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Invest with the times

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Newsletter | January 2017

You are the architect of your own financial destiny.
Ecsponent is here to help you reach your financial goals and in 2017 we will provide you with step-by-step advice to guide you to financial freedom.
We kick off the year's advice by discussing the importance of setting financial goals. In the following months, you can look forward to reading about topics like the emotion of money, how to be money smart, financial discipline, the pitfalls of debt and much more.

A Money Plan creates peace of mind

Setting financial goals is the key to creating wealth and ensuring your financial independence.

Research has shown that people who create wealth successfully, set strict financial goals for themselves and work conscientiously to achieve them. In other words, they plan ahead and are willing to make sacrifices in the short term in order to reap benefits of prosperity in the long term.

There is sometimes the perception that, so-called "rich" people, are financially successful, but that is not necessarily the case. High earners can squander all their income, maintaining a high lifestyle, without building any assets. It is simply income, but not necessarily wealth. In fact, some people waste at least 10% of their income by not budgeting and not committing to financial planning.

So it does not matter how small your income is or how much debt you have. You can create wealth by setting goals and pursuing them.

Goal setting

Goal setting and dreaming are not the same thing. Dreams are vague and require nothing from you, while goals are concrete and require you to do something.

The big difference is motivation. A dream is something you want, but are not motivated to accomplish yourself. A goal is something you plan and work to achieve. For this you need time and energy – in essence the price of financial success.

For goal-setting to be successful, they must be written down because then you have concrete evidence of what you want to achieve*. It empowers you, because you can control and work towards achieving them or even set higher goals as time goes by.

* Ecsponent's Financial Life file is the perfect place to record your goals and keep track of your progress.

How to set financial goals

Goal-setting involves an introspective planning process. It is easy and possible for anyone to do, yet neglected by so many.

Set yourself up for success by giving your future some thought and try to visualise your ideal life. Once you have a mental picture, you are ready to pin down your goal of financial independence. Be specific and write down a goal such as, "By 2030, I will retire with R20 million." I.e. Write down the date, amount and the commitment to yourself.

Of course the goal should be feasible and based on your true needs. Be careful not to set goals that are unattainably high. It should also not be vague, unsystematic or without a plan.

With this in mind, it is time to create the roadmap of how to reach this long term goal by setting smaller, shorter term goals.

A road map to success

A master investor's first goal is to protect existing capital. You dare not spend more than you earn, because this will deplete your capital. To protect capital and live within one's means is the foundation of wealth creation. To create this foundation:

Start by determining your objectives (e.g. early retirement, paying school fees, buying a new home, etc.) according to your priorities and personal time frame.

Next it will be necessary to decide how to take care of your current financial priorities and for most of us the starting point is to take control of our debt. Eliminate each of your debts as fast as you can while still sticking to your budget.

Once debt is out of the way, you are free to set your savings goals by deciding how much you can afford to save each month and which income sources you will use to do so.

Follow this process to determine how you will reach each of your financial targets within a given timeframe. These plans should be updated regularly and adapted to your changing circumstances.

You can realise every goal you set, even if you just take a series of baby steps to do so. There is no such thing as a failure, because you gain experience to apply with your next attempt and if you persevere, you will achieve success.

Start today and never again allow the lack of money dictate your life.

Bigger is not better

Market volatility and poor investment performance are some of the main concerns currently causing investors to withdraw from the market.

At the same time, many large financial brands are advocating that choosing a bigger company is safer than choosing a smaller, or lesser-known company. They underplay poor performance and to appease investors, they promise that patience and time invested in the markets will eventually ensure long term growth.

They fail to mention that they, the present "giants", all started as small and unknown entities. Nor do they factor in the costs, passed on to investors, associated with maintaining all the regional offices, investment managers and myriad administrative staff.

So, is bigger really better when it comes to choosing an investment partner?

Small companies offer opportunities

Dr Anton Rupert, founder of the Rembrandt Group, warned 35 years ago against the assumption that only big companies could compete in times of uncertainty.

He said companies with a smaller capitalisation create jobs, are flexible, innovative and develop unique product opportunities. He put a value on the initiative, creative thinking, ambition and perseverance of the entrepreneur, which ensured growth and success.

No real win/win situation

Fund managers and financial advisors earn a management fee on the money they have under management.

Furthermore, there are bonuses at stake for fund managers if they outperform the fund's benchmark, which is often very low, even as low as 2% above inflation. So performance bonuses are readily paid - especially during bull markets - directly from the investor's returns.

During bear markets, or periods of under-performance, the pain or loss of a low return is borne only by the investor and the fund manager and advisors are still paid.

The effect of costs

While 1% or 3% per annum seem like small amounts at face value, these costs are important to consider. Especially when, according to Rob Rusconi, an independent actuary, the cost of only 1% over a period of 40 years will decrease the return of a portfolio by 30%.

Returns under scrutiny

The equity fund of one of South Africa's largest unit trust funds only returned 4.2% between October 2015 and October 2016. Subtract the total cost of 2,35% and the investor's return was much lower than inflation.

Now consider that since 2002, the JSE's small and mid-cap index returned 78.6% more than the all share index. Food for thought?

Identifying a small diamond

While there are alternatives to the financial "giants," investors should never throw caution to the wind and invest without weighing risk and reward.

For those who want to benefit from the opportunities that smaller companies offer, the trick is to recognise small, but emerging diamonds. Here are some guidelines to identify your small diamond:

1. Regulation

Companies or institutions that operate within a specific legal and regulatory framework are held accountable for their actions, which offers protection to investors.

For example, only invest if the company is registered with the Financial Services Board. A JSE-listing can provide further peace of mind - knowing the company must disclose regular results and comply with the JSE's strict Listings Requirements.

2. Results

Companies, whether big or small, that have shown a track record of growth over a significant period are worth adding to your list of possible investments.

3. Sustainability

Consider the company's current business and future expansion plans. Which markets are being developed? Is it working in, or developing opportunities in growth sectors like renewable energy and biotechnology where great future opportunities are anticipated? This can mean long term growth and sustainable returns.

4. Leadership

The track record of a company's leadership team is indicative of their abilities. Consider whether the leaders enjoy high standing in the business world and assess the company's formal governance structures.

5. Public perception

In all instances, a balanced public profile is most desirable. Companies that generally have a good reputation and manage inquiries or criticism professionally and transparently, could have diamond qualities.

6. Client satisfaction

This is the most critical test. To find a diamond, look for those companies whose clients are:

- Satisfied with their investment returns
- Delighted with the service levels offered
- Willing to refer their friends and family to do business with the company
- Re-investing their money at the end of their investment terms

Of course, we are confident that Ecsponent not only meets but exceeds these criteria. Contact us to find out more about our exponential growth and how investors can earn stable, predictable investment returns.

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