Sterling Times

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STERLING PRIVATE WEALTH

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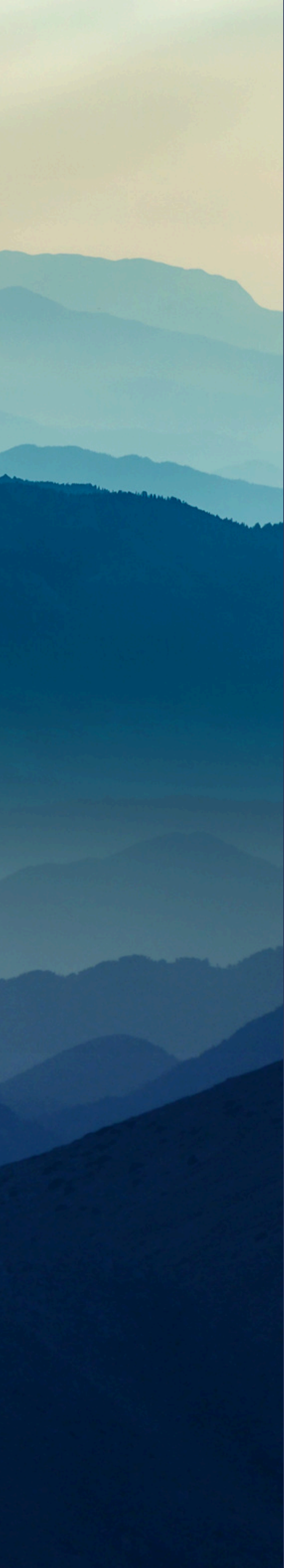

MAY 2025

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Introduction by the Managing Director

Graydon Morris

Dear valued clients and friends

As we approach the middle of the year, and the winter solstice, it is worth reflecting on the journey we have travelled in just a short 4 and a half months or so, since we all made (or didn't) our New Years resolutions at the height of summer celebrations.

It has been a tumultuous year for global markets and indeed currencies.

From the SA Budget VAT fiasco, US "Liberation" Day and the subsequent Tariff Tantrums, and a new Pope, there has certainly been no shortage of headline news.

As I write this, the SA equity market is up 11%, compared to the Global Market at -2% in ZAR, for the year to date.

It has been some time since we have been able to say that. The 1-year number paints a similar picture, 22% plays 9%. For South African investors with Rand liabilities, it is critical to understand that markets and currencies are not a one-way bet. And you get paid very well in SA fixed interest to hold such assets, too.

Diversification, as always, is crucial, as is the ability not to panic when things appear very turbulent. Risk is ever present, it just does not always appear so.

Through all these market trials and tribulations, our experienced team remain level-headed, confident, reassured and available to discuss any concerns investors and valued clients may have. It is a hallmark of our business, consistency always.

Gold has been on a tear away rally for the past while. We have included a short piece in this issue for your reading. Just a note, if one is considering an allocation, understand your rationale and reason for the allocation, rather than chasing performance, being late to the party and falling into the classic buy high trap! Gold is up 26.7% in 2025 so far.

We have also included a few pieces of advice from the investment doyens of the past, for younger savers. This wisdom is evergreen. It is worth paying attention to their words.

We have also included a piece by our colleague, James Guimaraens, on Risk and Volatility, as well as a few tax words of advice from our very own Janet Hugo.

We learn from Roman Emperor Marcus Aurelius, a Charlie Munger favourite and have a few tips for those 25-year-olds out there, those were the days!

We hope you enjoy reading.

Best wishes,

Graydon Morris
Managing Director

AN INTERESTING ANGLE ON GOLD

In Ancient Rome, 1oz of gold bought a fine toga.
Today, 1oz of gold buys a handmade suit.

This is a favourite tale among gold bugs.

Maybe it feels a little too perfect, like economic poetry.

But it's pretty spot on ... a story that stuck because the math keeps roughly working out.

Over 2,000+ years of empires, regimes, wars, and currency collapses.

The signal beneath it is this:

Gold doesn't track growth. It tracks gravity.
When everything else floats, it stays heavy.

It doesn't produce yield.
Doesn't compound.
It just sits there looking at you.

