BUILD YOUR WEALTH

FROM THE GROUND UP

BDO WEALTH ADVISERS' GUIDE
TO CREATING WEALTH

FOREWORD

BDO Wealth Advisers has been helping South Africans make good money decisions for the past 60 years. In this time, we have come to appreciate that our clients may not all be rich, but they are wealthy.

There is a difference between being rich and wealthy.

It's easy to lead others to believe that you are rich. But it's an entirely different game to live a meaningful life with the money you have. Having enough money to live the life you want to live is to be wealthy.

Building wealth doesn't happen overnight. It's not just about the money, but more about what you do with the money you have. It takes time, discipline and having a vision for what's important to you. Having a financial planner guide you in developing your financial plan for your life's vision is a sure way to create wealth.

Just like an architect, the financial planner can assess the land and consider what foundations need to be laid down before building the house of your dreams. The financial planner will consider all the elements that go into building your life, just as you would expect the architect to consider plumbing, electrical circuits, waterproofing, the function of each room, interior design and what maintenance needs to be done to keep the home sturdy and to maintain its value.

'Build your wealth from the ground up' is a collection of wisdom and experiences shared by the BDO financial planners from across South Africa. It is a guide to creating wealth and a meaningful life well lived. All it takes is for you to start and get into action with a financial plan.

Ricardo Teixeria, CFP®
Chief Operating Officer, BDO Wealth Advisers

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WHAT IS YOUR FOUNDATION MADE OF?

Building right so that your finances stand strong

Gavin Smith, CFP®, Associate Financial Planner
BDO Wealth Advisers, Cape Town

A lifetime ago I worked in the construction sector, and I was always fascinated with the recruitment process. Whenever new staff were needed, the foreman would get in his bakkie and take a drive and an hour later we would have a new colleague.

I later found out that he would literally pick up these workers from the side of the road and normally the tools they carried would determine the position they would be hired for. If they had a level, they would be hired as a bricklayer, a tile cutter meant they were a tiler. However, very often, within minutes they would be demoted because we would realise from the quality of their work that they had no idea what they were doing.

However, when it came to laying the foundation of a house, the selection process wasn't as arbitrary. A professional company would be hired, and the building inspector and sometimes the architect would oversee this. I even remember a few times when the family who would end up living in the house was present as well. It was a very detailed process because the foundation would determine how sturdy the house would be.

When it comes to us building our financial goals and dreams, we must ask ourselves if our financial foundation is sturdy enough to build on. Actually, we need to ask ourselves: What is my foundation made of?

Is it made up of our dreams? Our fears? Our drive? Inheritance? Because your foundation will determine if your financial house stands the test of time, or if it will all crumble down once the big bad wolf of uncertainty comes huffing and puffing outside your door.

Just like you would use the services of a professional when you lay your foundation for building a house, you should do the same when you build your financial goals. Ask a Certified Financial Planner® professional to come in and help you lay a firm foundation.

02

BREAKING NEW GROUND

Joining the workforce for the first time? When should you engage with a financial planner?

Desiree Raghubir, CFP®,
Associate Director & Financial Planner
BDO Wealth Advisers, Johannesburg

When Nancy started her first job, her parents recommended that she set up an appointment to talk to me about what she should be doing with regards to savings and investing for retirement.

We discussed the following key financial planning factors that she needed to consider as a new employee:

- Understanding the employee benefits that her employer offered, if any. If no group benefits were being offered, we would have had to look at insuring her for loss of income. (When she asked her employer, she discovered that in addition to the compulsory medical aid that she had, she had life cover and income protection for disability with the group scheme, and the premiums were being deducted from her salary).
- The importance of a budget.
- Building up and having an emergency fund.
- Setting up an investment plan/retirement plan.
- Setting financial goals.

From time to time Nancy would email me with questions about money, savings and changes at work. When she was going to buy a new car, we discussed her financing options and how she could access funds to pay for the deposit as well as assessing the different car financing options she was presented with.

We met annually to discuss how the changes in her life would impact her financial situation and when she received a salary increase, we made an adjustment to her investments and reviewed her financial situation.

At every meeting and in every email we worked towards making sound financial decisions. Nancy trusted that I would always provide accurate and unbiased financial advice that was based on her financial situation.

Knowledge to empower

Besides attending to Nancy's queries and concerns during our meeting, I used our time together to empower Nancy with knowledge that helped her make informed decisions and feel more confident about her financial future e.g., compound interest and why it is considered to be the eighth wonder of the world, inflation, taking on debt, interest rates and diversification of assets.

As our relationship grew, we progressed onto other financial planning factors like retirement planning, investment strategies, tax considerations, etc.

Because Nancy had a discussion with a financial planner at the beginning of her working career, she was aware of things like the importance of a budget, an emergency reserve fund and investing for the long term.

She knew she could always reach out to her own financial guide and coach.

Since I'd met Nancy she had bought a new car, changed jobs once, invested in an apartment and gotten engaged. Throughout this time we were in contact and discussed the financial aspect of each of these decisions and changes.

Joe's story

Nancy's fiancé Joe didn't believe that he needed to meet with a financial planner as he made all his own investment decisions. Nancy insisted on a meeting and I was able to point out that he could reduce his income tax payable by making small adjustments to his monthly investments. Joe did not have any life cover as he didn't think he needed it because he had no debt or financial dependents. However, we discussed that he would need it once he and Nancy were married and ran a joint household. Most importantly, he needed to immediately insure himself for disability. I explained what the cover meant, and he was surprised that he hadn't thought of it.

Joe realised the true role of a financial planner, which is not to just give investment advice.

I believe that Nancy has a huge advantage over a person who did not consult with a financial planner when starting their first job.

Nancy built good savings habits, has become accustomed to working off a budget, and has had access to unbiased financial advice during every stage of her adult life.

A financial planner's primary role is to help clients achieve their financial goals and help them get to the right solutions for their financial well-being.

Nancy and I have worked together to define clear and measurable objectives and we have built a relationship on trust and mutual respect. I now look forward to doing the same with Joe.

03

A HOUSE WITHOUT A ROOF HAS NO PROTECTION

Gen Zs, do you have sufficient life insurance?

Nokwanda Msimang, CFP®, Para Planner
BDO Wealth Advisers, Johannesburg

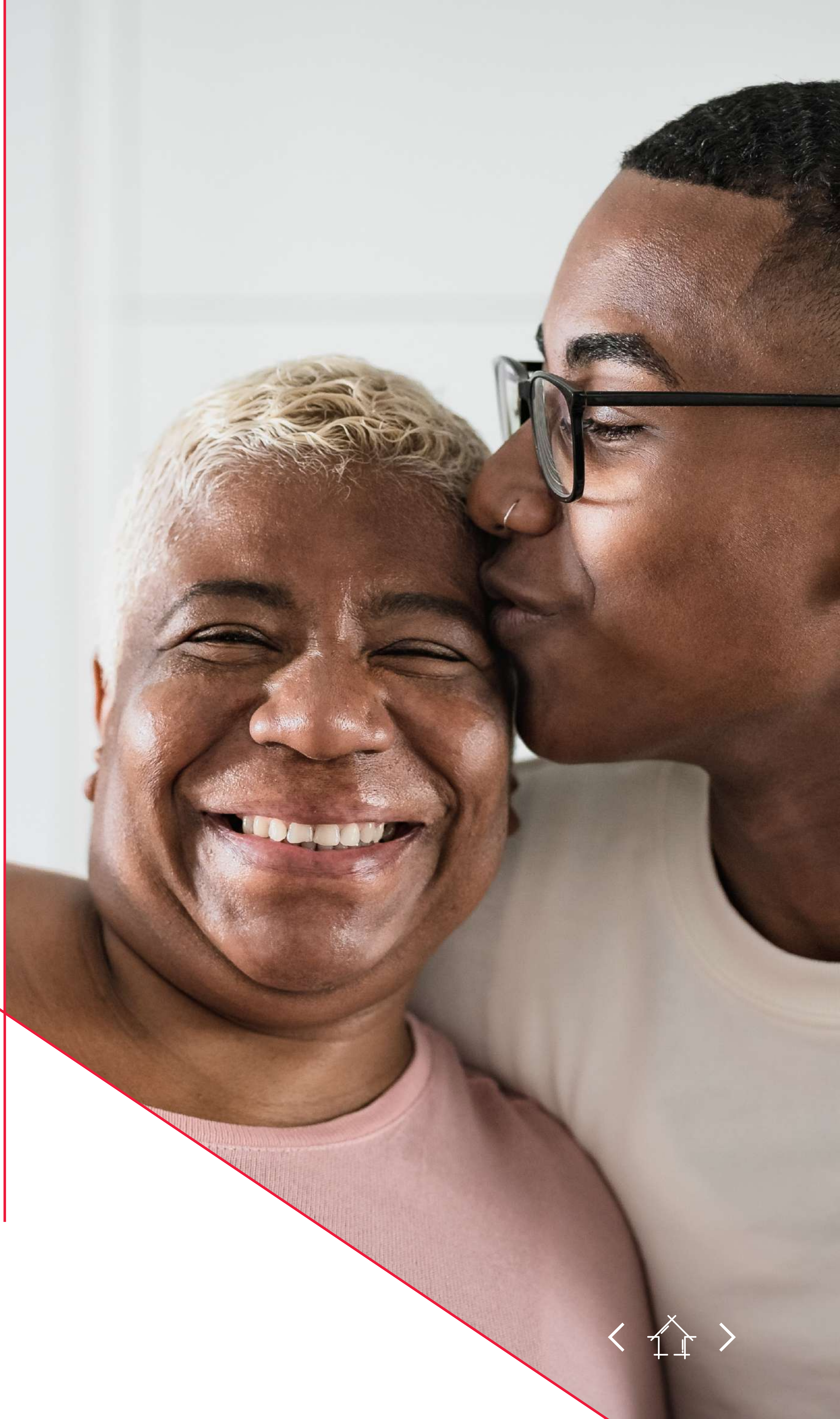
A story recently made its rounds on social media that really changed my perspective about how I view risk, and the importance of having sufficient life cover.

A young man's mother was fatally shot on her way to work during the taxi strike in Cape Town in August this year. There was no apparent reason for the shooting, she just happened to be at the wrong place at the wrong time.

Her son then had to take on the responsibility of organising his mother's funeral. It then came to his attention that his mother had cancelled all her life and funeral policies during the COVID-19 pandemic. To make matters worse, the young man also did not have any form of life cover or funeral policy on his mother's life to assist him with funeral preparations. This meant that all the funeral expenses had to be out of pocket.

This story really drives home the importance of having life cover in place, especially for those of us who are 'Gen Zs'. We need to understand that we are now adults, and the unfortunate reality is that our parents' and grandparents' funerals will be part of our responsibility, and we need to ensure that our loved ones will be well taken care of even when we are not around. Crazy, I know!

Dying without life insurance or funeral cover in place can have significant financial and emotional consequences for your loved ones. Life insurance forms an essential part of your financial plan.



Here is a summary on why everyone should have life cover.

1 Peace of mind

Knowing that you have life insurance can provide peace of mind. It allows you to focus on your life and career without constantly worrying about what might happen to your loved ones if you were to pass away unexpectedly.

