**WHY SHOULD I INVEST?**

Keeping your life savings in your back pocket or under a mattress isn’t going to bring you the wealth you desire. “There are only two ways to make money in our modern world: By working, for yourself or someone else, and/or by having your assets work for you,” says trader, advisor, and author Alan Farley.

Investing means your money is working for you and gives you the opportunity to grow what you save or receive through inheritance. As an investor, you’ll generate money through interest on what you set aside or by purchasing assets that compound in value.

**WHEN IS THE BEST TIME TO INVEST?**

**Start today.** When it comes to investing, the magic of compounding is best achieved when you realise that time is of the essence. “Compounding makes your money work for you by earning returns today on the returns you earned yesterday,” explains Thandi Ngwane, Head of Strategic Markets at [**Allan Gray.**](https://www.allangray.co.za/)

“If you start early and save consistently over long periods, less of your total amount saved will be from your contributions and more from growth.”

The earlier you begin contributing to your wealth, the more significant these deposits will be later, as your money has much longer to grow. You’ll also be able to contribute less as retirement age approaches.

But what happens if you didn’t save and invest right from when you received your first salary in your teens or twenties?

**What can I do if I am only starting to invest in my 30s?**

More than half of us only start saving at age 28, instead of when we start working, according to [**Discovery Inves**t](https://www.discovery.co.za/portal/individual/investment-news-aug15-saving-for-retirement). And many more adults only consider investing in their 30s, with a large number starting only when they hit 40.

Catching up on the compounded returns you could’ve accrued over the last five, 10 or 15 years becomes much more difficult with the added expenses of a typical 30-something-year-old. Major life events such as buying a home, getting married, having children and starting to save for their education can be expensive when you’re also investing in your future.

So, how do you overcome these major life events while still investing for the future? According America’s Millennial Money Expert, Robert Farrington: “The goal is financial balance. You can do both – save for the present and save for the future. But it requires a little more thought and effort.”

* Determine your investment choices based on your personal goals and risk tolerance
* The best way to build wealth in your thirties is still through saving, so select a portfolio allocation that matches your risk appetite
* Maintain a diversified portfolio of low cost ETFs.

**What can I do if I am only starting to invest in my 40s?**

If you’re 40 and over, your main financial focus should get out of any debt you may still have. “Becoming debt-free and then you should focus on taking your savings to the next level,” says Schalk Louw, portfolio manager at [**PSG Wealth**](https://www.psg.co.za/).

He advises you to put any additional income – salary increases and bonuses – towards higher pension fund contributions, savings or paying off your debt. “While my preference for long-term savings will always be a share portfolio, those who find its risks too high, can always consider a savings account,” says Louw.

**WHAT SHOULD YOU START INVESTING IN?**

So, now that you’ve established that you’re ready to invest, you should be considering your options. First, let’s look at the basic investments to start with:

**1. Investment accounts**

If you’re looking to save towards long-term financial goals, this is the type of account you should consider opening.

This investment can be used, for example, to supplement your pension or other income upon retirement, an investment account is an ideal way to maintain a good standard of living. An investment account is designed to set aside assets like stocks and bonds as income during retirement, to save money for your child’s education, or to put down a deposit for your first home.

**2. Equities**

Buying shares or equities gives you ownership of a certain percentage of a company. As a shareholder, you’re paid dividends – a portion of the companies’ profits. Shares are a risky, but beneficial form of investment. On the one hand, a decline in share price reduces the value of your investment, while the benefit of dividends is that they attract less tax compared to the other sources of investment returns.

Shares may take a significant amount of time before yielding dividends, but for long-term success, when your dividends pay out, they can be used either as income or as a reinvestment into your share portfolio.

“The combination of dividends and the growth in capital market value of your shares over time is the total return for your investment,” according to Discovery Invest. “It therefore gives you the best chance of beating inflation.”

Some of the pitfalls of equity investment, says Craig Hutchison, CEO [**Engel & Völkers Southern Africa**](https://www.engelvoelkers.com/en-za/south-africa/), include:

* Share prices for a company can fall dramatically
* If the company goes broke, you are the last in line to be paid, so you may not get your money back
* The value of your shares will go up and down from month-to-month and the dividend may vary.

Reduce your risk by investing in various sectors and shares.

**3. Unit trusts**

If you’re seeking an investment that provides you with easy and affordable access to financial markets, unit trusts are an option. Not only is this a smart way to save, while beating inflation, but a unit trust offers you exposure to a range of assets, explains Hutchison.

“Your money is combined with the money of other investors who have similar investment goals,” explains Ngwane. “Our investment managers use the pool of money to buy underlying investments to build a portfolio that is then split into equal portions called ‘units’. Units are allocated to you according to the amount of money you invest and the price of the units on the day you buy them.”

