TEN REASONS TO INVEST IN EQUITIES

glacier by Sanlam


In these uncertain times, investors are faced with a very important decision – whether to stay invested in the markets and bear the brunt of the tough economic climate, or rather to switch to cash?

Below, we highlight some of the main reasons to stay invested in the markets as well as some of the benefits offered by an investment in equities.

1. **Equities beat inflation over time**
   Cash diminishes an investor's purchasing power once taxes and inflation are accounted for. After subtracting the inflation rate from what looks like an attractive interest rate offered on a cash account, the investor may be left with only a very small return of 1 or 2%. Although returns on the JSE only just outpaced inflation over the past five years, when one looks over a longer time period, the returns are a lot higher. Equities have repeatedly outpaced cash over longer time periods.

2. **Equities provide long-term capital growth**
   Those who remain invested in the markets during market downturns typically see better returns than those who sell out of the markets during those periods. Looking back over the period 2001 to 2018, SA cash only outperformed SA equity and SA bonds once over that period. During this time period, SA equity outperformed SA cash and SA bonds on 11 occasions. Over the period, the average annualised return for SA equities was 15.73%, whereas the average annualised return for cash was 8.03% and 10.20% for bonds.

3. **Dividends from equities provide an income source**
   A large portion of an investment's growth during the capital build-up phase can come from re-investing the dividends paid. Dividends can also add to an investor's income during retirement. In most instances, the dividend tax rate of 20% will be less than the investor's marginal tax rate charged on interest.

4. **Equity investors benefit from compound growth**
   In addition to benefiting from re-investing dividends, investors in equities benefit from compound growth. By starting early, investors will see growth compound over time. This is especially true when saving over a very long period, e.g. for retirement, where a large portion of the growth takes place in the last few years of the build-up phase. This is another good reason to stay invested.

5. **Market volatility can work in equity investors' favour**
   If investors have a long-term investment horizon volatility can work in their favour. This is because they buy more units when prices fall – provided they stay invested and don't panic and sell because markets have fallen. Investors also need to remember that markets fall slowly but tend to correct and rise quite quickly. Because of the rapid rise, investors who sell out of the markets and move into cash when markets are down, realise their losses and will almost certainly miss out when markets rise again. Staying invested means investors have the opportunity to benefit when the market rallies.

6. **Investing in equities through a unit trust provides liquidity**
   Certain equity investments, such as collective investments (unit trusts) and shares, can be bought and sold easily. Although investors are encouraged to hold their investments for the longer term, they do have the flexibility to sell should they need to.

Collective investments that are included as underlying investments in certain products, e.g. endowments, may have certain restrictions when it comes to selling.

7. **Equities enable portfolio diversification**
Equities provide diversification in a number of ways. By investing in a collective investment scheme, investors gain exposure to a number of shares and not just one individual company. Different unit trust funds can be included in a portfolio to provide exposure to different industry sectors as well as offshore exposure. A large percentage of our stock exchange's earnings are offshore, providing further diversification even when investing in a local fund. Investors can invest with different fund managers, gaining exposure to different investment management styles.

8. **Equities provide tax benefits**
From a tax perspective, interest-bearing accounts can be very inefficient as the entire return could be subject to income tax for any interest earned over and above the exemption. When investing into asset classes such as equity and property in a discretionary investment, such as Glacier's Investment Plan, capital gains are taxed at a maximum rate of 18%. The rate at which you're taxed also depends on your taxable income and marginal rate and the size of the net gain which is made in the tax year.

Investors have a capital gain exemption of R40 000 a year which means they can realise a gain of up to R40 000 without any taxation.

9. **Equities could also offer estate planning advantages**
Depending on the investment vehicle chosen, equity investments can also play a role in estate planning. In addition to the tax benefits of investing up to 27.5% of the higher of their taxable income or remuneration into a retirement annuity, pension and/or provident fund each year, this amount falls outside of an investor's estate and therefore attracts no estate duty or executor's fees. A retirement annuity investment is also protected from creditors in the event of an insolvency.

10. **Benefit from qualified and experienced professionals**
By investing in a collective investment scheme or a managed share portfolio, investors benefit from having their investment professionally managed by qualified and experienced professionals with proven track records. Combined with expert advice from a qualified financial intermediary, the investor is best-placed to reap the rewards of sticking to their investment strategy.

WHAT SHOULD INVESTORS DO?

1. Don't try to time the market.
2. Don't make emotional decisions based on short-term uncertainty.
3. Remember that, on average, growth assets will provide a better return over the long term (a minimum of five years, ideally 10).
4. Understand their long-term investment plan...and stick to it.
5. Be disciplined and stay invested.
6. Enlist the advice and assistance of a licensed financial intermediary to co-create an investment plan that is underpinned by their financial needs and risk appetite.

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