2 Financial security for loved ones

Life insurance provides a financial safety net for your loved ones in the event of your death. It ensures that your family members, dependents, or beneficiaries are not left financially burdened when you're no longer there to provide for them. This can help cover immediate expenses, such as funeral costs, as well as ongoing financial needs like mortgage payments, education expenses, and daily living expenses.

3 Debt protection

If you have outstanding debts, such as a mortgage, car loan, or credit card debt, life insurance can help pay off these obligations so that your family isn't saddled with these financial responsibilities if you pass away.

4 Income replacement

Life insurance can replace your income if you're the primary breadwinner in your family and you are unable to earn an income from a disability. It ensures that your family can maintain their standard of living even without your salary. This is particularly crucial if you have dependents who rely on your income.

safeguard your family's financial future

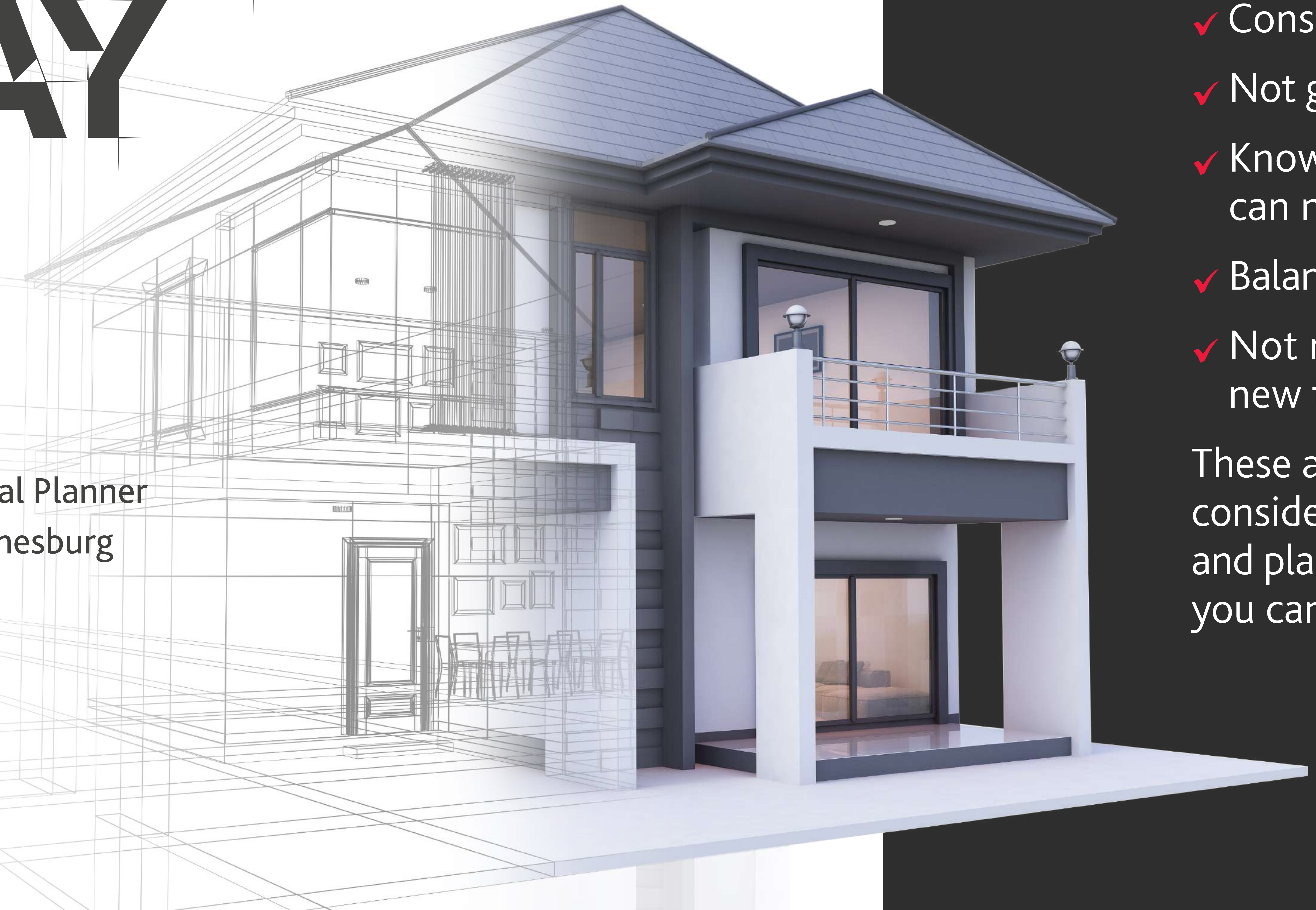
In summary, life insurance is a crucial financial tool that can provide financial protection, security, and peace of mind for you and your loved ones. The specific type and amount of coverage you need may vary depending on your individual circumstances, and your financial adviser can help you decide what's best for you, but having some form of life cover is generally advisable to safeguard your family's financial future.

04

ROME WASN'T BUILT IN A DAY

Financial success takes time

Sue Cogswell, CFP®, Financial Planner
BDO Wealth Advisers, Johannesburg



Financial planning and creating wealth is akin to building a house. It doesn't happen overnight and it takes:

- ✓ Planning
- ✓ The will to succeed
- ✓ Consistency
- ✓ Not giving up when there are hiccups along the way
- ✓ Knowing that if you don't keep going then you can never get that time over again
- ✓ Balancing the project with looking after your health
- ✓ Not running after every weird and wonderful new trend

These are all things we need to take into consideration when looking at wealth creation and planning for retirement, but it doesn't mean you can't have fun along the way.

In my work, I see the consequences of not planning ahead when I speak to people who are nearing retirement (and they aren't necessarily people with a lot of wealth) who say things like:

- How can I possibly live on this amount?
- How will I pay my bills?
- I need X per month, but you are telling me I can only have Y otherwise my capital won't last.
- No-one told me it would be like this.
- I'll have to find a part-time job to supplement my income.

At this stage it is too late to make a difference to your wealth, so you then need to cut your budget, downsize your living space (not always so easy), downgrade your medical aid (not always advisable), or move in with family (not always suitable).

For people who have some years to go until retirement and can still make a difference, my advice would be:

Always save at least 20% of your income for retirement – if you leave it until you are in your 40s then you will need to save at least 40% to catch up. Be consistent as this is what really creates wealth.

Do something for yourself – find a hobby, a sport or a pastime that you can enjoy without spending too much money.

Try re-invest any retirement savings when you change jobs.

Have a budget so you know what your set costs are and then you can plan your shopping and buy what you really need. We tend to over buy and either throw food away or never use what we bought, or we buy and keep clothing that we don't really wear or possessions we don't need.

Reduce your debt as quickly as possible so that you are debt free by retirement.

You need a lot less than you think – we want instant satisfaction and are surrounded by social media pressuring us to buy this, go there, or chase how someone else is living. It can be wonderful to dream about these things, but it doesn't make your life any better and can set you back in your actual goals.

Finding a job in retirement is like finding the pot of gold at the end of the rainbow. Unless you know someone, these types of jobs are few and far between. Keep developing your skills so you have experience and can provide value later in life.

Just like you wouldn't begin building a house on your own without professional help, it's important to get help from someone you can trust for your finances too. A financial planner can guide you and help you stick to your plan.

NEXT ARTICLE

05

STAKING OUT YOUR BOUNDARY LINE

Safeguarding your potential wealth by setting financial boundaries

Tebogo Kereng, Assistant Financial Planner
BDO Wealth Advisers, Johannesburg

Most people, especially those who come from less fortunate backgrounds, frequently lack savings and investments because they use their money to assist others. Speaking from personal experience, I fell into the trap of trying to support everyone close to me. Each month, I would send money to my mother's and father's sides of the family, as well as to some of my unemployed friends because I was aware of their situation.

Every month, I was stressed about how I would manage the financial expectations that I had set for myself. When my mother passed away, even though we had funeral policies in place, I realised that I had no savings or investments, meaning my chances of generating personal wealth were limited. I decided to be realistic about my financial situation; I am in the early stages of my career and my salary is not enough to help everyone around me. I then made a conscious decision to set financial boundaries.

...you decrease your chances of being wealthy by not setting financial boundaries.

Here is the process I followed to achieve that:

1 I prioritised my savings and investments

Previously, I did not make provisions for investments or savings. After realising their importance, I made them my priority. I became more mindful about my spending and accounted for every cent I spent so that I could still save money each month.

2 I re-evaluated the financial expectations that I had set

We work hard for our money, so it is fair that we should have a say in how it is used. Even though it was hard at the time, I explained the financial constraints I was experiencing to my family, reduced the money I sent home, and told my friends I would no longer be able to assist them.

3 I took a gradual approach towards creating wealth

The decision to re-evaluate my financial expectations allowed me to free up some funds which I then used to contribute monthly to a unit trust. I opened an equity account and researched more about the stocks that have the potential to help make me wealthy.

I might not be wealthy... yet, but one thing is for sure, you decrease your chances of being wealthy by not setting financial boundaries.

06

DONT BUILD YOUR HOUSE ON THE SAND

How to avoid wasting your wealth by spending your money on the wrong things

Talya Snowball, CFP®,
Financial Planner,
BDO Wealth Advisers,
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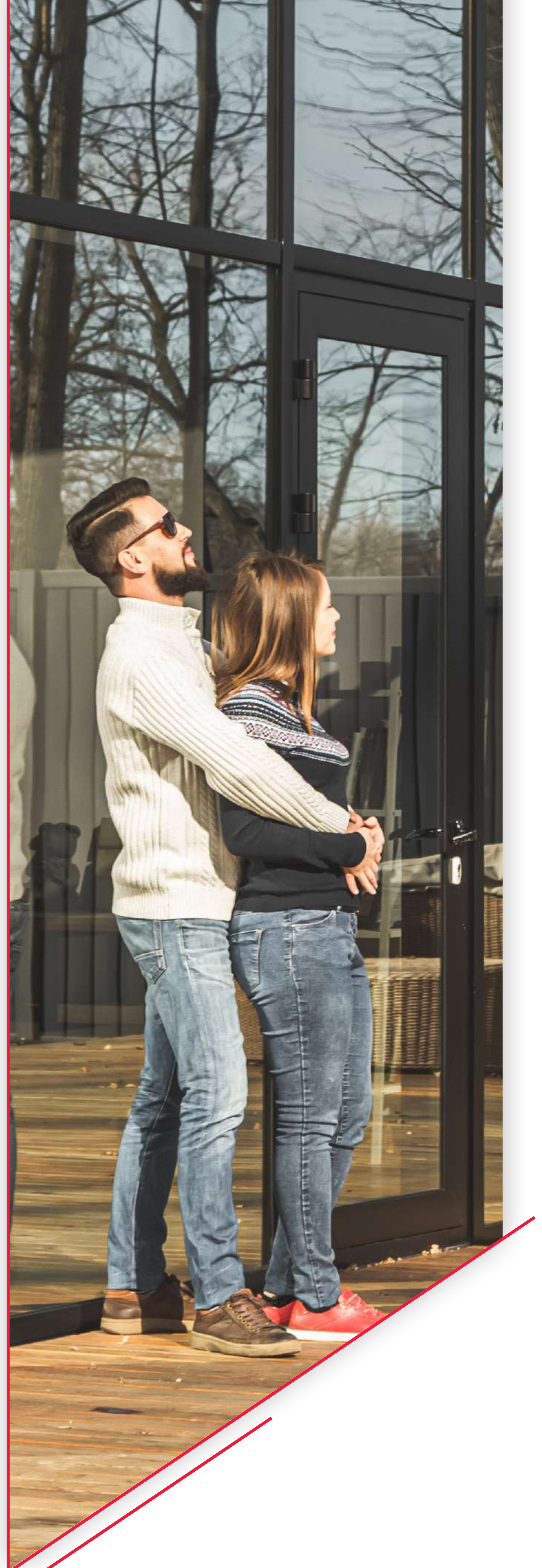
For many, the thought of 'investing' sends a shiver down their spines. 'Investing', feels like a foreign and unrelatable term, reserved for the people in suits in the business world. Why does this term make so many uncomfortable? Why do so many people feel that they don't qualify to 'invest'?

