NEWSFLASH

PSG Wealth Employee Benefits

October 2018

OPINION: SIX WAYS TO WEALTH THAT APPLY TO US ALL

Dear Valued Investor,

With an honest, and to the point mid-term budget fresh off the press, we at PSG see opportunity. The JSE is having a tough year, with a 1 year move of -9% as of yesterdays close. This is due to a global repricing in the equity markets, with a specific focus on emerging markets (of which South Africa is one). This would have caused a downturn in your long-term local investment. THIS IS NORMAL, and not only is it normal, but it is a good thing. We needed some of our local equities to be repriced, to make them attractive for investment.

An important point to remember:

You are not only invested in equities. We make use of well diversified portfolios, including bonds, cash and offshore exposure to maximise growth and limit downside risk.

Some more good news: For the first time in many years, the global PMI index is sitting above 50 for most countries in the world, showing towards expanding economies. South Africa is currently behind at 43. The main reason for this has been policy uncertainty. We believe that under the leadership of President Ramaphosa, and with Minister Mboweni keeping an eye over the finances, the turnaround for South Africa is here. The targets are set, the markets are adequately priced for new investment. The road has been very tough up to this point, the worst thing you can do now is to disinvest. If you are invested in the market, keep your position. If you are not, the market is the best priced for investment in almost 10 years.

If you are close to retirement, remember to align your post retirement strategy with your financial advisor.

Below we discuss some insights from our Asset Management CEO, Anet Ahern, on the key points of investing:

JOHANNESBURG - Let's start with a simple question: What does it mean to build wealth? The scenario may vary from person to person, but we all share the same minimum expectation: we want our savings to grow and outpace inflation.

In recent years, many of us have only just managed to achieve this basic requirement, as most asset classes have not performed much better than inflation. This has led to a prevailing sense of panic among savers across all wealth levels - and once panic sets in, we start making mistakes. These mistakes have the potential to be far more devastating to your long-term wealth prospects than recent low returns.

Here are six ways to stay on track and avoid wealth-destroying behaviour.

1. Keep a realistic time horizon

Investing is a long-term game, and evaluating returns over a one- to three-year period will give a skewed perspective. Assessing your investment returns over five years or longer will give a more balanced view.

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2. Mind over market

When times are tough, we tend to think things will continue that way indefinitely. This can cause investors to make rash moves based on fear. Being aware of this tendency and recognising it in yourself may help to keep you focused on your long-term plan. One thing history tells us about markets is that the good times don't last forever - but neither do the bad. In addition, volatility is a given. The trick is to regulate the emotions it triggers in you. The goal is to not get overly excited about your prospects when things are going well, or overly pessimistic when they're not.

3. There is no silver bullet

Wouldn't it be wonderful if there was a single solution to end your financial woes? Sadly, things are never that simple, and any solution that promises to solve all your worries is probably one you should avoid. It's in this kind of market where unscrupulous individuals find vulnerable targets, because who wouldn't love a 15% guaranteed return right now?

4. More bank for your buck

One of the most common complaints these days is, "I could have done better in the bank". Yes, this might be true from time to time. But remember that you'd need to be incredibly sharp with your timing when it comes to reinvesting in the market (and making up for what you lost in capital gains tax when you sold out of the market). Research shows the average investor's experience tends to be a lot worse than the market over all periods, precisely because it's impossible to time the market.

5. Great expectations

Emotions drive financial behaviour, and our emotions are often based on the extent to which our expectations are met or exceeded. Over the past year, few investors will have felt their expectations were met. But perhaps this is a good time to re-evaluate our expectations. Since inflation targeting was introduced in South Africa in the early 2000s, inflation has come down significantly, averaging at 5.7%. As a result, we can expect that investment returns should be lower too, which means the classic 15% return that used to be "normal" in previous decades may now be too high.

6. Back to basics

The best way to wealth is to control the "controllables". Unfortunately, market performance is not one of them. But your behaviour is. Sticking to a few fundamental rules of investing is the best way to safeguard your savings and maximise your wealth creation efforts over the long term. These include:

- Start with a plan and put it down in writing.
- Take a long-term view.
- Diversify: this way there should always be something in your plan that is working out.
- Stick to your plan, but remember that planning is a process. It involves a lot of thinking upfront, but also regular reviews and tweaks along the way.
- Enlist the services of a financial adviser. Like a good coach, this person will help you set realistic goals and create a plan to get you there. Over time, they'll evaluate your progress and adapt the plan if needed. And perhaps most importantly, they will help you overcome the emotional obstacles that threaten to derail your efforts.

Anet Ahern is Chief Executive of PSG Asset Management.

For more information, feel free to consult with your PSG Wealth team

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