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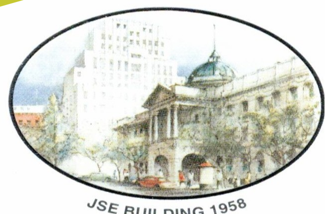

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this issue

Lighting the way P.1
Richie Rich P.2
The laws of attraction P.3
Interesting facts about marriage P.4

Lighting the way

George Bernard Shaw once wrote, "Life is no brief candle to me. It is a sort of splendid torch which I have got a hold of for the moment, and I want to make it burn as brightly as possible before handing it onto future generations." A new generation is emerging in the midst of a recession. What is the way forward for them and what should we teach them about money?

Children are the most potent receivers in the world - they are also notorious mimics. A child can read the unconscious signals in how we react to certain events and at once surmise and integrate our attitude into their personalities. If we show a negative attitude toward things of a financial nature, chances are our children will too. So how do we know when we are sending the wrong financial messages to our kids and what should we do about it?

What You Don't Know ...

For many people, it may take discipline not to let out a groan when the bills come, a sigh when it is time to balance the books and a curse when a financial analyst appears on the television screen. However, if your reaction to financial topics is typically negative and your strategy one of avoidance, these will send a message to your child that finances are an annoyance best to be avoided.

Social scientists have discovered that the vast majority of children are destined for a financial future that differs little from that of their parents. In many cases, the middle class raise the next generation of middle class people, the poor raise the poor and the wealthy raise the wealthy. Very few children move up the ladder from their parents, while sliding down is as simple as swiping a credit card.

If there is going to be a change between your level of wealth and that of your children, the odds are that they will do worse financially, rather than better. They may earn more than you do, but they will also spend more and save less. In recent years, the practices of saving to buy and general frugality have been sabotaged by quick credit, payment plans and a "why wait?" shopping attitude.

Deadly Silence

Many parents avoid discussing money with their children but, unfortunately, omitting this subject can have an effect on the financial lessons they pick up and the attitudes they adopt. In general, parents tend to avoid speaking to their children about finances because it is an "adult" subject. Finance is seen as something that a child can worry about when childhood gives way to adulthood and, as a result, parents neglect to address these topics with their children at an early age. Implicit in this silence, however, are a number of negative signals - if you do not discuss finance with your child, it may suggest to him or her that money is either unimportant or something to fear.

For many children, this silence continues at their schools, with only the most cursory glances at accounting and vital life skills like budgeting. The undeniable truth is that your children are going to learn about finances from you. But to do this effectively, you need to develop a plan and some techniques that will help make the lessons count. A good first step is granting your children an allowance.

Starting an Allowance

It is hard to know when your child is ready for an allowance. If you start before they walk, your children won't understand the significance of the money they receive. Although it is not a hard and fast rule, an appropriate starting point is when your child's verbal comprehension is high enough for you to explain how the allowance will work. When your child reaches this level, there are three types of allowance to choose from: the gift system, the reward system and the income system.

The Gift System

The gift system is a regular payment to your child that is not dependent on any chores that your child does or does not do. Simply put, you give your child a monetary gift just for being your child. The advantages of this system are that it is regular and

Richie Rich

Teaching kids good money habits

Spending

You should not interfere in how your child uses his or her spending money. To a child, a few Rands often seems like a fortune. Don't interfere with your child's spending habits other than to point out that once it's gone it's gone - you won't provide more money if your child spends his or her own too quickly. It's a difficult lesson, but children will do better if they learn it early.

Explaining the Importance of Saving

Children are masters of interrogative sentences so don't be surprised when your child asks you why he or she should save money. The ideal reply has two parts. One, you have to save money for the future. Two, you save money so you can meet your spending goals. When your child decides how much to save, you will then have to ask them how much of that will be for the future and how much for goals.

