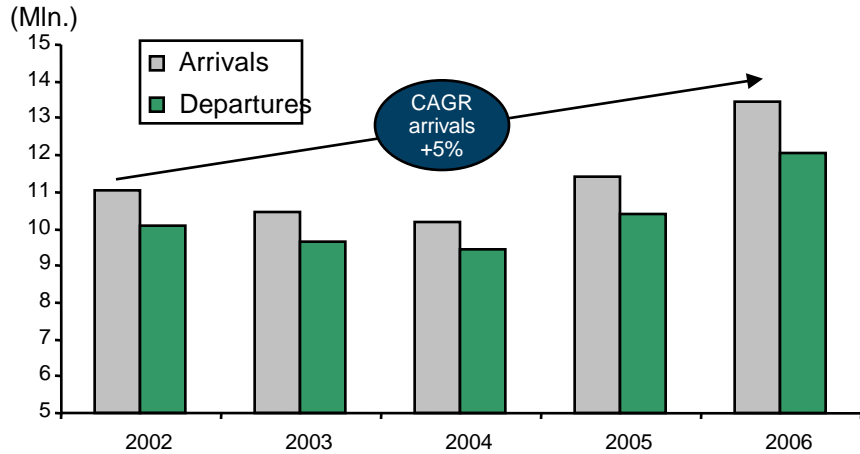


DHA will have to reduce turnaround times in order to meet customer expectations, especially for ID books

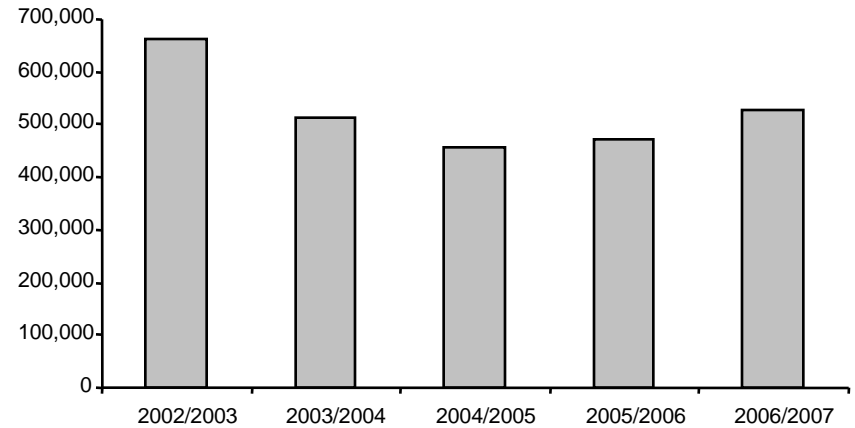
Notes: (1) B/M/D includes abridged and unabridged birth certificates that may differ according to customer expectations on turnaround times
(2) All turnaround times are stated in number of work days, using 5 days equalling 1 week

Templates for different graphs cont'd

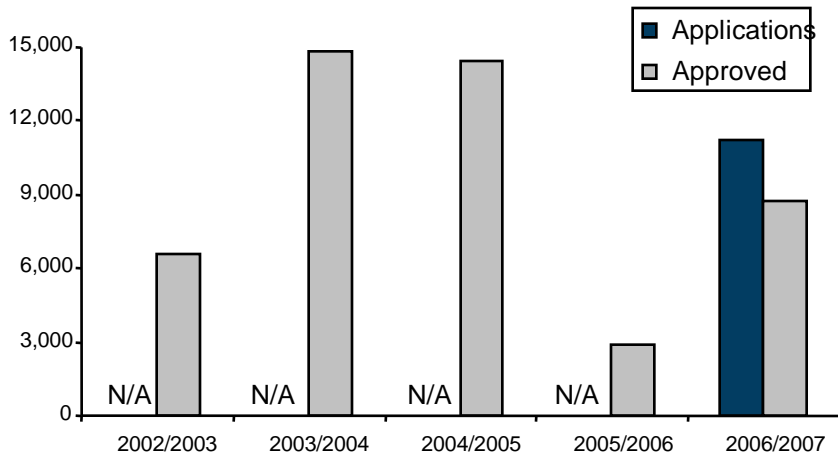
Arrivals and departures (2002 – 2006CY)



