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invest with the times

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Pressure on economy

Interest rates are bound to rise by die end of the year with consumer inflation which is slowly but surely increasing.

Last month the Reserve Bank kept the repo rate unchanged, but economists say it is only a matter of time before the rate of 5.75% will be increased by at least .25%.

This is due to increasing pressure on costs such as higher oil prices, higher energy costs and food inflation which have gone up substantially.

The first signs of a food price increase were in March this year when grain traders indicated that South Africa would have to import grain after our own harvests were significantly smaller, as a result of the ongoing drought.

Food has a weight of 14% in the consumer price index. In March food inflation rose to 5.9%, significantly more than the general consumer price index rate of 4% to 4.25%.

There is also concern that it will be at a weaker rand that we will be importing; putting pressure on the balance of payments. The rand has already weakened by 4% against the dollar this year and there was concern about countries such as South Africa's ability to repay dollar-denominated debt at higher interest rates.

A ray of hope is the announcement by grading agency Moody's Investors Services that South Africa's credit rating for the next twelve to eighteen months will remain the same. In November last year Moody's downgraded South Africa to Baa2 grading from stable to negative.

Floris Slabbert - Sales Manager

If South Africa's rating further weakened to speculative or junk status, this would immediately put further pressure on inflation and interest rates which would curtail South Africa's access to foreign capital severely.

South Africa's power situation would have been in a much better state if Eskom had followed the same route as Telkom. The partial listing of Eskom can be the first step to deregulate the industry and to find a more pragmatic solution to South Africa's power problems.

South Africa's saviour in these difficult economic times is that our country has excellent financial markets and is still regarded as the trading gateway to Africa.

Until next time,

Floris

Saving ensures prosperity

Financial success and prosperity is not determined entirely by the amount of money you earn. More crucial is the amount you are prepared to save.

Key to prosperity is realising you have to pay yourself first before anyone else.

Your future lies in your hands. You are the only one who can impoverish yourself by not saving.

It is important to acknowledge:

- You do not need a lot of money to be an investor.
- It's never too early to start saving.
- It's never too late to start saving.

Your goal is to become financially independent. This means you do not rely only on a monthly salary, but you ensure you have savings. Savings make you financially independent and put you in charge.

South Africans are notorious for their lack of a savings culture. That's due to the fact that financial discipline was not part of our education from an early age.

Research has shown that only 20% of South Africans have savings at a recognised financial institution. More shocking is that only 44% of salaried employees in South Africa provide for their old age by way of pension or retirement products.

Warren Buffett, one of the wealthiest people in the world with assets of more than $ 70 billion, firmly believes in the value of savings. His advice is to pay your debts first and then to start saving money which you can invest later.

Interest rates are currently very low and it makes sense to settle short-term debts as soon as possible – before interest rates begin to rise. Also do not incur new debt to resolve existing debts.

Nobody says it's easy to pay your debt and start saving. Yet there are proven guidelines which will make you financially fit and put you on the road to prosperity:

- Do not borrow money to buy luxury products. The financing costs of short-term debt such as credit cards are very high and consumes money you could have saved.
- Do not spend more than you earn.
- Draw up a budget and make your "savings premium" part of your budget. Pay it first before other expenses and place it under the section "essential" instead of the section "I want." The budget speaks of dreams and aspirations and shows where you are going.

Save for a carefree future

It is extremely important that you move at least 10% of your after-tax income to a savings plan.

It is also important to create an inclusive budget and to make a team effort. Involve your whole family and teach each member the value of money and the discipline to manage personal finances. Children need to understand from an early age the negative effects of debt and be shown the example of parents living within their financial means. By the time they are teenagers, they already know if they cannot afford something, to forego it – as debt is not the answer.

Another important investment is planning ahead for your children's and grand children's education – surely the most valuable gift or asset you can provide to equip them for the future.

First establish the cost of the tertiary education you have in mind. If your child is three years old today, in 15 years it will cost about R340 000 for a four-year course. Add accommodation, food and clothing and this can rise to R1 million!

You will need to save at least R200 000 today and invest the amount in an investment plan like Ecsponent Class B to ensure that R1 million in student fees will be available when your child turns eighteen. The Class B investment will grow at 14% (simple rate) per year from R200 000 to R340 000 over 5 years – thus a total growth of 70%. If the R340 000 is reinvested, this will grow over five years to R578 000. This amount can again be invested for a further five years which will grow to R982 000.

This calculation is based on the assumption that the rate remains the same in the example and no charge are levied on the investment.

This projection shows the importance for parents to start saving early. However, the above applies only to tertiary studies. Before you get there the general cost of raising a child today is estimated to be about R1,6 million.

Invest for each individual child. Start early and see how the provision you make today, grows together with your child!

Building wealth is also about protecting it.

The all share index of the JSE is at its highest ever and the markets can easily move irrationally and emotionally, leading to losses. Look at Ecsponent's preference share investment where the rate is fixed and is not exposed to the market fluctuations. It gives peace of mind knowing that the proceeds always beat inflation.

Always keep in mind: to build wealth is also about the protection and effective management of it. Do it in time and prevent panic in your retirement years.