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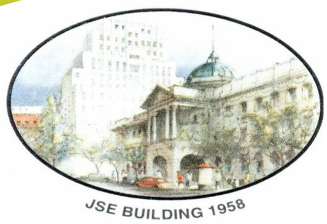

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this issue

Prepare for better days

Having left 2010 behind, it's a good time to reflect on the year and think about all the things we'd like to do better or differently in 2011. Making a decision to change is just the first step, however. If we want to see results, we have to know what moves to make to ensure those changes actually happen. Just saying, "I'd like to lose 10 kilos," doesn't mean much if we don't learn how to eat healthier and establish a new routine.

As part of your planning for 2011, consider taking action to improve your personal finances. With the economy beginning to regain its footing (so they say), there's no time like the present to add some Rands to your bottom line. To get started, here are 10 goals for 2011, plus tips on how to achieve them:

Stop overspending.

Credit cards are super convenient, but their ease of use can also lead you to overspend. Need a trick to help you stop the credit card madness? Freeze your credit card. That's right. Try dropping your card in a plastic bag, add water and stick the baggy in the freezer. You'll still have access to it if you need it, but having to wait until your card thaws will give you some time to get over the impulse of buying things you don't need.

Stick to a budget.

You should know exactly where your money's going and where you might make improvements. With all the free budgeting tools available online, it's simple to get started. What's not so simple for some? Sticking to it. But if you want to break out of the cycle of living paycheque-to-paycheque and learn how to spend within your means, keeping a budget is a smart first step. Schedule "bill time" in your calendar at least monthly to evaluate your budget, pay your bills and figure out if there are places you can cut costs.

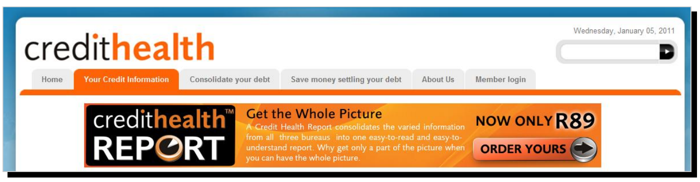
Pay off debt.

There are many strategies out there to help you make a dent in your debt. You can start by paying off the debt that has the highest interest rate first and then work your way down the ladder. Just make sure you're still making at least the minimum payments on your other credit cards and loans. Or if you feel like you need to experience small wins along the way to keep you motivated, pay off smaller debts first in order to feel a sense of achievement. It isn't important what method you use, rather that you get started… now.

Manage your credit.

Your credit is more important than ever — it's absolutely key to unlocking the best interest rates and terms for credit cards, home loans and car finance. Heck, forget the rates – if you have a bad credit rating, you may not be able to qualify for credit at all in this economy.

The first step to managing your credit is to check your credit report at least every six months to make sure what's there is accurate. Staying on top of your credit doesn't have to cost you a thing either. Sites like **credithealth.co.za** will give you a credit report for as little as R89.



Improve your credit score.

If you're managing your credit properly (see #4), you'll know whether you could stand to improve your credit score. It's important to make strides to improve your credit score *before you need to*, because boosting your score takes time. There are a lot of basic steps to improve your credit, but if you need personalised, step-by-step instructions on what to do, then read the story on page 2 for help.

Pay yourself first.

Save, save, save! Paying yourself first simply means that you need to save before you spend. The best way to do this is by setting up direct deposit from your paycheque into a savings account — whether it be a plain savings account or an RA. By making it automatic, you remove the temptation to spend.

Save more.

Let's say you're putting R2000 per paycheck toward your savings. Great work! Now, find a way to increase your savings contribution to R3000 per paycheque. Cut unnecessary expenses. Look for bargains on big-ticket items that you need. Shop around for cheaper household and car insurance. You can find (legitimate) ways to save more if you look for them. Need some ideas? Put together your budget and you will find them!

Save for retirement.

Here's another case where direct deposit makes it easy and painless to save for your future. And if you're lucky enough to work for a company that matches your retirement contributions, take advantage to the max! If you don't, you're basically saying no to free money.

Get the right insurance.

For instance, if you have kids, life insurance is important. However, if you don't have anyone who relies on you to support them financially, there's no need to spend your hard-earned money on a life insurance policy just yet.

Protect your identity.

Don't leave yourself open to identity theft. Monitor your credit on a regular basis and check your other financial accounts to make sure they look the way they're supposed to look. Need help? Look into identity protection services on the web and get the pros to watch your back.

Here's to a better and prosperous 2011!

