FinPlanCo

NEWSLETTER H1 June 2022

1 ENVIRONMENT UPDATE

The current financial environment is dynamic. We provide a short update relating to markets, regulations, and the financial planning milieu.

2 WHICH ASSETS HEDGE AGAINST INFLATION?

With inflation being top of mind for many investors, we consider which assets can help to counter inflation or blunt its edge.

3 WHAT HAPPENS TO YOUR INVESTMENTS AT DEATH?

We consider the main assets that make up an investment plan and drill down to consider what happens to them at your death.

4 FINANCIAL PLANNING HEADWINDS

We highlight the main challenges individuals face when creating a Financial Plan. Followed by our **FINANCIAL PLANNING FAQ.**

"In a Bull market, everyone becomes an expert. In a Bear market, everyone becomes wise." – **Amit Trivedi**

INTRODUCTION

The world is currently part of a global financial experiment, with radical changes in the way we understand finance and the financial system. Money can be created from nothing with no physical asset to back it. At the same time there is more money available than every before.

Central banks have recently been hesitant to reintroduce concepts based on *austerity* or *belt tightening*, after a long period of artificially supporting economies and boosting economic growth with quantitative easing and relaxed monetary policy.

It seems the chickens have come home to roost, and governments now need to re-raise the tax money they spent to avoid economic troubles. At the same time, they have started curbing money supply and trying to pay down their debt levels. The can has forever been kicked down the road but may be coming to a rest now.

All this easy and free money has caused the inflation everyone feared would come after the 2008/9 Great Financial Crysis.

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FINANCIAL ENVIRONMENT UPDATE

Wilhelm Tempelhoff. A great financial experiment is unfolding, and it will dictate the financial wellbeing of a generation.

The global asset prices and economies have had the benefit of ever more accommodative money supply and liquidity, cheap debt, and low inflation.

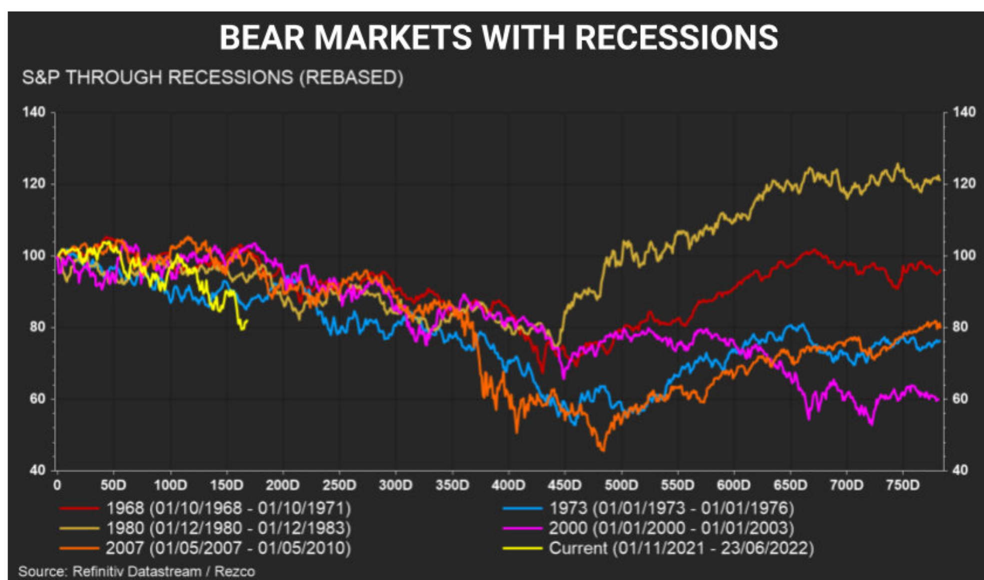
The USA's balance sheet doubled in the last two years and amounts to an eyewatering $8.9 trillion.

As this unwinds, inflation is forcing the hand of central banks into a raising interest rate cycle. Higher rates seem the order of the day as the UK central bank, for example, warns that their inflation will exceed 11% by October 2022. This means tightening in the supply of money as well. Strangely only Russia is bucking the trend, with their inflation starting to retreat from the high of 17.8% in April.

Companies without pricing power or with high debt levels therefore face risks to their earnings, and by extension their share prices. The riskiest parts of the stock market already show the strain with non-profitable tech shares, crypto assets and zombie companies leading the downturn. Zombies referring to those companies that are kept alive by debt and low interest rates. If these companies start truly dying, a rise in defaults will follow.

With stricter monetary policy comes a re-evaluation of the expectations and the unavoidable re-valuation of asset prices.