Economists and behavioural finance experts have studied and dissected the reasons for this and often it comes down to 'money memories' or biases people form over their lifetimes from their own observations and experiences. They recall how their parents handled money or what their attitude towards money was while growing up, and they either gravitate towards the same behaviour or deviate from it. The simple truth is, anyone can invest and everyone should invest.



I recently met with a client who had been appointed as an executive in a new company and was earning a very handsome salary, which placed him in the top 5% of South African earners. When we sat down to discuss his holistic financial plan, it became clear that he was rich on paper, but he was asset poor. Despite his high earnings, he was unable to afford to put meaningful savings away due to the high cost of debt he was servicing. When we discussed how the debt came about, he mentioned that he grew up in a poor family and he was the first of his family to go to university and become a professional. Once he had his degree and received his first paycheck, he started to buy the things he'd always wanted but could never afford. He treated his family and friends to delicious meals, took his wife and kids on expensive holidays, and adjusted his cost of living to align with his new title and pay. However, he neglected to build on the basics: savings. He thought he would do it "later in life when he was established".

The problem with delaying your savings until 'later in life' is that it means you have less time to save and build up your wealth. You also acquire an expensive lifestyle or rack up debt to keep up with the lifestyle you have become accustomed to.

Here are a few things I have seen clients do that is detrimental to wealth creation:

- **They keep their money under the mattress**
- **They like to have all their money in cash**
- **They believe that money in the bank is risk-free**
- **They believe they must be rich to start**
- **They strike while the iron is hot**
- **They follow advice from around the braai**

They keep their money under the mattress

For some, the idea of a financial institution was so off-putting, due to their mistrust of the financial system, that they rather kept their money out of it. This behaviour shows a need to control and to avoid any deviation from their expectations.

The problem with this is that you won't earn any interest or growth on your investment, and inflation will erode any future purchasing power.

They like to have all their money in cash

Sometimes too much of something is a bad thing, and that is the case with money in the form of cash. It's very appealing because of the liquid nature of the investment, however, when compared to other asset classes like equities over the long term, the returns are incomparable. Once again, inflation will erode the real value of your savings. As Ronald Regan said: "Inflation is as violent as a mugger, as frightening as an armed robber, and as deadly as a hit man."

"Inflation is as violent as a mugger, as frightening as an armed robber, and as deadly as a hit man"

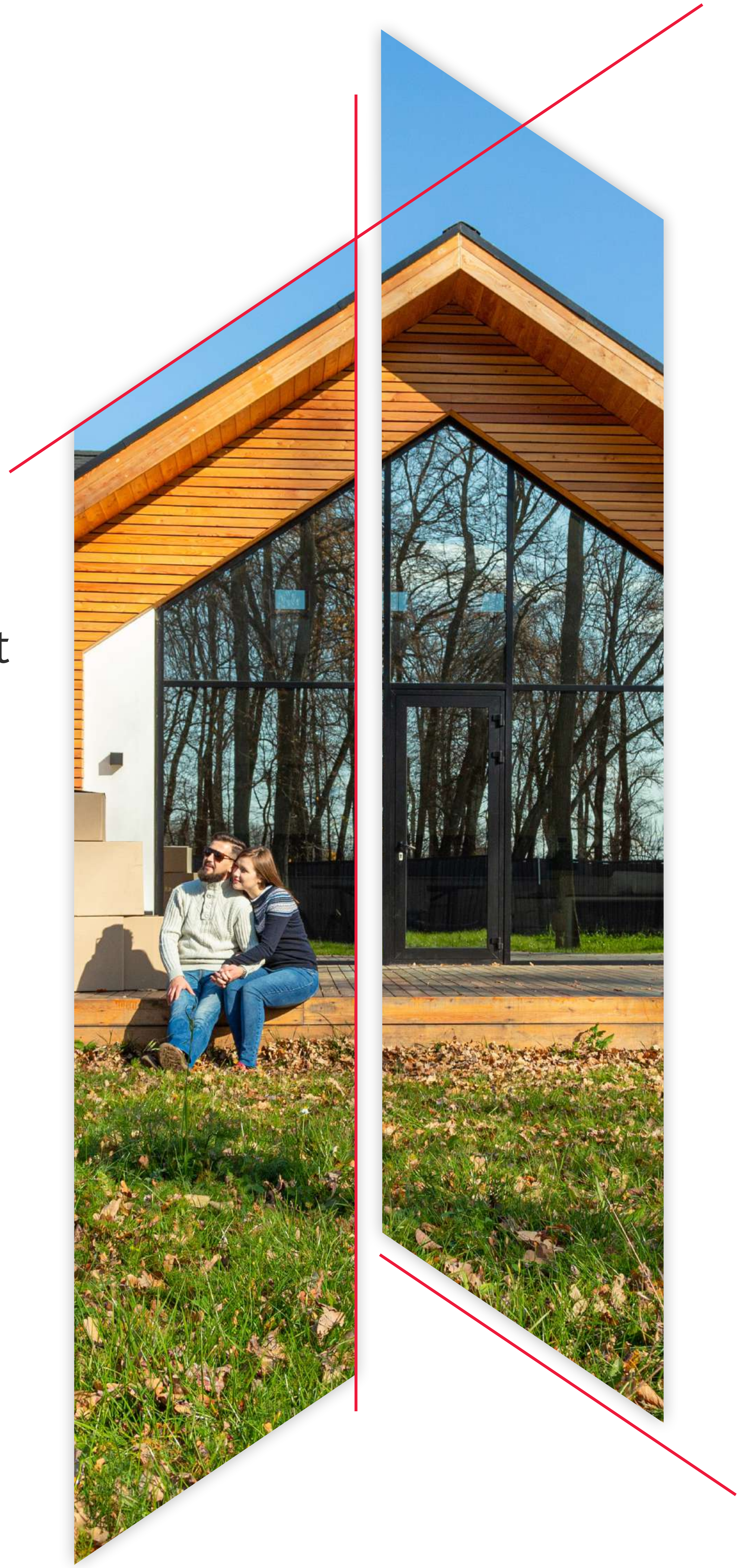
They believe that money in the bank is risk-free

Remember what happened to African Bank in 2014, or Silicone Valley Bank earlier this year? Or what about when the Bank of Athens limited how much money its clients were allowed to withdraw from their accounts? We tend to have a false sense of security when it comes to the financial system, and while there are many reputable banks, it would be incorrect to wager a bet that cash in the bank is risk-free. Now the man who hides his money under his mattress seems to make a bit more sense, doesn't it? But don't forget, inflation is the enemy of cash.

They believe they must be rich to start

This misconception is sadly rather common. For most people, because they cannot make ends meet as it is, never mind saving and investing on top of it all, they don't know where to begin. We live in a world that encourages instant gratification, where nothing is too out of reach. The perpetual cycle of chasing instant gratification purchases leaves a person with 'too much month at the end of their money'.

The problem is, if you don't make a conscious effort to start you may end up putting it off forever, or until it really is too late. Compounding growth is the eighth wonder of the world. But it needs you to start so it has something to build on over time. A much better solution would be to put a budget in place that makes allowance for saving money first, before expenses erode your incoming money. Even if you start small, it's far better than not starting at all.



They strike while the iron is hot

Some people will not take action unless they see a sign written in the stars. They religiously read the papers and watch the news, waiting for 'inside information'. But if it's in the press, it's in the price. The problem with following key trends is that you may buy in while a share is expensive, or you may sell prematurely based on fear-mongering in the media. It's best to have a solid financial plan in place, and to stick to it, rather than listening to the press.

They follow advice from around the braai

Ah, the good old 'braai advice'. You know – while you're crisping your chops, your ears perk up because your good friend starts discussing their investment portfolio's returns and how they bought into a fantastic opportunity that offers high returns and low risks… or your blood runs cold as your uncle retells the news he heard on the radio that a certain share is going to lose value and you need to sell it off before you 'lose everything'. The person may be well-meaning, but more often than not, the advice is out of context and can be very detrimental to you.

The most important thing that you can do, is to start!!

The best thing you can do to secure your financial peace of mind and security is to start. However, don't jump in and hope for the best, rather meet with a Certified Financial Planner® professional who is from a reputable company. Ask as many questions as you need to, and even do some research before meeting with them so you can iron out all your concerns. A good financial planner will consider your holistic situation and will help you construct a step-by-step plan, tackling what is most important first. They will help you stick to your plan when you're afraid or have doubts and they will help you navigate through the market noise. But, the most important thing that you can do, is to start.

07

CLOSE THE DOORS

How to get rich by staying invested

Lisa Griffiths, RFP™
Associate Director and Financial Planner
BDO Wealth Advisers, Cape Town

Warren Buffet of Berkshire Hathaway, popularly known as the world's greatest investor, has some good advice on how to get rich:

"I will tell you how to become rich. Close the doors. Be fearful when others are greedy. Be greedy when others are fearful."

You may recall the global financial crisis of 2008/09.

The world's economy was in tatters as country after country discovered large amounts of unrecoverable debt. There was talk of sovereign default and fear ran in the streets. One oft repeated comment was that "money would not exist in the future".

I had a client retiring from a national company. Let's call him Mr Jacobs. He was due to retire on 28 February 2009, when the financial markets were at the peak of their turmoil.

Many friends and colleagues advised him to withdraw his pension fund, despite the severe tax penalty, and keep the funds in cash.

I managed to persuade him to invest in a living annuity. We opted for a conservative fund, but with decent exposure to South African and overseas equity markets.

Here is what happened:

Date of investment:
23 April 2009

Amount invested:
R 4 497 779

Pension payments made/drawn to date:
R 3 859 664

Current value:
R 8 640 368

Mr Jacobs is a very happy and rich client!

To end with the words of Warren Buffet,
"Market fluctuations are your friend, not enemy."

08

DRAWING UP YOUR HOUSE PLANS

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Why business owners need to think about legacy, retirement and taxes right from the start

If you are working towards your dream of becoming a successful business owner, your focus may be on keeping your business going and getting it to be as profitable as possible. However, this can be a short-sighted strategy if you fail to consider and plan for three key 'bigger picture' considerations as you build your company, namely:

1. business legacy,

2. retirement and

3. taxes.