Doing exactly what it's done for thousands of years.

I like using it as a yardstick for when reality gets warped.
It's the longest-lived monetary asset humanity's got.

Gold doesn't chase returns.
It just waits for the truth to show up.

Currencies shift. Empires fade.
But gold will always buy the suit.

But be Careful.

ADVICE FOR SAVERS

"The stock market is simple; it's a bunch of old rich guys trying to take money from 20-year-old gamblers"

Consider these 4 quotes from investment legends:

"*The stock market is designed to transfer money from the Active to the Patient.*" – **Warren Buffett**

"*The big money is not in the buying and selling, but in the waiting.*" – **Charlie Munger**

"*Time is your friend; impulse is your enemy.*" – **John C. Bogle**

"*The market can stay irrational longer than you can stay solvent.*" – **John Maynard Keynes**

In other words: wealth flows from the speculators to the investors.

That's why buying into stocks and holding them for a decade works so well.

Financial advisers don't provide this advice because it's "simplistic".
They're not trying to brush you off.
They tell you to buy and hold because it works.

But sadly it takes a decent level of investment literacy to appreciate the strategy.

Don't let your ego ruin your financial future.

Follow the evidence. And keep buying.

Risk, Volatility and Opportunity Cost

James Guimaraens, Sterling Private Wealth Director

The recent spate of high volatility in global markets has been breath-taking. It was triggered by one egomaniac choosing to implement radical economic policy, despite the unknown ramifications, or worse, not caring about the consequences of his actions. Trump's America Evisceration Day of 2 April was the culmination of weeks of announcements from the White House on a wide range of topics, all of which have fundamental effects on peoples' lives. It is a great shame that in many cases, the underlying problems have been correctly diagnosed, but the cure is fundamentally inappropriate. Trump is correct that the US government has a serious revenue/expenditure problem, but you don't cut out somebody's heart just because they have a heart murmur!

What does this have to do with investing?

RISK VS VOLATILITY

It is unfortunate that the financial services industry has adopted the word "risk" when assessing the suitability of an investment for an investor with individual circumstances and needs. Risk implies the chance of losing your money.

Volatility is the correct word to use. As an example, I consider myself "low risk" if I am offered an investment opportunity where there is a high degree of risk that I might lose my money. But I am quite comfortable with an investment that has high levels of volatility.

Taking this one step further, I would not invest all my savings into one listed stock, hoping for an excellent outcome, because I am risk-averse. But I am quite comfortable with the volatility associated with a diversified portfolio of shares (in a share portfolio or a unit trust), because whilst the volatility will be relatively high in the short term, the risk is quite low in the long term.

Coronation Asset Management presented an interesting chart where they analysed the volatility of different asset classes over rolling one, three and five years. Using the last 30 years of data, there was not a single five-year period where their equity gave a negative return. But it was very volatile in those five-year measurement periods, with some peak-to-trough drops of up to -54% (2008).

OPPORTUNITY COST

A few months ago, a relatively new client of mine requested we increase his equity exposure further. He is retired and draws a substantial income. His equity exposure was already 76%. I had suggested we trim equity, as he had enjoyed an exceptional 2024 and we needed to top up his income/money market funds for his income draw.

His reply was: "I have a high tolerance for risk, I understand equity markets are long-term, and the volatility doesn't worry me. I want to increase my equity to 85% buying more MSCI World Index tracker funds, and maybe more into the tech fund I already hold. Cash is a waste of time".

This is a great example of a misguided investing strategy, because in my experience, your tolerance for risk (volatility) is NOT determined by short-term market volatility, but rather, by extended periods of low returns.

Opportunity cost is the risk-free return that you forego, when moving money from cash to equity. A client recently asked me an investment question: "Should I use my money-market funds to buy a rental property? Would the returns be better?". The question uses the wrong opportunity cost to assess the decision. The question should be: "I want a higher return than money market but accept that my investment horizon needs to be longer. Should I add money to equity, or buy a property?"

THE REALITY OF EQUITY

The reality of investing in equity markets is that returns are not earned in a straight line. It's not about your "risk-tolerance", as our tolerance for risk changes when market volatility changes. It's quite easy to state that you have a high tolerance for risk and investment volatility when your context only considers short-term volatility. As the word implies, it drops and then it bounces back. That's not risk.

