June 2023

—
Investing for a
world of change

The dos and don'ts of building financial resilience

Leone Hitge
Investment Marketing Manager

High inflation and interest rates are waging a war on consumers' wallets. On top of that, investors face volatile financial markets. Here are six tips to help you strengthen your financial resilience against current market and economic onslaughts.

1 Treat an emergency fund like a war chest

Besides eye-watering interest rates, ongoing load-shedding is strangling our economy – threatening the livelihoods of many businesses and households. Having a plan in place to safeguard your finances and to grow your wealth over time is key. Know why you have cash in the bank. Is it just lazy money that you'll still get round to invest and which helps you finance impulsive buys, or is it your financial moat? Retrenchment, a business that goes belly-up or unforeseen expenses can plunge you into a financial black hole if you don't have a war chest to keep you safe financially. As a rule of thumb, ensure you've saved at least six months' worth of income. Don't dip into your emergency fund and remember to top it up regularly as your income increases. Individuals and businesses have typically used a money market fund as a vehicle to build their war chest.

2 Cover all the bases when investing

Investing is much more than picking a fund because you like the return that the fund aims to achieve or has achieved previously. Dramatic falls in financial markets highlight how crucial it is to choose funds that match your risk profile and personal circumstances. With the help of a financial advisor, select suitable funds that meet your short-, medium- and long-term needs. As mentioned in Tip 1, use an emergency fund to meet unexpected expenses or to manage a loss of income. This will help you stay the course with your long-term investments so that your portfolio has time to recover, and you avoid locking in losses.

—
This is the copyright of Ninety One and its contents may not be re-used without Ninety One's prior permission.

3 Keep a cool head during market crossfires

Volatile markets have weighed on investor sentiment, with many investors bailing out of the stock market and moving to cash. It’s human nature to want to act when our world gets shaken up, even more so when the future seems very uncertain. That is why it’s important to have an investment strategy that covers your investment bases (Tip 2), so that you will avoid knee-jerk reactions when markets tank. Switching based on wild swings in performance can be value destroying. It may be tempting to try and time the market, but many investors have burnt their fingers attempting to call the bottom during down markets. Removing emotion from investment decisions (e.g. fear or greed) is especially difficult when dealing with your own money, so it’s best to seek professional advice from a financial advisor.

4 Go global to grow your wealth and mitigate local market and currency risk

South Africa is small in the context of the global investment universe, representing less than 1% of global equity, property and bond markets. Today, more than 50% of the profits of businesses listed on the JSE are generated from outside South Africa. In the volatile world in which we find ourselves, you need to have a global perspective to navigate the choppy waters of investment markets. When you diversify internationally, you get access to a much wider range of investment opportunities to grow your money across countries, industries, companies and currencies. Investing offshore, can also help minimise the impact of currency depreciation or political and market events on your wealth.

You can invest up to 45% in global assets through suitable domestic unit trusts, while international feeder funds will give you full offshore exposure. Alternatively, you can convert your rands into a foreign currency (e.g. US dollars) and invest directly in foreign-domiciled funds. It’s important not to view your international assets separately from your domestic assets. You need to consider your overall portfolio holistically to make sure it is in line with your risk profile and personal circumstances. Long-term savers have typically invested in a combination of asset classes that can provide growth over the long term and help preserve capital in down markets. It’s best to seek professional advice from a financial advisor.

5 Continue saving for your retirement and avoid becoming conservative too early

When markets experience sharp falls, you may feel the urge to check your retirement fund portfolio values constantly. Avoid taking your investments’ financial temperature every day. Investors should guard against panicking and switching into a retirement portfolio that is too conservative for their long-term savings needs. To enjoy inflation-beating returns over the long term requires a willingness on the part of investors to take on market risk, by investing in growth assets such as equities. Markets do not go up in a straight line, so investors need to stomach short-term volatility to achieve their long-term financial goals.

