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invest with the times

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Noose is tightening

Pressure is mounting on consumers with the rand on a downhill spiral. Along with the rising cost of electricity and fuel, this is increasing the inflation rate with serious implications.

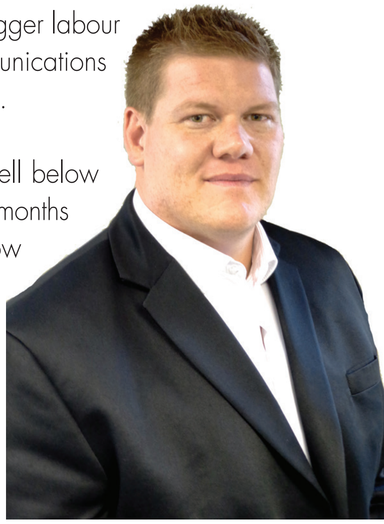
If the rand continues to weaken, the Reserve Bank will be compelled to raise interest rates faster in an attempt to control rising inflation. The Consumer Price Index increased from 4.7% in June to 5% in July, according to Statistics South Africa.

The rand – along with the currencies of other developing countries – will suffer a further blow if the US goes ahead with their hike in the interest rate on 17 September. To discourage too much money from leaving our country, the Reserve Bank will be forced to raise our repo rate, which in turn will increase the prime rate.

The sharp decline in commodity prices is putting strain on South Africa where our economy is under pressure with continuing labour unrest and regular power outages. Recurring strikes, often coupled with violence and destruction, and the ongoing electricity crisis is bound to bring down the growth rate; which – according to the World Bank – is already at a low of only 2% this year.

A prominent trade union has also released figures showing that 61,500 layoffs have taken place in recent months. And this is said to be only the beginning of much bigger labour cuts, especially in mining, telecommunications and steel and engineering industries.

Last month the JSE All Share Index fell below 50 000 points for the first time in six months and on 24th August it dropped below 47 000 points.


Floris Slabbert - National Sales Manager

The "good" news is that, despite the weakening rand, we are apparently soon due for a substantial cut in the fuel price. Yet we cannot get too excited, bearing in mind how fuel cuts in the past hardly lasted. Time and again they were followed by steep increases.

It is clear the economy is already finding itself in stormy waters and that consumers will have to turn their pennies and invest wisely. In these tough economic times Ecsponent's income and capital growth products offer stability to investors with the knowledge that a fixed rate of return is offered which is not linked to sentiment, exchange rates or commodity prices.

How safe is your money?

The stock market has begun to stagger and at worst may very well sink into a bear market.

This means investors will have to review their current investment plan if they do not want to suffer huge losses.

The question is whether they should move out of equity investments entirely? And if they keep their investments in cash, when dare they enter the market again?

The uncertainty can create panic, especially among those who recall the dramatic collapse in the markets of 1988, 1998 and 2008 when the JSE All Share Index was down by 45%, 43% and 46% respectively!

Since April this year this index has fallen by 7% and over the past year lost about 18% in dollar terms. The JSE Resources index also decreased with a dramatic 43% since the beginning of this year.

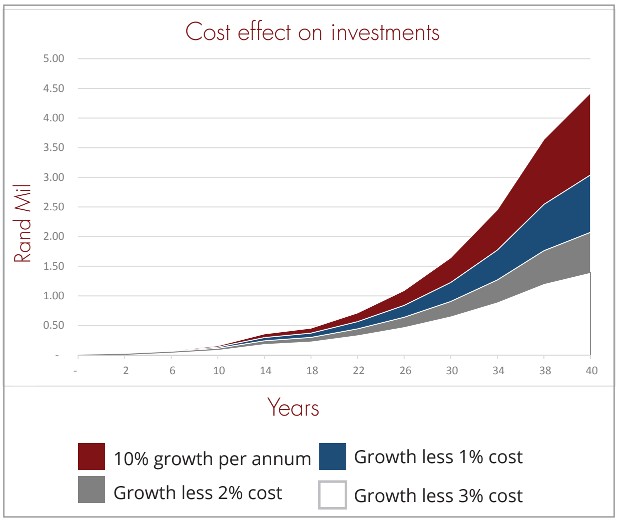
The ideal investment plan should hedge investors against bear markets for a period of about five years with a well considered risk strategy where expected returns and long-term savings goals are taken into account.

