Financial Freedom

The experts' advice to navigating the minefield

BY CHANDREA SEREBRO

SAVING

Are you under the impression that there is nothing new or appealing about cash savings? If so, then you are probably not alone. But, says Louis Dirker, head of Group Treasury for Sasfin, we all need to look at cash savings in a different light, because it is fast becoming one of the preferred mechanisms to invest your money and watch it grow. "Current account deposits are unattractive, because banks offer almost zero interest on your money. But, given the new regulatory requirements on the horizon for banks, more and more deposit products are coming onto the market, which, structured specifically for the individual client, offer decent returns and allow for you to maximise what spare cash you have simply by depositing it." Most of us South Africans lack the self-discipline to save, and Sasfin is trying to transform this low savings culture into a more disciplined approach, by offering a host of deposit products structured according to your own needs. "The days when banks do not give the necessary attention to deposits from individual clients are over. Speak to your bank, and make sure they understand who you are and what you want, and that they can then customise a cash deposit that will suit those needs, and help you save for that holiday or that purchase accordingly."

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PLAYING THE STOCK MARKET

The Johannesburg Stock Exchange (JSE) is a multi-market exchange, with equities (otherwise known as stocks or shares), financial, commodity and currency derivatives markets, and an interest rate market – so much that it can be overwhelming for anyone, not least those just wanting to break into the market. "A long-term study was initiated, which looked at how best to grow your money over fifty-plus years, and what they found was that investing in equities and shares outperformed all other investments by a long way over time." This, says Noah Greenhill, senior general manager of Marketing and Business Development for the JSE, who assures those beginner investors out there that investing in the stock market can be highly successful if one diversifies one's portfolio and buys multiple shares, rather than trying to hit it big with one hunch. "The best way to get into the game would be to invest in an ETF or Exchange Traded Fund, which is a listed investment product that tracks the performance of a basket of shares, bonds, or commodities. These 'baskets' are known as indices, and ETFs are attractive as investments, >

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particularly to first-time traders, because of their low costs, diversification benefits, and because they can be bought and sold like an ordinary share." By doing this, if any one of these shares goes down, it would not mean the end of you, because investing in a basket of shares brings immediate diversification and lesser risk. Of course, having said this, there are risks to all investment decisions, and this will be measured by your risk appetite and investment goals at your stage of your life; but ultimately, the cost of investing on the stock exchange is relatively small compared to other investments. And, once again, over time, equities have been proven to outperform all other investments.

MANAGING YOUR PORTFOLIO

No matter how little or how much money you have, starting a portfolio is crucial if you want to live a financially sound life and retire happily, says Michael Sarris, advisory partner at private client wealth management company Citadel. Living within your means and having a financial plan will keep you from neglecting your golden years, and the first step in doing this is to appoint a qualified financial advisor, who has the know-how and the discipline that we often lack in life to encourage you to save. "You have to know where you want to go in life. You must know that you want to get from A to B, and then, together with your advisor, work out how to get there." Plan B, says Michael, is to maintain the same standard you are living today when you retire, and planning ahead is paramount, which is why everybody needs a wealth portfolio. "Asset allocation forms the foundation of your portfolio, and if you get this balance between investing in equity, bonds, offshore and cash right, you are on a good wicket. This should be tailor-made for where you are in life, who you are, and of course, how old you are." But a portfolio does not only include what to do with your assets and how much to put where. A wealth portfolio includes all aspects of your life, and having a will, setting up policies and funds for education, weddings and health is the only way you will be able to keep your head above water in an increasingly costly world. And to ensure all of this is taken care of in good time, getting someone who knows exactly how best to optimise your earnings is the best way forward.

PROPERTY AND THE NEW CONSUMER PROTECTION ACT (CPA)

The new Consumer Protection Act is a piece of legislation that is well overdue in a country where consumers have often been treated poorly by companies, says Rael Levitt of Auction Alliance. And in terms of the extensive Auction Regulations, which have been introduced for both buyers and sellers because of it, now many have rights – and so they should. "The Act has simply legislated and formalised good corporate governance; there are no losers. The biggest winner is in fact the auction industry itself, which has often been associated with negative connotations because of less salubrious operators, who are now compelled to act in the best interests of both their buyers and sellers." And, he says, the market as a whole will be positively affected by this law. Consumers can now utilise auctions knowing that they have entrenched rights and they are not at the whim of poor business practice, and it will benefit the larger and more established operators who have the ability effectively to roll out the Act and its myriad operational requirements. "This is a good thing for auctions because historically, any nice fellow who could chant was in the auction business. Like many industries, consumers will now be compelled to go to proper operators who have the experience, ability and capacity required to be in the business." Auctions in the CPA still recognise 'voetstoots' clauses, and no six-month cool-off applies for defective goods sold on auction. So, we see auctions growing for sellers who are concerned about their goods being returned. That said, it's largely the state of the macro-economic environment that will influence both positively and negatively on the auction sector over the next two years, but in a buoyant market, property is still an attractive place to put your cash.

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PROFESSIONAL WEALTH MANAGEMENT

While many high net worth individuals are highly successful and sophisticated businesspeople, they often are not as adept in managing their financial affairs as they are in managing their business. Crucial mistakes are often made, says Marc Romberg, investment manager at Investec Wealth & Investment, which is why finding a suitable investment manager and identifying the most common pitfalls is so important. "The most important role of the investment manager is understanding the client – their background, circumstances, and specific needs, goals, investment objectives and risk-profile. Once the investment manager has an in-depth understanding of these, they are able to build a tailor-made solution in order to meet these objectives. But a further crucial element is the ongoing and continual re-evaluation of this plan. As world markets and economies continually change, as well as the needs and requirements of the investor, it is essential that the investment manager continually reassesses these to ensure that the portfolio is still in sync with the client's objectives." Rushing into 'flavour of the month' investments without understanding the risks involved, and investing into random investments and opportunities without the construction of a holistic investment plan, are common mistakes that are made by the individual. And, while one often hears about investors who lost their money by investing in a high-risk investment that failed, it is equally important not to be too cautious, or to choose one's investment by purely looking at historic returns. "Investors often make impulsive and emotive investment decisions without truly understanding the actual underlying investment. That is why matching the investment portfolio with the needs of the investor is paramount for the investment manager." JL