



Dear

It almost appears that South Africans are starting to become apathetic to negative news. June 2017 was a month where there were a lot of damaging events, yet it seemed that civil society was a lot quieter in voicing their displeasure. Is this because of our frustration with elected leaders not appearing to care about the damage caused to our country?

There were three notable events during the month that contributed towards a poor performing stock exchange in the month. The JSE All-share index lost 3.5% during the month driven lower by the different sectors on the JSE.

Early in the month, the IQ17 economic data was released which showed that the economy had shrunk by 0.7%. This was the second consecutive quarter where the economy shrunk and meets the definition of a technical recession. This is defined as any two consecutive quarters of negative movements. The poor economic data was to be expected as business confidence is now at record lows. Investment in new projects and new facilities by the private sector is required to boost employment and manufacturing output.

The more damaging event was the release of the redrafted Mining Charter by the Mineral Resources Minister Zwane. The amendments have been described as crazy and it appears that sections of the revision will find their way into court. The biggest amendment that has been criticised is the fact that mines are now required to have a 30% black ownership target which has to become permanent. Previously mining houses were subject to the once empowered, always empowered rule and had often included shares sold by employment partners. The revisions also contained stricter measures for procurement causing fears that the operating costs of the mines could increase dramatically.

The last event was the release of the Public Protector report where she found that ABSA was responsible to repay benefits that they may have received from a "lifeline" provided by the Reserve Bank to Bankcorp, more than 20 years ago. What was controversial in this report was the recommendation by the Public Protector that the mandate of the Reserve Bank has to be reviewed (the court declared during the Nkandla matter that the Public Protector's recommendations were binding unless taken under review). What she ordered is beyond her powers and the market reacted negatively as there were concerns about the future independence of the Reserve Bank and reasons for her recommendation.

Despite all the negative news the Rand managed to hold up pretty well against the major currencies, performing better than other emerging market currencies and maintaining parity with the US Dollar through the month.

We remain positive that the flood of negative news will cause the tide to turn. If the right leaders are elected, who have the interests of the country and the people at heart, we will see a huge improvement in confidence.

Magwitch Securities

MARKET INFORMATION



FINANCIAL VIEW

FINANCIAL LITERACY

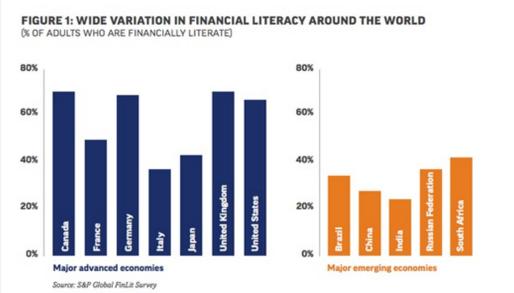
Last month we looked at the different financial personalities and how people may interact with their finances. The one glaring shortfall with a study of financial personalities is that it assumes that everyone has a similar level of financial literacy. This month we will look at financial literacy in more detail.

Financial literacy is simply defined as the ability to understand how money works in the world. Financial literacy has been a focus of many large institutions and governments across the world as improving financial literacy has been shown to have a direct correlation to poverty. The more financial literate you are – the better you are able to look after your money.

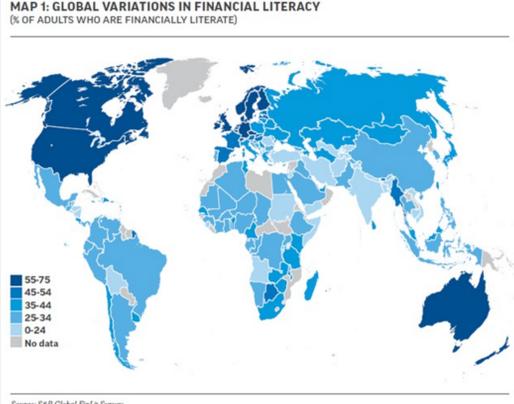
S&P Global Financial Literacy Survey

In 2014 S&P, the large global ratings agency, commissioned a global survey to assess the different levels of financial literacy across the world. The results are very interesting. Whilst South Africa's financial literacy of 42% may seem low, it is actually well above the global average of 33% literacy rate. This would mean that 2 out of every 3 people worldwide don't understand how money works which is a scary statistic.

As expected the developed countries tend to have higher financial literacy rates than developing countries. South Africa however is above all its BRICS peers.



