



## **INVESTING – Dividends are king**

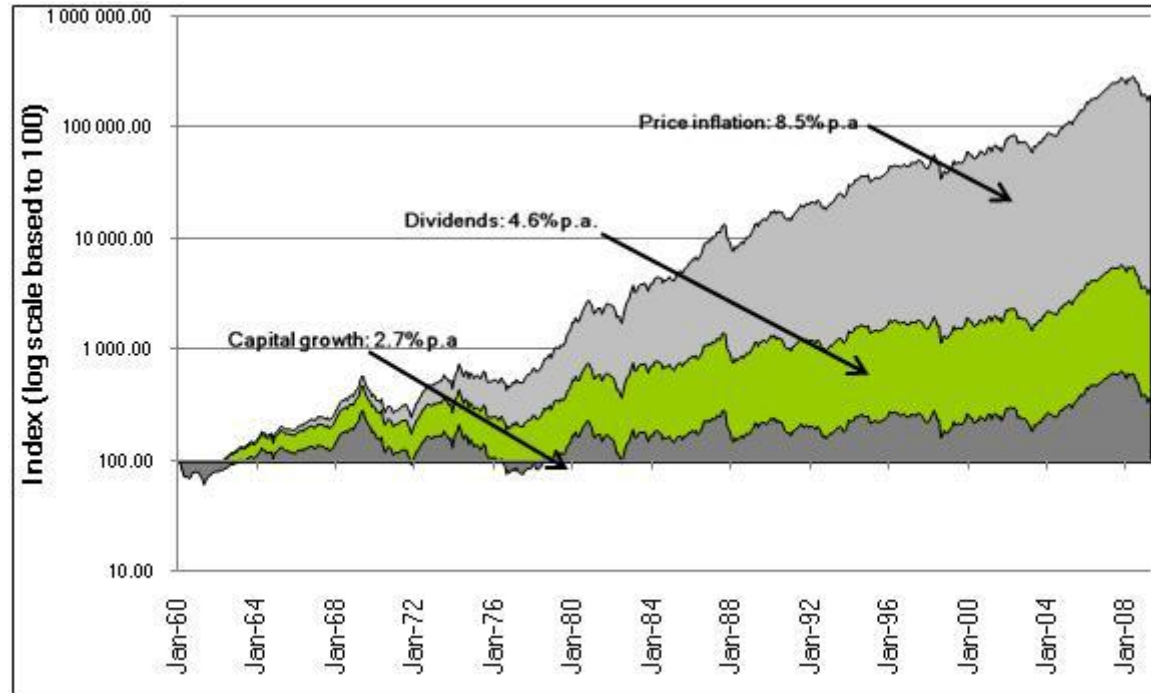
By Warren Ingram

Dividends account for the bulk of the returns generated by shares over the long term. This concept is rarely understood by professional investors, so part-timers can be forgiven if they are unaware of this. Unfortunately, the profits from dividends are only created over a period of years as the compound effect of reinvested income takes years to realise.

If you look at Graph A below, it shows what type of growth you would have had if you had started investing in the JSE on 1 January 1960 and ended in April 2009. The three components of this growth were: inflation, dividends and capital growth. As you can see, dividends contribute more than 60% of your real growth from shares. Real growth is the return per year above inflation. This graph shows that the actual price rise of a share will assist in generating real growth. However, to get the full benefits of share investing you need to re-invest the dividends from the company every year. When stock markets are going through turbulent conditions, many investors do not re-invest their dividends which erodes their potential returns over time. The re-invested dividends increase your capital base for future dividends. As an example, if you currently own 1000 shares and you get a dividend of 30c per share, you can then buy more shares. When the company announces its next dividend e.g. 31c per share you will now have 1030 shares earning dividends. This might

seem like a small increase but these incremental increases have a large compounded impact over time.

**GRAPH A: FTSE/JSE All Share Index: Components of Total Nominal Return (Jan 1960 – Apr 2009)**



Source: Data from McGregor BFA, method derived from Plexus Asset Management; analysis by Cannon Asset Managers

Dividends are such an important part of share price growth that you would be better off not investing in shares if you don't get the dividends. The compounding effect of dividends will protect you from capital losses over time.

The graph also shows the benefits of long term equity investments. If you are an equity investor and you only buy the index and re-invest your dividends, it is unlikely that you will lose money in REAL terms if you invest

for periods of eight years or longer. From the graph you can see that there was only one eight year period since January 1960 where you would have lost money in real terms and that was if you invested at the market peak in the late 1960's and sold your shares in the late 1970's.

The graph also shows the real dangers of inflation, which I feel poses a far bigger threat to long term savings than stock market risk. Because the effects of inflation are not sudden and dramatic, we don't really feel them over one or two year periods. Unfortunately you will only really feel the full effects of inflation once it is already too late.