Disability protection: How It Works

Disability insurance cover protects your most valuable asset - the ability to earn over an extended period of time.

It is necessary to distinguish between impairment and disability. Impairment implies a physical or functional disorder, but does not stop us earning an income. Your ability to earn may be impaired, but not completely stopped. Examples of impairment may be the loss of a limb or the loss of eyesight. Disability, on the other hand, implies an inability to earn an income.

Forms of disability cover

There are three forms of disability insurance cover, namely *Own Occupation Disability* , *Occupational Disability* or *Total Disability*.

With Own Occupation Disability, you are covered if you are unable to perform your current nominated occupation.

If you have Occupational Disability, you would be covered if you were unable to perform your nominated occupation, or a similar occupation. To illustrate by means of example, if you were a heart surgeon, and you lost a hand, with Own Occupation Disability you would be fully covered and paid out, as you can no longer operate. Under Occupational Disability, you would not be paid out, because you could become a General Practitioner. Own Occupation Disability is therefore a better option, especially for professionals in a specialised field, but this does come at an additional cost.

With Total Disability, you would only be covered if you were unable to work at all.

What is the difference between Capital and Income Disability?

With income protection, benefit payments will usually continue from date of disability until age 60 to 70. The level of cover is usually limited to 75% of our latest taxable income. The 75% applies in aggregate, meaning multiple policies may not, in total, exceed 100% of your present income.

The level of cover may not exceed your latest taxable income. As this cover is so important, the government allows a tax deduction on your contributions.

Income protection premiums vary greatly between products, both within a particular assurer and across different assurers. These products need to be tailored to our personal requirements.

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To your credit

Your credit record is your financial 'good name'. It's your reputation in the eyes of credit- and other service providers and it's one of the most important considerations when deciding if they should lend you money.

Your credit score is an attempt to quantify how much risk a lender is taking on by loaning you money. A credit provider will look to your credit score to determine if you are 'credit worthy' The better your score the more likely they'll grant you a loan. In addition to making loan applications easier, a good credit score is also a great bargaining tool when you're negotiating for a lower interest rate.

Experian and TransUnion ITC are the two main credit reporting agencies in South Africa and these all-seeing, all-knowing credit bureaus adjust your score each time you borrow or repay debt.

Creditors choose which bureau to use and each one has different information about you, meaning that you have two credit scores. It's also possible for lenders to produce a unique score for you using their own records.

Of late, banks and other credit providers seem terrified of lending so it's a good idea to work on your credit score before applying for a mortgage or other loan.

Here is some advice on how you can do just that:

Pay on time

Paying on time is, obviously, a vital determinant of your credit score. In fact, your payment history can contribute up to 35 percent of your score.

Each time you're late, even by a day, it gets noted and your score decreases. To ensure this never happens I suggest you set up debit orders or postdate payments you make online.

Recent transactions carry more weight than older ones, so it's fairly easy to erase earlier blots if you consistently start making timely payments.

Remember, it doesn't matter that you can pay; you *must* pay on time.

Pay your credit cards off

Nothing shows you can handle being in debt more than regularly making payments on your credit cards and keeping their balances down.

Don't end up in court for paying late

It's fairly easy to negate the damage of a late payment by simply being on time with all subsequent ones. If, however, you end up in court your record will be irreparable for many years.

Don't take on too much debt

Try to have only one, but no more than two credit cards and no more than two major debts (e.g. a home- or car loan).

Never max out your credit cards and try to keep the outstanding balance below half of your credit limit. The lower your balance in relation to your credit limit, the better it is for your credit score.

Avoid taking on more credit while you are paying off other debts.

Aim to cut what you spend on debt each month to less than 30 percent of your after-tax income.

The devil is in the debt ratio

Your debt ratio is the difference between what you owe and your credit limit. It can make up 30 percent of your credit score. Creditors like that gap to be gaping and it will be detrimental to your rating if you, for example, owe R24 000 with a limit of R25 000.

If you're planning to apply for a big loan, first pay off all balances that are close to their limit. Don't submit your application until all outstanding balances are less than 50 percent of their respective limits.

Never ask your creditors to lower your limits as this will instantly reduce that all important gap between your balances and the credit available to you.

When paying off debt it's cheaper to tackle those with the highest interest rates first. However, when you're trying to improve your credit record it's best to first pay debts that are the closest to their maximum limits.

Close idle lines of credit

Having fewer lines of credit available to you makes you less risky to creditors. Close all unused credit cards and accounts and have the creditors notify the credit bureaus that the accounts were close by you and not them.

