CONSEQUENCE
PRIVATE WEALTH

TOP 5 WAYS TO AVOID RETIRING POOR IN SOUTH AFRICA

1. Get on with it

There is no perfect portfolio, no perfect advisor, there's just time slipping past. Time makes a difference because of the power of compounding. A simple example: you invest R3, 000 each month, a contribution which you increase at say 10% annually, and let's assume that, after fees, an annual 10% total growth is generated. After 20 years you'd have R4, 638,402. After 30 years, R18, 046,620. Now let's say you only invested for 20 years but invested R6, 000pm from the first month, also at 10% contribution increase and 10% growth. So double the initial contribution but investing for ten years less. The result: R9 277 004. The numbers are clear – the longer you have to allow for that growth on growth, the better. Importantly, there are excellent low fee platforms that you can get started on for as little as R500pm. Fees make a massive difference in getting a good annual investment return so take an interest in them, which brings us to point 2.

2. Take an interest in your investments

Being involved means you reduce the chances of getting taken for a ride and you get a sense of what works for you. Far too often we hear new clients tell us they have no clue which underlying fund options are selected on their company pension fund or that "debits go off but I have no idea what for". Not great. Yet once you explore a bit you may find that far from being rocket science, investing is mainly the application of common sense. Also, industry innovation and the web have helped to make investing more accessible. The classic example is the development of the humble unit trust fund. Through a single fund one can – for an increasingly reasonable fee – access a variety of underlying assets, managed by a dedicated team. Yes there can be some complexity in choosing the right funds at the right times which is why point 3 is important:

3. Use the right type of advisor – and avoid get rich quick schemes

Financial advisors don't possess magic powers to double your money year on year so avoid those who promise the earth. What a good advisor should offer you is clear and straightforward advice on estate and tax structuring, portfolio guidance over the long term and an up to date view on relevant legislation. The better ones tend to be fully independent from any product providers and are likely to suggest reasonable ongoing fees aligned with performance rather than upfront charges. Where possible we suggest avoiding investing via insurance companies, many of which have a history of applying high admin fees and surrender penalties if you halt contributions. Shop around for advisors and don't get hassled into something you're not comfortable with.

4. Diversify

Our clients don't become wealthy just by investing in financial markets. They work hard on careers and businesses which give them investable income. Some of that investment goes into business opportunities, some into property and some into investments. The point is that you need to spread the risk out a bit and consider where each avenue might lead. Example; do you need a pension fund? Yes, it's helpful as a tax deduction and as a disciplined way of investing but maybe it needs to be complemented with an accessible share and unit trust portfolio. As always, a good balance is what you're looking for.

5. **Appreciate that the concept of retirement is changing**

Increasingly we're finding that as far as our "retired" clients are concerned, a productive life most certainly does not end at 65 or 70 or even 80 and beyond. They are fitter and healthier than ever before. Many have found ingenious ways to stay involved and made significant cash in the process. That's not surprising when you consider the combination of their experience and the liberating effect of modern communications. We're not saying you can never stop working – that would be a bit depressing…we're just saying don't stop learning and growing because changes in technology mean your ability to work/consult will increase rather than diminish in the future. Yes you do still need to think about disciplined, sensible investing as early as possible, but view it as only one stream of future income.

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