Investors need peace of mind, especially when the market is not exactly stable. This is possible with the preference shares, offered by Ecsponent. They have a fixed rate and are not affected by the fluctuating stock market.

These shares should constitute an important part of any investment portfolio. The big insurers/investment houses have unfortunately become rather complacent during the profitable bull market of the past seven years and it appears they have not worked on alternative investment plans in the event of a bear market.

Now that the writing is on the wall, they act defensively and rely on their repeated argument that it is not about "timing", but the length of time you stay in the market. They recommend clients should sit tight through the downswing and wait for the upswing. This advice is beneficial primarily to the institutions and fund managers, as it ensures money is not withdrawn from their portfolios. This is not always in the best interest of investors.

Do they really expect investors to be satisfied with a possible 40% drop in their portfolios? If so, when could they expect to break even and show positive returns? The market could take ages to recover. A market crash of 40% could be fatal, particularly to the portfolios of retirees, who have a shorter investment horizon. Only a few could absorb this and even to them it would be mighty painful!



The battle has begun with a well known fund manager showing a return of only 3,2% on the equity and 5,3% on the balanced fund over the last year – and this was before cost!

Vigilant investors have already moved out of the stock market into safer cash investments or the preference shares of Ecsponent. The problem with cash investments is that it offers only a short term solution - an interim measure. No investor will grow capital by staying there. Yet, how will they know when it might be safe to return to the market?

With Ecsponent's Class B preference shares the investor gets a fixed return of 11.2% compounded per annum over a five year term - regardless of what happens on the stock exchange. The product is linked to a fixed listed preference share with a fixed redemption rate. Hence there is a built in performance protection and fixed growth of the investment.

Ecsponent's products are unique because their key features are similar to unit trust investments and endowment products. They offer liquidity (willing buyer willing seller) like unit trusts and a after tax income plan as with endowment products.

Companies like Ecsponent grow, because they are consistently exploring new markets and strive to offer the right product at the most optimal time - innovation and entrepreneurship at its best! It is well known that South Africa's investment products are the most expensive in the world. It has been confirmed once again by a report last month in the Afrikaans Sunday newspaper which looked at costs charged to the investor.

During a conference for retirement funds it was pointed out that an extra percentage point in the cost of investment, reduces the value of the investment substantially over a period of 40 years!

To illustrate the impact of cost on investments, an example was taken of R100 000, invested for 40 years with an annual return of 10%. Without any costs the return would be R4,4 million. If cost of 1% per year were recovered, the yield would be only R3 million; Fees of 2% per year reduced the return to R2 million; Cost of 3% per annum lowered the return to R1.4 million. Few people believe that cost of 3% on this investment could reduce the return by R3 million! Like the miracle of compounded growth (growth on growth) we also get compounded cost (cost on cost) which reduces the investment value substantially.

In South Africa the days of upfront and ongoing commissions on investments will end soon with the introduction of the Retail Distribution Review regulations which will stipulate that advisors may only charge a fee for their services. This will put an end to commission payments.

Currently clients often pay maximum commissions, as high as 4% initial cost and 1.5% annual cost. Then there are fund manager charges, ranging between 0.5% and 0,3% and even bonuses if returns beat certain benchmarks. At Ecsponent the income rates are quoted after tax and cost and the investor knows exactly what income is to be expected.

It is often a battle of "David against Goliath" and the principle of "small beginning is great gain" that prevails for smaller companies. In tough times, people look for consistency, which is exactly what Ecsponent offers. Preference shares are the way to go in these uncertain times, offering stability as well as growth!