In summary, the graph above paints a clear argument for investing some of your money in shares over the long term – almost no other assets provide the same inflation protection.

### **Tree Houses For Adults - Phantom Forest Eco Reserve**



The Phantom Forest Eco Reserve, which nestles in the Afromontane Forest, just seven kilometres from Knysna, has endless views, shared only with Fish Eagles. They have large and elevated luxury 'tree suites' that could be considered the ultimate tree houses for adults. Definitely worth a visit if you are planning a Garden Route trip! Click on this link if you want to find out more: <http://www.phantomforest.com/>

### **Afternoon Naps Make You Smarter!**

BERKELEY —New research from the University of California, Berkeley, shows that an hour's nap can

dramatically boost and restore your brain power. Indeed, the findings suggest that a biphasic sleep schedule not only refreshes the mind, but can make you smarter.

Conversely, the more hours we spend awake, the more sluggish our minds become, according to the findings. "Sleep not only rights the wrong of prolonged wakefulness but, at a neurocognitive level, it moves you beyond where you were before you took a nap," said Matthew Walker, an assistant professor of psychology at UC Berkeley and the lead investigator of these studies. A nap clears the brain to absorb new information.

Since 2007, Walker and other sleep researchers have established that fact-based memories are temporarily stored in the hippocampus before being sent to the brain's prefrontal cortex, which may have more storage space. "It's as though the e-mail inbox in your hippocampus is full and, until you sleep and clear out those fact e-mails, you're not going to receive any more mail. It's just going to bounce until you sleep and move it into another folder," Walker said.

## **Galileo News**

### **THE CLIENTS WE LIKE**

We currently have capacity in our financial planning business for 41 more clients. We have found that our best new clients come from our existing clients. This means we rely on our clients to refer their friends and colleagues when appropriate so that we can spend our time on our clients and not on marketing. We have recently been asked to explain what our ideal potential clients are so that people can make the correct referrals:

- People who are serious about their investment planning
  - People who have realistic investment expectations and are willing to trust a good advisor
  - People who are going through a transition phase e.g.: retirement, divorce, sale of business
  - Retirees who want to ensure that their capital is correctly managed to protect them against

inflation

- Younger people who are serious about saving for a good retirement
- Entrepreneurs who are looking to diversify their asset base

## **Short Term Insurance**

### **Timeous Notification of Claims**

All short term insurance policies contain a clause detailing the procedure when submitting claims. In general terms this clause compels you, the Insured, to give your insurers notice, as soon as reasonably possible, of any event which may give rise to a claim. Insurers insert this clause to ensure their contractual rights are not compromised in any way. A good example of this would be a stolen vehicle. If your vehicle is stolen and you notify your insurer one week later, their chances of successfully recovering the vehicle are diminished. In this case, they would be well within their contractual rights to decline your claim as you would have denied them the opportunity of recovering the insured asset (early notification would potentially reduce the amount of the claim and in some cases the whole claim) via the vast amount of resources at the insurers disposal.

Another common mistake made by clients is to attempt to handle a legal liability claim without the insurers' knowledge. In most cases the clients attempt fails and they then lodge a claim when they receive a summons from the third party (sometimes years later!). This unfortunately is too late and will lead to a claim rejection given that the insurers rights were compromised due to Late Claim Notification i.e. insurers would have either defended the claim using their legal resources or they would have settled the matter out of court, at their option.

The rule of thumb to avoid falling victim to a claim denied on the basis of Late Notification is to notify your insurer and /or broker of any event that may give rise to a claim, no matter how small or trivial the event may seem. Rather let your insurers take whatever action they deem fit – this is after all why you pay them insurance premiums.

## OUR SERVICES

### WEALTH MANAGEMENT

We offer our clients dedicated Wealth Management and Retirement Planning services. We focus on clients who have a minimum of R1 million to invest with us either in retirement funds or in discretionary assets such as shares, unit trusts or overseas investments. We are an independent advice-based practice, which means we are not tied to a specific product supplier. This allows us to offer objective independent advice. We use world-class financial planning solutions that allow our excellent financial planning staff to provide our clients with optimal solutions.

### CORPORATE ADVISORY SERVICES

The focus of this division is on developing and maintaining best practice in:

- Risk Management Analysis
- Balance Sheet Management
- Corporate Finance Advice

### SHORT TERM INSURANCE BROKING

We provide full domestic and commercial short term insurance solutions as well as specialized commercial risk solutions. This means that we provide insurance broking services for companies and private individuals. We arrange insurance cover for buildings, vehicles, business risks, household contents etc.

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