Connector

Quarter 1

2022

Welcome back! We wish you all the best for the new year and trust that you have settled back into the swing of things. In this edition of our quarterly newsletter, we offer some practical tips to start the year on the right foot, including our top budgeting insights and tackling hybrid work models. We have also included a beginner's guide to Crypto Assets and the December 2021 market update.

Budgeting tips for 2022

Creating and managing a spending plan is a lifelong skill that empowers you to achieve financial freedom. It is an effective tool to reduce financial stress and achieve goals, whether to cut debt, save for a holiday, or trim expenses. There are some simple tools you can use to get started or improve your budgeting process.

Reduce the admin:

Making budgeting easy! Integrated budgeting apps remove the admin pressure from budgeting, they track your finances and allocate it to categories, so you don't have to. You can have your bank's budgeting app working for you in minutes.

Plan and understand:

To effectively budget you first need to understand your income and how you spend it. Set aside time to review your finances, group them into Income (The money you receive), Expenses (Where you spend your money), and Savings (How you're looking after your future). Further breakdown your expense into Wants (Including takeout's, entertainment, gifts, etc.) and Needs (including your costs relating to your home, food, transport, school fees, etc.)

Set Goals:

As a starting point, the budgeting rule of thumb is to spend 50% for needs, 30% for wants, and 20% for savings and paying off debt. Remember to include goals such as saving for a family holiday or for a deposit on a new house. Contributions to these goals can form part of your wants and help you increase your savings self-discipline.

Start saving now:

The sooner you save the better! Set up a direct deposit to save automatically so that you save before you spend. For compound interest to work in your favour, you need time in the market. Give yourself a goal and aim to save 20% of your monthly income, once you achieve it, challenge yourself to save more (25% – 30%), you'll thank yourself later.

Reduce impulse spending:

Online shopping makes impulse spending so easy. Set up a roadblock to help slow down the decision-making process, this will help you make a clear and calm decision. Before the purchase, ask yourself: Do I really need this item? Would I rather have this item or achieve my savings goal? Give yourself time to sleep on the decision. If you decide to proceed with the purchase, see if you can get the item second-hand or at a discount?

Track your spending:

Arrange a monthly or weekly date with yourself to monitor how you are spending so you can learn to adjust your habits**.**

Reduce your costs:

Take time annually to review your contracts and debit orders. Consider if any of them need adjustment and research if you can get the same service for cheaper rates. You'll be surprised how often you can make savings by reviewing existing contracts.

Return to office tips

The collaboration and socialisation that we have missed out on when working from home is one of the leading attractors to being back at your desk. Global studies indicate that the busiest days in the office are Tuesday through Thursday, as many try to extend the weekend experience. However, the most productive days are said to be Monday and Tuesday.

So how does one decide when to return?

When is senior leadership in the office? Planning your schedule to coincide with the strategic planners in your company can provide you with the opportunity to interact and build valuable career defining relationships.

Where do I focus better? Ensure that your most productive days are spent somewhere you can focus.

When is the team in the office? There is nothing that builds team relationships better than spending everyday together, so consider when your team is in so you can collaborate with them.

When do you have the most meetings? There is little more frustrating than poor connectivity on video calls. Ensure that on those meeting packed days you have the most stable connection at your disposal.

Social distance: don't forget to consider that offices no longer run at full capacity due to pandemic restrictions. Ensure you clearly communicate and discuss your plans to the team and leadership to ensure a safe return to office.

Remember to look after your health

Settling into a new schedule can be stressful and exhausting, making it important to prepare and manage your stress. Plan a healthy meal and snacks for the day ahead. Bring in a reusable water bottle and stay hydrated.
Sitting at a desk 5 days a week, 8 hours a day, can cause a significant amount of strain on your body. One of the most important things you can do during the day is exercise. Consider walking and stretching as part of your lunch break. It will not only burn calories, but it can help you destress and refresh.