1 Business legacy

As an entrepreneur, it's likely that one reason you started your own business was for financial independence and creating wealth to leave a legacy. But when you get busy with the day-to-day, short-term goals and start investing all your profits back into your 'baby' (the business) by expanding operations, investing in upgrades and assets, or paying off debt, you might forget that part of the reason for starting your enterprise was for financial independence in your lifetime.

Although your business may be successful and profitable, and a great investment thus far, you may have convinced yourself that as your golden years approach, you'll be able to sell your business for a hefty amount of capital, or your business will be able to look after you and your children.

Experience shows that that this is rarely the case. Most business owners overestimate the value of their business and fail to plan for the actual capital they realise on exit. In addition, the key to wealth creation is a diversified balance sheet of actively managed businesses as well as a passive investment portfolio. You don't want to be stuck with all of your eggs in one basket once it comes to retirement or your succession plan.

Instead of betting all of your hopes and dreams on the sale of your business, you can use the business as a vehicle to help reach your retirement goals. But it must be part of (and not the foundation of) a larger retirement plan.

2 Retirement

Some of the best advice a business owner can get is that when it comes to retirement, see yourself as another employee with no business assets who needs to have a retirement fund in some form. In most cases, you as an employer are obliged to have a retirement fund for employees, and you should do the same for yourself.

By forcing yourself to contribute towards a retirement fund you may lose out on some tax benefits within the business, but you will receive the tax relief in your personal capacity while also planning for your financial independence in retirement.

I'm not saying that you should totally disregard the possibility of selling your business one day, but the profits you might receive from that can be regarded as a benefit on top of your retirement provision.

This also gives you more flexibility for succession planning or legacy as in your retirement you won't be reliant on your business income alone and can downscale your needs.

3 Taxes at retirement and death

A business is seen as an asset in your name, so when you retire, if you hold a business in terms of shares in a company, as a partnership or as a sole proprietor, you will have to pay capital gains tax of up to 36% on the profit made when you sell the business or transfer it to your successors. At death you will also be held liable for estate duty at 20% on the first R30 million and at a rate of 25% on the dutiable value of the estate above R30 million.

This means that if you don't plan ahead, taxes can wipe out a big chunk of your retirement plan or legacy.

Conclusion

It can be difficult to think about these long-term aspects when you are in the nitty gritty of building a business, which is why, just as you'd consult an architect to draw up your plans when building a house, it is important to speak to your financial planner so they can guide you in all the possible pitfalls and help you plan for financial independence in retirement, taking into account your legacy, retirement, and tax considerations.

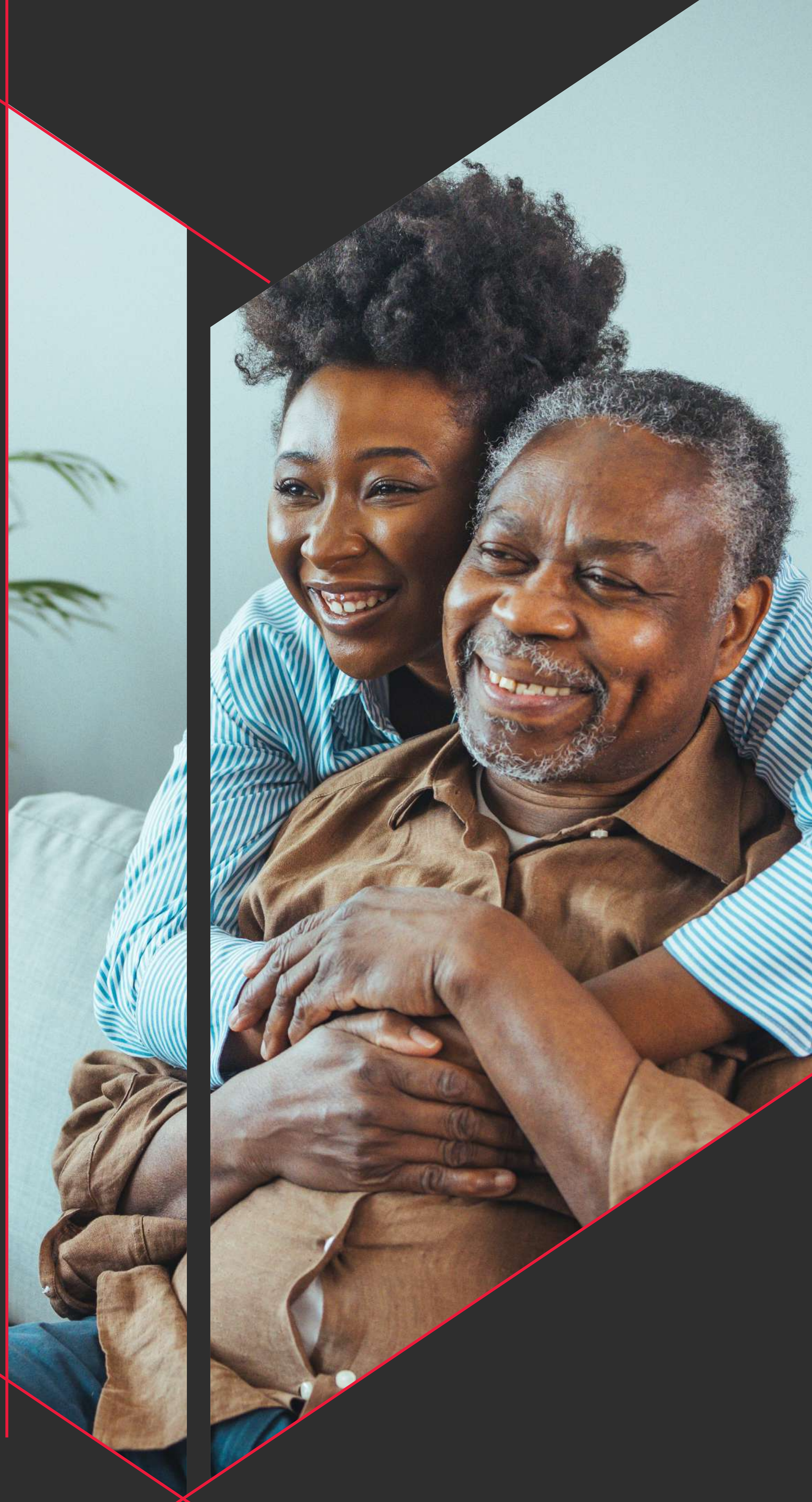
NO-ONE WANTS AN AMATEUR PLUMBER

The role of a financial planner in building generational wealth

Claire Steyn, CFP®, Financial Planner
BDO Wealth Advisers, Pretoria

Generational wealth, a positive financial legacy passed down through generations, is the dream of many. It's not just about personal prosperity, but also ensuring that our descendants enjoy a secure and comfortable life.

However, just as you wouldn't want an amateur plumber fixing a leak in your kitchen, or a hobbyist architect designing your house, to build lasting wealth requires the foresight, strategic planning, and expert guidance of a professional financial planner.



Here's why a financial adviser is indispensable:

1 Comprehensive financial analysis

A financial planner starts with an in-depth analysis of your current financial situation, gauging your assets, liabilities, income streams and expenses. This evaluation forms the basis for all future planning, ensuring strategies align with your goals.

2 Investment strategy development

Diversification is the cornerstone of wealth accumulation. Financial planners:

- Help identify investment opportunities aligned with your risk tolerance.
- Offer insights into emerging markets or assets that may not be on your radar.
- Constantly review and adjust strategies in response to market changes.

3 Tax optimisation

Tax implications can significantly affect wealth accumulation and preservation. Financial planners:

- Advise on tax-efficient investment strategies.
- Ensure compliance, minimising the risk of penalties.
- Highlight potential benefits from tax breaks or incentives.

4 Estate planning

Ensuring your wealth benefits future generations requires meticulous estate planning. To achieve this, a financial planner:

- Helps structure your assets to minimise inheritance tax.
- Assists in creating trusts or other instruments to protect assets.
- Collaborates with legal experts to draft wills that reflect your intentions.

5 Mitigating financial risks

From unforeseen health expenses to market downturns, various risks can erode your wealth. A financial planner:

- Advises on suitable insurance products for protection against personal and property risks.
- Implements strategies to safeguard investments from volatile markets.

Investing in expert financial guidance today can pave the way for a prosperous tomorrow for you and your descendants.

6 Education and financial literacy

Financial planners educate their clients about money management principles, ensuring that they can make informed decisions. By understanding the intricacies of finance, clients can actively participate in discussions, and align strategies with their vision for generational wealth.

7 Continual review and adjustment

Building generational wealth isn't a one-time act; it's a lifelong process. Financial planners offer continuous oversight, adjusting strategies in response to personal life changes, market fluctuations and global economic shifts.

Conclusion

Generational wealth is not just about assets; it's a legacy of financial wisdom and stability. A financial planner serves as a guide, mentor, and strategist in this journey, ensuring that the wealth you build stands the test of time and benefits many generations to come. Investing in expert financial guidance today can pave the way for a prosperous tomorrow for you and your descendants.

10

DON'T CHASE CASTLES IN THE SKY

How to find financial independence

Sue McLennan, Financial Planner
BDO Wealth Advisers, Cape Town

When my daughter was younger, I used to ask her: What will make you happy? The answer was often 'things' like new clothes, a beautiful home, fancy furniture or events like holidays. She's now an adult and in her short working career has started to acquire a lot of 'stuff'. Recently, an unfortunate leak and damp damaged many of her 'things', so I offered to store some of the more precious 'stuff' for her.

After two months, when I asked her when she was coming to fetch her 'stuff' she said that she didn't really miss it or need it.

If I calculated the cost of all this 'stuff' and what would have happened if she had invested it instead, with compounding growth over 30 years, she could probably have retired a year earlier.

Morgan Housel alludes to this in his book The Psychology of Money when he discusses how he and his wife have managed, despite a decade of rising incomes in their respective fields, to maintain the same lifestyle they started off with as young students living together. This means they are saving more into their 'independence fund'. He wisely says: "We managed to get the goalpost of lifestyle desires to stop moving at a young age… It's not that our aspirations are nonexistent – we like nice stuff and live comfortably. We just got the goalpost to stop moving."

"Comfortably living below what you can afford, without much desire for more, removes a tremendous amount of social pressure that many people in the modern first world subject themselves to."

A great example of this is a client of mine who was a young honours student who had just graduated. We worked out a plan for him to insure his income in case he couldn't work and he started to save as much as possible too. After a couple of years he was able to fulfil one of his goals, which was to start his own business. This was tougher than he thought, but the experience was invaluable. While he was able to cover some of his expenses, he had to draw down a lot of his saved capital. We were able to view this as fulfilling one of his dreams and not a waste. After two years of struggling he landed a job with an international company based in the USA as a result of his varied experience.

Clearly the early savings helped him and spurred him on to even greater successes.