The long-feared US Bear market has arrived with the S&P500 down by more than 20% year to date (the American stock market represents more than 60% of the world share index). The question on everyone's mind is whether an economic recession will follow considering that recessions normally cause bear markets and vice versa.



Evidence in this regard is mixed with some data supporting economic strength (US Jobs data has been robust, company earnings expectations remain good) and others signalling weakness (inflation remaining stubbornly high, recent consumer spending slowing down).

When commenting on the recent stock market correction George Ball, the chairman of Sanders, Morris, and Harris, said: *"It's an erosion of gains rather than the accumulation of terrible losses."* Referring to the exceptional stock market gains after the 2020 Covid market pullback.

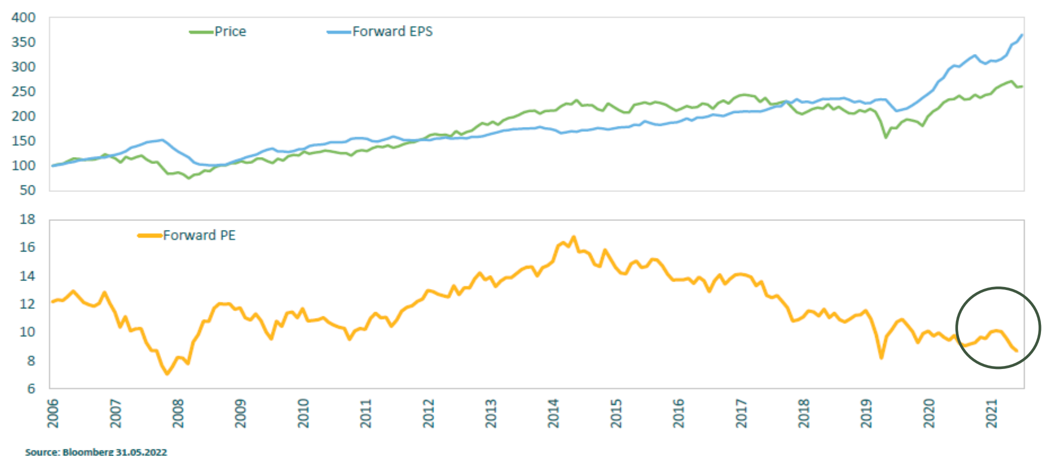
In a period of consolidation and re-consideration, the riskiest parts of the market feel the pinch first. The Crypto currency world is an example, and Crypto has entered a new "crypto winter", their equivalent of a bear market.

Roughly $2 trillion has been wiped off the crypto investment/currency market cap globally bringing the size of the market back to its 2018 level of roughly $1 Trillion.

Stable coins (coins that have a link to real world currency or assets) have been tested and unfortunately the main contender (Terra) ended with a bank run that erased token value of roughly $40Billion. Venture capitalists continue to pump money into the industry however while regulators re-consider the drafted regulations after the extreme volatility. We are keeping an eye on these assets as they try to segue into the regulated investment space.

It is the start of an adjustment period, and the pressure is on with pessimism nearing previous all-time highs. It is however important to note that adversity brings opportunity and the asset managers have already found many assets and shares that are more attractively valued than they have been in a long time.

The JSE All Share index has a single digit price to earnings ratio (gold line on the right), meaning it is comparatively cheap considering that South-African company earnings is expected to remain robust compared to the lofty developed market levels.



The reality is that the further the markets fall, the cheaper it becomes. This lowers the past return but improves the prospective future returns.

Some other interesting points:

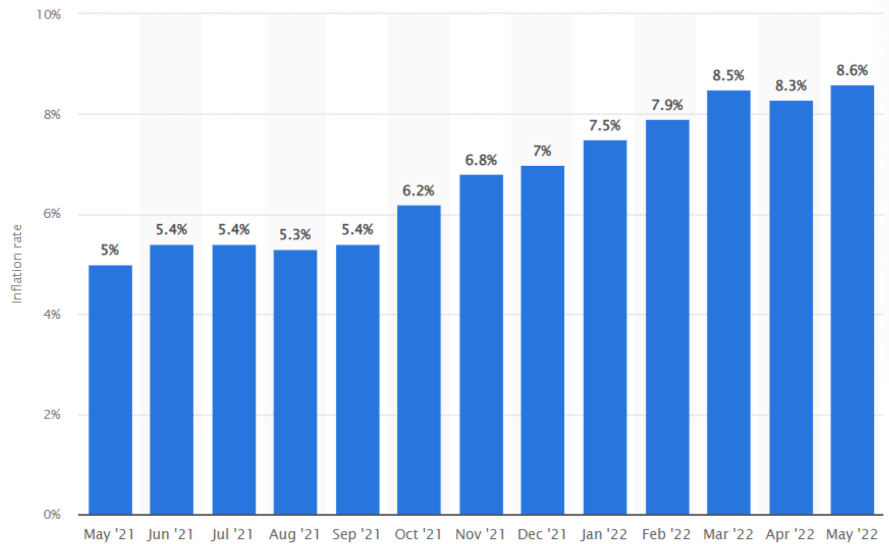
- The cost per gallon of petrol in the US hit $5 recently, that is almost $2 higher than before the Russian forces started accumulated on the Ukrainian border.
- Energy and Oil has also been the topic of the day with green initiatives stifling oil exploration and supply only to have the world come to a shock realisation that we cannot yet wean ourselves off. This has led to shortages and protests in poorer countries like Sri Lanka, Nigeria, and Argentina.
- China seems to be on the rebound after their deep stock market correction well ahead other world markets. Locally our export numbers seem to support this as SA earned an even higher trade surplus in May.
- Tax practitioners will soon have to conform to a higher education and professional development standard to maintain their standing with SARS. SARS could require proof of 10 years' experience to maintain practitioner registrations.
- Interest rates are expected to increase by an average of 1.8% by the end of the year and 3% by over the next two years.
- South African GDP increased by 1.9% in the first quarter of this year, the second consecutive quarter of higher growth.
- S&P also upgraded RSA's outlook to positive even though we remain sub-investment grade.
- We are however now 75th on the Fraser Institute's annual mining jurisdiction attractiveness survey, ranking as low as the likes of the DRC and Venezuela.
- Eskom remains a concern with the recent winter loadshedding which costs RSA roughly R1Billion in lost GDP per day.
- We are projected to reach a world population of 8 billion in August of 2022.

WHICH ASSETS HEDGE AGAINST INFLATION?

Carel Marx. With inflation stubbornly high, it's fair to ask which assets can help hedge against the degrading effects thereof.

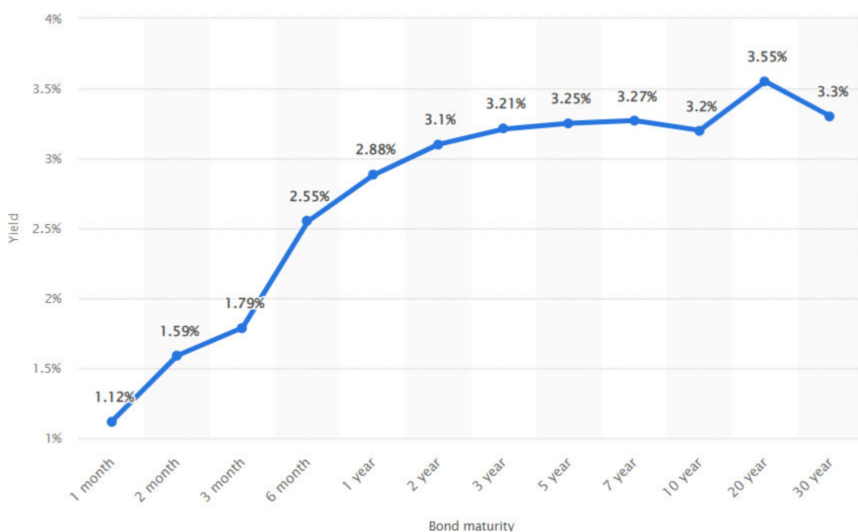
There are a lot of moving parts in the economy that affects your financial well-being. Two of the most talked about in global markets have been interest rates and inflation. These two go hand in hand as central banks or reserve banks use interest rates as the main lever to control inflation. When inflation moves above a certain level, policy makers increase interest rates to slow it down or bring it back down.

Inflation and interest rates are both going up at speeds we haven't seen in many decades. These macroeconomic factors have a profound impact on your financial plan as the one determines your return and the other how fast your purchasing power will erode over time. For any investor, the ideal outcome is growing your capital faster than the pace of erosion. The graph on the right shows the **12-month inflation rate in the United States for the last year.**

