

The inflation dilemma and its impact on you



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- ❖ **Before retirement:**
 - Erodes investment returns on your savings
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- ❖ **After retirement:**
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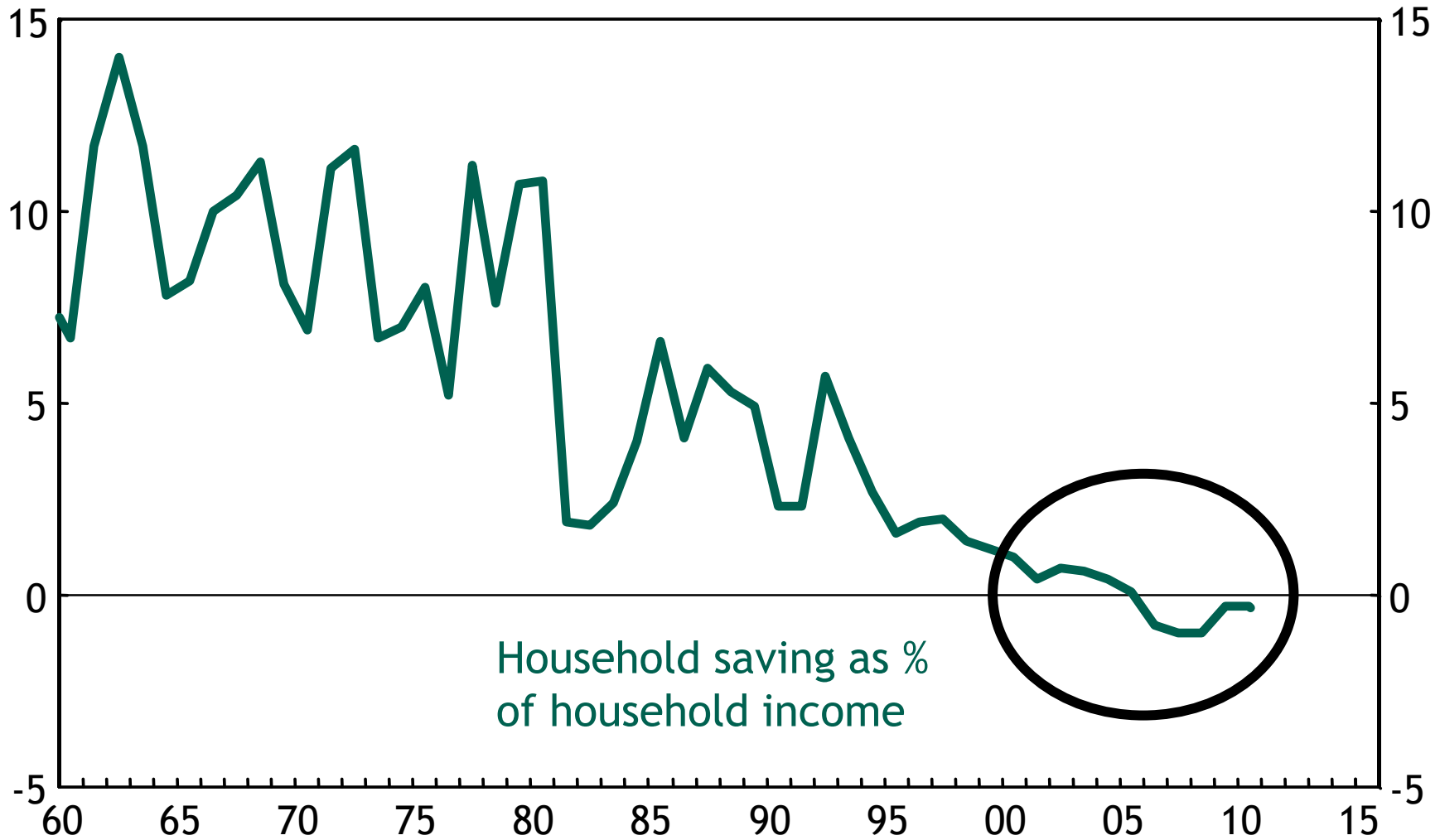
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- ❖ **Inflation as ‘an issue’**
 - By no means under control
 - Can not assume it will remain low, stable or predictable
 - Big ‘relative price changes’ will likely continue

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- ❖ **Real investment returns will likely be lower in future**
 - Can rely less on investment markets