How to own your life (and really have wings)

You do not need energy drinks to give your life wings.
Here are some better steps to building a financially independent life:

- ✓ **Count how many salaries** you will still receive before you retire at (say) 60.
- ✓ **Start saving early** and get into the good habit (even a little is good).
- ✓ **Dream big and save** as much as you can – try for at least 20% of your income.
- ✓ **Take advantage of tax rebates** in your planning.
- ✓ **Don't take extreme investment risks,** just try to outperform inflation every year and benefit from compound growth.
- ✓ **Put risk cover** (life/disability/dread disease) in place so that life can't derail your financial plan for you and your family.
- ✓ **Check in with your goals** and your financial plan regularly to see if you are still on track.
- ✓ A good financial adviser can **enhance your portfolio by between 1 and 5% per annum.**
- ✓ **Educate yourself** on the different investments, risks and rewards.
- ✓ **Understand risk** and how you will react to it.
- ✓ **Don't panic** when you hear that markets have crashed – they do regularly over time.
- ✓ **Don't follow the 'herd'** – rather consult someone who is qualified to advise you.
- ✓ If you try to impress your friends you'll never get your lifestyle under control **(avoid watching 'influencers').**
- ✓ **Aim for a moderate lifestyle** and save like crazy, with the aim of independence and control over your time.
- ✓ **Plan for things to go wrong** and completely disrupt your plan – it's called LIFE.

"Comfortably living below what you can afford, without much desire for more, removes a tremendous amount of social pressure that many people in the modern first world subject themselves to."

How to tame the inflation monster

Sue McLennan, Financial Planner, BDO Wealth Advisers, Cape Town

Inflation is like a scary monster lurking in the shadows that causes prices to increase and makes life more expensive as it eats into our budgets, without a corresponding increase in our incomes.

Divide the inflation rate by 72 and see how inflation can halve the value of your money. If inflation in South Africa is 6%, divide 6 into 72, and every 12 years the value of your money halves.

Alternatively, use this 72 factor to calculate how long it will take for the price to double. Every 12 years a new car could cost you double the current price, or possibly even more.

Another measure of inflation could be to calculate today's value of R1 000 in 1960; it would be an astounding R5.68 today. This is a decrease in value of 99% in 63 years or a rise in prices of 10 393%.

The South African Reserve Bank has tried to control the inflation rate by increasing or decreasing interest rates. This has ranged between 3.21% (2020) and 7.04% (2022) over the last 10 years. There was a period from 1974 to 1992 where it soared to double digits and in 1986 where it was 18.65%. Can you imagine paying that rate on your bond?

What options do we have to inflation-proof ourselves?

Saving and investing is our only solution, but we need returns in excess of 'the monster' inflation, otherwise known as 'real returns'.

Let's consider different types of assets you could invest into:

1. Cash in the bank
2. Bonds
3. Property
4. Shares/equities
5. Resources
6. A combination of the above

Let's consider two investors, each with R100 to invest from 1950 to 2021 (71 years).

Abongile invests R100 in cash in the bank and does not draw the capital or interest.

Ziyanda invests R100 into a tracker fund tracking the JSE All Share index and does not draw capital or dividends (this is a combination of the different assets listed above).

The results

Abongile would have earned only R26 640, while Ziyanda would have an astounding R2 356 310 for taking on a little more risk.

Which reward would you prefer? (A silly question, we know).

The massive difference in returns is generated by returns in excess of inflation that include dividends and compound growth on this growth.

Key takeaways:

- Investing is for the long term – invest and leave it there, but review your investments at least annually.
- There is risk, but this diminishes the longer the investment is held.
- Compounding growth is astounding.
- Buy regulated investments and hold them through the ups and downs in the market.

This doesn't mean that you should not have cash in the bank as an emergency fund for those unforeseen disasters life brings, but consider investing into a basket of investments such as a unit trust fund to lower your risk and banish the inflation monster.

12

LOOKING BEYOND THE FACADE

Unmasking common misconceptions about home ownership

Mpumie Makhanya, CFP®, Para Planner
BDO Wealth Advisers, Johannesburg

Home ownership is often considered a symbol of financial stability and success. However, along with this comes a series of misconceptions that can sometimes cloud the reality of owning a home. In this article, we will debunk some of the most common myths surrounding home ownership.

MYTH 1

Renting is throwing money away

One of the most common myths is the notion that renting is equivalent to throwing money away, while owning a home is a sound investment. We can agree that mortgage payments contribute to building equity, but renting offers a degree of flexibility and freedom that home ownership may not. Renting allows for greater mobility, provides the ability to avoid costly maintenance expenses, and eliminates the risk of a market downturn affecting your property's value. The real estate market can be unpredictable. While real estate has historically appreciated in value over time, there are periods of stagnation or decline that can impact the value of your property, as we can see in the current South African housing market due to low demand and rising interest rates.

MYTH 2

Owning a home is always cheaper than renting

The idea that owning a home is always cheaper than renting does not account for various key factors. Costs like rates and taxes and maintenance of the house are material costs that you don't incur as a renter.

In reality, the cost effectiveness of buying versus renting depends on numerous variables, including location, market conditions, interest rates, and the length of time you plan to keep the property. It's important to conduct a thorough financial analysis before making any decisions.

MYTH 3

Your home is your best investment

Residential property can be a solid 'asset', but it's not always the most lucrative or diversified option. Although real estate has appreciated over time – which has the potential to lead to increased property values and the opportunity to profit if you decide to dispose of it – real estate markets can fluctuate, and unexpected expenses such as maintenance, repairs and property taxes can eat into potential gains. Diversifying your investments across different asset classes can often yield higher returns and reduce risks.

It is a common trend for homeowners to want to dispose of their homes when their mortgage payments rise and move to a smaller place or rent a new home. It may seem like a great decision financially at the time, but it actually hurts your pocket. For one, it is likely that you will dispose of your home below market value and incur costs. And secondly, the once off costs involved in registering transfer of ownership of a property (like conveyancing fees and transfer duty) are big numbers.

Before taking the plunge into home ownership, carefully assess your financial readiness

It is better to stick to the plan and pay the additional mortgage for a while. Interest rates will stabilise, eventually. Alternatively, you can discuss with your financial adviser whether tapping into your investments to reduce your debt burden is the right solution.

The bottom line

Before taking the plunge into home ownership, carefully assess your financial readiness, consider the pros and cons and understand your mortgage options, the process of purchasing and the ongoing costs. Involving your financial adviser in the home buying process will help you assess whether it's the right choice for your unique personal/financial circumstances and if it aligns with your long-term goals.

SOUND PROOFING YOUR INVESTMENT

Don’t let your retirement savings go off track because of market noise

Tshego Mathebe, CFP®, Employee Benefits Consultant, BDO Employee Benefits

Have you ever spent months planning and looking forward to a really cool vacation?

Now imagine this. You have planned and saved for a well-deserved rest after a long year and are all set for your holiday ahead of the festive season.

- ✓ Accommodation paid
- ✓ Flights paid
- ✓ OOTD (outfit of the day) sorted

But off you go to your vacation only to find that the accommodation you booked is on a horribly busy and noisy street! As you toss and turn in your hotel room that night, you consider your options.

You can:

1. Cancel your current accommodation and move somewhere else. But there is no a guarantee that another place will be any quieter.
2. Ask to change rooms and try and find a spot where the noise is less intrusive.
3. Ditch the entire trip. Would that be a better solution?
4. Get earmuffs and fight for sleep.

You have sent a text to the travel agency to find out which of these options would save you from losing the most money, but their office is closed and you know they will only get back to you tomorrow.

You then make an emotional decision and decide to book alternative accommodation before waiting for your travel agent to get back to you.

The following day, your travel agent contacts you and advises you to hold on and not change your accommodation as there was a big event happening and the noise was just for one night. You have now lost your deposit. And it turns out that the room you had was actually one of the best rooms in the area and people would pay a premium to get it.

The same thing happens to your investments. In my analogy, the vacation is your retirement savings, the travel agency is your financial planner and the noise is your investments.

You spend years saving up for retirement so you can retire comfortably. Your planner guides you to make good decisions on the journey, but you must trust them. There will be a lot of noise along the way. There will be a lot of market movements and temptations to disinvest because of the noise. By constantly listening to the noise and changing strategies every time there are market movements, you might miss out on the best investment days.

Studies have shown that if you missed the market's 10 best days over the past 30 years, your returns would have been cut in half. And missing the best 30 days would have reduced your returns by 83%!

Remember, retirement is a long-term investment. Block your ears and ignore the noise, you'll sleep better.

THE GRANNY FLAT EFFECT

Marichén Momberg, CFP®,
Associate Financial Planner and
Carol Byaruhanga,
Assistant Financial Planner
BDO Wealth Advisers, Cape Town

How side hustles can get you ahead

Side hustles, also known as secondary gigs or part-time ventures, offer various advantages to individuals looking to enhance their primary income or explore new opportunities to build a strong financial foundation to create long term wealth.

The advantages of a side hustle

Here are some of the key advantages of side hustles.

Additional income

The most obvious advantage is the extra money you can earn from a side hustle. This income can be used to pay off debt, save for goals, invest, or simply have more financial flexibility. Relying solely on a single stream of income can be risky. Having a side hustle will add an additional stream of income, which can act as a safety net during times of economic uncertainty or when you face unexpected expenses or emergencies.

Skills development

Side hustles often involve different skills to your main job. Engaging in a side hustle can help you develop new skills or enhance existing ones, making you more versatile and marketable.

Pursuing your passion

Many people start side hustles based on their passions and interests. This allows them to engage in work they truly enjoy, leading to a greater sense of fulfilment and satisfaction.

Entrepreneurial experience

If your side hustle involves running a small business or freelancing, you'll gain valuable experience in entrepreneurship, including managing finances, marketing, customer relations and time management.

Networking opportunities

Side hustles can introduce you to a new network of people in different industries or fields. This expanded network could lead to new opportunities or collaborations in the future.

Flexibility

Many side hustles can be done on your own schedule. This flexibility allows you to balance your main job, family responsibilities and other commitments more effectively.

Creative outlet

If your primary job isn't particularly creative, a side hustle can serve as a creative outlet, allowing you to express yourself and explore your artistic or inventive side. Taking on a side hustle can push you out of your comfort zone and help you overcome challenges. This personal growth can boost your confidence and resilience.

Testing business ideas

If you're considering starting a 'fully-fledged business', a side hustle can be a low-risk way to test your business concept and gather feedback before fully committing. Depending on the type of business venture, you may be able to deduct certain expenses related to your side hustle, potentially reducing your overall tax liability.

Retirement savings

The extra income from a side hustle can be directed towards retirement savings, allowing you to potentially retire earlier or with more financial security.

The risks of a side hustle

Having a side business and extra stream of income has many positives. However, like any venture, there are a few risks to be aware of.

Inconsistent income

Having a side hustle, especially in the early stages could mean there is not a constant or consistent stream of income yet. This can make it difficult to rely on this income for specific goals or budgeting.

Tax and legal implications

It's important to make yourself aware of the legal side of starting a business or being part of a side hustle. Whether it's the registration of a business or remembering to include these incomes and expenses when doing your taxes, it is best to seek advice from legal and tax experts in this regard.

