The best time to invest is… now

By Khanyi Nzukuma, Chief Executive

The best time to plant a tree was 20 years ago. The second best time is now. – Chinese Proverb

It's often said that it's riskier to do nothing at all, rather than to make an incorrect decision. The same could apply when considering whether or not or when to invest. While we don't advocate making wrong investment decisions, we do encourage people to get into the markets as soon as they as are able to.

The savings landscape

Financial services research firm Cerulli Associates states that the US will see 45 million households transfer $68 trillion in wealth to the next generation over the following 25 years. This is largely due to what is described as the longest bull market in history.

In South Africa however, we have a low savings rate together with highly indebted consumers trying to cope with the increasing cost of living. Our official unemployment figure has long been over 25%, but when we look at the youth only, that figure rises to over 50%.

If you're fortunate to be employed, and even if you're a first generation wealth-builder, it's important to prioritise saving and investing. Globally, we see that Millennials (those aged 20 – 37) are investing more than their parents and are more careful with money, having witnessed the global financial crisis first hand. The financial services industry can do more to find flexible solutions that will meet the needs of these younger investors. The tax-free savings accounts introduced by National Treasury in 2015 is a good start, but we need to do more.

A healthy personal savings rate is ultimately reflected in a healthy economy. Higher savings stimulates economic growth, which then results in higher employment. Unfortunately the reverse is also true.

Do my savings really matter in the bigger picture?

You may think that your salary is still quite small, but it's what you do with it that counts. If you have time on your side, even the smallest amounts can be used as a wealth-building tool. It takes time to reach your first big milestone – and depending on your personal circumstances and goals, that could be R1 million or even R100 000. But once you reach your first milestone amount, you'll see that it takes less and less time to reach each subsequent milestone. That's because of the power of compounding – when your interest starts to earn interest.

Time really is your friend

Let's look at an example:

- Person A saves R100 a month for 40 years, from age 25 to 65.
- Person B waits until age 45 and therefore has only half the amount of time to save, i.e. 20 years. Person B will have to save R850 a month, i.e. 8 ½ times as much as Person A, in order to accumulate the same amount of money at age 65.

Let's look at another example of how time can be your friend:

Patrick

- Starts saving at 25years old
- Makes payments for 10 years
- R1 000 p.m. (No increases)
- Aggressive portfolio (12% expected return)
- Stops payments at 35 years old
- Allows investment amount to grow in aggressive portfolio for next 30 years

Thabo

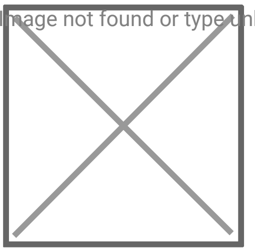
- Starts saving at 35years old
- Makes payments for 30 years
- R1 000 p.m. (Increasing @ 6% annually)
- Aggressive portfolio (12% expected return)
- Never stops making payments

Most people would be surprised to learn that, even although Patrick only saved for 10 years, he will eventually have more saved up than Thabo, who saved for 30 years (and Thabo in fact paid in more over the 30 year time period). However, because Patrick started 10 years earlier than Thabo, he had time on his side.

Source: Glacier Research

Where to start

If you already have an emergency fund in place, you're ready to start investing. Speak to a qualified financial adviser who will be able to look holistically at your entire life situation and advise accordingly. If you don't have an adviser, you're welcome to contact us – visit www.glacier.co.za – and we'll put you in touch with someone.



Khanyi Nzukuma

Khanyi Nzukuma obtained a BA in Psychology from Rhodes University in 1991. He then obtained a Masters in Business Administration from Potchefstroom University in 1998 and a Doctor of Psychology degree from the University of Johannesburg in 2011. Khanyi joined Sanlam in 1994, where he spent 11 years, starting as a Financial Adviser, and thereafter occupied a number of junior and senior management roles. He joined MMI Holdings in 2008, where he spent eight years, starting as a CEO of Metropolitan. In 2017 he was appointed CEO of Momentum. In January 2018 he left MMI and re-joined Sanlam as CEO of Glacier by Sanlam.

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