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Invest with the times

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You can beat inflation

Inflation is an investor's worst enemy and is once again raising its ugly head due to growing uncertainty both locally and internationally.

Locally, this comes after the consumer price index (CPI) increased in December from 6.6% to 6.8% — the highest level in ten months and well above the market's expectation of 6.5%. It is also well above the Reserve Bank's target of between 3 and 6%.

The big concern is food price inflation, which increased by almost 12%, making up about 15% of the CPI inflation basket.

The inflation figure could have been even worse, had the rand not gained 20% against the US dollar in the twelve preceding months.

How does the high inflation rate affect our economy?

- It increases the cost of local production — and hence increases the cost of local products.
- It has a negative effect on exports, which could mean lower profits and job losses.
- The trade balance will suffer.
- People receiving a fixed income will spend less, because their money is worth less.
- It creates economic uncertainty, as it leads to subdued economic growth and rising unemployment.
- It affects low income households and the elderly directly because the prices of consumer items or services — such as food, electricity and water — increase.
- Many households' purchasing power is reduced because struggling companies are compelled to freeze salaries and cannot afford to pay bonuses any longer.

It may be a consolation that the current inflation rate is still lower than the South Africa's average of 9.24% over the past fifty years. The highest inflation rate figure was 20.9%, recorded for January 1986, and the lowest rate was 0.20%, recorded for January 2004.

Inflation, however, continues to affect anyone planning their retirement or those who are already retired. The elderly is left powerless against the corrosive power of inflation, which can ruthlessly reduce the value of retirement funds.

Even in a low inflation scenario of only 3% per year, the impact on money and retirement is frightening. Should you take, for example, R1 000 today and leave it in a safe for twenty years during which the annual inflation rate is 3%, the original R1 000 would finally be worth only R544 – just about half the original value!

The 72-rule

Divide 72 by the expected rate of inflation. This simple calculation is often used to determine approximately how long to halve your money's purchasing power given the expected rate of inflation.

For example, at an inflation rate of 7%, the value of your money is halved every 10 years. At 2016's average inflation rate of 6.4%, your money will be worth half its current value within just over eleven years.

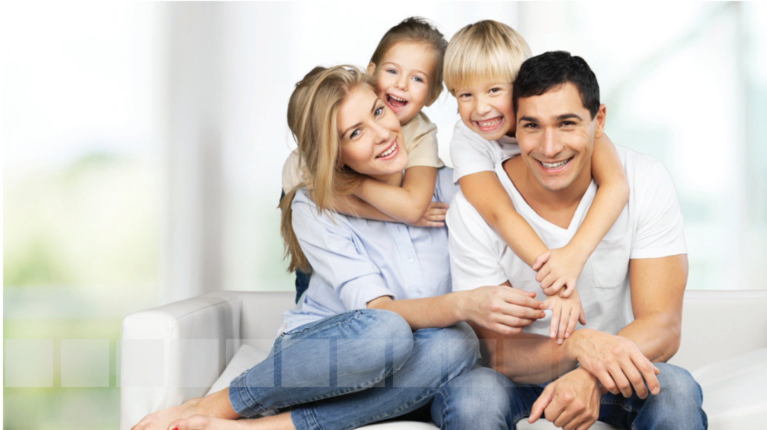
If inflation is our worst enemy, then compounded growth is our greatest friend. This is not only capital growth, but growth on your investment returns. Time is a critical factor when it comes to compounded growth because the longer you invest, the greater your return will be. Hence, the earlier you start, the sooner and greater you will see your wealth grow.

Compounded growth is a powerful wealth creator and a strong bulwark against the onslaught of inflation. It can easily turn a small nest egg into a treasure over time. So much so that experts consider the words "compounded growth" to be the two most important words in the investment industry.

Getting rich overnight is a myth. Creating real wealth requires time, patience and financial discipline to reap the full benefits of compounded growth but will give you the best chance to create long term prosperity.