Balance

The importance of having 'balance' is something we hear so often, and it's no less true when juggling a side hustle. Even though side hustles can offer more flexibility, having balance can be very important. This balance refers to the time you spend on your full-time job, your side job and your personal life. Spending too much time on one of them can have a negative impact on one or all of the others. This could be lower performance at your full-time job, not spending enough time with your family and friends, or not getting any benefit from your side hustle.

The emotional side

Burnout is real. It is a state of physical, emotional and mental exhaustion caused by excessive and prolonged stress, sleep deprivation and neglect of physical and mental health. Taking on a side hustle or business means there's less time for self-care and down time. Be proactive and prioritise your own health. Neglecting your health could also lead to lower productivity and ultimately also affect your performance and income. Being honest with yourself and your employer is important.

While side hustles offer several advantages, it's important to strike a balance between your primary job, side hustle and personal life to avoid burnout.

Have a plan in place

When you're starting to earn income from your side hustle, be sure to have a plan in place of how to make the most of it. Whether it's saving for a short-term goal, using it for specific everyday expenses or investing it for the long term, if you don't have a type of plan in place, there's a risk of not making the most of the income and this could lead to you losing motivation.

Transitioning

If your goal is to ultimately transition into doing your side hustle as your only job, there are a few things to keep in mind. When you're working for yourself and not for a company that offers employee benefits, it's important to make sure you have certain things in place. We like to live in the present and not worry about the future or the 'what ifs'.

But what will happen if you fall ill or become disabled and suddenly can't earn an income anymore?

Do you have a retirement plan in place for that 'one day'?

Do you have finances to cover your debt when you pass away or to look after loved ones who are dependent on you?

You would need to meet with a financial adviser to ensure you have a retirement fund and risk products like life cover, severe illness cover, disability cover and income protection in place to avoid the financial distress of some of these events.

While side hustles offer several advantages, it's important to strike a balance between your primary job, side hustle and personal life to avoid burnout. Always consider your individual circumstances and goals before committing to a side hustle.

WHEN THE WALLS COME CRUMBLING DOWN

How to cope with divorce of an adult child

Sue McLennan, Financial Planner,
BDO Wealth Advisers, Cape Town

Divorce is a highly emotive issue, and when it happens to an adult child with dependents (your precious grandchildren) it can be a recipe for disaster for everyone, including the extended family.

During my 30 years of financial planning, I have experienced this situation with clients a number of times and witnessed the ripple financial effect it can have on the wider family.

For example, one couple who were clients of mine were already enjoying a successful retirement. They had saved, planned and carefully invested for their retirement over their whole working careers. Their daughter told them that she was getting divorced and asked if she and her two young children could temporarily move in with them until they could cope financially.

The daughter was not earning an income at the time and my clients became responsible not only for their own expenses, but also for their daughter's and her two children's.

My clients had planned to remain in the family home for a year or two after retirement and then downscale. However, they had little choice but to remain in the large, expensive home for far longer than anticipated and had to draw down the maximum on their retirement funds to accommodate and help their daughter and grandchildren. The drawdown income from their retirement funds was so high that the investment returns could not maintain the capital and they were soon drawing down capital each year. Eventually their capital was completely drained.

While it is tempting to jump in and solve these issues for our children, it can prejudice a parents' long-term planning to such an extent that they could become dependent on their family later. This in itself can also cause resentment from their other children who have not been helped financially.

Other clients experienced a similar situation with their daughter. In their case, they were both in their 50s and still working and earning an income. They asked to cash in their retirement funds so that they could purchase a property for their daughter and two young grandchildren as she was going through a divorce. This meant that, despite being in their 50s, they would have had to use their retirement funds and apply for another bond.

In the second example, I was able to have a conversation early on with my clients and their family, including their other two financially independent daughters, and discuss the three things under everyone's control:

1. **Reducing expenses:** The daughter who was getting divorced would need to consider each and every expense related to herself and the children, such as whether they needed to change suburbs and schools, etc.

2. **Increasing income:** The daughter would need to generate an income.

3. **Working for longer:** If the parents assisted their daughter, they would have to continue working well into their 70s to cope.

These were the alternative options the family came up with:

- ✓ The daughter going through the divorce could move into a rental property that the whole family would contribute towards.
- ✓ The parents could cash in investments and take out a new bond to cover a property for the daughter and her children as an advance on her inheritance, with the intention that the parents would use the property to generate income for themselves into their retirement.
- ✓ The extended family could offer additional help, such as a sibling letting the daughter and grandchildren live with them instead of their parents.

There is not one solution for everyone. However, it is important to investigate each option with corresponding cashflow projections to indicate how each decision will impact the family in the longer term as taking capital out during, or approaching, retirement can completely derail a life-long financial plan for the whole family.

...the ripple financial effect it can have on the wider family

LEARNING TO LOVE THE HOUSE YOU'RE IN

Emigration and the upsides of life in South Africa

Claire Steyn, CFP®, Financial Planner, BDO Wealth Advisers, Pretoria

Emigration has become a topic of global concern, with millions seeking better opportunities and safer environments in other countries. South Africa, with its complex history and challenges, has seen many consider leaving its borders. But is emigration truly the answer? Before making such a significant decision, it's essential to reflect on the numerous positives of staying in South Africa.

Just like when you've built a house and lived in it for a few years, when some things about the place start to irritate or concern you, you may feel inclined to move, but you need to carefully consider the costs involved. Part of that includes considering the positives about your current home. In South Africa, that can include:

1 A rich cultural tapestry

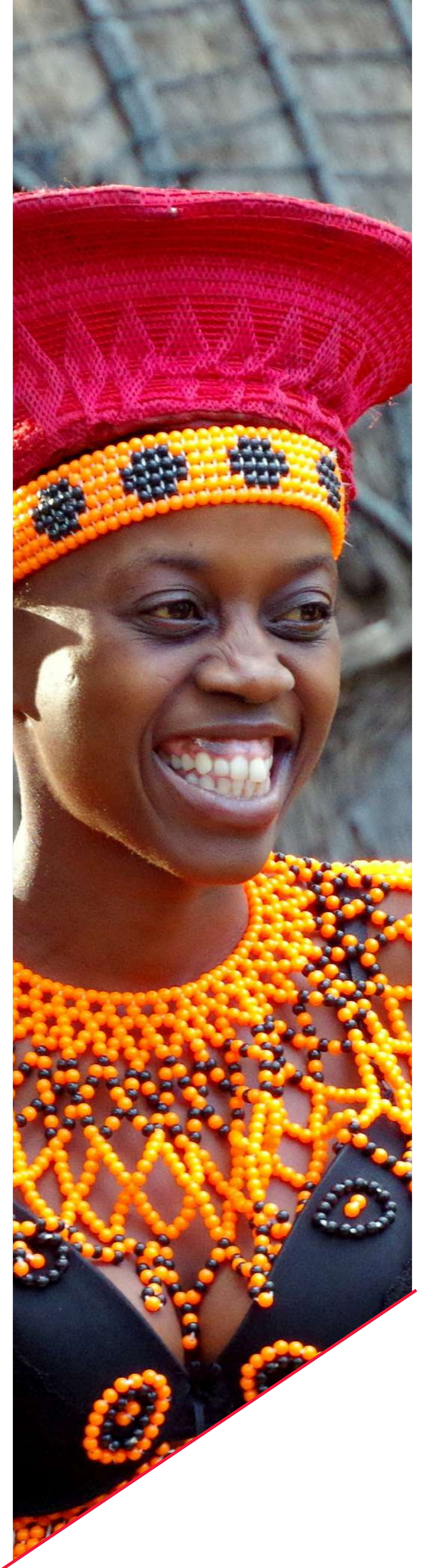
South Africa boasts 12 official languages, each representing a unique way of living in the world. This diversity is a source of strength and resilience. This nation has a long history of overcoming adversity, and its people's ability to unite despite differences is a testament to the nation's spirit.

2 Economic potential

Despite its economic challenges, South Africa remains one of Africa's largest and most developed economies. It's home to several world-class industries, including mining, tourism and manufacturing. With a wealth of resources and a young population eager for innovation, the potential for growth and entrepreneurial success is vast.

3 Natural beauty

South Africa's landscapes are unparalleled. From the majestic Table Mountain to the sprawling Kruger National Park, the country offers a range of natural wonders. The tourism industry remains a significant contributor to the economy, and its potential for growth as a sustainable sector is undeniable.



4 Progressive Constitution

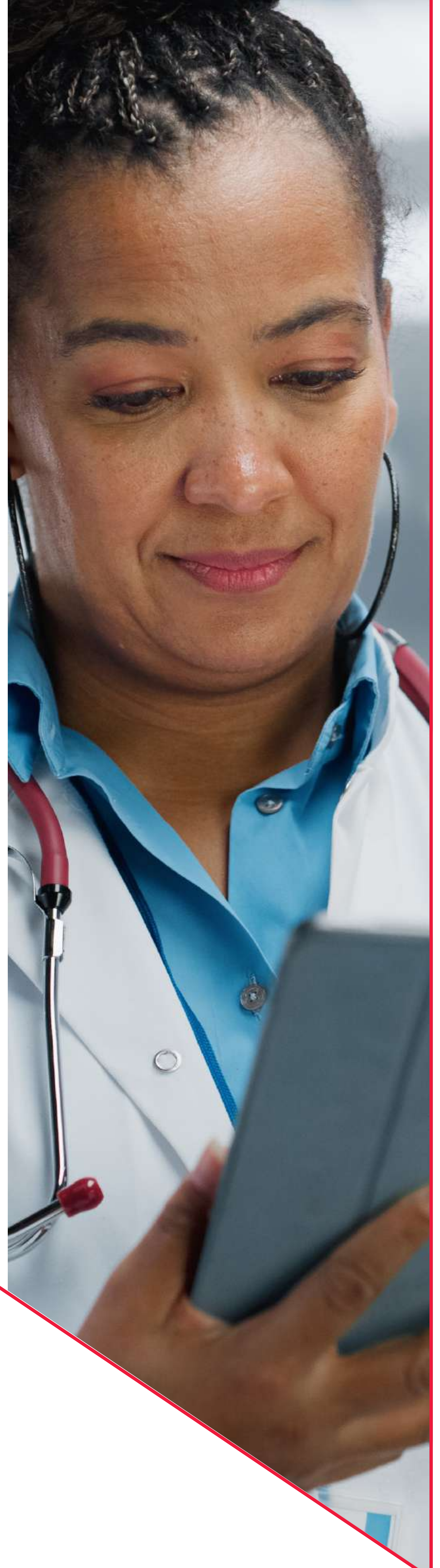
South Africa's post-apartheid Constitution is hailed as one of the most progressive globally, with a strong focus on human rights and equality. The country's institutions, while sometimes facing challenges, are rooted in the principles of democracy and justice.

5 World-class education and healthcare facilities

Several South African universities are ranked among the best in the world. The country has produced numerous globally recognised intellectuals, scientists and innovators. Furthermore, while the public health system has challenges, there are world-class private healthcare facilities offering top-notch services.