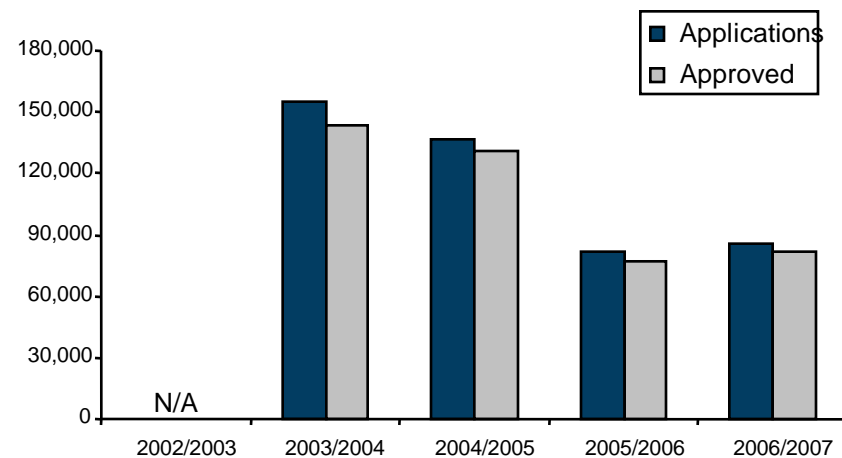
Visas issued by missions (2002/2003 – 2006/2007)



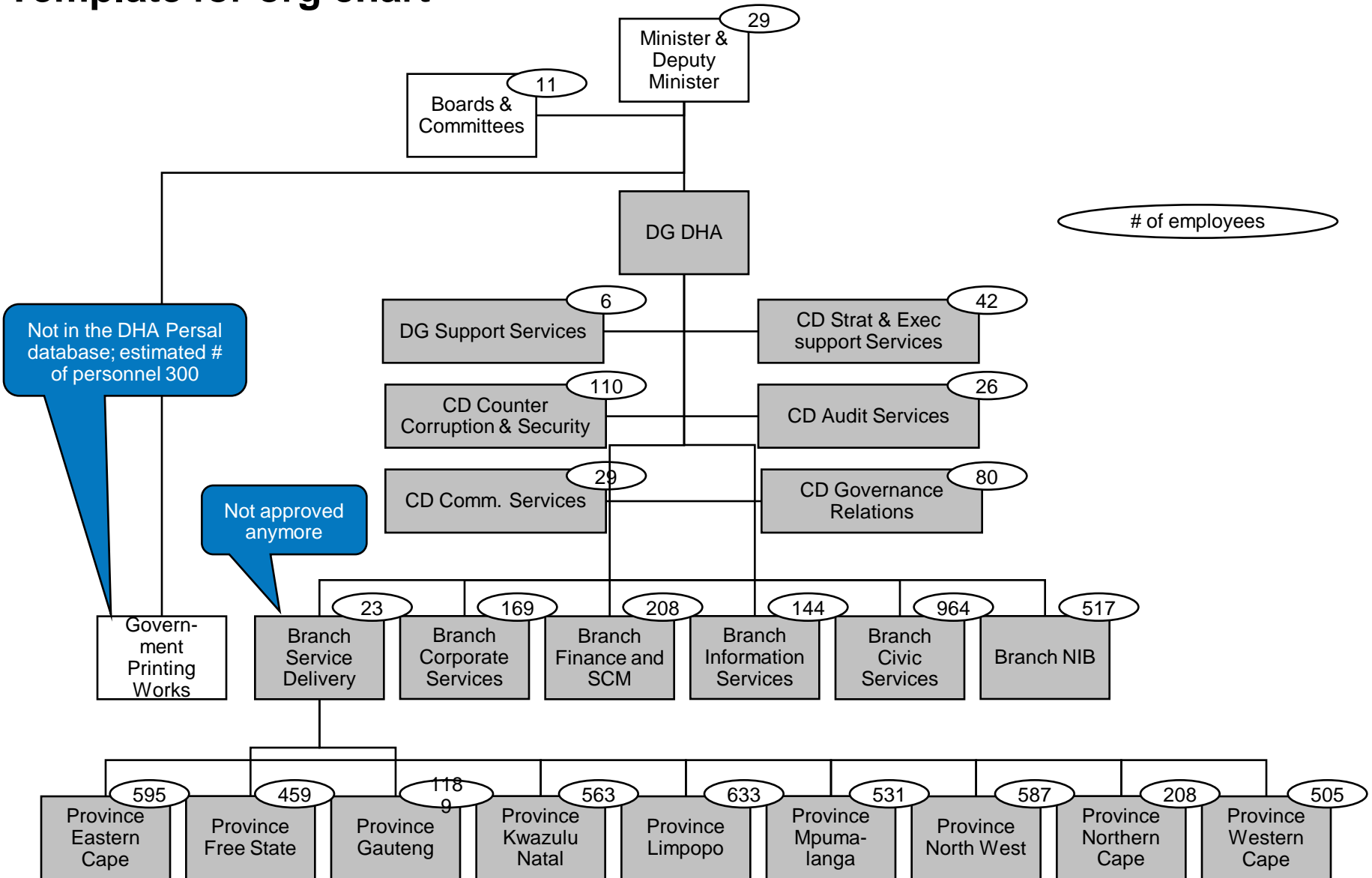
Permanent Residence Permits (2002/2003 – 2006/2007)