Hutchison notes the following disadvantages you should be aware of before investing in unit trusts:

* There are costs over and above those you’d pay if you were investing directly
* Unit trusts may not be as liquid as some other investments
* Reliance on managers to select the best appropriate funds.

**HOW CAN YOU CONTINUE TO GROW YOUR PORTFOLIO?**

**More complicated investment options**

**Investing in the JSE**

When buying shares, there are three crucial considerations to be made: Which company’s shares  to buy, the number of shares you want and how much you’re willing to pay for them.

The next step is an online, in-person, or telephonic discussion with your broker who’ll then forward your request to the JSE. Thereafter, your bid joins other requests to buy or sell shares on a central order book.

Finally, should the price you’re offering match with a seller at the same price, [**the JSE will ensure**](https://www.jse.co.za/grow-my-wealth/buying-shares) the transaction takes place, making you the new owner of the shares you requested.

**Be aware of the risks**

You could [**lose everything**](https://www.jse.co.za/grow-my-wealth/what-are-the-risks-involved-in-investing) if you invest in one share and that company goes bankrupt. “You can diversify by buying into many different shares. An easy way to do this is to invest in something like an exchange-traded fund (ETF),” suggest experts from the JSE. “An ETF is essentially a basket of shares. You buy the basket and get anywhere from 10 to 600 different shares in that basket, reducing the amount you would lose if one company were to go bankrupt.”

**Online share trading**

As a potential first-time online investor, you may begin your journey by surfing a number of online share trading websites either those offered by all the major banks, or other providers.

“The biggest investment you make at this stage is in time,” says Brett Duncan, head of [**Standard Bank Online Share Trading**](https://securities.standardbank.co.za/ost/). “You need to spend at least seven hours a week educating yourself – either studying newspapers or financial magazines or tracking your portfolio.”

**Be aware of the risks**

According to PSG Online, no one should trade shares unless they have instituted risk control measures such as putting ‘stop loss’ controls in place. Share trading requires a high appetite for risk, time to watch the markets and an expert knowledge of the markets and trading process.

Darren Cohen, head of marketing at PSG Wealth, explains: “Making an informed financial decision is key to mitigating risk where one has considered the options that would best suit their personal needs. It is for this reason that client education is imperative to PSG Online’s mission of creating wealth for our clients.”

**Offshore investing**

This type of investment affords you two options, says Maarten Ackerman, chief economist and advisory partner at [**Citadel**](https://www.citadel.co.za/): You can either take money out of the country by converting it into hard currency and investing it overseas, or you can choose a rand-denominated investment via a South African unit trust.

Should you select the second option, your money is consigned in a rand-denominated asset-swap fund, and the unit trust uses that money to invest offshore. When the money is eventually repatriated, it will be paid out in Rands.

“Politically risk-averse investors will prefer to make use of direct offshore investing, as with this option the investor never has to repatriate or convert their investment back to rands,” says Magnus de Wet, director of [**Vista Wealth Management**](https://vistawealth.co.za/). “With a weakening rand, direct offshore investing would be the preferred investment approach.”

**Be aware of the risks**

Investing in any type of commodity involves potential loss. Two of the measures you can take to reduce risk are:

* Investing in low risk commodities, for example, a fixed deposit with an offshore bank
* Diversifying your offshore investment portfolio adequately to balance out high risk offshore investments with more conservative, secure investments?

As a newbie to investing you be risk averse, so high-performance offshore investments, although brimming with the promise of very high returns, are not recommended until you know your way around turnovers and returns.

**HOW TO MAKE MONEY INVESTING**

Contrary to popular belief, you don’t need (a lot of) money to make money. Wealth isn’t a prerequisite for investing. You can take advantage of investing over time, if you start sooner rather than later. While this means you’ll have to wait a little longer before quitting your job in favour of early retirement and living off your dividends, the long-term rewards are lucrative.

Remember these crucial pieces of advice before making your investment decisions:

* Diversify your portfolio, so you never have all your money invested in one account, venture or business. The best way you can manage risk is by not putting all your eggs in one basket
* “Be careful who you trust with your money, make sure you invest your money with a reliable and established company with a solid history and reputation, do your research and do not be afraid to ask questions,” advises Craig Hutchison, CEO Engel & Völkers Southern Africa
* You can achieve a great deal by simply investing or saving portion of your salary every month
* Know the difference between investing and saving. “Saving is storing your money, while investing is growing your money,” he says. “One of the significant differences between the wealthy and not-so-wealthy is that wealthy individuals earn interest while everyone else pays interest.”
* “The way that the prosperous continue to build their wealth isn’t really a secret – they spend less than they earn, save the difference, and let the potential of compound interest make their riches grow,” says Hutchison.

“Financial wellbeing is a long-term commitment, but with the right guidance, discipline and savvy decision-making, you may achieve your goal sooner than you think. It is never too late to start investing in your financial well-being,” he concludes.