6 Warm-hearted people

Many who've travelled the world will attest that South Africans are among the most hospitable and warm-hearted people they've met. This inherent warmth and South Africans' community-oriented spirit can be a source of solace during challenging times.



South Africa, despite its challenges, offers a myriad of opportunities and experiences

Conclusion

While the allure of emigration is strong, especially during trying periods, it's essential to weigh the pros and cons. South Africa, despite its challenges, offers a myriad of opportunities and experiences that are hard to replicate elsewhere. Before considering the grass on the other side, it might be worth tending to the garden at home, because it still holds the promise of many vibrant blooms.

NEXT ARTICLE

BUILDING SOMETHING NEW DOESN'T COME CHEAP

The financial implications of emigrating and the importance of consulting professionals

Claire Steyn, CFP®, Financial Planner
BDO Wealth Advisers, Pretoria

Deciding to emigrate is a significant and often emotional choice. For South Africans considering this step, it's crucial to be well-informed about the potential implications, especially on the financial and tax fronts.

Taking this monumental step without a clear understanding can lead to complications down the line. Here's why consulting a financial adviser and tax consultant should be on your pre-departure checklist.

1 Financial planning and asset management

Emigration can be expensive, not just in the initial phase but in the long run. A financial adviser can:

- Help you assess the cost of living in your chosen destination in relation to your current and projected earnings.
- Advise on the best strategies to manage your assets in South Africa, whether it's real estate, investments or business interests.
- Guide you on currency exchange, considering the fluctuations and potential risks involved in moving large sums across borders.

2 Tax implications

South Africa has a residence-based tax system, which means South African tax residents are taxed on their worldwide income. Some key considerations include:

- Exiting the tax system: Before you leave, it's important to ensure that you're not leaving any tax liabilities behind. This might involve formally emigrating for tax purposes or ensuring that you meet the criteria for non-residency.
- Double taxation agreements: South Africa has double taxation agreements with many countries to ensure that people aren't taxed twice on the same income. Consulting a tax expert can help you navigate these agreements.
- Retirement funds: Before accessing and withdrawing from any South African retirement funds, understanding the tax implications in both South Africa and your new home country is crucial.

3 Estate planning

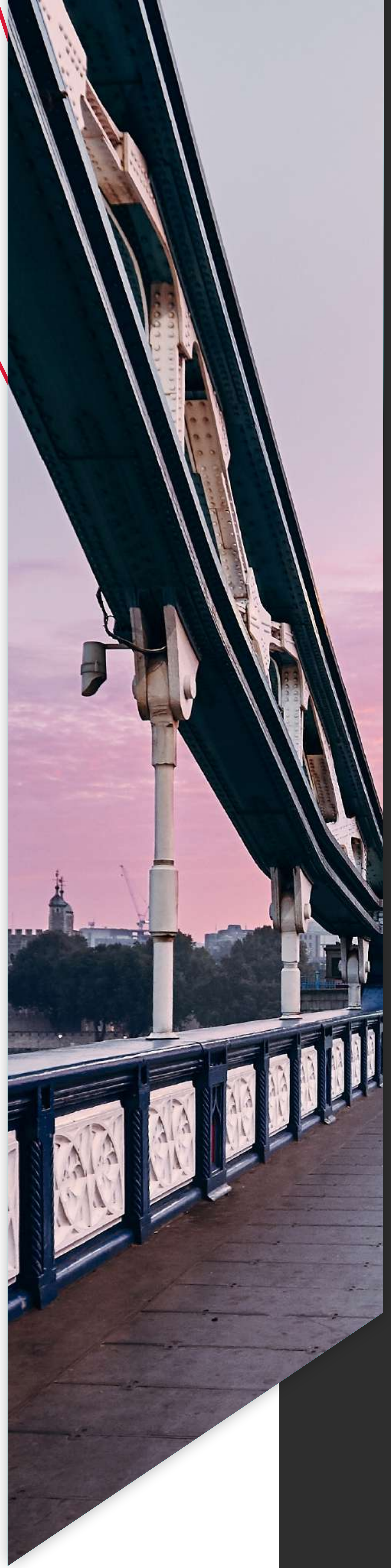
Your move might also impact how your estate is managed when you die. Important considerations that you should discuss with your financial adviser are:

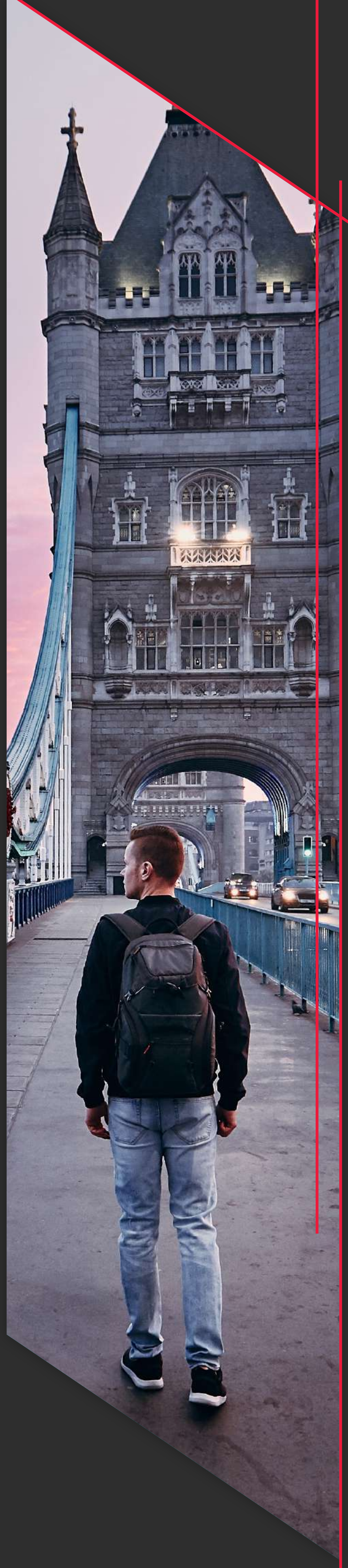
- Will your South African will be valid in your new country?
- How will your SA trust benefits and distributions received while you are in your new home country be taxed?
- What about inheritance tax? Some countries might have a higher rate than South Africa, making estate planning crucial.

4 New financial landscape

Different countries have different financial systems, products and regulations. A financial adviser with international experience can:

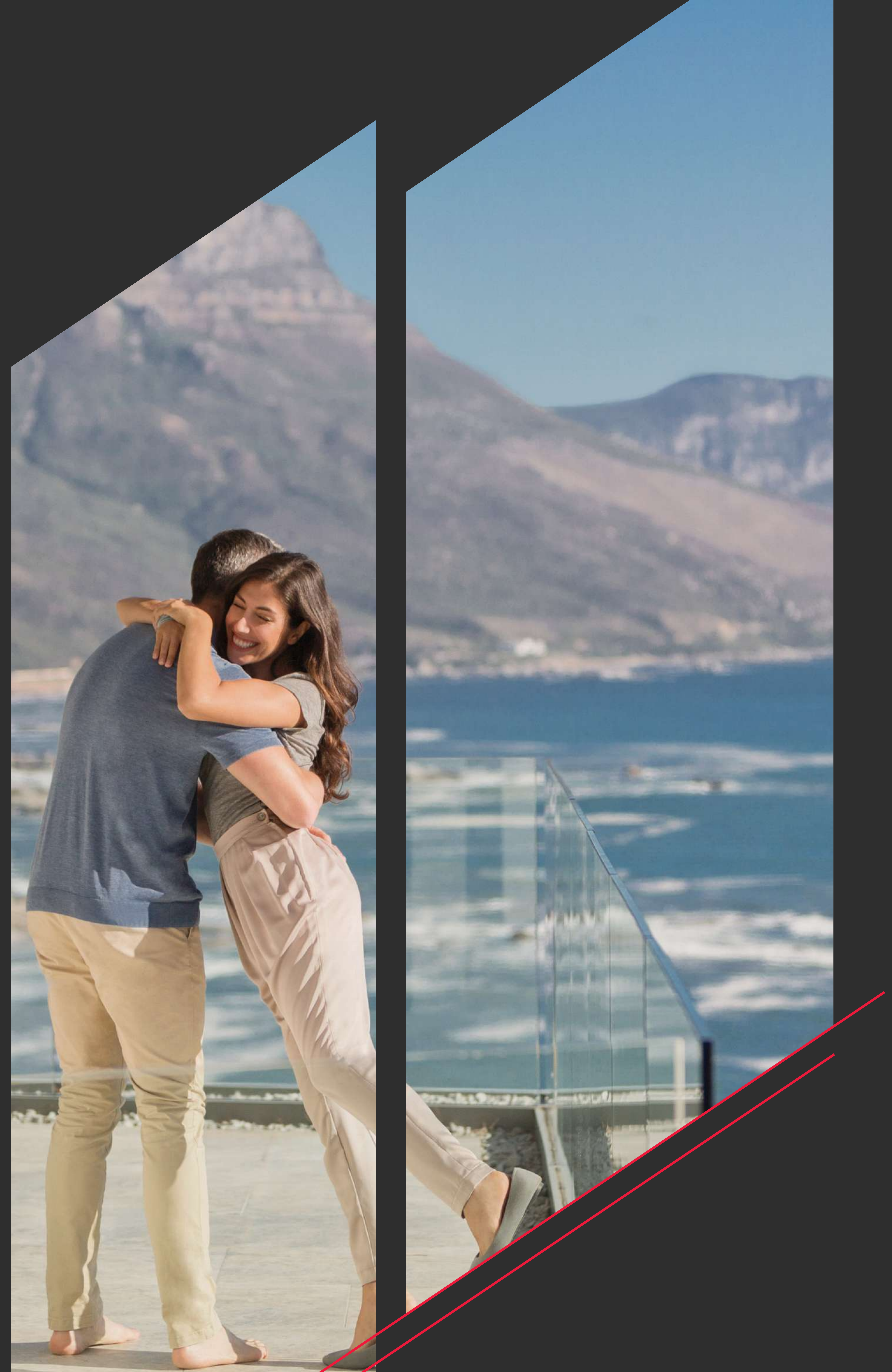
- Guide you on investment opportunities in your new country of residence.
- Offer insights into local financial products and how they compare to what you're familiar with in South Africa.





Conclusion

Immigration is more than just a physical move from one country to another. It involves a complete shift in your financial and tax landscape. Before taking the leap, ensure you're making informed decisions by seeking guidance from professionals. A financial adviser and tax consultant can provide invaluable insights to make your transition smoother and more financially sound.



A HOUSE WITH A VIEW

How to stay positive about your finances even when there is so much bad news around

Dean Merz, CFP®, Financial Planner
BDO Wealth Advisers, Durban

I recently attended an investment conference where one of the speakers asked for two volunteers from the audience. The people who were chosen were asked a simple question: "Please can you tell us two things that you are positive about with regards to South Africa?"

As I internally considered what I would have said when posed with that question, ashamedly, I really battled to think of two positive things right away. But I could think of a bunch of negatives in a heartbeat. Those negatives that we discuss around the braai, at the water cooler and at the squash club – the economy, politics, inflation, taxis, the state of our parastatals, Eskom and the flailing quality of rugby referees in our country.

