nmg PERSONAL WEALTH

Inflation, the Killer!

I trust that 2017 will be a good year for all and hope that we can look forward to a less volatile investment environment than we experienced in the last year. This article deals with investment and inflation. Inflation is a financial killer and the importance of taking this into cognisance in your planning cannot be stressed enough.

Decide today, where you'd like to be tomorrow

The answer to a comfortable retirement is money. And having money then, means investing now.

Everyone dreams of early retirement. Unfortunately, for many, this is a dream that will never be realised, **simply because they did not manage their finances at an early stage in life and left planning for retirement until too late!**

Understand the impact of inflation on investments

Simply put, a basket of goods (or a loaf of bread) will cost you more during periods of **inflation.** Conversely, that same basket of goods or loaf of bread will cost you less during periods of **deflation.** Let's look at the impact of inflation over 40 years, by comparing what R1,000 could have bought:

- **In 1970, R1,000** could be a deposit on a house
- **In 1980, R1,000** could have paid for a year of university fees
- **In 1990, R1,000** could have bought a holiday at the coast
- **In 2000, R1,000** could have bought a full trolley of food, groceries etc!
- **In 2010, R1,000** could have bought you a pair of jeans

When investing for the long term, you must make sure that your investments give returns that are better than the rate of inflation, so that the buying power of your money is not eroded over time.

Oh, and by the way, headline inflation is not the rate of inflation that most, if any, of us experience

Did you know?

- Around 94% of South Africans DO NOT enjoy a financially carefree retirement.
- You need around 70% of your final salary as a MINIMUM income.
- You need a lump sum of more than 15 TIMES your highest annual salary if you retire at 60 and are looking for the 70% starting point.
- After 40 years with the same company, you could retire on 60% of your final salary or less - a 40% DROP IN INCOME!
- INFLATION during retirement is your greatest threat.
- You could live more than 30 years in retirement, with NO SALARY!

Will you have enough money to live until the age of 90?

The Difference Between Saving and Investing

Saving is simply a matter of putting regular amounts of money aside for protection over a short period of time. On the other hand, investors worry less about losing money over the short term and are not afraid to invest in volatile investments (which can go up and down over short periods of time) like shares or equities, to make sure their money grows over the long term.

Investing

Invest money over the long term that you won't need for at least 3-5 years or longer. Examples where long term investments are appropriate are saving for your children's education or for your retirement.

Saving

When saving, you only need to **save money that you're actually going to need in the short term.** Examples where short term savings are appropriate are emergency cash, a deposit on a car / house or money for holiday.

Invest for the Long Term

Investing for the long term involves allocating retirement monies into different classes of investments, known as asset classes (which is done by the fund's investment managers). These are shares (also called equities), bonds, cash and property and have various characteristics:

Shares represent your ownership of a part of a company and are considered the 'riskiest' of the investment types, because they go up and down over short periods of time (i.e., are volatile). However, investing for retirement is a long term exercise, and should be viewed over a 30-year period. Over the long term, shares yielded the highest returns, in comparison to the other asset classes.

Bonds are methods used for raising capital by government; semi-government; parastatals and corporates to a lender. They promise to pay interest at regular intervals and to repay the capital at a future date. Bonds are also volatile as they fluctuate with the rise and fall of interest rates, but usually less than shares.

Cash is a short-term debt instrument which matures in less than one year. Cash is generally considered the 'safest' investment because the value of your investment will not drop. However, the long-term investment returns on cash are lower than on all the other asset classes and are often eroded because of the effects of inflation.

Property is investment in land and buildings. Property investments may show higher returns than bonds or cash investments over the long term, but usually provide lower returns than shares. Property values are more volatile than bonds and cash, but are less volatile than shares.

The Economy

In 2016:

1. The Rand appreciated 14,81% against the US Dollar; 17,32% against the Euro and a massive 26,24% against the British Pound (I've still got some that I paid R24 for)
2. SA shares were flat and the All-Share Index returned 2,6%
3. SA bonds and cash earned 15,5% and 7,4% respectively
4. Headline CPI was 6,8%

SA Markets 2016

- Growth asset classes performed poorly although property exceeded expectations.
- Bonds outperformed equities, property and cash as a result of fiscal discipline, inflation expectations and the presence of a strong
- Reserve Bank backed by a strong Finance Minister.

Global financial market volatility affected local markets

Global Markets 2016

- Volatile period for all financial asset classes.
- Emerging markets under- perform as investors look for stability and hard currency.
- Mostly a benign world equity markets environment.

SA Economy 2017

- Evidence of a more balanced growth profile emerging in SA although this could be affected by the political scenario.
- Household credit or lending growth is high. Default is high and unemployment is growing. Corporate lending remains relatively buoyant.
- Inflation expectations remain well contained and anchored at lower and more stable levels.

Global Economy 2017

- BREXIT remains an unknown quantity.
- The Trump Administration has just come in to office and with all guns blazing. The jury is still out on this.
- Europe is still taking strain although with Brexit and Trump the focus has somewhat moved away from them.
- Emerging economies' growth rates moving slowly up while those of the developed world are quite stagnant.

"Economists caution investors to lower expectations of future equity returns"

1 Bulls/Bullish: an optimistic view of the market.

2 Bears/Bearish: a pessimistic view of the market.

In short, 2016 is a year that we are glad to see the back of. There seems to be an air of quiet confidence around and 2017 started without any major upheaval. Unfortunately, as I write this there is noise about a cabinet reshuffle and the replacement of our Minister of Finance. How this will pan out and the effect that it will cause will play out in the next few weeks.

Please feel free to pass this article on to anyone that you feel may benefit from it.
Should you need a question answered or have a suggestion for us please feel free to e-mail me at chorwitz@nmg.co.za You can also request the services of one of our qualified and competent financial planners. Just let me know.

Wishing you all well mentally, physically and of course, financially.

Kind regards

Colin Horwitz
Managing Director
NMG Personal Wealth

nmg
PERSONAL WEALTH

Contact us

NMG Personal Wealth
DL: 0860 664 790
E: info@nmgpersonalwealth.co.za

www.nmgpersonalwealth.co.za