The "risk" is that you give up on your equity after a prolonged period of disappointing returns, because now you start comparing your equity returns relative to the opportunity cost of being invested in a more predictable asset class such as money market or income funds.

THE OPPORTUNITY COST OF GLOBAL EQUITY

We have all become used to earning exceptional returns from global equity markets. For the past 10 years, global equity and specifically the US has been exceptional. As a result, everyone has a higher perceived risk tolerance and isn't as concerned about volatility.

But, Trump and his fiscal troglodytes are spreading their simplistic economic manure at the very point where the global equity index and specifically US equity markets are at a high-risk point in their long-term cycle. 10 years of exceptional returns, the combined tailwinds of global economic integration, low inflation, low interest rates, high margins… it's almost too good to be true. But it's also a perfect situation for the beginning of very anaemic returns. And America Evisceration Day is undoing a lot of the tailwinds of markets for the past 10 years.

Between January 2007 and December 2012, the MSCI World Equity Index returned (-8,7%) in Rands and (-20%) in US Dollars. If you had been invested in a South African income fund you would have earned 51% for the five years. More importantly the MSCI World Index, in Rands, only caught up to the SA income fund in November 2014, by which point the SA income fund had returned 81%. You had to remain invested for eight years just to equal the returns from a conservative income fund.

Your opportunity cost of investing in the MSCI World Equity Index was your alternative of a relatively low-risk return you would have earned in a conservative income fund. And that opportunity cost required your risk tolerance to be high because you had to stay in equity for eight long years before you began to be rewarded by equity.

RISK TOLERANCE – HOW LONG CAN YOU STAY THE COURSE?

Ultimately, your risk tolerance is determined by your ability to stay the course with your equity exposure, when you have had to endure five long years of poor returns whilst your low-volatility income funds have delivered a consistent and predictable return.

Equity is a 7 – 10 year asset class, and diversification into money market and income funds buys you the liquidity and the mental strength to stay invested in your equity. Now is not the time to be gung-ho about equity, and Trump is simply a short-term blip that could be the start of a prolonged period of disappointment. If you have bet everything on red. If you are diversified, you have no worries.

Lesser-Known Tax Savings for South Africans

Janet Hugo, Sterling Private Wealth Director

When it comes to tax savings, most South Africans are familiar with Retirement Annuity (RA) contributions, Tax-Free Savings Accounts (TFSAs), and endowments. However, there are several lesser-known tax-saving strategies that are not only practical but also low-risk. Implementing these effectively can prevent unnecessary tax leakage and ensure you're not overpaying SARS.

1. Stay Organised: Documentation is Key

Keep detailed records of all deductions and claims against your income. Have your tax certificates and proof of expenses readily available for your tax consultant. Proper documentation minimises errors and ensures that you claim every eligible deduction. Additionally, keep your SARS documents indefinitely, as SARS has the right to request documents from any period and they are not limited to five years. Keeping all receipts for capital improvements made to your properties, will reduce your capital gains tax liability when you eventually sell the property.

2. Ensure Provisional Tax Reflects Your Actual Income

Many taxpayers assume their tax consultant has an up-to-date view of their income, but this isn't always the case. When submitting provisional tax, ensure that the reported income figures reflect your actual earnings for the period in question. Incorrect estimations can result in either underpayment (leading to penalties) or overpayment (effectively giving SARS an interest-free loan with no return on your money).

Likewise, if you have had capital transactions, such as selling shares or property, make sure these are accounted for correctly. Some consultants make the mistake of assuming capital gains in the current tax period will be the same as the previous one. This oversight can lead to incorrect provisional tax calculations and unexpected tax liabilities later on.

Chris, a client of mine, came to me recently in a state of distress after receiving a frightening email from his tax consultant. He was told he needed to withdraw a significant sum from his investment portfolio to cover his provisional tax. This didn't align with what I knew about his balance sheet and income. After investigating, it became clear that his tax consultant had assumed he still had more than R5 million in a savings account and that he had made a capital gain from the sale of a property—neither of which was true for the tax period in question. This incident highlights the importance of ensuring your tax consultant has accurate, up-to-date information before making any tax payment decisions.

