

Media Release

Association for Savings and Investment South Africa (ASISA)

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Can you really afford the high price of sitting in cash?

Five years ago around 19% of inflows into unit trust funds came directly from individual investors. During 2009 close to 28% of investments were made by individuals without the involvement of a financial adviser.

Peter Dempsey, deputy CEO of the Association for Savings and Investment South Africa (ASISA), says the fact that more investors are willing to take investment decisions without the help of a financial adviser does not mean that these investors are taking chances. On the contrary, the majority of direct investors are simply investing their spare cash into money market funds.

He says unfortunately this has resulted in many investors missing out on the good run in equity funds. General equity funds returned an average of 16.2% a year for the five years ended December 31, 2009. The average five year return for money market funds was 8.8% a year.

“Money market funds are ideal for saving emergency funds or for parking tax money, school fees or a lump sum that you want to phase into the equity market,” explains Dempsey. “But money market funds will never provide you with the long-term inflation beating returns that will enable you to fund your children’s university fees, settle your mortgage bond early, or retire comfortably.”

Dempsey says he is not advocating investing all your money in equity funds. But equity funds are an important component of a well balanced and diversified investment portfolio. He says investors need to include all the building blocks - equities, bonds, property and cash - in their portfolios in order to achieve solid inflation beating returns.

He acknowledges that this immediately raises the risk profile of the investment portfolio, but points out that in order to increase the potential for higher returns you need to be prepared to accept a higher risk.

“The increased risk is, however, greatly negated by a long investment horizon of five years or more. This is why it is so important to invest for the long-term without being under pressure to access the money at a specific point in time. The longer your investment horizon the more time you give your portfolio to recover from volatile bouts.”

Dempsey says equities have proven over time that they will eventually always outperform all other asset classes.

How to construct a winning portfolio

The tips you receive from friends and family while standing around the barbeque will not help you construct a winning portfolio tailored to your needs, says Dempsey.

“Just as you would consult a specialist before undergoing surgery, you would be well advised to seek the help of a qualified financial adviser before committing your money to an investment vehicle.”

Dempsey says the reality is that there is a bewildering choice of more than 900 unit trust funds in addition to many other investment vehicles like endowment funds and retirement annuity fund policies. He adds that a qualified financial adviser will be able to help you select the investment vehicles best suited to your needs and your risk profile.

However, if you prefer to invest without the help of a financial adviser, you should consider including in your portfolio domestic asset allocation funds. An asset allocation fund is an actively managed fund that provides diversification across the equity, bond, money and property markets within one fund. Funds ranging from low equity to high equity exposure are available within the asset allocation fund class.

Covering all bases

Dempsey says if your investment portfolio is keeping you up at night and is causing you to check up on performances regularly, you can be sure that your portfolio is not constructed to help you achieve your financial goals.

“Periods of volatility should not cause you any concern if you have invested spare cash for the long-term. However, if you have taken a gamble and invested your tax money into equities you should be concerned.”

Dempsey says the following golden rules must be applied if you want to invest successfully:

- Cover your risks first. Make sure that you have sufficient life, disability and medical aid cover in place before you start investing. Ideally, you should also insure your assets using short-term insurance.
- Eliminate or reduce your debts as quickly as possible. The interest charges on your mortgage bond, vehicle finance plan and credit card debt are in most cases higher than the returns offered by medium to low risk investments.
- Save enough money to cover any financial emergencies that may occur and invest this money in a high interest paying investment vehicle like a money market fund.
- Invest spare cash for a minimum term of five years, but preferably for at least 10 years.
- Do not take investment decisions based on fear. Unfortunately fear continues to rule the investment strategies of many investors who continue to sell equities at the bottom of the cycle, only working up enough courage to get back in once equities have regained their losses and added some growth.

Who can I trust?

If you are ready to venture beyond money market funds with your spare cash and would like to do this with the help of a financial adviser, ask friends or family members to recommend a financial adviser they trust.

A good financial adviser will provide you with a full needs analysis and a comprehensive outline of the proposed investment portfolio. You know you are in good hands if the adviser provides you with detailed, yet easy to understand information and exerts no pressure on you to commit before you feel completely comfortable. A good adviser will also disclose all costs to you, including the commission payable.

In order to produce winning results over the long-term, your adviser will suggest an investment strategy that includes the following approaches:

- Proper diversification across the asset classes: equities, bonds, property and cash.
- A mix of asset classes and funds in line with your long-term needs and risk profile.
- A long-term commitment to stick to the strategy.
- An understanding that it is time in the market that makes all the difference.

Dempsey says before you ditch your investments if your current strategy does not fill you with confidence, you should also consult a qualified financial adviser. It may not be as bad as you think, he adds. Also,



panic driven decisions often cause investors to materialize what have been paper losses when sitting it out would be the better approach.

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ASISA represents the majority of South Africa's asset managers, collective investment scheme management companies, linked investment service providers, multi-managers, and life insurance companies. ASISA was formed in 2008 by members of the Association of Collective Investments (ACI), the Investment Management Association of South Africa (IMASA), the Linked Investment Service Providers Association (LISPA) and the Life Offices' Association (LOA).