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Researching Capital Markets & Financial Services

Wishing you a prosperous New Year

As we head into 2022, I want to share some insights from the 2021 Old Mutual Savings and Investments Report. Using the information from this report, I have four action-points that you can implement this year. If you are still contemplating your financial new year's resolution, perhaps this is a good starting point. The objective is to limit the impact that any unforeseen events may have on your finances, and by doing this, we avoid diminishing quality of life, for ourselves and our loved ones.

The report was compiled using statistics of peoples' finances during the Covid-19 period and it provides valuable financial planning guidelines. Essentially, it's an opportunity to learn from other peoples' mistakes from a financial planning perspective and to then use this knowledge to guide our decisions going forward.

To provide some context, the points below are worth noting:

- People have struggled financially. There have been retrenchments, additional health costs and salary cuts.
- More than 50% of people who have home loans had taken payment holidays.
- 12% of people moved their children to cheaper schools.
- Between 20% to 30% of people have cashed in their investments and have cut down or cancelled their insurances and medical aid.
- Short-term debt from financial institutions has increased by 100% over the last eighteen months
- The rand has experienced higher than average volatility over the last two years.
- At the beginning of the pandemic, the global markets declined significantly. It then made a strong recovery through 2021. Looking forward into 2022, there are mixed forecasts of how things will play out.
- The FED (Reserve bank of the USA) has been artificially stimulating the economy by quantitative easing (the process of introducing more money into the economy). This naturally leads to higher inflation. Recently, the FED has shown the intention to reduce or seize its quantitative easing programs and increase interest rates to combat rising inflation. This can possibly have a negative impact on your investments.

So, now that we have some context, what steps can we take to protect our financial position?

1. Ensure that all your insurances are up to date, adequate and suited to your needs and lifestyle requirements. Shortfalls in insurance leads to short-term debt. If you don't have the necessary insurance to cover unforeseen expenses, you will likely be forced to take out high-interest, short-term debt which will hinder and restrict you from furthering your financial position.

   Also, the insurance landscape is vast and there are many insurance companies, each offering many insurance products. It is worthwhile to identify which company and products will accurately compliment your needs and objectives. Get in touch if you would like to chat about this.

2. Have an emergency fund and ensure it is invested appropriately. Without an emergency fund, you are vulnerable to unforeseen expenses and, similarly to the first point, may be forced into high-interest debt. An emergency fund should tick the following boxes:

- Immediate access without penalties
- Should earn interest that keeps up with inflation, otherwise your emergency fund is losing value over time.
- Should not be invested into highly volatile assets, (e.g., equities) otherwise, should markets decline and you need to make a withdrawal, it will require you to sell your investment units at a loss, which is not ideal.

3. Diversify your investments and ensure that your investments' risk profiles are aligned with their objectives and time horizons as the global economy is prone to volatility in the short-term. Hedge Funds, Fund of Funds and conservative Offshore Funds are suitable options in the current economic climate.

4. Ensure that your life insurance and investment beneficiaries as well as your will is up to date and valid, and that you clearly understand how your wealth will be distributed on your death (it is not always as per your stated beneficiaries). It is worth noting the following points:

- A valid will requires a pen to paper signature. Scanned copies are not acceptable at time of death.
- If minor children are involved, get in touch to discuss how best we can ensure that your wealth will provide for your children, as well as how to protect your wealth until your children reach adulthood.
- If you are married in community of property or with an ante-nuptial contract with accrual, it's important to understand how the marital regime dictates how your assets are distributed. With this information, you can then structure your will appropriately.

I encourage you to take the time to consider your own financial planning with regards to the above points as these suggestions are based on the lessons learnt from people who have paid a high price during the pandemic due to shortfalls in their financial planning.

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