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Unit trusts are struggling

Yields on unit trusts have been significantly lower over the past year, compared to previous years, and balanced funds are struggling to beat inflation. The largest balanced fund in South Africa, with assets under management at R105 billion, has shown a return of only 3.8% over the past year up to September. If the total cost of funds of 1.42% is deducted the net yield is well below inflation.

The largest bank balanced fund returned a mere 4.07% in the past year up to the end of August. In the bank's case, a cost of 1.73% must also be deducted.

With more than 1 500 registered unit trusts in South Africa, it is difficult for investors to pick the best one for them. The largest fund is more than 80,000 times larger than the smallest fund. This is why many investors prefer to invest in well-known fund managers balanced funds where the risk is supposed to be less and a fair return is supposed to be provided.

This means that huge funds are established. The bigger the funds under management, the harder it is for a fund manager not to affect the share price. It also means that a large fund manager would not necessarily have maintained the same exposure if less funds were managed. The greater the amount, the harder it is to move in and out of investments quickly and to take opportunities in the market.

We are moving into an investment cycle where the proceeds of unit trusts will be significantly lower and this situation could continue for a long time. This provides opportunities in the market for smaller and more dynamic unit trusts.

Company News

Ecsponent Financial Services is proud to announce the launch of two new regional offices; in Durban and Port Elizabeth. With the opening of these new offices, the financial advisory team has grown by 46% since January of this year - making personal advice more accessible.

House … asset or liability?

Is your house an investment which creates wealth or is it your pride and palace with bottomless expenses?

According to the ABSA House Price Index, the prices of houses have shown only a nominal growth of 5.2% over the past year (Sept 2014 Sept to 2015). In the case of medium-sized houses (priced around R1 225 000) the value increased by only 3.5%. During the same period, inflation (consumer price index) rose by more than 4.6%. This means that property, the major investment of most individuals, showed a negative return after inflation over the past year.

Houses experienced the last bull run in 2008 and on average has performed poorly over the last seven years. Prospects for the future are no better as a property boom requires a strong and growing economy, positive business confidence and easy access to finance. All these aspects are missing and there is no sign that it will improve in the next few years.

Despite all this, the housing market is characterised by emotional owners who are looking for excuses to maintain their excessively high living standards and convincing themselves it is an important investment.

Ironically, it is others who often make money from your house while your profits are reduced by various costs. Think about transfer fees, mortgage costs, taxes, insurance, commissions and maintenance, and you notice how many institutions and people are maintained by your house.

The question is: Can you afford your lifestyle? Can you justify to live in your home? Do you need such a big house? Would it not be better to move to a more cost-efficient house and rather create prosperity by investing in shares?

Some homeowners tend to overestimate the value of their property. The return can only be determined once the buyer's money appears in your bank account. As a homeowner, you do not know exactly what your net gain is, since property involves ongoing costs. In contrast, with other investments, such as shares, you are provided with a monthly statement and you can see what your net return is at any given stage.

You can also not describe your house as an investment if you're so emotionally involved that you will never sell anyway. In that case the primary value of your property is that it provides a home and safe haven for the family and peace of mind that it belongs to you.

Homeowners want to believe their property makes them rich and love telling how little they paid for it many years ago, compared to the price at which they can sell it today. But they forget the compounded growth that could also occur in other investments – the longer you invest, the greater the return. They also do not take into account the effects of inflation over that period. Not to mention all the money spent on the house over the years with maintenance, improvements and even insurance.

Cost of home ownership increases by the day. A typical example is municipalities who see homeowners as "cash cows" and constantly raise taxes and services. The capital appreciation of your house dwindles in the face of these costs.

Homeowners still believe it's worth it, because they would never have saved as much if they were not obliged to pay off their mortgage instalments.

A house, however, gives the owners access to loans where the house serves as security. This means the return on the house could be eroded, if the owner uses an "access bond" to buy televisions, refrigerators, etc…if the homeowner is not financially disciplined.

It suits the banks because the house is used as collateral for these loans. Imagine what a television set will cost if it is paid over twenty years!

A house changes to an investment when it is purchased to provide income or a yield. This is especially true when second and third houses are bought to let out. But are these buy-to-let properties making sense today?

First, you need to choose the right property and then you have to find the perfect tenant. The Consumer Protection Act almost gives more protection to the tenant than to the owner. If your tenant does not pay, it can take up to a year to get the person evicted and then the chances that you will get the outstanding rent are slim. Depending on the circumstances, the tenant is often considered similar to a squatter.

Political and geographical factors can affect the value of the property. A typical example is a municipality's decision to build low-cost housing on the open field across from your house. The poor services from local authorities can discourage many home owners and they could decide to sell their property for a mere song to move to well managed municipalities. The weaker the services, the faster the decline in property values.

The cost of buying and selling a home is also high. The initial costs would include transfer fees, registration costs of a mortgage, connection costs of services and deposits at the municipality.

In contrast to this an investment in shares is effortless. Why be exposed to tenants' complaints about taps or pipes in your old age? Should you not be sitting back and watching your money grow on the JSE?

With Ecsponent's preference shares you know exactly what the return will be and you also don't pay any costs. Moreover you enjoy the flexibility of shares which may be traded on the JSE at any stage.