Additionally, keep all receipts for capital improvements made to your properties, as these can be used to reduce your capital gains tax liability when you eventually sell the property.

3. Medical Expenses Beyond Your Medical Aid

For those over the age of 65, medical expenses not covered by your medical aid become an increasingly important tax deduction. Keep a record of all out-of-pocket medical expenses, including specialist visits, prescribed medications, and assistive devices such as hearing aids. These expenses can significantly reduce your taxable income, so don't overlook them.

4. Optimise Your Provisional Tax Contributions

Overpaying your provisional tax just to receive a refund months later is a waste of financial resources. SARS does not pay interest on voluntary overpayments, meaning you're giving them an interest-free loan with no return on your money. Ensure your provisional tax payments are calculated correctly so that you pay the right amount at the right time. Your wealth manager can help you with projections to avoid unnecessary overpayments.

5. Your Wealth Manager Can Help with Tax Certificates and Capital Gains

Your wealth manager is often better placed than your tax consultant to assist with tax certificates and capital gains tax (CGT) calculations related to your investments. Many wealth managers have direct access to investment statements, tax certificates, and realised gains, ensuring accuracy when preparing your tax return. Additionally, you can continue to contribute to a Retirement Annuity (RA) and receive the associated tax deduction even after retirement, making it a useful tool for managing your income tax and estate duty liability in later years.

By implementing these lesser-known but highly effective tax strategies, you can keep more of your hard-earned money exactly where it belongs—working for you. Taking proactive steps today can save you time, stress, and money in the future. Being proactive, organised, and ensuring your tax consultant has accurate data will prevent unnecessary tax payments and make tax season far less stressful.

If you need assistance structuring your finances efficiently, speak to your wealth manager. They can provide personalised advice, ensure you take full advantage of tax-saving opportunities, and help you build a tax-efficient financial plan tailored to your needs.

LESSONS FROM A SAGE

Marcus Aurelius, a Roman emperor and Stoic philosopher, shared valuable insights on life, self-discipline, and resilience in his work, "Meditations." He was highly thought of and often quoted by the legendary Charlie Munger.

While not directly related to financial planning, his teachings can be applied to personal finance and long-term financial well-being. Here are 10 lessons from Marcus Aurelius that can be adapted to financial planning:

1. Focus on what you can control: Marcus Aurelius emphasized the importance of focusing on what is within our control. In financial planning, concentrate on elements such as budgeting, saving, and investing, instead of stressing over external factors like market fluctuations.

2. Practice self-discipline: Financial success requires discipline in budgeting, spending, and investing. Marcus Aurelius stressed the importance of self-control and restraint, which can help you achieve your financial goals.

3. Set realistic goals: Marcus Aurelius believed in the importance of setting achievable objectives. In financial planning, set realistic and attainable goals that align with your financial resources and time horizon.

4. Adapt to change: Life is full of uncertainties, and Marcus Aurelius emphasized the importance of adapting to change. In personal finance, be prepared to adjust your financial plan when circumstances change, such as job loss, economic downturns, or unexpected expenses.

5. Seek wisdom and knowledge: Marcus Aurelius valued continuous learning and self-improvement. In financial planning, educate yourself on personal finance topics, investment strategies, and market trends to make informed decisions.

6. Live within your means: The Stoic philosophy teaches the importance of simplicity and being content with what we have. To achieve financial stability, practice living within your means and avoid excessive consumerism.

7. Embrace long-term thinking: Marcus Aurelius encouraged a long-term perspective in life. In personal finance, prioritize long-term goals, such as retirement planning and wealth accumulation, instead of focusing solely on short-term gains.

8. Cultivate gratitude: Marcus Aurelius advocated for practicing gratitude and recognizing the value of what we have. By appreciating your financial resources, you can develop a positive mindset, leading to better financial decision-making.

9. Be prepared for setbacks: Life is unpredictable, and Marcus Aurelius emphasized the importance of resilience in the face of adversity. Build an emergency fund and maintain insurance coverage to safeguard your financial well-being during unexpected events.

10. Balance material and non-material wealth: Marcus Aurelius believed in the significance of non-material wealth, such as wisdom, virtues, and inner peace. While working towards financial goals, remember to prioritize personal growth, relationships, and overall well-being.