Do not be tempted to stop your retirement annuity contributions or lower your contributions to your company’s retirement fund because markets are turbulent. While investors may find volatility and lower asset prices very uncomfortable, investment managers employ a range of strategies to manage risks and identify buying opportunities throughout market cycles (up and down markets). It’s important to stay the course with your investments. Arriving at a sufficient retirement pot is a journey that takes a full working lifetime. A financial advisor can help guide you during volatile market periods.

6 Partner with a financial advisor

Building a sustainable retirement pot, saving for a specific goal and safeguarding your capital when unexpected events happen, are just some of the key questions you have to grapple with during your lifetime. The decisions you make today around money, can have a far-reaching impact on the quality of your life – now and for many years to come.

A financial advisor can help you: draw up a monthly budget, set financial goals, determine how much investment risk you can take, identify which funds and products may be suitable for your needs, save tax and do estate planning. Your financial road map may need tweaking, but an advisor will typically review your plan annually and make adjustments where necessary. As mentioned in Tip 3 and Tip 5, having a professional by your side, can also help you avoid emotional, knee-jerk investment decisions in response to sharp market movements or unexpected life events.

Don't have an advisor yet?

Visit our website to locate a professional, accredited financial advisor near you. We have a set of appropriately qualified and licensed advisors from across the country who can help you make informed investment decisions.

Important information

All information provided is product related and is not intended to address the circumstances of any particular individual or entity. We are not acting and do not purport to act in any way as an advisor or in a fiduciary capacity. No one should act upon such information without appropriate professional advice after a thorough examination of a particular situation. This is not a recommendation to buy, sell or hold any particular security. Collective investment scheme funds are generally medium to long term investments and the manager, Ninety One Fund Managers SA (RF) (Pty) Ltd, gives no guarantee with respect to the capital or the return of the fund. Past performance is not necessarily a guide to future performance. The value of participatory interests (units) may go down as well as up. Funds are traded at ruling prices and can engage in borrowing and scrip lending. The fund may borrow up to 10% of its market value to bridge insufficient liquidity. A schedule of charges, fees and advisor fees is available on request from the manager which is registered under the Collective Investment Schemes Control Act. Additional advisor fees may be paid and if so, are subject to the relevant FAIS disclosure requirements. Performance shown is that of the fund and individual investor performance may differ as a result of initial fees, actual investment date, date of any subsequent reinvestment and any dividend withholding tax. There are different fee classes of units on the fund and the information presented is for the most expensive class. Fluctuations or movements in exchange rates may cause the value of underlying international investments to go up or down. Where the fund invests in the units of foreign collective investment schemes, these may levy additional charges which are included in the relevant Total Expense Ratio (TER). A higher TER does not necessarily imply a poor return, nor does a low TER imply a good return. The ratio does not include transaction costs. The current TER cannot be regarded as an indication of the future TERs. Additional information on the funds may be obtained, free of charge, at www.ninetyone.com. The Manager, PO Box 1655, Cape Town, 8000, Tel: 0860 500 100. The scheme trustee is FirstRand Bank Limited, PO Box 7713, Johannesburg, 2000, Tel: (011) 282 1808. A feeder fund is a fund that, apart from assets in liquid form, consists solely of units in a single fund of a collective investment scheme which levies its own charges which could then result in a higher fee structure for the feeder fund. The fund is a sub-fund in the Ninety One Global Strategy Fund, 49 Avenue J.F. Kennedy, L-1855 Luxembourg, Grand Duchy of Luxembourg, and is approved under the Collective Investment Schemes Control Act.

Ninety One Investment Platform (Pty) Ltd and Ninety One SA (Pty) Ltd are authorised financial services providers.

Contact information

36 Hans Strijdom Avenue
Foreshore, Cape Town 8001

To reach our Ninety One unit trust team, please use
Telephone: 0860 500 900
Email: utclientservicessa@ninetyone.com

To reach our Ninety One Investment platform team, please use
Telephone: 0860 500 100
Email: comcentre@ninetyone.com

www.ninetyone.com

Follow us on Twitter @ninetyone_sa

0623-0134-Viewpoints and updates