

# REICHTEC

## PRIVATE WEALTH

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### *Product Complexity*

Over the past month I have spent some time trying to understand some of the different products on the market, and it has been a real eye-opener.

There are many products in the market which are very popular but in my opinion, are designed to simply maximize the profits of the company rather than designed in the interest of the investor.

Coincidentally (or not) most of these complex products are provided by various life insurance companies and often tied in with some sort of loyalty program. What these companies have realized is that it is easy to distract consumers with perceived benefits such as cash-back bonuses or reduced-price travel benefits. Just like a magician might distract the audience to perform their magic, so consumers are distracted by the potential “rewards” without considering who is paying for these benefits.

Just by an example, one company offers a significant retirement booster based on the length of time you are invested in their company’s own funds. Dig a little deeper and you will find that the asset management fees on these funds are actually a little bit higher so ultimately the investor is paying for this boost – compound this higher fee over a number of years and suddenly the costs actually exceed the percentage “boost” at retirement. There is nothing for free.

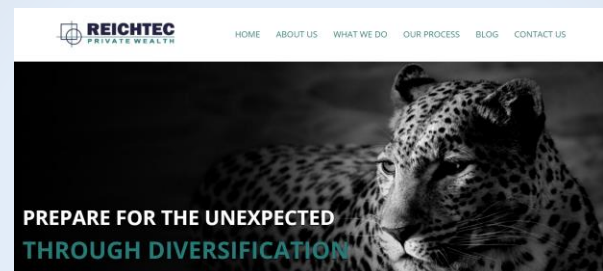
While the Financial services industry has improved with regards disclosure of fees, there are still several “hidden” costs and it is a lot easier to hide costs in a more complex product – especially one where fees and annual increases are linked to the membership of a loyalty scheme.

It may not seem like much that your increase will be a few percent higher if you are not at the premier level of the loyalty scheme but after 10 years this makes a huge difference – and at that point you are significantly penalized if you want to switch to a different product provider.

### *Reichtec Website*



I am pleased to announce that the Reichtec website ([www.reichtec.co.za](http://www.reichtec.co.za)) has been refreshed and updated.



The next step is to develop a “portal” where clients will be able to login to be able to view their portfolios and keep track of any other assets not managed by Reichtec. The portal will also have a number of simple financial tools for clients.

I don’t however have any plans to launch a “robo-advise” product. These have become increasingly popular for smaller investments but while they may be able to guide clients into appropriate investments, they are not able to guide investor behavior which is really the main benefit of financial advice.

## Technology Disruptors

One of the key themes in the world is the rapid development of technology and how this is disrupting existing markets.

A few examples of this are:

- \* Uber – this is now the largest taxi service which owns no cars
- \* AirBNB – the largest provider of accommodation but owns none of the properties it rents
- \* Netflix – now develops more media content than Disney and other major studios combined.
- \* Amazon is the largest retailer but doesn't own any stock or have any stores.

These disruptors are a major threat to many established businesses and have rapidly changed the way business is being done.

The internet has been the main driving force recently, allowing companies to reach an incredible number of customers in a very short time. Just think about Facebook which now has nearly 2 Billion users who are active online at least once a month and 5 new profiles are created every second.

Not only does Facebook reach a huge number of users, but they are also able to identify what type of product you might be interested in. In my case they are able to identify that I follow a number of cycling pages and also a number of wildlife sites.

Using this information they are able to limit the number of advertisements that I see but at the same time get a higher price from the advertisers because

they know that their ads are reaching the target audience.

All this is very well and good, but how does it tie into investments? First and foremost, I would say that the most important aspect is that it becomes even more important to diversify.

Diversification limits the risk that you have all your eggs in one basket – and find out too late that you have bought Blackberry when the world has moved rapidly to Apple or Android.

The rapid pace of change can be very disconcerting, but it brings with it some real benefits. I cannot remember the last time I went into the bank as I do all my banking via the internet and I don't think I will ever buy a CD or DVD ever again. The reason I don't do these things is because I don't have to – I don't like standing in queues and I also don't like having to buy a whole album just to get the one or two songs I like.

It is very easy to let technology make our lives more complex, whereas in reality we should be using technology to make things simpler.



## Reichtec Private Wealth

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