If your child is very young, you should encourage him or her to choose one spending goal rather than many. A piece of sports equipment, a toy or some relatively inexpensive item will suffice. Your child will be able to see how x% of his or her money will go into savings and x% of that will slowly accumulate to buy a chosen item in the near future. This may encourage your child to increase his or her saving rate.

As your child matures, he or she may want to save for a number of different spending goals - a computer or a car. That's fine - as long as it all comes from the spending goal fraction of the savings account. The amount going to the future should remain constant. Nurturing habitual saving in your child is more important than his or her monetary progress. Once the plan is complete, the next step is to go to the bank.

unchanging. You will not be raising or lowering the amount of the allowance because of your child's behaviour. However, the disadvantages are numerous. Your child will not get a sense of achievement from the allowance, nor will he or she truly appreciate it. Additionally, it is harder to instill a sense of fiscal responsibility when your child receives the money without showing any initiative or desire.

The Reward System

The reward system is the most common system parents choose. In this system, parents set chores for their children to perform on a weekly or monthly basis and then pay a set amount for the successful completion of the chores. Chores typically include tasks like washing the dishes and making the beds. The advantages of this system are that there are consequences for not doing the assigned chores and a reward for doing them. In other words, this system provides a mix of positive reinforcement and punishment. The disadvantages are somewhat difficult to see when your child is young, but the reward system is also guilty of reducing your expectations for your child to a monetary figure. Your child should clean his or her room and help with the dishes regardless of any allowance. If you use the reward system, you will encourage your children's desire for money at the cost of their sense of responsibility.

The Income System

The third system, the income system, works much like real life. When there is a job to do that is not expected of your child - for example, washing the car or weeding the garden - you can pay him or her to do it. Basically, you want to establish an allowance that is paid to your child for work outside of regular responsibilities. This allowance will be variable and irregular, but it will do far more for your child's financial future than the other two.

In practice, you will have to agree on how much a particular job is worth. Write down all the jobs and the agreed upon payment for each one on a large sheet of paper. Allow your child to tick them off as they are completed. Then, you can use this work schedule to add up your child's allowance together. If your child does not keep up with regular responsibilities, he or she will have less time to do paying jobs. You can also withhold the work schedule if your child has not completed his or her regular duties.

Teach Yourself First

The deciding factor in whether or not a child will succeed financially is how much financial education they receive and when they receive it. One factor that limits how much your child can learn is the amount of knowledge you are able to give them. An allowance is a great way to get the ball rolling, but as a parent, you should also share your own real-life lessons in budgeting, frugality and the importance of emergency funds.

To give your child the best advantage, you will need a working knowledge about investing. Developing this can be as simple as going to the public library or searching the internet. There are books on portfolios and shares, and the internet is great for links and information. Many are written in plain language and include easy-to-follow examples.

You do not need to master concepts like futures trading, but you will need to explain endowments, unit trusts and compound interest. The best way to educate your child is to educate yourself first. If you are lost in the financial quagmire, you owe it to your child to chart a course out.

If you share your experiences with your child, he or she will be able to learn from your mistakes. Furthermore, all of your research might even pay off for you in the way of a better financial plan for yourself, which could provide a great lesson for your children in itself.

The buck stops here

For parents who are serious about instilling their children with some financial knowledge, there is more to an allowance than just the transfer of a trivial amount of cash. The system you choose has an impact on both your child's financial outlook and his or her character. Pairing this system up with discussions about money and finance and your own financial experiences is also invaluable. If you want to pave the way for success in your children's financial future, you can't just hope for the best. Instead, provide them with the skills that will make this success possible.

Why is it called a Piggy Bank?

Dogs bury bones. Squirrels gather nuts to last through the winter. Camels store food and water so they can travel many days across deserts. But do pigs save anything? No! Pigs save nothing. They bury nothing. They store nothing.

So why do we save our coins in a piggy bank? Because someone made a mistake. During The Middle Ages, in about the fifteenth century, metal was expensive and seldom used for household wares. Instead, dishes and pots were made of an economical clay called pygg. Whenever housewives could save an extra coin, they dropped it into one of their clay jars. They called this their pygg bank or their piggy bank.