Household net savings ratio



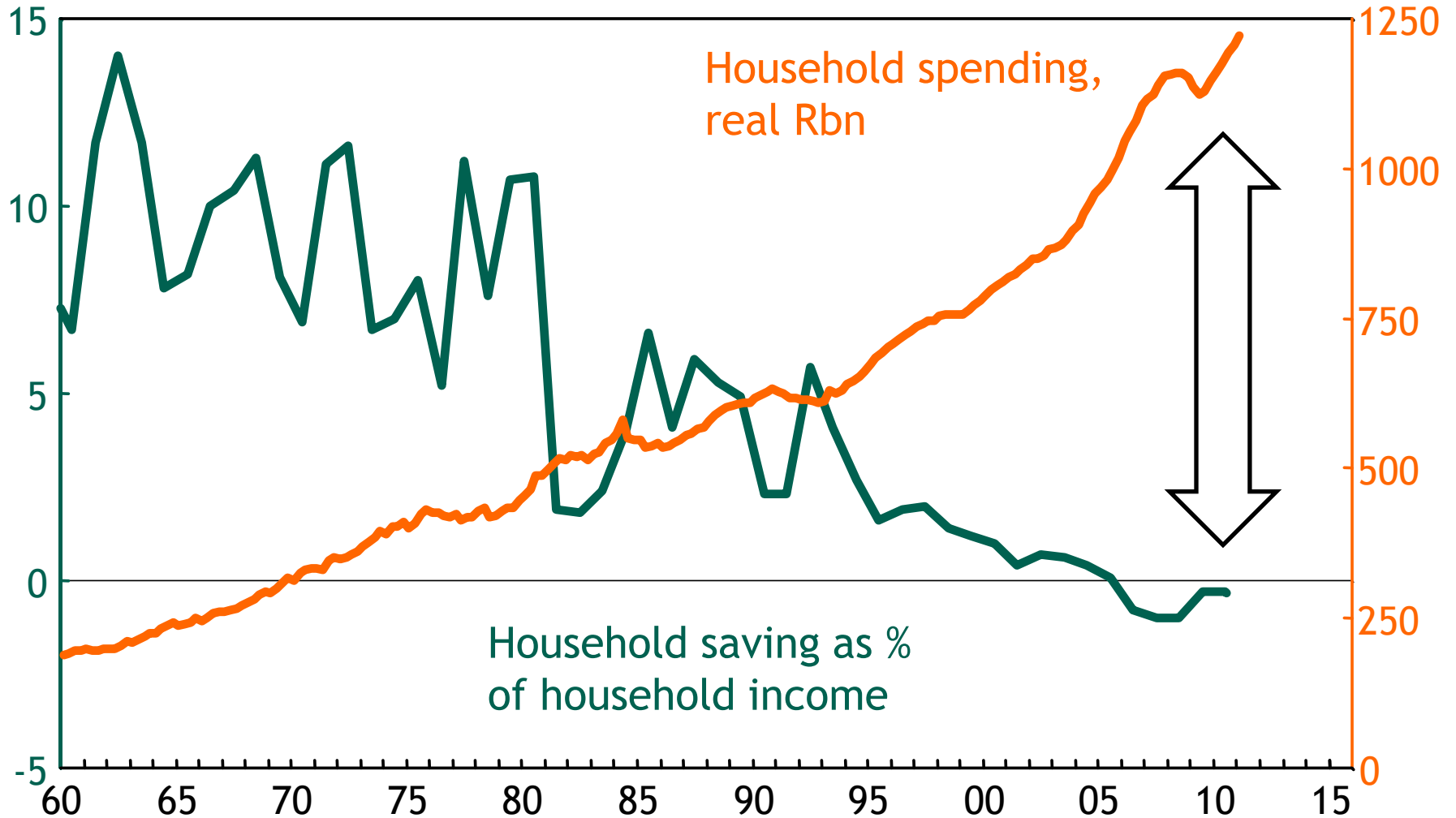
Household net savings ratio vs spending

Our savings behaviour is still not changing



OLD MUTUAL
Investment Group

Equity
Research



What will a R1000 basket of goods cost in future?