Be safe

Remember to bring your mask and keep a spare one in the car or bag (just in case).
Take note of your companies return to office health and safety procedures, although many of your colleagues, if not all, may have been vaccinated, contracting COVID-19 is still a risk. It is important to ensure that you continue to social distance, take precautionary measures and to not go to the office if you have tested positive for the virus. It goes without saying that we need to be conscious and understanding of all co-workers who may be dealing with childcare issues, illness, loss of loved ones, or financial insecurity.

Did you know?

A simulation tool has been introduced on SARS's eFiling platform for taxpayers and tax practitioners to estimate their tax liability on lump sums and severance benefits from funds, insurers or employers before submitting the instruction. This may help to prevent tax directive cancellation requests, in addition to the simulation functionality which is currently available.

Guide to the Tax Directive functionality on eFiling >>>

Guide to complete the Tax Directive application forms >>>

Guide to the Tax Directive functionality on the SARS MobiApp >>>

A guide to Crypto Assets

The world of crypto can be complexed and confusing, so we created a simple guide to help you understand the basics!

2021 marked a significant year for Crypto-assets, starting with Tesla buying Bitcoins and Elon Musk's continuous Tweets about crypto-assets Dogecoin and Shiba. The country of El Salvador then set a new standard by adopting Bitcoin as legal tender. To help navigate the complexities, we created a simple guide for you!

The important terms

A **crypto-asset** is a digitally traded representation of value that can be electronically transferred for the purpose of payment or investment.

Cryptocurrency or fungible tokens are virtual currency based on blockchain technology. There are thousands of cryptocurrencies in circulation with the most popular being Bitcoin and Ethereum.

Decentralised networks use several machines to distribute transaction workloads and enables direct, peer to peer, transactions to take place by removing the middleman (usually banks) to exchange funds. Sophisticated algorithms are used to balance the incoming and outgoing requests to ensure the best response time.

Non-Fungible Tokens (NFTs) are digital assets that represent real-world objects like art, videos, game items and even music. They have unique identification codes and are often encoded with metadata. They are usually traded online using cryptocurrencies.

How is it used?

Bitcoin, the decentralized digital currency that first appeared 12 years ago, was our first introduction to the blockchain technology which underpins most of the innovation in the crypto space. The industry, and investor interest, have grown at an exponential rate, as the security and innovation has developed. The growth includes the development of decentralized finance (DeFi), a public decentralized blockchain network for financial products that cut out the middleman (defined as banks and brokers), Smart Contracts, and other blockchain based technology that enable payments to be made and received digitally without the involvement of traditional banking systems.

Where is the risk?

Although crypto is innovative and exciting, there are risks that need to be considered. First and foremost, the lack of regulation. There have been several Ponzi schemes and scams that have taken advantage of the lack of regulations and complex nature of crypto-assets to steal investors' money. It is imperative to note that crypto-assets, including cryptocurrencies, are not deemed to be legal tender in South Africa. Currently, the only legal tenders are the coins and notes printed by the South African Reserve Bank (SARB). This doesn't mean that goods and service providers don't accept crypto-assets as means of payment, they can do so, if they choose to. It means that there is little to no recourse around the unethical use of crypto-assets as it doesn't fall under any regulatory body – an important risk that anyone involved in the crypto market needs to be aware of.

Secondly, crypto-assets are difficult to value (or price). There is no intrinsic value to a crypto-asset, as there is no physical asset backing it, or defined measure of worth. Crypto-assets pricing is driven by market sentiment, basically how much one person is willing to pay for it and how much another person is willing to sell it for. This means that the price can be drastically impacted by something as simple as an influential person's Twitter post, such as Elon Musk's posts about Bitcoin, making the asset incredibly risky.

Should I invest in Crypto?

We encourage you to speak to your NMG financial consultant if you are interested in gaining exposure to crypto-assets. When doing so it is of the highest importance to understand not only the benefits, but also the risks that are associated with it, and to consider how they play into the dynamics of personal portfolios and investment goals. Regulation 28 limits which govern retirement products, are in place to protect investors. Currently this regulation doesn't allow for investment into crypto assets as the current level of risk perceived by regulators is too high for retirement savings products, however, this doesn't mean that investors can't gain exposure through other products in South Africa.