- Additional findings from the survey include:
- 61% of adults in China do not save for old age. About 72 percent of those non-savers have low financial literacy, according to the survey findings.
- About 47% of adults in India – 415 million adults – lack a bank account.
- Roughly 80% of those without bank accounts have weak financial literacy.
- There is wide variation in financial literacy rates across economies in Sub-Saharan Africa. At 15%, Angola and Somalia are among the countries with the world's lowest financial literacy rates. At 52%, Botswana's rate is the region's highest and comparable with the average of high-income OECD economies.



S&P Survey Questions
The S&P survey was conducted using 5 basic questions to test 4 different financial concepts. The questions were as follows (correct answers in bold):
Risk Diversification
Suppose you have some money. Is it safer to put your money into one business or investment, or to put your money into multiple businesses or investments? [one business or investment; multiple businesses or investments; don't know; refused to answer]
Inflation
Suppose over the next 10 years the prices of the things you buy double. If your income also doubles, will you be able to buy less than you can buy today, the same as you can buy today, or more than you can buy today? [less; the same; more; don't know; refused to answer]
Numeracy (Interest)
Suppose you need to borrow 100 US dollars. Which is the lower amount to pay back: 105 US dollars or 100 US dollars plus three percent? [105 US dollars; 100 US dollars plus three percent; don't know; refused to answer]
Compound Interest
Suppose you put money in the bank for two years and the bank agrees to add 15 percent per year to your account. Will the bank add more money to your account the second year than it did the first year, or will it add the same amount of money both years? [more; the same; don't know; refused to answer]
Suppose you had 100 US dollars in a savings account and the bank adds 10 percent per year to the account. How much money would you have in the account after five years if you did not remove any money from the account? [more than 150 dollars; exactly 150 dollars; less than 150 dollars; don't know; refused to answer]

The lowest ranked country in the survey was the Yemen Republic with a pretty dismal rating of 13% financial literacy.



- How Financially Literate are you?
We believe that the S&P questions are potentially too basic for the average South African with financial products and investments. The Personal Finance team published a great quiz in their last magazine (Volume 17 – 2nd Quarter 2017). We challenge you to try give the quiz a go – we have reproduced the questions as compiled by the Personal Finance team.
1. You are earning compound interest of 10% a year on an investment. How long will it take to double your money?
a. About 5 years;
b. About 7 years; or
c. Exactly 10 years.
2. Up to how much of your annual taxable income or remuneration (whichever is higher) can be claimed as an income tax deduction when you invest it in a pension, provident or retirement annuity fund?
a. 12.5 percent;
b. 15 percent; or
c. 27.5 percent.
3. Which of these taxes do not apply to a tax-free savings account?
a. Dividends tax;
b. Capital gains tax;
c. Income tax on interest earned; or
d. All of the above.
4. Of the following three types of unit trust funds, which poses the highest risk, but also has the potential to earn the highest returns?
a. Multi-asset funds;
b. Equity funds; or
c. Money-market funds.
5. If your medical condition is a prescribed minimum benefit, your medical scheme:
a. Must always pay the bill in full;
b. Can insist you use certain providers in order to enjoy cover in full;
c. Can charge a co-payment for failure to use a particular provider only if you the rules of the scheme provide for this; or
d. All of the above.
6. What is the maximum interest that can be charged on your credit card debt?
a. 21 percent;
b. It depends on my credit score; or
c. Repo rate plus 14 percent.
7. You have insured your household contents for R1.5 million, but the actual replacement value of your belongings is R2 million. You get burgled and suffer a relatively small loss of R100 000. Your insurer applies the "average clause" which means:
a. You're covered in full;
b. You're not covered at all; or
c. You will get paid out in proportion to the under-insurance, i.e. three-quarters of R100 000.
8. How long does a civil court judgment stay on your credit report?
a. Two years;
b. Until you've paid the debt; or
c. Five years, or until the judgment is rescinded.
9. What is the maximum percentage of its portfolio that a regulation 28-compliant investment fund may allocate to equity investments?
a. 50 percent;
b. 75 percent; or
c. 90 percent.
10. Your medical scheme can terminate your membership if you:
a. Claim too often;
b. Resign from your job; or
c. Provide false information or fail to disclose information.

Answers: 1b, 2c, 3d, 4b, 5d, 6a, 7c, 8c, 9b, 10c

CONCLUSION

As Albert Einstein is quoted as saying, "Compound interest is the eighth wonder of the world. Those who understand it, earn it and those that don't pay it."

ABOUT MAGWITCH

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