Temporary Residence Permits (2002/2003 – 2006/2007)

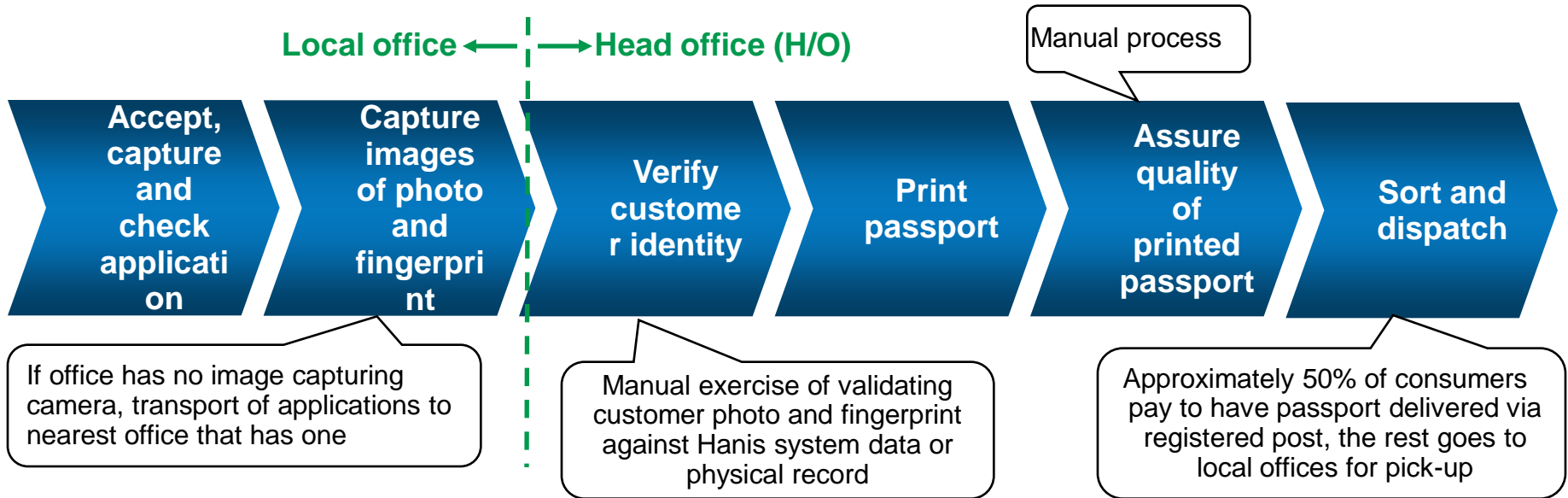


Template for org chart



Template for process flow

High-level process for Passports



Emergency travel certificate process is simpler and decentralized:

- Application handled by local office
- Verification by faxing fingerprint to BVR for check with fingerprint on HANIS
- Issuing of emergency travel certificate or temporary passport by local office

Template of table

Overview of footprint per type of DHA service point (SP)

Type of service point	DHA current footprint (August 2007)	DHA approved footprint (2006)	CSIR recommended (2006)	V&D proposed (2007)		
				CY 2008 FY 08/09	CY 2010 FY 10/11	CY 2012 FY 12/13
Regional office (RO)	41	42	506 ⁽¹⁾	43	43	43
District office (DO)	120	190		140	190	190
Permanent Service Point (PSP)	98	259		106	124	124
Thusong centre	75	83		110	164	218
Temporary Service Point (TSP)	123	0		70	0	0
Mobile Unit (MU)	117	109	placement only ⁽²⁾	117	117	117
Hospital	101	101	na	70	50	30
4x4 Service Point	na	na	na	25	25	25
Total	675	784	506	675	690	747

Guidelines used:

- Growth of the Thusong centres is assumed to be linear
- Establishment of DOs is fast tracked to have a management structure in place before a Thusong centre is set up
- The pace of phasing out the TSPs is dependent on the pace of roll-out of the other SPs, such that the total number of DHA SPs does not decline in any year

Notes: (1) CSIR recommended 506 permanent service points and their locations; they did not distinguish between type of service point

(2) In addition, CSIR recommended that 482 points should be serviced with MUs; for this they advised to have 70 MUs