EFFICIENT GROUP

DAWIE'S NOTES: DO THIS IN DIFFICULT TIMES

Decisions about one's investments are one of those things that keep most of us up at night. The typical investment errors are repeated, again and again. That's how, for example, people are still fooled by unrealistic promises of huge returns and "guarantees" of easy money. The biggest enemy of an investor, however, is not having a plan; an investment plan includes more than just decisions about investments!

Family plan

Start with a family plan. The whole family should meet regularly and talk about their future dreams. Are the children going to study? Where, and what will it cost? Does Sonny need a car? When do you want to retire? Where, and how much money do you require for that? To paraphrase Tolstoy, each family is different in the way they plan their affairs.

After the family plan follows the other plans, such as retirement planning, investment plans and budgets. These plans should all tell the same story and should also match your last plan, your will. Only after you have set up your broad plans will you start setting up your investment plan.

Risks

The first step is to reflect on risks. All investments have associated risks. Some risks cannot be avoided but should be managed, while other risks must always be avoided.

Your first reflection on risk should be your and your family's appetite for risk. Determine, with the help of an advisor if you cannot do it yourself, what your risk appetite is. Your risk appetite is influenced by things like your age, how much money you have, the nature of your business and many more. Only once you know how much risk you can handle do you start looking for an investment that suits you, not the other way around. This is also why you should not compare your investments to your neighbour's investments because you are different people with different appetites for risk and, consequently, different investments.

Your second reflection on risk is market risk. Investments in the financial markets will always be exposed to market fluctuations. Don't lie awake at night when markets fluctuate. You can manage market risk by selecting the right products, but you cannot get rid of it. Accept it.

Tall tales

On the other hand, you should never ever take institutional risk. This simply means that you should know with whom you are doing business and you need to understand in what you are investing your money. Too many people lose their money by falling for tall tales and promises. Ensure that the person or institution you are doing business with, can be trusted. Check their registrations or qualifications, enquire with other clients, and always be on your guard.

There are several important considerations with specific investment decisions. Firstly, we all want the greatest possible return at the lowest possible risk. These two forces are constantly exerting opposing pressures and stress on an investor. For this reason, an investor needs to adjust his/her investments to suit his/her needs as well as possible.

Yet, there are also numerous other rules, such as: Do not change investments too much, it costs money. Don't try to get the "timing" of the market "right". Remember, you are not speculating, you are making decisions about your investments. Make sure your portfolio is well diversified. All the tips on investments are of course important, but it remains your responsibility to make the final decision.

Be informed

Investment decisions within the current circumstances are very difficult. Ensure you are well informed about economic and political affairs, and as your risk appetite and return expectations change, adjust your investments accordingly.

South Africa still offers great investment opportunities, but a poor economy and destructive government, unfortunately, mean that the prospects for the country are less attractive and riskier than in the past. Still, consider investments in the country but then try to reduce your risk. One way to do so is to get others, like a bank, to share your risk. Hence, it makes sense to acquire an income-generating asset by lending money, if it also makes financial sense.

Nonetheless, investments abroad are becoming increasingly important. Here are some tips:

- Remember that the rand is extremely undervalued and that it can greatly strengthen in the short term if things suddenly improve drastically. This will mean that the rand value of your foreign investment may decrease. Therefore, you should measure your foreign investment in the currency in which it is made, for example, dollars and not in rands.
- Also, ensure you use the correct structures. Remember that different laws and taxes apply abroad. For example, if you die, your estate could suddenly be subjected to very high foreign taxes.

Still, your investment decisions must coincide with your other plans. As circumstances change, you also need to change and adjust your plans. What is clear, is that South Africa as investment destination, is much less attractive today because of weaker expected economic growth but also because of greater risks due to poor political leadership. Ensure that your portfolio is well diversified — it's the responsible thing to do.

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