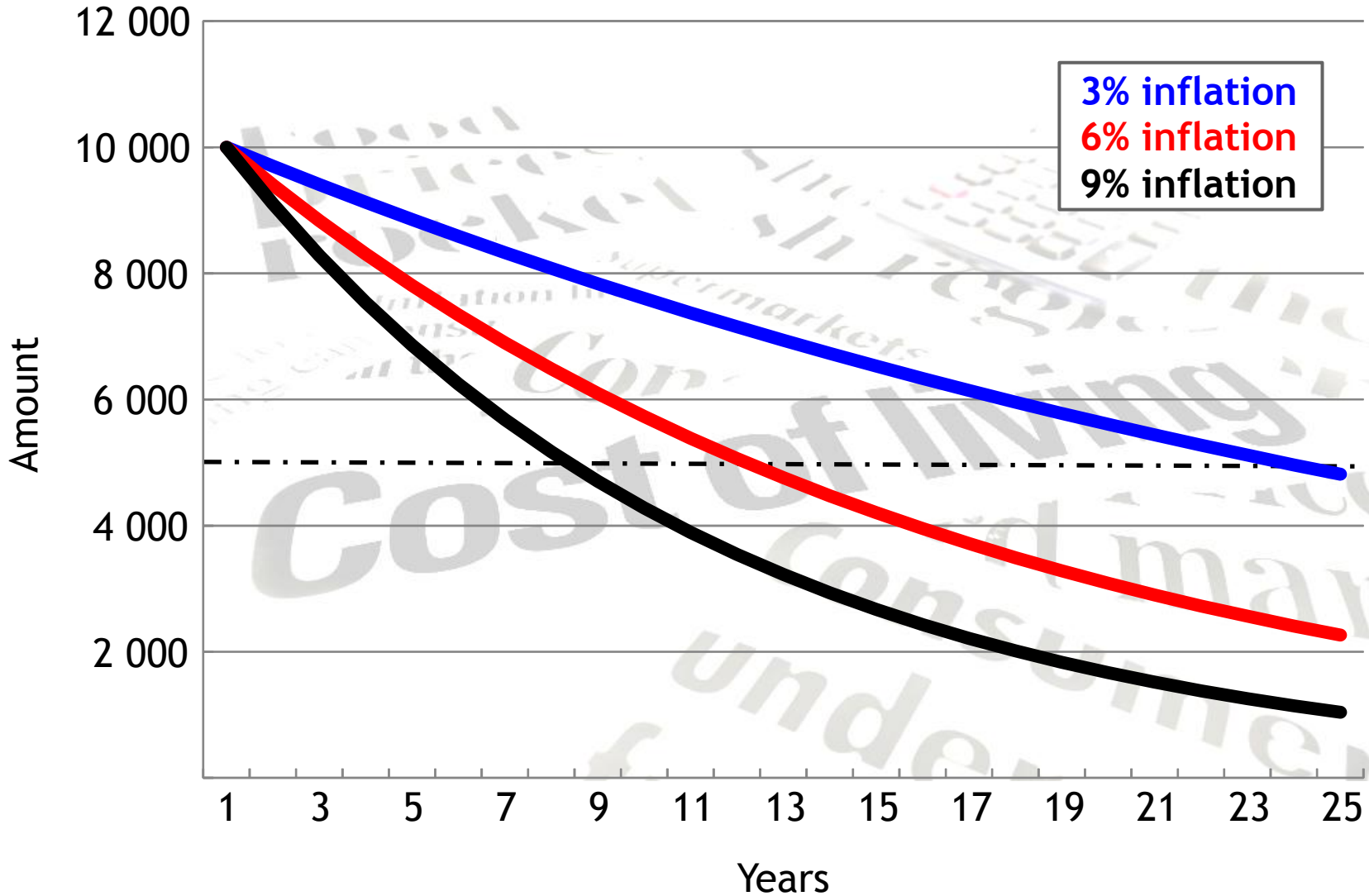
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	Average Annual Inflation Assumptions		
	3%	6%	9%
5 Years	R1200	R1300	R1500
10 Years	R1300	R1800	R2400
15 Years	R1600	R2400	R3600
20 Years	R1800	R3200	R5600
25 Years	R2100	R4300	R8600

