



Income should not **deteriorate** your capital

The objectives of an investor and his/her fund manager should correlate 100% to ensure that capital does not deteriorate, says Marc Thomas, Fund Manager at Marriott, the Income Specialists.

Investor Objectives

Thomas says in many instances the investor has a short term objective to draw income every month from his capital investment and a long term objective to grow his excess capital to beat inflation.

Fund Manager Objectives

At the same time the fund manager (who does not know the investor nor his/her objectives) has a long term objective to grow the capital under management. Although this

growth may be at the same rate than the drawing of income, it needs to be in line chronologically to ensure that deterioration of capital does not take place.

A fund manager may have grown his funds at an average of 21% over three years, but if 21% was achieved in year one and the following years yielded zero, the investor (who also would have drawn an average of 21% over the period) would have drawn his/hers at a rate of 7% per annum. Because some of this was drawn from capital, it effected capital deterioration.

In the attached table blow it is illustrated that in whatever form, if income is drawn from capital it relates to capital deterioration.

R 100.00	14%	7%		R 100.00	0%	7%		R 100.00	7%	7%
R 107.00	7%	7%		R 93.00	14%	7%		R 100.00	0%	7%
R 107.00	0%	7%		R 99.51	7%	7%		R 93.00	14%	7%
R 99.51	7%	7%		R 99.51	7%	7%		R 99.51	7%	7%
R 100.00	21%	7%		R 100.00	0%	7%		R 100.00	0%	7%
R 114.00	0%	7%		R 93.00	21%	7%		R 93.00	0%	7%
R 106.02	0%	7%		R 106.02	0%	7%		R 86.49	21%	7%
R 98.60	7%	7%		R 98.60	7%	7%		R 98.60	7%	7%
R 100.00	7%	7%						Capital		
R 100.00	7%	7%						Inflow		
R 100.00	7%	7%						Outflow		
R 100.00	7%	7%								

Structural Dilemma

Herein lies the structural dilemma of the industry, says Thomas. The mismatching of growth and withdrawals, more than the performance, or lack thereof, creates the deterioration of capital.

Advisers stare themselves blind against past performances, instead of focusing on the matching of growth with withdrawals, he says. The age old principal that income withdrawals should come out of income generation, and not capital growth, still applies.

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