10 MONEY RULES

EVERYONE SHOULD LEARN BY AGE 25

1. Pay yourself first: As soon as you get paid, put money into savings. Automating this is even better.

2. Keep a 6-month Emergency Fund: If you have multiple streams of income, you can go as low as 3 months. If starting out on your own, you could need as much as 12 months.

3. Budget using the 50/30/20 Rule:

- 50% for needs
- 30% for wants
- 20% towards saving/investing

4. Divide your bonus into thirds

- 1/3rd for fun
- 1/3rd for retirement
- 1/3rd for debt paydown (add to retirement only if you have very low-interest debt)

5. Put all, or a large percentage, of your raises into saving and investing: This helps avoid lifestyle inflation and moves up your retirement date.

6. Your home payment: (Mortgage, Interest, insurance) should cost less than **25%** of your monthly income.

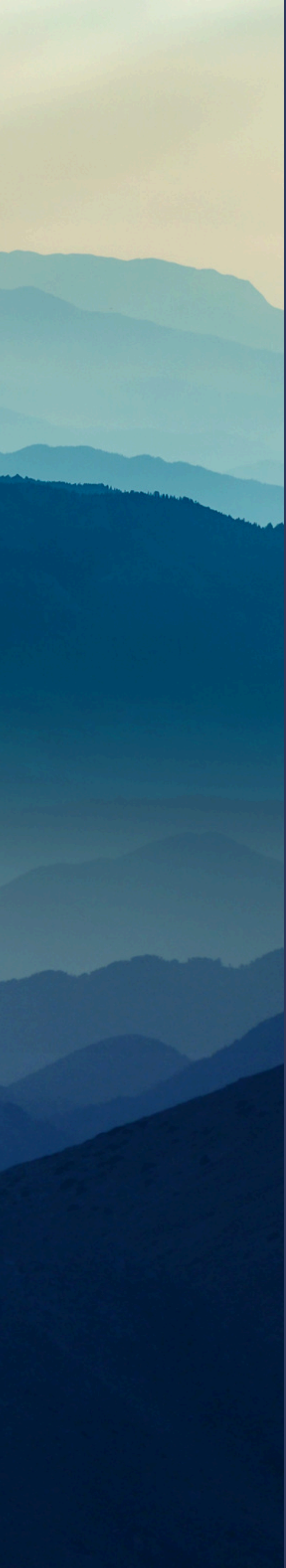
7. You should save at least 15% of your income for retirement.

8. The rule of 72, tells you how long it will take your investment to double.

- *Example: If your portfolio returns 8%, so 72/8 = 9 years to double your money.*

9. The 4-percent rule says you can safely withdraw 4% of your starting investment balance each year (adjust for inflation in subsequent years) and not run out of money.

10. Before spending money, wait 24 hours and ask: do I still want it? If you do, go ahead and buy it. This will save you from a lot of impulse purchases.



STERLING PRIVATE WEALTH

HOW CAN WE HELP YOU?

Sandton
145 West Street
Sandton, 2146
Tel: +27 11 883 8828

Postal Address
Private Bag X9978
Sandton, 2146

Cape Town
6th Floor, The Terraces
25 Protea Road Claremont, Cape Town, 7708
Tel: +27 21 201 6709

Hermanus
9 Mitchell Street Hermanus
Western Cape, 7200
Tel: +27 86 188 8987

FAIS OMBUD DETAILS
Office of the Ombud for Financial Services Provider
Menlyn Central Office Building
125 Dallas Avenue, Waterkloof Glen,
Pretoria, 0010
Tel: +27 12 762 500

Postal Address
P.O Box 41
Menlyn Park, 0063

COMPLAINTS
Compliance Provider: Crux Consulting
Senior Compliance Officer: Justin Joannides
Tel: +27 11 234 4991
Mobile: +27 82 567 6353
Complaints: Joubert Strydom
Tel: +27 11 883 8828

Sterling Private Wealth (Pty) Ltd
Company Registration Number: 2007/004491/07
Financial Service Provider Registration Number: 32319
https://sterlingprivatewealth.co.za/

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