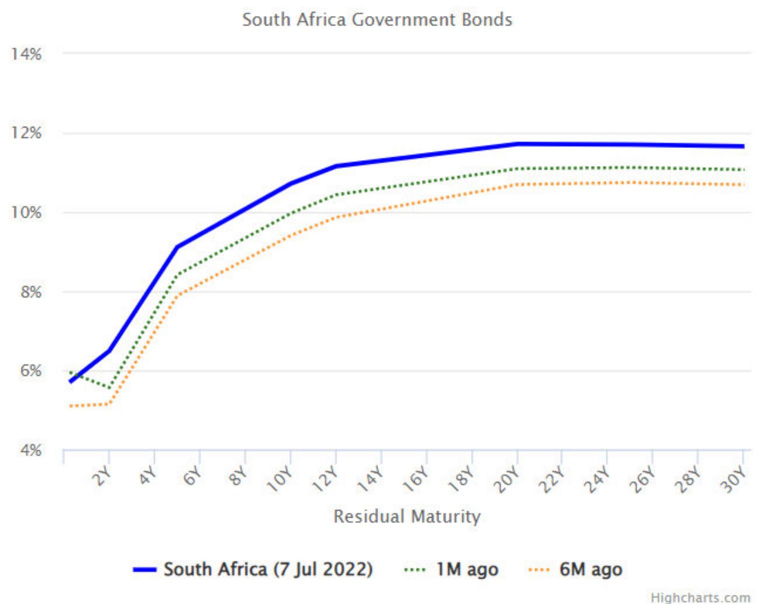


We prefer using practical examples to illustrate potential outcomes. Let's assume you are a United States investor. Inflation expectations for 2022 was 2.4%, the actual inflation is at 8.6% and you can lend money to the US Treasury for 30 years and the outcome is 3.3% per annum (from the yield curve on 28 June 2022). At current inflation levels in the US that is 5.3% negative real return. Any takers? Probably no. As a side note, the 10-year treasury bond provides a yield of 3.2% per annum.

What about short-term deposits with the US treasury (should be very similar to bank deposit rates). A 1-month treasury bond yields 1.12% p.a. As an US investor you either must believe that inflation will come down drastically in the near term or you don't have any option but to look for other asset classes with better real return outcomes. The gap between interest rates and inflation hasn't been this wide for a very long time but it's been negative most of the time since the global financial crisis in almost every developed market. The graph on the left shows the **treasury (government bond) yield curve in the United States as of 28 June 2022.**



Let's compare the above scenario with an SA investor. You can lend money to the South African government for 30 years and your yield is 11.4%. The South African inflation rate is currently at 6.5%. This is a positive real outcome of 4.9%. Just for interest's sake, you can also lend money to the SA government for 10 years and receive +-10% p.a. The graph on the right shows the South African yield curve at present, it is quite flat, and the sweet spot seems to be the medium-term bonds.



What are the alternatives?

The first inflation hedge you can consider is **Gold**. You can buy physical gold or a gold price tracking instrument like the NewGold ETF. If you think the price of gold going up, then could also consider buying share of a listed gold mining business. Gold is currently battling with the USD as the main haven asset, the benefit of gold is that it has been shown to be a good store of value and a good hedge to inflation long term.

The second asset class is **shares in businesses** that have the power to shift the inflation pressures onto their customers or benefit from higher interest rates. Shifting prices though to entrenched clients should automatically support or even increase top line revenue if costs can be controlled. Business with low debt levels or large cash balances will also be preferrable while companies that can benefit from higher interest rates offer a natural hedge to inflation (Banks and Life insurers for example).

Rental property could also offer inflation protection if you can pass inflation like increases onto your tenant and if house/property prices can increase in line with inflation.

Preference shares are unfortunately a bit of a dying asset class in South-Africa but if you can find them, they are often linked to a percentage of the Prime rate. This offers participation in rising interest rates.

The above alternatives have a few things in common, predominantly that they can have volatile price movements in the short- to medium-term. It's very much possible that you invest in any of those assets and find the prices decrease in the near term. This means that these assets are ideally part of your long term financial or investment plan. For more short-term periods one can consider **Prime-linked bank deposits** (although rates are not high enough yet to absorb inflation) or short- to medium -term **floating rate bonds**.

How are the main portfolio managers positioning themselves for SA investors?

- Most are invested in selected shares both locally and offshore close to maximum weighting
- Resource, Financial shares, and gold has a higher weighting than normal
- SA longer term bonds offer compelling real returns and in most portfolios in an overweight position
- No developed market bonds – rising rates tend to cause capital losses
- Pro SA equity and the Rand (in hindsight this turned out to be a short-term detractor)

WHAT HAPPENS TO YOUR INVESTMENT ASSETS AT DEATH?

Wilhelm Tempelhoff. It is perhaps helpful to consider what happens to your various financial planning investment components when you pass away.

In a recent interview actor Keanu Reeves was asked: What happens when you die? After a moment's reflection he answered, "***The people who love you, will miss you***". I thought this succinctly answered and, while neatly sidestepping the existential implications of the question, I spared a thought for the practical implications. In this article I hope to provide an overview from a financial planning point of view. Each investment type has its own set of considerations for inheritance, administration, executors' fees, taxation, etc.