Over the next two hundred to three hundred years, people forgot that "pygg" referred to the earthenware material. In the nineteenth century when English potters received requests for piggy banks, they produced banks shaped like pigs. Of course, the pigs appealed to the customers and delighted the children.

The laws of attraction -

and what to do about it when it all goes wrong!

The emotional trauma (or elation) of a divorce often leaves both parties dazed and numbed – and in no state of mind to think of estate planning. But if you are recently divorced it is important to review your planning, sooner rather than later.

This is because there are a number of hidden dangers which could result in your ex-dearly beloved walking off with not only your house but also your investments, car and life assurance on your death, even if you die many years after your parting.

Grace under pressure

The first danger awaits the divorcee who overlooks reviewing their Will. Our law effectively gives a divorcee a three-month "grace period" from the date of their divorce to get their Will in order. The Wills Act of 1953 deals with the situation where a person leaves a Will executed before their divorce in which their ex-spouse is an heir or beneficiary. It provides that if a divorcee dies within three months of their divorce, his or her ex-spouse, even if nominated in the deceased's Will as an heir or beneficiary shall be disqualified from inheriting. This is unless it appears from the Will that the deceased intended to benefit the ex-spouse notwithstanding their divorce. If the divorcee dies within the three month grace period, the law allows the divorcee's other heirs nominated in the Will, or failing such nomination, then the deceased's "intestate heirs" (i.e. current spouse and children or closest blood relatives) to inherit in the place of the nominated ex spouse.

Till death do us part

But if the death happens more than three months after the divorce, the Will is implemented as it stands, even if this leaves the ex-spouse as the rather fortunate recipient of the estate to the detriment of a new spouse, children and other family members.

Take a simple example: Mr Splitsville (of course this example could equally apply to Mrs Splitsville) dies five years after a particularly acrimonious divorce. After his death it transpires that he had neglected to revoke his previous Will, executed at the time of his marriage to his ex-wife. In this Will he had done the popular "thing" for newly married couples - leaving his entire estate to his beloved wife "Mrs Splitsville". His family (and in particular any new wife he may have acquired along the way) will be horrified to learn that his ex-wife will inherit everything!

And to add insult to injury, if he has overlooked changing his beneficiary nominations on his life assurance policies, leaving his ex-wife as the appointed beneficiary on those, then she stands to receive his life assurance too!

A failure to review the beneficiary nominations on the divorcee's life assurance policies creates the second hidden danger. The Wills Act does not apply to policies. Here the nominated beneficiary registered with the assurer at the time of death normally has a contractual right to claim payment of the policy proceeds – even if the life assured drops dead on the court steps just having been granted a divorce from that beneficiary. No grace period applies at all.

The answer is of course simple: as soon as your intentions change regarding who is to receive your estate and life assurance proceeds on your death, you must make the necessary changes to your Will and beneficiary nominations. This is probably sound advice whether you are newly eloped, "shacked-up", married, separated or divorced.

The children

The next hidden danger catches out divorcees with young children from their ex-spouse. It is created when the divorcee nominates their young child or children as beneficiary of their

(Continued on page 4)

10 Interesting facts about marriage and divorce

1. In the past, couples who have been having relationship woes were recommended to sleep with a bottle of "horse glue" underneath their pillows in order to cement their relationship back together.

2. In the 18th century, husbands who were unfaithful with their wives were made to wear horse blinders which would prevent them from noticing other women when they headed into town. Anecdotal reports say that the use of such blinders were extremely effective, which raises the question of whether men are really smarter than horses.

3. In medieval times, husbands and wives who couldn't get along were locked into a tall tower together and made to work out their differences before they were let out, or until the woman grew her hair long enough to use it as a rope to escape. Many believe that this is where the legend of "Rapunzel" came from.

4. It is often said that the success, or failure, of a marriage could be predicted by tying the prospective husband and wife together, and dropping both of them into a giant vat full of water. If they drown the marriage was predicted to fail, if they were able to swim together and get out of the tank then it would be a success.

