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Invest with the times

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Innovation leads to growth

"The muscle strength of the economy is small business".

The South African financial services sector is rich in potential for investors and entrepreneurs resourceful enough to identify opportunities.

However, the art of realising this potential lies not only in identifying the opportunity, but also to provide sustainable product solutions that meet specific needs. Many unconventional products have brought about positive change in established markets. Just think of the impact that the Outbonus has had on the short-term insurance industry, or then Ecsponent's use of preference shares to provide predictable returns for investors.

Naturally, there are always some who caution against the adoption of new ideas with warnings like, "Rather stay with larger, more established companies to be on the safe side."

And yet, 35 years ago the founder of the Rembrandt Group, Dr Anton Rupert, said that the muscle strength of the economy is small business and it is the entrepreneur's initiative, creative thinking, ambition and perseverance that ensures the success of an enterprise.

Smaller companies tend to be more resourceful, agile and quicker to make decisions, while larger, more established companies tend to operate like the public sector, with long communication channels and slow decision-making processes.

Also don't forget that the impressive headquarters, extensive regional offices and cumbersome administration comes at a massive cost which is ultimately recovered from the clients.

Moneyweb recently published an article about the impact of an annual fee of 3.89% on an annuity of a major insurer. Their example was a monthly annuity of R1 500, with an annual premium escalation of 10% for 40 years. After 40 years, this annuity would return R19 355 563 after the deduction of fees and other costs. However, if there had been no fees or costs deducted, the investor would have received R41 458 189.

Ecsponent, by contrast may be a new name in financial services, but has a competitive advantage in that it offers innovative products at a low cost, or even cost free to investors.

At the request of investors, we will soon expand our product range to offer annuities, living annuities and even umbrella pension funds at the same cost-effective basis. At Ecsponent, we don't shy away from taking the road less travelled or to disregard the conventional, which is why our offerings are unique and will continue to be as we expand our range.

Watch this space!

Are women better investors?

August is Women's month and Ecsponent would like to see more women becoming money masters. Statistics not only show that females often beat their male counterparts when it comes to making good investment decisions but, more importantly, that women are the glue that holds society together. Therefore, we must continue to empower women to be more financially independent.

Research by Galileo has shown that women control almost $20 trillion in global spending. Yet in South Africa, only 17% of women think it is important to invest for their future. What makes women effective investors and why don't they invest more?

Focus on long-term goals

Women view money in a broader context and according to Credit Suisse, they are more prone to link money to security, independence and quality of life for their families. Women tend to focus on long-term goals, such as saving for their children's studies, whereas men, are generally more competitive; constantly comparing their returns and focus on short term performance of their investments. They view money as a stream that flows in and out, while women see money as a "pool", or general resource.

Reflect on investment options

Women take more time to explore investment opportunities before making decisions. They have more patience, while men tend to be impulsive and try to predict the market. In addition, women prefer to work in groups to learn about finances, while men usually prefer to learn independently. However, the returns shown for female investment groups are 4.6% higher than male groups. This could be ascribed to the fact that the fairer sex is more systematic with their research, ask more questions and want to understand the investment.

Ask for assistance

As with directions, women are more inclined to ask for help than men. They take more time to consider advice from financial advisors, but once confidence has been established, they will be loyal clients who maintain the relationship in the long-term. Men are less inclined to consult advisers, often preferring to make decisions by themselves.

Manage risk

Women generally have a lower appetite for risk than men. Only 31% of women are willing to take higher risks with their investments compared with 48% of men, according to Barclays. Just over 70% of women consider themselves savers, rather than investors.

It has been proven that men's higher levels of testosterone cause them to take more risk. Hormone levels in men increase when they invest successfully and reduce their fear of risk.

Warren Buffet, one of the world's top investors, says he is successful because he "invests like a woman". According to Buffett, it is not intellect, but temperament that ensures long-term capital growth. Like most female investors he is careful, does not follow the herd and sticks to his investment decisions, regardless of the fluctuations in the market. He takes risks, but never gambles.

More emotional

Most women experience emotions more intensely than men, and they remember incidents for much longer. If a woman has made a risky investment and lost, she will remember it for a longer time and be much more careful upon her next investment. Men, by contrast, believe they have gained enough knowledge and background to be safe when entering rapidly into new investments.

Self-confidence and self-control

Research shows that men have lots of confidence and self-control when it comes to making investment decisions, as opposed to women who experience stress when they need to make decisions, says Professor Terrance Odean of the University of California. That is why most women stick to their investment plans, while men do not easily learn from their mistakes and change their portfolios 45% more often than women.

What are the challenges?

Worldwide, it is known that women save less enthusiastically for their retirement than men. They often delay taking the first step to invest and lose more money by not investing at all, compared to losses by making wrong stock investments.

Women tend to focus on the needs of their families and loved ones, while it is more important for men to maintain their "quality of life after retirement." The fact that many women (56% of urban working mothers) are financially responsible for their children, with little or no support from their fathers, might also contribute to this trend. Women struggle to maintain a balance between family obligations and personal finances.

In general women earn less and are therefore able to save less. This is partly because women stop working, sometimes for as long as twelve years, to raise children and then return to work at a lower salary to make up for lost years.

The result is that they often have to continue working longer and need to save more to retire independently. Also, women on average live five years longer than men and should therefore save approximately 15% more than men for their retirement.

American psychologist, Colette Dowling, says many women suffer from a Cinderella complex - the unconscious need to be cared for and the belief that a knight will arrive on a white horse to save them financially.

However, the reality is that between 85-90% of women will at some point be alone and forced to be financially self-sufficient, owing to divorce, never having married, or death of their spouse. Which is why financial planning is all the more important for them.

In general, women should guard against being overly cautious in making investment decisions and must ensure that their returns at least beat inflation and returns sufficient growth. The same discipline they apply to save devotedly can also ensure that they save regularly.

At Ecsponent we want to empower mothers and other women with ongoing stable growth, and more importantly, information and advice to promote their financial independence.