Frankly, the two people from the audience at the conference battled too. Their answers were meek, unconvincing and forgettable. Something about the weather and something about the potential for change.

This begs the question, why are we so bad at acknowledging and appreciating the positives around us? Why are we obsessed with identifying negatives and then obsessing over them? The answer is most likely about survival and evolution. Hundreds of years ago, if you were running around with an abundance of positivity and blissful happiness all the time, then you'd certainly be eaten by a lion or tiger. So, negativity, or put differently, looking out for risks, is a natural instinct.

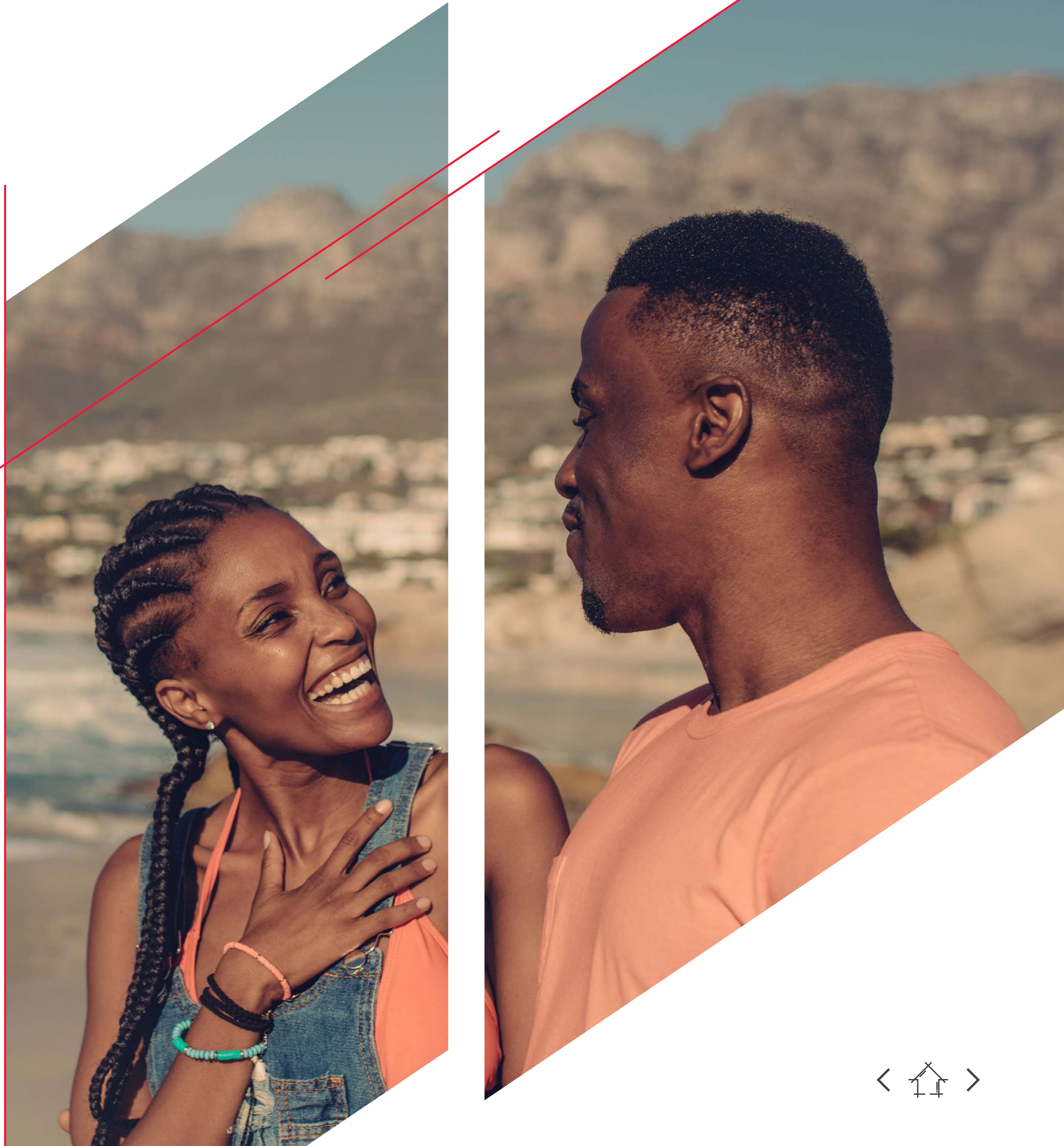
Today we are unlikely to be eaten by a lion, but our natural instincts still abound. We are constantly alert for risks.

So, what is there to be positive about?
Quite a lot, but let's choose three things to focus on:

1.Problems lead to solutions

2.Dividends and investments compounding

3.Spoilt for choice



1 Problems lead to solutions

The phrase “never let a good crisis go to waste” is attributed to Winston Churchill.

We’ve had a few over the last few decades. The 2001 dot-com crisis, the 2008 global financial crisis and the COVID-19 crisis of 2020. Every crisis, every risk, every concern, provides unique opportunities for development, change and growth. In the heat of the crisis, it never feels or looks like an opportunity. However, every business and every individual faces introspection: How do I do something better? How do I reduce risks? How do I improve my future or my current circumstances? These questions lead to innovation, which leads to new products and new services. This in turn translates into economic growth, which leads to enhanced household prosperity (at a macro level). CEOs, directors, and management in all businesses are tasked with finding ways of growing and surviving.

They don’t always get it right straight away, but on average, over time, they have an uncanny knack for delivering growth.

COVID-19, our most recent crisis, has supercharged innovation and development. Some changes which otherwise would have taken years have been brought forward in record time. These changes ultimately reflect in inflation-beating returns from stock markets across the world. The same role-players mentioned above are cognizant of the idiosyncratic risks facing South Africa. They are all working hard to find solutions that will ultimately lead us all to a more prosperous future – albeit not in a straight line.

2

Dividends and investments compounding

At the same investment conference, I was astounded by the fact that there was only one mention of dividends and compounding the entire day. In almost eight hours of presentations, all focused on risks and strategies to avoid or embrace risk, there was only one mention of dividends and compounding.

Albert Einstein referred to compounding as the eighth wonder of the world. That is a bold statement from someone regarded as one of the most intelligent human beings to have graced our planet. The power of compounding is, simply put, extraordinary. Investment returns are supercharged when dividends, and growing dividends, are re-invested. The re-invested dividends themselves pay dividends in time, and those dividends will begin to pay dividends as well. When stock markets are down, dividends that are paid can be re-invested at lower prices. Re-investing at lower prices buys more shares than if the price were higher. When the price recovers, investment returns are supercharged even further.

I have always loved using the following example of compounding. It's a touch outdated now, but still demonstrates the power of compounding. An investment of R1 million in Hyprop, a listed property company, back in December 1999 would have generated R3.8 million in dividends by September 2012. The share price increased nine times during that period, so the capital would also have been worth R9.1 million by 30 September 2012. Adding the dividends received and the capital, the investment would have been worth almost R13 million.

However, if you had re-invested the dividends received, and bought more Hyprop shares with those dividends, the new Hyprop shares bought would have begun to pay dividends themselves. The compound effect of having re-invested the dividends from Hyprop means that the investment from December 1999 to September 2012, instead of being worth R13 million at the end of that period, would have been worth R28.3 million!

An additional R15.2 million was created through compounding. The compound effect generated more return than the sum of the original dividends received and the capital growth.

This example ignores the effect of costs and taxes on the dividends. However, it provides a powerful lesson on the power of compounding.

While the stock market is ebbing and flowing in its usual way, and while you may be feeling negative, stressed and anxious about your investment, it may be worthwhile checking in with your financial planner to ensure that dividends and compounding are working in your favour.

3 Spoilt for choice

The final positive I have chosen is choice. There are over 1 500 unit trusts to choose from in South Africa alone.

That is considerably more than the number of shares listed on our stock exchange, with the top 40 shares being the primary focus of most South African retail investors. These unit trusts offer exposure to a range of different investment themes and ideas both locally and globally. Due to our accommodating exchange control regulations, South Africans can send R1 million per year offshore without requiring permission from the South African Reserve Bank or the South African Revenue Service. As such, South Africans are spoilt for choice and can invest their savings in any number of shares, ETFs or unit trusts, across tens of thousands of different investment themes, geographies and currencies.

If at the next braai, or around the water cooler at work, the chit chat gets negative, rest assured that someone, somewhere is working on a solution to the problems being discussed. While the world is and always has been an uncertain place, dividends and compounding are still strong and fundamental sources of return that can work in your favour.

If it's still all too much, there is a world of investment choice out there for you to choose from. You may just need a Certified Financial Planner® professional to assist you with building a positive portfolio, so that you can have peace of mind for the future. And while they are at it, they may even save you on taxes, can assist you with your forex trades and help you forge a robust estate plan.

YOU CAN'T BUILD A HOUSE WITHOUT AN ARCHITECT

Why you need a financial adviser

Claire Steyn, CFP®, Financial Planner
BDO Wealth Advisers, Pretoria

Life has a way of throwing us curveballs in the form of challenges or opportunities. Whether you feel like the walls of your life are crumbling or you're finally living in the 'house' of your dreams, in today's complex financial landscape, in times of difficulty and times of abundance, it's important to speak to your financial adviser.

Why do we need financial advice? Here are just some of the reasons:

Unexpected life events

Life's lemons can come in the form of a sudden job loss, medical emergencies or unexpected expenses. Without proper guidance, these situations can lead to hasty financial decisions, jeopardising your long-term financial health. If you unexpectedly end up getting divorced, for example, untangling you and your former spouse's finances can be messy, so having the impartial advice of a financial adviser is key.

Golden opportunities

Moments of opportunity can appear as sudden windfalls, inheritances or business propositions. While these events seem positive, mismanaging such influxes can lead to missed opportunities or potential pitfalls.

Building generational wealth

If you want to build something that benefits future generations in your family, a financial adviser can guide you on the best way to do this.

Key moments to consult a financial adviser

Some of the most important times to consult an adviser are when it comes to:

1. **Major life changes:** Whether you're getting married, expecting a child, buying a home, changing jobs, buying or selling a business, or transitioning to retirement, these life milestones come with significant financial implications.

2. **Investment decisions:** The stock market is volatile and can be difficult to navigate. A financial adviser can provide insights tailored to your risk tolerance and investment goals.

3. **Estate planning:** Ensuring that your assets are distributed according to your wishes requires meticulous planning. Financial advisers can guide you in establishing a robust estate plan.

4. **Starting a business:** If you're venturing into entrepreneurship, understanding the financial landscape is critical. Advisers can provide insights into business loans, tax implications, and effective money management.

Finding the right adviser

It's essential to find an adviser that understands your financial goals and can align strategies accordingly. Research, ask for referrals, and hold consultations to find someone who resonates with your needs.

Conclusion

Life's unpredictability means financial ups and downs are inevitable. While the spirit of 'making lemonade' from adversities is commendable, navigating the financial realm often requires expert advice. So, no matter what you're facing, whether it's positive or negative, it might be time to pick up the phone and call your trusted financial adviser.

It's essential to find an adviser that understands your financial goals and can align strategies accordingly

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