Some general principals to firstly bear in mind:

1. If your executor needs to get involved with the administration of an investment or asset, he/she will levy an executor's fee (of maximum 3.5% plus VAT).
2. If beneficiaries can be and are nominated directly on the investment or insurance policy:
    a. then the executor normally does not receive a fee unless the beneficiaries can't or won't receive their benefit, then the executor must get involved via the estate.
    b. The asset/proceeds can be paid/transferred directly to the beneficiaries, this circumvents the estate, but the asset is still part of the estate for estate duty purposes.
3. If retirement lump sum tax will be calculated on a fund or policy, it is generally free of estate duty (this refers to assets including retirement annuities, pension funds, preservation funds and living annuities).
4. Most investments can remain invested while the estate is being wound up, but some are immediately moved to cash pending the decision by the executor or beneficiary (for example a Living Annuity).
5. Estate duty is only levied on the value of your estate above R3.5mil and the unused section of this abatement can roll over to your spouse. Generally, bequests to your spouse allow for capital gains and estate duty roll-over.
6. Most investments and accounts are frozen or blocked until the executor is appointed, although some allow early access where the executor is not normally involved (for example life policies, endowments, etc.)

Unit Trusts

In general, 'discretionary' investment assets are part of your estate and they are inherited via the working and stipulations of the Will. Unit trusts fall in this category and the accounts are frozen until the executor instructs the investment provider on how these assets should be handled. These assets can be transferred to a new owner, paid out to the estate bank account or a combination of the two. Any accumulated capital gains will be triggered unless the unit trusts transfer to a spouse in which case the gains roll over. Unit trusts also attract

estate duty and executors' fees. Like the capital gains, if a spouse inherits the unit trusts they are free of estate duty.

Endowments

Whether local or offshore, endowments are deemed assets in the estate for estate duty purposes. These policies normally allow for multiple owners or beneficiary nominations, and if beneficiaries or new owners are nominated, they don't incur executors' fees in the estate. At the death of the last policyholder the normal liquidity restrictions fall away. Once the life company is notified of the policy owner's death, they will provide the options to the beneficiaries. This can include continuing with the policy, receiving a full or partial withdrawal, transferring to a new policy in the beneficiary's name, or a combination of the above. Some endowments also add a life insurance benefit for the beneficiaries. Endowments settle any capital gains or other income taxes due within the policy.

Tax-Free Investments

There are two types of tax-free investments, those created via life companies and those that are not. If the tax-free account is set up via a life company, one can nominate beneficiaries and the inheritance is dealt with similar to how an endowment is handled above. If, however, the tax-free investment does not allow beneficiaries to be listed, it is dealt with like the unit trusts above. The main difference to unit trusts is that this investment will not trigger any capital gain consequences if sold or transferred. Importantly tax-free investments are not estate duty free as they are seen as assets in the estate for duty purposes.

Retirement funds

In the H1 2021 newsletter we explained that retirement funds are handled a little differently. Here beneficiary nominations are merely indications of your wishes and the trustees of the fund have the final say in how the benefits are distributed according to the provisions of the Pension Funds Act. Dependents take precedence here to ensure that the benefits are used to continue to support those that you supported in life. Retirement funds don't form part of the estate process because they are paid directly to the beneficiaries, and they may have retirement lump sum tax consequences but no estate duty consequences. Beneficiaries have the option of taking a full lump sum withdrawal, subject to the retirement tax tables of the deceased, or they can transfer the benefits to an income providing annuity tax neutrally. A combination of the two is also allowable.

Living Annuities

Once the life company is informed the annuity's underlying investments are normally switched into cash or money market type investments. This is to avoid affecting the value of the annuity because of market fluctuations. Living annuities differ from their Life/Guaranteed annuity counterparts in that they allow for inheritance of the remaining value at death. Beneficiaries can decide whether they would like to take a lump sum amount (subject to retirement lump sum tax of the deceases) or transfer to a new living annuity in their own name, or a combination of the two. Living annuities are not part of the estate for estate duty and, if beneficiaries are listed, executor's fees calculations.

Life Annuities

Guaranteed income annuities, also called Life annuities, normally end at the death of the annuitant although some are set up to continue for a set period, the life of a second annuitant, or a combination of the two. Each one is uniquely created at inception and no general rule applies. Unless backed by insurance, lump sums are not available at death and life annuities do not have a value in the estate.

Property

Interestingly there is no transfer duty on a property inherited by a beneficiary or heir. Transfer fees are however applicable, and capital gains tax would also be applicable on the capital gains made. Property increases the value of your estate for estate duty purposes and the executor is involved with the transfer of the asset to the new owner meaning that executors fees are applicable.