Real value of R10 000 at different inflation rates

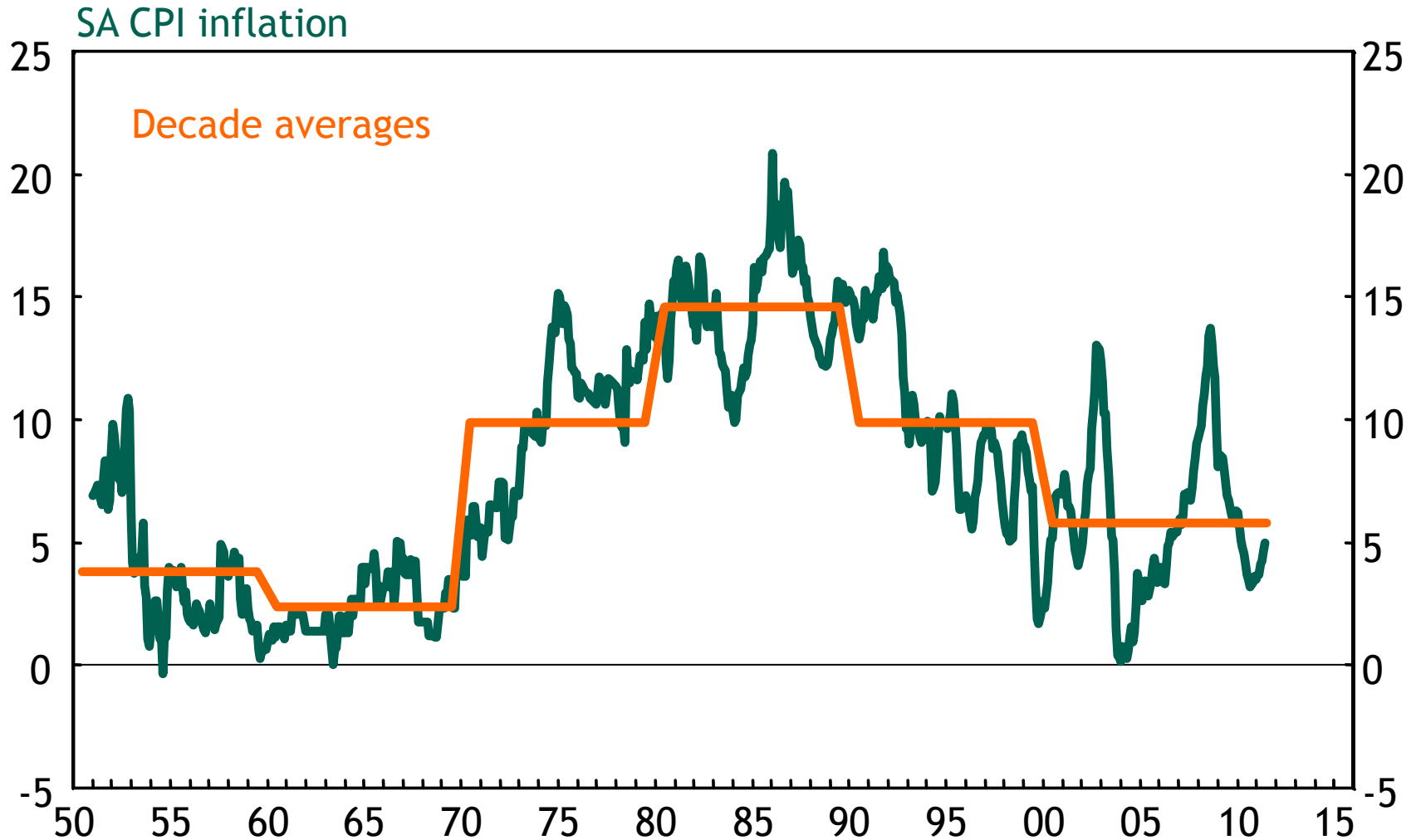


- ❖ **Inflation in SA remains a longer term threat:**
 - *SA specifics:* Wage demands & Rand
 - *Global scarcity:* Energy & Food
 - *SA 'user charges':* Education, Medical, Water, Toll Fees, Municipal charges
 - *SA policy:* 'Tolerating more inflation' as part of a growth strategy?



