What you need to do to start investing.

Investing can be intimidating. What is worse is that just like everyone thinks they are a good driver, most people think that they are good with their money and will happily give you advice even if they would never follow it. However, if a lack of knowledge has prevented you from taking your first steps, this will help you.

In fact, before we even get started, let's help you get your emergency fund sorted. What is this? These are funds for life's little curveballs: medical bills, vehicle problems, emergency home renovations, retrenchment. Financial Advisors recommend that you have three to six months of your income saved up. This is not easy to do, but anything you do put away could help in a crisis.

Furthermore, we think that this emergency fund should exist alongside any of your other savings. This way, if something does happen, you are still on track with your other investments. Right, let's get started.

1. Why are you saving?

Understanding they 'why' behind anything will give you a clear indication of a person or organisations' purpose. People who have a 'why' are more likely to keep going, push through, and find a way though when things get tough. So, what is your 'why'? Well, why do you want to save money? Fancy a holiday? Want to renovate? Need to put your kids through university? If you have a clear 'why', it will motivate you and keep you on track when you want to compromise on saving for that month.

2. Timing is everything.

Typically, shorter term investments are around 12 months. Medium term investments will be between 1 and 5 years. And longer timelines will be around 10 years +. Now, remember that thing called compound interest. This really kicks in with longer term investments and will help your investment grow significantly. And, because you're investing for a long time, you could afford to take more investment risk (yielding greater returns) because should anything go wrong, you have a longer time to recuperate any losses.

3. Risk and Reward

This might get a little complicated here, but should you have any questions, just know that you can always call us and we'll be ready to help. Here, we're going to break down a few of the investment options and the risks that are associated with them. Remember, risk is not a bad thing – you need it if you're going to get any reward – it just has to be managed. Any investment carries risk, it will see both gains and losses over short periods, but over the long term, the gains will outweigh the losses.

A. Unit Trusts and Share portfolios: These will typically give higher returns if you're willing to take more risk, but they are tried and tested and a good investment option.

B. Shares (or equities) have the highest risk, but also have the potential for the highest returns.
C. Property Shares or Listed Property are next in line with risk but do offer very good returns.
D. Bonds offer lower returns, but don't carry as much risk.
E. Cash investments, like money market accounts or savings or fixed deposit accounts have the lowest risk of losing money, but they also have the lowest returns.

A great way to reduce your risk, but still see good returns is to diversify. This means that you would spread your investment across various market sectors so that you have the potential to make big returns on parts of your investment without risking it all.

Then we have Exchange Traded Funds (ETFs). These are great for investors with relatively small amounts of money to invest. They are the cheapest and easiest way to diversify because the shares or securities in which they invest are in line with those that make up the index they track and are not selected by a fund manager. However, fund managers that select these shares and securities will charge higher fees, but aim to outperform what they market delivers.

4. Manage your expectations.

A sobering, but good exercise when working out returns is finding an investment calculator (online) that will help you work out the return you need to achieve your goals. You will be able to compare the return you need with the average returns that investors have earned from different investments. Don't expect much more unless you want to expose yourself to more risk. It is better to extend your investment period than the risk you take. Remember, if an investment sounds too good to be true, it probably is.

Here is the current inflation rate in South Africa as of February 2022: 5.7%.

These are the typical returns that investments can offer:

A. Five-year fixed depost at a bank: 8.4%
B. Money Market: 7.5%
C. Unit Trusts: 8.5%
D. Bond Fund: 7.2%
E. Equities: an average of 7.5% above inflation since 1929
F. Global share markets: an average of 5.1% above inflation.

5. The cost of investments

Every investment has a cost to it. Make sure that you understand the costs associated with your investment and that the returns that you are expecting will comfortably make up for those costs. Again, if anything is unclear, we are happy to take you through the costs.

6. Stick to your investment goals.

It is very important to try and stick to your investment goals and timelines. The reason for this is simple: although a long-term return from an investment in Equities will grow your money, in the short-term, it might not. If you were to cash in the investment at the wrong time, say after a year, you could lose money. However, sticking it out for the full term will, and giving the investment time to make back its losses, will help you see a good return. Understanding risk and being comfortable with it over a period of time, is key to investing. Statistics show that South African equities have produced a negative return one in every three years. This, however, doesn't make it a bad investment.

7. Investments shouldn't be too taxing.

While low-income earners don't have to worry too much about tax on their investments, high-income earners should keep this in mind. As such, high-income earners who are saving for retirement, who want to pay less tax, might invest in a retirement annuity (RA) or provident fund. This is because it is exempt from tax, as are the contributions up to a point. However, these investments can only be accessed if you resign from an employer (in the case of a provident fund) or retire after the age of 55 (in the case of an RA). However, accessing provident fund will carry heavy penalties.

Another solution could be a tax-free savings account where you can contribute up to R30 000 or R500 000 over a lifetime. These are good options should you wish to access your savings at short notice or have exhausted your retirement fund tax deductions. You will not pay any tax on the interest income, the dividends, or capital gains – regardless of how much you earn.

8. Finding your investment partner.

All of this can be done alone. But finding your way around the investment world and taking the opportunities it offers is a full-time job. If you would prefer to do what you have done that made you the money in the first place, then you need a partner. We have all the expertise you would expect but have also climbed to the top of our field because of our approach this world of investments. If you would like to partner with us and make the most of every cent, please give us a call.

The best time to invest your money is 20 years ago; the next best time is now. – Chinese proverb.