Foreign Assets

For the most part this is similar to how local assets are dealt with, especially if the assets are administered or domiciled in South Africa. Note that one would need special permission to keep the assets offshore in certain cases, for example where a minor or a trust inherits. If, however foreign assets are domiciled in countries like the UK and USA, one needs to be aware of the potential SITUS tax considerations. SITUS tax refers to inheritance tax or death duties payable in the country where the assets are situated or domiciled. In such a case the origin country has first bite of the apple, but a double tax agreement may provide relief for a South African resident. Foreign investors should also consider probate and the need for a separate offshore Will to govern offshore assets. Consider also that some counties do not have freedom of testation and assets need to therefore follow forced heirship rules. This is however more applicable to immovable assets like property.

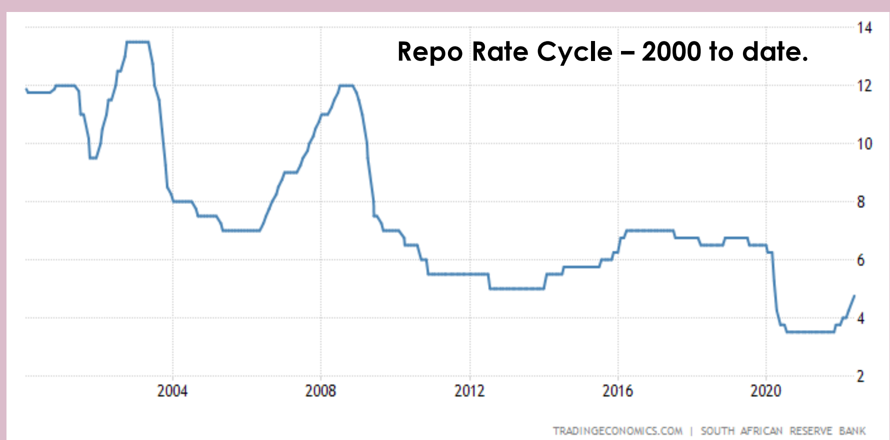
As always, we welcome any questions or requests for more info.

Quick take: Should you fix your Bond rate?

The short answer is probably not unless the expected interest rate increase cycle will be short and sharp. However, every financial decision has pros and cons. Using a bond with a floating/prime-linked interest rate means one needs to accept that market forces will dictate your interest rate, and while fixed bonds may seem secure, they can often cost you more in the long run. Historically, homeowners with floating rate bonds pay less than those with fixed rates because interest rates move in cycles that span years.

If you accept a prime linked bond, the bank will offer you a more favourable interest rate on your repayments compared to a fixed rate because you shoulder the interest rate risk. On average, banks will require a 2% higher rate as a safeguard against that same risk.

So, why consider fixing your bond at all? The upsides include a stable cash flow if your budget is tight and you can't afford any fluctuations in your expenses, and lower monthly payments if interest rates spike. However, the downsides include needing to reasonably forecast an interest rate surge of 2% or higher, or you will end up paying more interest. The trouble is that banks only allow you to fix your bond for 1-3 years normally, and seldom more than 5 years; over these short terms an increasing interest rate may be unlikely to outweigh the higher 2% fixed rate from day one.



FINANCIAL PLANNING HEADWINDS

Carel Marx.

In our previous newsletter we highlighted the low hanging fruit that allow you to set an initial financial plan in short order to cover the basics. We now consider the main challenges clients face when doing their own financial planning.

We interact with various clients from all sorts of backgrounds and professions and during these conversations we try to understand where the problem areas might be and offer solutions or advice to streamline their financial wellness.

We can highlight 10 common headwinds that the average person faces when it comes to their own personal finances and financial planning.

Financial decision making

Financial decisions are part of life, and they can have a huge impact on your wellbeing. You may need to decide on buying a new vehicle, repaying debt faster, consider selling investments (especially selling of investments after weak performance), etc. The considerations can however be debilitating, for example investing offshore, a topical subject for many but riddled with difficult decisions. Considerations include the exchange rate, the investment structures, tax, estate implications, diversification, and your risk level.

The bottom line is that you need to make decisions and it requires careful consideration as they have a long-term impact on your goals. Financial decisions are difficult, and we often see clients paralysed in the analysis of the decision and the potential outcomes; ultimately making no decision because it feels to abstract or daunting.

Executing decisions once made

We all make decisions, but we don't implement. Why? It's likely because you have other more pressing matters or work to do and cannot spend your time doing admin or generating paperwork.