5. Although centuries ago divorce was frowned upon by the Catholic Church, St. Judith, the patron saint of divorce, would be called upon by a priest who performed a "marriage exorcism", in cases of an especially ill-matched couple.

6. If it is often said that marriages performed on odd days of the month have a much higher chance of failing than marriages performed on even days. And the day of the year that has the highest divorce rate? April Fool's Day.

7. Centuries ago it was considered a cardinal sin for a woman who owned cats to marry a man who owns dogs. In fact, such couples were often burned at the stake.

8. Though marriage certificates can be obtained through a variety of ways, the actual wedding ceremony, which can be quite expensive, is a major hurdling block for some couples. A new law in Nevada allows for couples to become a married for free if they sign a contract promising to hold the ceremony at a casino in Nevada, though critics point out that this may just fuel gambling addiction.

9. A novel form of therapy for married couples having difficulty in their marriage, which is called "parachute jump therapy", involves the couple jumping out of an aeroplane. Only one has a functional parachute, neither of them know who has the dummy parachute and who has the real parachute. For both of them to survive they must trust each other. Though highly successful, critics worry that it is just a matter of time before somebody gets hurt.

10. As though predicting an alien invasion, or perhaps dealing with sticky situations involving aliens living at Area 51, hidden inside the 2008 economic stimulus package is a provision which allows for the marriage and divorce of an American human being to an extraterrestrial visitor!

policies. While this seems logical, the problem is that the assurance company will usually honour your wishes explicitly – possibly too explicitly – by making payment into a bank account opened in the name of the child.

Even if you have been granted custody of your child, it is likely that your ex-spouse remains a co-guardian of the child with you. And there's the danger: as guardian of your minor child after your death, your ex-spouse will have virtually full control over that child's banking account. Your intricately planned and well intentioned testamentary (Will) trust might protect assets such as a house, car and investments left in your Will to your young child, from your financially irresponsible ex-spouse. However, life assurance proceeds do not necessarily pay out through your Will. Your financial advisor can assist you to plan your policy beneficiary nominations so that proceeds payable to young children are protected by such a trust.

The tax factor

The final planning danger for the divorcee is that posed not by their "ex", but by someone with whom they will have a relationship with "until death them do part" – the taxman. On the death of a taxpayer, their deceased estate is assessed for "estate duty": the net value of the estate (including the value of life policies and group life assurance payable on death) that exceeds an amount of R3.5m is levied with a duty of 20% (rates as per 2012 Budget). However, a deferral of the duty is available to married couples – any assets left to a surviving spouse (including a "common law" spouse) are exempted from duty. This generous concession is not extended to the un(re) married divorcee. Married couples that leave their entire or a substantial portion of their estates to one another will not pay estate duty (on the death of the first-dying spouse, at any rate).

But as soon as a person is divorced and single, the estate duty exemption doesn't apply. Their deceased estates may now become liable for estate duty, reducing the amount available for their heirs. Thus in Mr Splitsville's example, if he makes the necessary changes to his Will and policy nominations, and dies leaving a R2m estate and a R2m life assurance policy to his Family Trust for his children, his estate will be liable for R100 000 in estate duty [(R2m+R2m)-R3.5m=R500 000 x 20%].

So to those of you who are reading this while you are waiting in a bank queue to pay (or bank) your ex-spouse's maintenance cheque, or if you are sitting in your divorce lawyer's waiting room, our advice is simple: make an appointment now to see your financial advisor to review your estate planning.

Understanding Euro Crisis Jargon

Contagion (n)

When financial panic becomes contagious.

When investors in Spain see what's happening in Greece and decide to sell like there is no tomorrow.

When a financial problem in a little-known company on one side of the world causes the collapse of a hedge fund, which in turn leaves a dent in a bank's balance sheet, which in turn makes it that much more difficult to borrow from your local bank manager.