Your investment in Q4 of 2021

Markets struggled in November on news of the Omicron variant, which was initially thought to be a more dangerous variant with more mutations. This was on the back of a fourth Covid wave racing through Europe, which had already led to lockdowns.
Globally, supply chain pressures are easing, both China and Japan have announced additional policy stimuli, whilst the US household saving rate continues to drop, supporting consumption. Continued uncertainty around Covid has allowed monetary policy to stay more accommodative for longer. This should allow economies to continue to grow, albeit at a slower, more sustainable rate.

From a South African perspective, some performance has been hampered by a series of poorly timed unfortunate events. Eskom's ability to supply power rapidly decreased over the course of 2021, bringing the highest amount of load shedding within a single year. This has battered the local economy, as load shedding reached level 4 across the country. Talks of Renewable Energy through the REIPPP Programme remain in the far future, with no real short-term fixes in sight.

The main economic factors impacting the fourth quarter include:

Identification and Panic of Omicron	South Africa's virologists were the first to identify the new variant, but this brilliant discovery had a dire backlash. Countries throughout the world immediately shut borders to South Africa, causing immediate travel restrictions into the county. This dealt the South African tourism sector a massive blow over its most crucial months of the year. What has since transpired is that the Omicron variant appears to be less severe, but more contagious than Delta. Countries have since slowly backtracked on these restrictions.
Global Inflation pressures continues to increase	The cost of growth has been high inflation. Developed markets have reached year on year inflation numbers far above comfortable levels, with the United States reaching 7%, the highest since 1982. We expect interest rate increases early in 2022 to help curb these values.

Looking back on 2021, the SA Equity Market had stellar performance across all sectors, as economic growth continued to recover. Value stocks outperformed growth stocks for the first time in 5 years.
SA Bonds ended the year at expected performance. South African cash performed below historical expectations due to interest rates remaining low to allow for more stimulus for economic growth.

International equities provided great returns for the year, driven mainly by the Developed markets. International and Domestic Property clawed back some of its major losses of 2020.
The Rand ended the year negatively but performed well relative to other Emerging Market currencies.

Over 2021 the main topics of economic relevance included:

Covid-19 Vaccinations	COVID-19 vaccines were rolled out across the globe and provided some much needed (but not complete) stability to markets.
Impact of loadshedding	Eskom provided the highest number of hours of loadshedding within a single year since the phenomenon began. This consistently hindered growth within the economy at untimely moments within the year.
Commodities boom	The mining sector contributed R128bn to government revenue in 2021/2022 as mineral sales increased 57% year on year.
Global Inflation	Year on year global inflation gradually increased throughout the year, with the expected "transitory" inflation of 2020's stimulus becoming a far more prevalent and worrisome issue as the year unfolded. Continued stimulus at the beginning of the year, combined with supply chain pressures, drove inflation to decade highs by the end of the year.

Key indices to 31 December 2021

Key Indices	1 Month to 31 Dec 2021	3 Months to 31 Dec 2021	1 Year to 31 Dec 2021	3 Year to 31 Dec 2021	5 Years to 31 Dec 2021
Local Shares FTSE/JSE All Share TR ZAR	4.80%	15.13%	29.23%	15.71%	11.38%
Local resource shares FTSE/JSE Resources 10 TR ZAR	5.53%	22.19%	32.39%	26.17%	22.54%
Local industrial shares FTSE/JSE Industrials I 25 TR ZAR	2.76%	16.81%	24.45%	16.42%	10.20%
Local financial shares FTSE/JSE Financial 15 TR ZAR	9.07%	2.21%	27.43%	1.09%	4.27%
Local property FTSE/JSE SA Listed Property TR ZAR	7.88%	8.35%	36.94%	-2.94%	-4.35%
Local bonds Beassa ALBI TR ZAR	2.70%	2.90%	8.40%	9.10%	9.10%
Local cash STeFI Composite ZAR	0.34%	0.98%	3.81%	5.49%	6.25%
Global shares MSCI ACWI GR USD	4.03%	6.77%	19.04%	20.96%	14.98%

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