You may think to yourself: *If only I started saving money earlier like I wanted. If only I sold Sasol at R600 per share when I knew it looked too strong. I should have exchanged my Rands for Dollars earlier in 2022. My old-style Retirement annuity is not the best, I should review it.*

This headwind goes hand in hand with the making of decisions. Once made its ideal to get the ball rolling to avoid the considerations getting stale, restarting the whole process.

General planning for the future

Most of us live in the now and spend our money on short term needs. This is normal, we want to enjoy our lives today and worry about the future when we get there. Finding the balance between living in the now and providing for the future can be difficult. It is about finding the plan that works for you, bearing your preferences in mind and finding the motivation to consider the future as well. An example would be a client who finds it difficult to understand traditional investments. To them a property might be a good idea. It is something more tangible and it may make them positive and, in the same breath, provide for their future.

Your future self will be very impressed with your present self if you start planning for the "what if" scenarios in your life.

Setting up workable budgets

Budgets can be simple, and we all know how to do one. The reality is that very few of us can set up a well-functioning budget that caters for all your needs. Does your budget take into consideration that you want to go on holiday this December? What if your beloved dog needs major surgery? Can you afford the next set of tyres on your vehicle? What about saving for the deposit on a new home or finding room in your budget to afford it?

Budgets can be derailed or abandoned very quickly but the act of making and understanding the limitations in your budget can be empowering.

Correctly allocating cash flows

Budgets are helpful to map your cashflows but ideally you need to prioritise them as well. One needs to also consider what to do you do with excess cashflows? Some individuals may prioritize their lifestyle, others may prefer to repay their debt faster, while still others prefer to invest.

These alternatives are not made equal, and it boils down to prioritizing the most important and beneficial elements considering your circumstances. This is also a fluid consideration, for example prioritising debt repayment in a low interest rate environment may not be best but as soon as the interest rate escalates it may become number one on the list.

Getting caught up in the marketing

Let's face it, some advertising and sales talks are very good! We even struggle to find the catch. Some products promise zero fees while others will pay your premiums back or refund your fees after jumping through a couple of hoops. Yet more products are marketed as zero-tax alternatives or promise excess returns.

While not all well-marketed products are bad, it is worth kicking the tyres and making sure you understand the ins and outs. In our experience we follow some simple guidelines, if it sounds too good to be true, it often is. Paying tax is part of making money, if you don't pay tax, then it's because you're not making money. Businesses launch fancy complicated products to make money, no one works for free. Higher returns normally mean higher risks. If a product falls outside the conventional wisdom, some additional research seems prudent.

Keeping up with changing legislation or taxation

Taxation and legislation continually change. Keeping track of the changes is time consuming and we find that even professionals need to rely on other experts to provide overviews of the updates and amendments. We still miss things even after many hours of research and professional development. The devil can also be in the details so interpreting a rule or clause correctly can make a big difference.

Protecting assets or future cash flows

Most individuals have some form of risk planning or insurance. It might be through their employer paying them a multiple of their annual salary or they have their own provider. Individuals often have trouble with the way their insurance benefits are set-up. Sometimes the cover is too high in some places or too low in others. Or it may not fit their needs.

Most often we see unsustainable premium patterns that may start off affordable, but the built-in increases become unmanageable later in life when the cover may be needed most. In our opinion insurers make the most money from clients that never claim and eventually cancel, so getting the balance right is essential.

Opaque or hidden fees

We recently wrote to a potential new client explain that "*you can reduce fees as far as possible but taking away a fee often means you take away a service*". Fees are very topical, and one should be aware of them. Financial products, structures or investments aren't free. In fact, they can be very expensive without one even noticing or going through a comparative exercise.

Consider the breath of available options in the financial world and it stands to reason that it can be hard to find the right balance between cost and benefit. While selecting the lowest fee or the cheapest product shouldn't be your number one goal, one should at least understand what you are paying and what you should expect in return. We believe something is only expensive if it is not adding enough value.

Monitoring and interpreting progress

Humans often only provide for the future or the unexpected, if we feel we are making progress. Its therefore important to track the progress of the decisions or plans that you put into motion. This can be as simple as drawing up an investment performance report or as detailed as reviewing a financial plan.

Tracking performance and goals over time allows you to feel in touch with your finances and knowing where you are as opposed to "guessing and stressing" about it. When the update is positive it can validate and motivate you to stick to your financial plan and even double down. The update will not always be positive however, especially when considering performance of your plans in the short term, but insight helps to flesh out your financial journey. Those who persist will hopefully see the benefits given time. A famous quote by Warren Buffet "*the stock market is a device for transferring money from the impatient to the patient*".