Ecsponent's Class B capital growth plan is a good example of how compounded growth can work for you. It provides returns of 11.2% per annum, but if the investment is held for five years, it increases to 14% per annum, or 70% growth in total. In other words, R100,000 will grow t0 R170,000 after five years.

These returns clearly beat inflation, ensuring that you will be able to maintain your standard of living now and into retirement.



Power of discipline

Self-discipline is the key to your prosperity.

You will achieve success as wealth creator if you are disciplined, make wise decisions, and recover from any setbacks you face along the way.

Young people's lives are stretched out ahead of them in what seems to be an eternity. Old age feels so inconceivably far away that they often do not realise the value of planning from a young age for the years when they will no longer be able to earn an income.

Then, it is only when retirement is staring them in the face that they discover they have not made enough provision for their autumn years.

Where do you stand with your planning? Even at the age of 65 you might not be facing a crisis. The biggest problem starts when your regular retirement income shrinks, whilst you are unable to create an additional source of income due to old age or illness. Then, like 94% of people who never mastered real financial discipline, you will become dependent on the goodwill of others.

Become money smart today by learning the principles of financial planning and discipline. If you master this, your money will work for you and you will reap the benefits for the rest of your life.

What is financial discipline?

There are four cornerstones to achieving financial success:

1 **Motivation**
There must be a strong desire to become financially independent. Believe in your own potential and constantly affirm to yourself that your dreams will come true.

2 **Self-evaluation**
Be honest and pinpoint your own personal financial shortcomings, such as having too much debt or financial instalments that are not paid in time. Perhaps you have a budget, but you do no follow it. Write down what needs to improve and the steps you need to take. Set goals and determine deadlines so that you can follow your budget and achieve your goals.

3 **Objectives**
You must know what you are aiming at in order to reach your target. Determine your vision or financial blueprint for the next twelve to eighteen months of your financial future and pin down your financial road map so you know where you are going and plan for it. Work to achieve the smaller first and then take on bigger challenges.

4 **Persistence**
Be strict with yourself but realise there will always be setbacks. Do not despair if this inevitably happens. Rather see setbacks as a challenge and bounce back as soon as possible. It requires discipline, but it is also fun to be creative and convert an obstacle into a building block. Keep your enthusiasm alive throughout and believe that you will achieve your goals.

Ecsponent has created a special file where you can document everything about your financial affairs. It also serves as a guide to pen your goals and monitor your progress. **Contact us if you would like to receive one of these files.**

Set aside your first contribution

People err when "trying" to save money from whatever may remains of their monthly income. Unsurprisingly, there is never anything left and hence saving is left by the wayside. Reverse the process. Pay yourself first and spend what is left. Sign a debit order instruction to save each month, even if it is only R100. It is discipline that will increase your savings, not the amount you have to save. In other words, it's not about how much you save, but how soon you start. Planning and discipline go hand in hand in the wealth creation process.

An investment of R100 per month, earning compounded growth of 12% per year, will amount to R1.2 million in 40 years. Now just think if you can start with R500 a month and increase your contribution annually to beat inflation.

If you have debt, it is extremely important to eliminate that burden first. Do not use debt as an excuse not to invest. Work out a plan to repay your debts so you can start investing and pave the way for your future.

Budget for your first investment

Start by opening a separate savings account – this is the first step of your budgeting process. Use your regular bank account for daily expenses and the second for your savings where the funds aren't readily accessible. As soon as you have enough savings, you can make an investment.

At Ecsponent the minimum investment amount is only R10 000 to start a capital growth investment in Class B and will leave you with R17 000 at the end of the five-year term*.

Remember, many small investments make up a large sum of money over time. Continue to pay yourself first and make it a habit. In this way you buy investment time.

Build on these habits and make financial discipline part of your life. These are the building blocks of wealth creation and a carefree financial future.

*Terms and conditions apply.

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