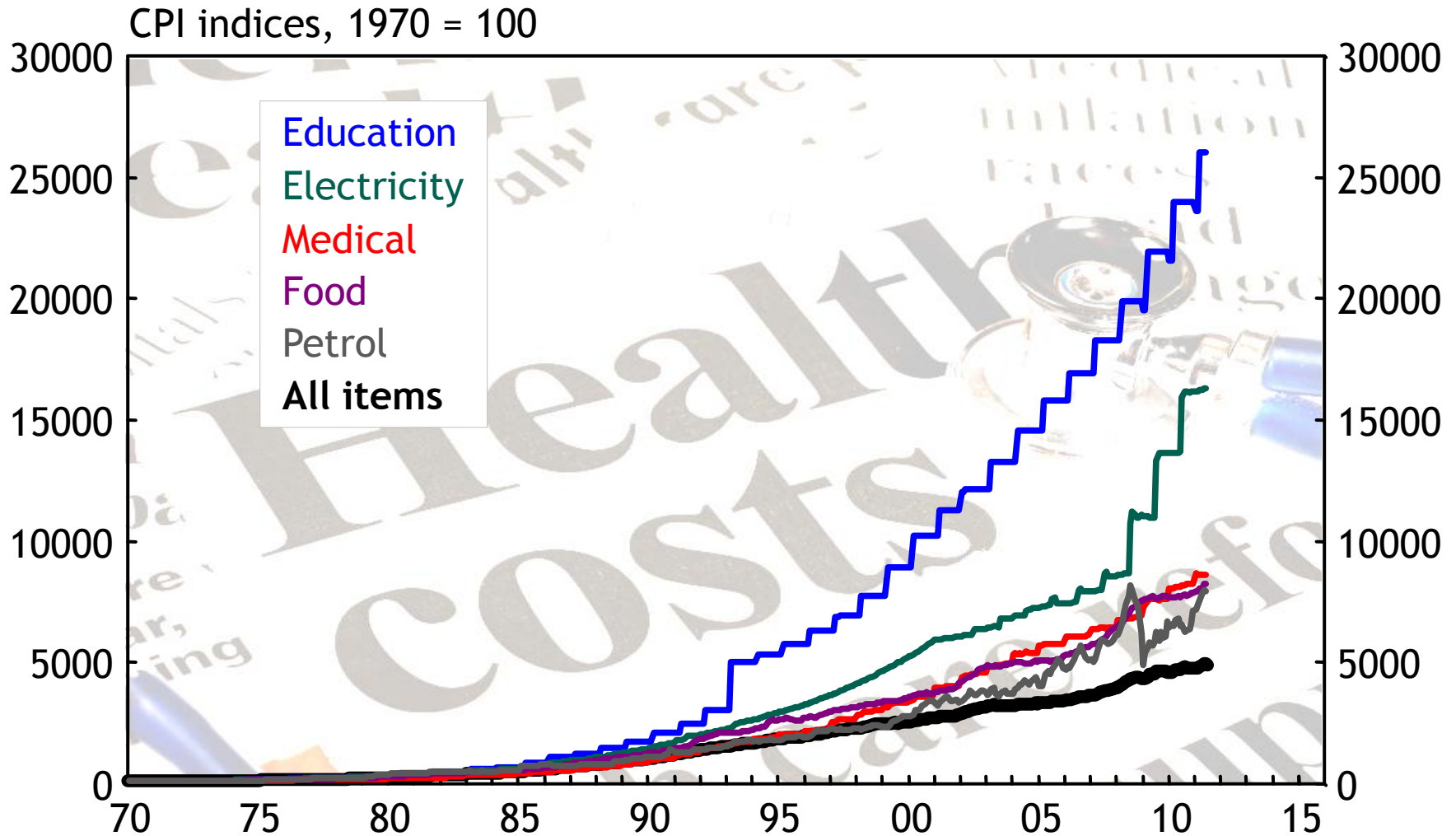
SA Inflation

By no means under full control



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 - *SA policy*: 'Tolerating more inflation' as part of a growth strategy?
- ❖ **Relative price changes are a serious complication**
 - Some prices rise faster than others
 - *Before retirement*: Harms your ability to 'save enough'
 - *After retirement*: Spending rises faster than Income & Inflation

Huge relative price changes



	50 years (1960 - 2010)
Shares	20.0%
Bonds	11.0%
Cash	11.0%
Weighted Average	16.5%
Inflation	8.5%
Real Return	8.0%

Realistic Returns: \pm 9% - 11% p.a
If inflation averages 6% = real returns \pm 3% - 5% p.a.

- ❖ Inflation remains a longer term
- ❖ Don't assume inflation will remain low, stable or predictable
- ❖ Investment returns will likely be lower - Danger!
- ❖ Bottom line:
 - Save more - this is the only thing 'in our control'
- ❖ A word of warning:
 - People 'assume' their pension funds will be sufficient
 - This could be your biggest financial blunder ever
 - Fully understand your retirement provisioning

❖ Why the panic?

- Fiscal austerity + already slowing growth = recession risk
- Faith in policy makers crumbles: slow/inadequate crisis responses

❖ Implications:

- World still fraught with troubles after sub-prime crisis
- Panic can easily flare up again
- Our 'low return world' view reinforced
- People need to save more

Thank You