Keep credit enquiries few and far between

'Hunting' for credit can trim up to 10 percent off your credit score so it's best not to make any unnecessary enquiries. Every time someone runs a credit check on you it gets noted and negatively impacts your score.

Don't move balances from card to card

It's obvious, but do not use one card to pay off another!

Avoid credit repair agencies

There's really no need to go to a credit repair agency as you can fairly easily do it yourself (go to *www.credithealth.co.za*). These companies charge about R5000 to repair your record and many are scammers, so it's best to avoid them.

No history, no credit

While having too much debt is obviously bad for your record, having had too little will also count against you.

The duration of your credit history (how long you've been a credit consumer) can make up to 15 percent of your credit score. If you have no, or a very short, history of credit then credit providers won't be able to trust that your credit score is an accurate reflection of your credit worthiness.

If you want a loan but have no credit history, consider getting a credit card and pay it off completely each month. In this way you'll indicate that you're a responsible debtor that won't cause the lender trouble.

Your aversion to debt is not misplaced, but using a credit card to build a credit history can be a good idea.

Use an online comparison tool to find a fee-free card and pay it off in full before the interest free period expires.

Check your spouse's rating

Creditors also have access to your spouse's credit record and this could impact negatively on yours if it's very bad.

Make arrangements to pay

If you find it impossible to make a payment, talk to your creditors and make arrangements to pay when you're able to. Contact them as soon as you foresee trouble; *don't* wait for them to contact you. * take note on page 3

Asset dip

The lifeblood of your estate plan is ensuring cash liquidity. In the absence of proper estate planning, the sudden death of a breadwinner can have severe financial repercussions for a surviving spouse and children.

One of the most common problems that the surviving family might experience in the period after such a death, is that of the lack of cash liquidity in the deceased's estate. A lack of available cash in an estate can result in a forced sale of valuable assets, such as the family home.

The illiquidity problem in a deceased estate is essentially that on death, the deceased's liabilities must be settled and expenses, such as taxes and winding-up costs, paid - in cash. If sufficient assets in the estate are not readily able to be converted to cash, then the estate may find itself having the wealth but not the liquid cash to settle these obligations. Unless the heirs have or can obtain the necessary cash funds themselves to settle the estate's obligations, then the executor of the estate will be forced to sell estate assets to free up sufficient cash. The cash problem is often compounded by the fact that the deceased's banking accounts and investments are temporarily "frozen" on death.

A common example of estate illiquidity is that of the mortgage bond over the family home. On the death of a breadwinner, a surviving spouse might assume that the bond on the family home will simply to transferred to her or him together with the family home. However, this is not the case, as the bond held in the deceased's name will have to be cancelled. The surviving spouse will be obliged to obtain a new bond in her or his name to finance the settlement of the deceased's bond. In such a scenario it is a common problem that the surviving spouse does not earn sufficient income to qualify for a bond of the same magnitude as that held on the family home. In such a situation the executor is often left with no option but to sell the family home in order to settle the deceased's bond. For most families it is thus vital that there is sufficient life cover on the bondholder's life to settle an outstanding mortgage bond.

The estate of a business owner is often illiquid. This is because a business owner's main asset (besides a home) is often his or her shares and loan accounts in the business. Although the business may have great value on paper, procuring a sale of the deceased's interest to his or her partners is often complicated. The deceased's partners may not have the cash funds to finance such a purchase. For this reason it is advisable for business owners to enter into a "buy-and-sell" arrangement whereby a sale price and terms are agreed in advance of death, and life policies taken out to fund the payment of the agreed price.

Liquidity is an important concern in most estates, large or small, and your financial advisor can provide invaluable advice in calculating your potential estate liquidity requirement and addressing your life assurance needs.

Business blunders

We all make mistakes - the common wisdom is that this isn't unhealthy so long as we learn from our mistakes. Some mistakes, however, are so big that they become case studies in business schools all over the world, for decades to come. Here we list ten of the worst business decisions ever….

A Hard Day's Night

In 1961, executives from Decca records auditioned a new band from Liverpool. In one of the most famous of all rejection lines, executive Dick Rowe advised the group's manager: "Not to mince words, Mr. Epstein, but we don't like your boys' sound. Groups are out; four-piece groups with guitars particularly are finished." The group was of course *The Beatles*, who signed with EMI Records and went on to become the most popular band of all time.