In closing

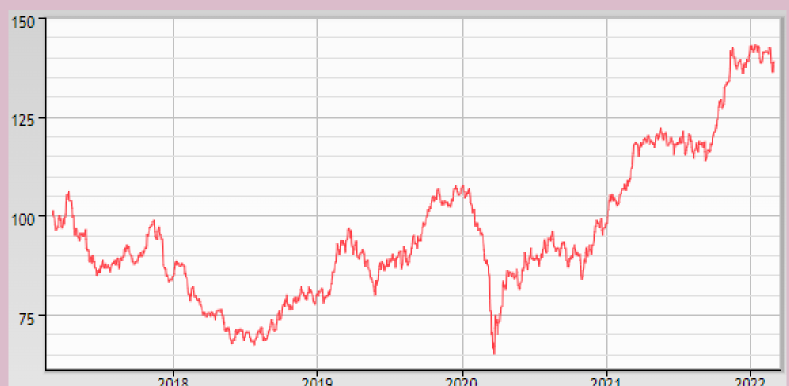
Doubtless you have noticed that these headwinds coincide with the services that FinPlanCo offers clients. They form part of our business plan and the core of our value proposition as financial planners. If you face any of these headwinds, we would be more than happy to assist you in turning them into tailwinds.

Snapshot: Why we prefer graphs over tables.

The short answer is that graphs provide more information and tables tend to obscure the details between data points. Interestingly graphs engage our visual system while tables interact with our verbal systems. We tend to *read* a table and *view* a graph. We find graphs more useful in financial planning because they tend to illustrate data clearer than the collection of individual values would in a table. An example would be that a table tends to obscure a lot when it comes to investment performance because of the data intervals; a lot can happen between data points.

Consider this quick illustration: 5-year return data for the Ninety-One Value fund, up to the of Feb 2022. The table may show that the fund has provided stellar returns, but the graph illustrates the ride the investor had to take to earn them.

Fund	1y return	3y ann. return	5y ann. return
Ninety-One Value Fund	28.19%	14.07%	6.80%



FINANCIAL FAQ

*"It feels weird making decisions that mainly benefit future-me. The only worse feeling may be when I look back at past-me, and wish he made these decisions earlier."– **Recent client comment**.*

What is diversification and can one overdiversify?

Diversification refers to the practice of splitting your eggs into multiple baskets. In terms of an investment, or portfolio of investments, it refers to allocating your assets between multiple ideas, strategies, or assets. Ideally, your investments won't react the same way when trouble strikes a particular area or asset. Overdiversification is however possible, especially where you invest into too widely between ideas or assets. Often you can also select assets that move perfectly opposite to each other which could defeat the purpose of diversification. Within a local share portfolio for example, you should aim for 10-30 stocks to diversify well but beyond this you may as well buy the market/index. Within a unit trust investment, one should arguably blend no more than four multi-asset strategies together or six building block funds.

Who should I nominate as my Executor in my Will?

South-Africans have the right to nominate their own executor in their Will, be it a professional, a layperson, a family member, or an independent individual. The Master of the High Court will however need to confirm your nomination and needs to therefore be satisfied that the person(s) you nominate is adequately qualified to take on the responsibility. You can nominate more than one co-executor, or you can build in a nomination hierarchy to provide backup nominations.

Its perhaps easier to form a profile of your ideal executor by considering their responsibilities, which include: determining the assets and liabilities of the estate, account for and value these assets, distribute/transfer the inheritances to the beneficiaries, settle all the debts and costs involved with the estate, register the estate for tax purposes, pay any outstanding tax along with any estate duty, laisse and deal with family members and heirs, manage the estate liquidity, report back to the Master on the estate's composition and finances, etc.

In short nominate someone who has a strong administration ability, knowledge of accounting and tax, strong ethics and empathy, an understanding of the family dynamics, and some legal knowledge. Our recommendation leans toward a competent family member, a close trusted professional, or a combination of the two.

What is a Hedge fund and are they risky investments?

A hedge fund is a unique type of investment portfolio where the portfolio manager has a wide mandate to include other types of investment strategies, assets or options that may be dangerous if used incorrectly or without thorough forethought and consideration. In other words, the investor provides the hedge fund manager with more rope compared to the usual asset allocation unit trust fund. Their scope includes options, short selling, futures, leverage, and other derivatives.

Each hedge fund has a defined strategy, scope, risk profile, return aim and mandate. If you understand and agree with these considerations, you should be a happy investor, but if you invest without considering these details, you may have a bad investment outcome. We generally find Hedge funds interesting and useful to provide diversification and improve client's financial plans. They should however be used in moderation considering their wider scope and manager freedom.