A useful novelty

In the late 1870's the telegraph was the most advanced communication technology in the world. An American company, Western Union Telegraph Company, had a monopoly on the technology, which had made it one of the wealthiest companies in the world. In 1876, a certain Gardiner Greene Hubbard approached Western Union and offered to sell them the patent to a new device called the "telephone" which he had helped to finance, for US$100,000. William Orton, the president of Western Union, never took the invention seriously, and sent the following response to the device's inventor, Alexander Graham Bell: "after careful consideration of your invention, while it is a very interesting novelty, we have come to the conclusion that it has no commercial possibilities… What use could this company make of an electrical toy?"

Ultimately Bell and his partners kept the patent and started their own company. This company eventually became known as American Telephone and Telegraph, or "AT&T" and at one time this company became the wealthiest in the world. The telephone patent is considered by some to be the most valuable in history. Orton realised his mistake very soon after turning down Bell and Hubbard and he spent millions of dollars challenging Bell's patent rights while he tried to develop his own telephone network. Ultimately he was forced to hand over his telephone network to Bell and his partners.

A Model error

Even the best businessmen in the world make mistakes. In the early 20th century, the legendary Henry Ford, founder of the Ford Motor Company, had ensured that his company were the market leaders in the motor car industry. This was owing to the original success of their Model T vehicle, the first affordable quality motor car.

However, by 1925, more than 15 years after its launch, the Model T remained the only car that the Ford Motor Company

(Continued on page 4)

Disability protection: Here are some key points that you should consider

- What is the waiting period before a disabilty insurance benefit commences? You need to ensure you have sufficient funding of your own to cover this waiting period. As is to be expected, the longer the waiting period the lower the premium.
- When assessing the validity of a claim, will the assessment use your current occupation only or will it assess any occupation for which you are qualified? This may affect whether you get paid out for a claim or not, or whether you will be required to re-train for a similar occupation.
- Will the disability insurance benefit escalate annually? If it does not, inflation will impact negatively on your benefit payment over time.
- To what age will the benefit continue? Options may vary from age 55 to age 70.

With a capital or lump-sum benefit, an assurer will pay out a lump sum if you are deemed to be permanently disabled or permanently unable to earn an income. Capital disability cover should not be used to replace lost income. It should be used to settle debt and help with lifestyle adjustments that are required as a result of your disability. Examples would be to settle the bond or make modifications to your home or vehicle to assist your disability.

Should You have Disability Insurance Cover?

The answer is clear: if you earn an income, or are going to be an income earner, then you should have some form of disability cover. Your ability to earn an income is your most valuable asset, and is likely to be the driving force behind the accumulation of any other assets over your working life. It is imperative that you provide cover in the event that this earning ability is impaired. How much disability cover you need is dependent on your personal requirements and current financial affairs.

Obtain a copy of your credit report and look for errors (from pg 3)

About 80 percent of credit reports contain errors so it's vital that you check both your credit records (you can get them from *Credit Health* for a small fee) before applying for a loan.

The most common errors to look out for are accounts that aren't yours (possibly indicating identity theft), incorrect information about your accounts and information that is too old to still appear on your record (all judgments against you should be removed after five years while unfavourable information can only be kept for two years).

Jargon Buster
Buy-and-Sell Agreements

A buy-and-sell agreement (see below for definition) is made up of several legally binding clauses in a business partnership or operating agreement (or it can be a separate agreement that stands on its own) that can control the following business decisions:

- Who can buy a departing partner's or shareholder's share of the business (this may include outsiders or be limited to other partners/ shareholders);
- What events will trigger a buyout (the most common events that trigger a buyout are: death, disability, retirement, or an owner leaving the company), and;
- What price will be paid for a partner's or shareholder's interest in the partnership and so on.

(Continued from page 3)
made. The Model T remained virtually the same car it had been when it launched. It was noisy and underpowered compared with its new competitors with the same transmission and suspension that it had in the very beginning. Although Ford made a few concessions to the changing times, such as balloon tires, an electric starter, and a petrol pedal on the floor (and by the early 1920s, the Model T was available in a variety of colors besides black), he was vehemently opposed to developing new models of cars.

Ultimately, Ford's failure to improve his product and develop other vehicles caused the loss of their position as the market leader in the automotive industry. While Ford rested on his laurels for a decade and a half, his competitors continued to innovate. Four-cylinder engines gave way to more powerful six-cylinder engines with manual transmissions. These new cars were powerful enough to travel at high speeds made possible by the country's new paved highways. Ford's "Tin Lizzie," designed in an era of dirt roads, was not.

Between 1923 and 1926 Ford's market share slid from 57% of U.S. automobile sales down to 34%. Companies like Dodge and General Motors steadily gained ground. By the time Ford finally announced that a replacement for the Model T was in the works in May 1927, the company had already lost the battle. That year, Chevrolet sold more cars than Ford for the first time.

Take it or leave it

In 1979, Ross Perot, a Texas businessman and a future candidate for US president, offered to buy Microsoft for US$15 million. Microsoft founder Bill Gates is claimed to have wanted US$60 million. Perot refused and Gates kept his company. Today Microsoft has a market value exceeding US$200 billion.

Google this

In an example of a failure similar to Perot's above, to see the ultimate value in a company, in 1999 the former Excite CEO George Bell had the opportunity to buy a relatively new company called Google for US$1 million. At the time this would have been a relatively small amount of money for Excite to pay – it was at the peak of the "IT bubble" and Excite, a company then worth US$35 billion had recently paid US$780 million for an online greeting-card company. However, Bell passed up on the opportunity to buy Google, which went on to become the global giant it is today, with a market value exceeding US$163 billion.

A fruitful exercise

In April 1976 two young college dropouts, Steve Jobs and Steve Wozniak, teamed up with an older friend, Ronald Wayne to start up a computer business, developing computers for home use. They called their business Apple Computers, the name reputedly in reference to fond times spent by Jobs in an apple orchard during his youth.

Only eight months after forming the partnership, and prior to incorporating their business, Wayne decided that the risk involved in the business was too great for him, and he sold his share in the business to his two co-founders for US$800. Over the next three decades, Jobs and Wozniak took Apple to far greater heights. By the end of 2010 Apple Inc was the most valuable technology company in the world with a greater market capitalisation even than Microsoft. Wayne is retired and sells stamps and coins from his home – and claims never to have owned an Apple product.

Credit crunch 70's style

The name W.T. Grant is now mostly forgotten, but until its demise in 1976, the company operated one of America's largest retailers. In the 1970's executives at the company decided that the best way to increase sales was to increase the number of customers by offering credit. It was decided that credit facilities were to be offered to customers without any credit checks. Managers were put under extreme pressure to meet credit quotas and it is reputed that managers not meeting their quotas had pies thrown in their faces, were forced to push peanuts across the floor with their noses, and were forced to parade around in nappies. W.T. Grant ran up more than US$800 million worth of bad debts before it was liquidated in 1977, in what was at the time the second biggest bankruptcy in American business history.

A comedy of errors

In 1984, American comedian Bill Cosby offered the ABC television network the rights to a new sitcom he had created about an upmarket black family. But ABC declined, apparently "believing the show lacked bite and that viewers wouldn't watch an unrealistic portrayal of blacks as wealthy, well-educated professionals."

So Cosby sold the rights to his show to the rival NBC network instead. It was a decision that ABC would rue almost immediately as *The Cosby Show* took the number one spot in the television ratings for four consecutive years, and became the most profitable television series ever broadcast.

Black gold

In recent times, oil has been one the most valuable commodities. But this wasn't always the case as for centuries coal was the primary source of fuel. It was only in the mid-1800's that someone discovered how to get "black gold" out of the ground. In 1858 Seneca Oil hired one Edwin Drake to investigate ways to extract oil from the ground. Within a year Seneca Oil pulled the plug on the project, refusing to invest more than the US$2000 it had already invested.

Drake is credited with subsequently inventing the oil drill. However, even he apparently did not recognise the machine's potential value as he failed to patent it. Other entrepreneurs quickly moved in and copied Drake's method and Drake died virtually penniless.

A sub-prime blunder

No list of business blunders would be complete without an example from the recent period of the sub-prime crisis. Investment firm Lehman Brothers' main holdings were in real estate and subprime mortgages, when the subprime mortgage crisis first began in 2006 and 2007. The firm took out enormous loans based on their liquid assets instead of selling off their huge shares of failing mortgage assets. The company's debts soared and in 2008 it eclipsed Enron as the biggest bankruptcy in US history, triggering a worldwide stock market collapse.

Jargon: Buy-and-Sell Agreement

A buy-and-sell agreement may be thought of as a sort of "premarital agreement" between business partners/ shareholders. It is sometimes called a 'business will'. An insured buy-and-sell agreement (agreement funded with life insurance on the participating owners' lives) is often recommended by business succession specialists and financial planners to ensure the buy-and-sell arrangement is well-funded and also to guarantee there will be money when the buy-and-sell event is triggered.

In the sale of a business, a buy-and-sell clause (or Shotgun clause) in a shareholder agreement preserves continuity of ownership in the business and ensures that everyone is fairly treated, the buyer as well as the seller. It is a binding contract between business partners or shareholders about the future ownership of the business.