Invest like an All black

Have you ever woken up in the middle of the night in a cold sweat, thinking "How the hell did I end up here?" Faithful Springbok supporters probably had the same feeling the day after the humiliating defeat against the All Blacks a few weeks ago. When you are looking for someone to blame, you often conclude that the problem lies with the coaching staff or the players. I want to argue that in rugby, as in life, **you often end way off course due to small constant deviations from your initial plan over long periods of time.** The Boks problems probably started 10 or 20 years ago and what we are experiencing now is just the result of a gradual and systematic decline. We have now reached a point where a quick turnaround is simply inconceivable.

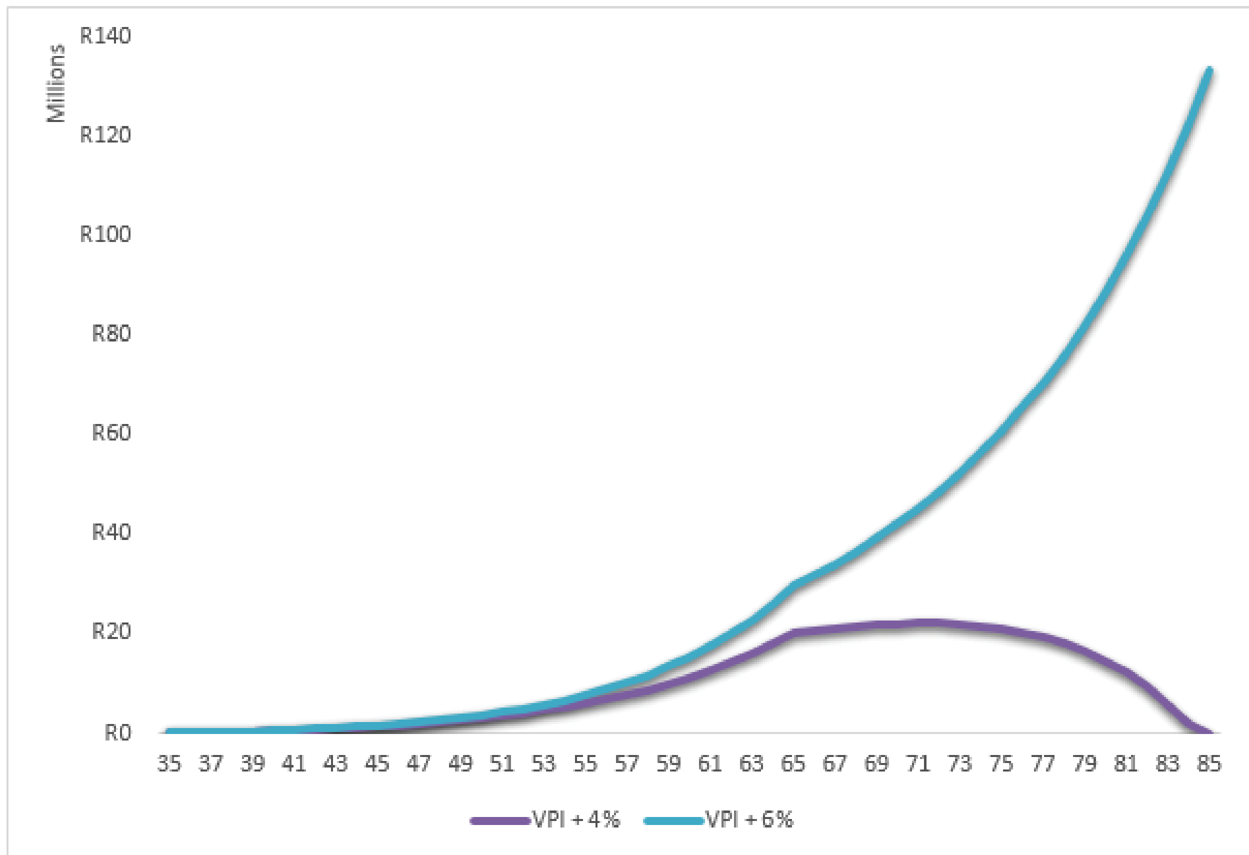
Planning and investing for your retirement is unfortunately (or fortunately) the same. I frequently encounter people that arrive at retirement as prepared as the All Blacks seem to be for any matchup. These people are properly prepared and can enter their golden years with so much confidence that they can be on the attack, rather than defending all the time. However, I also come across people whose situation is so dire that, out of desperation, they attempt to score a try from their own goal line and end up conceding even more ground. The sad part is that if you turn back the clock 20 years, you'll often find that both camps (the prepared and unprepared) were on level playing fields. Let me illustrate how an apparent insignificant difference in strategy can lead to two vast, different outcomes.

Two neighbours, Alistair and Steve, both 35 years of age, earn exactly the same income and also save equivalent amounts per month (15% of their GROSS income). Both aim to have enough funds available at retirement to generate a pension of 75% of their current income. Allister is less aggressive than Steve and chooses an investment portfolio which aims to generate a return of 4% above inflation. Steve selects a portfolio only slighter more aggressive, i.e. with a return objective of 6% above inflation.

A 2% difference in return doesn't seem like a lot and after 10 years the difference isn't notable, Steve is only about 13% ahead of Allister. Turn the clock another ten years and the gap begins to widen, Steven is now 28% better off than Allister. At age 65, 20 years later, Steve has 47% more funds available. Even at this point it is very clear that these two ended up on two different continents, even though it seemed that they were destined for more or less the same path. But the plot thickens... It is only after retirement that it becomes clear that Allister and Steve are universes apart. Refer to the graph below.

Feel free to contact the Author, should you have any questions or comments on this month's article in the TwoCents.
☎ +27 (0) 21 850 0471 info@proverte.co.za

Disclaimer: Although all possible care was taken in the drafting of this document, the factual correctness of the information contained herein cannot be guaranteed. This document does not constitute advice and anyone planning on taking any financial action based on this document, is strongly advised to first consult with their personal financial advisor. ProVérte Wealth & Risk Management is an authorised financial service provider with FSP no. 5966.



* For illustration purposes, an initial salary of R 30 000 pm was used with annual increase of 6% and a 15% contribution towards retirement. On age 65 both Steve and Allister starts withdrawing an amount equal to 75% of their final salaries, increasing this annually by 6%.

At age 75, Steve (with a return of inflation + 6%) has 187% more funds available than Allister (Inflation + 4%) and in fact, Allister has already started eating into his capital. Steve is travelling the world, visiting his grandchildren in Canada and Australia and enjoys three rounds of golf per week, whilst Allister had to sell his house and move into a state funded old age home, just to make ends meet. At the age of 85, Allister's funds are totally depleted whilst Steve is becoming wealthier every day.

Is it possible that only a 2% difference in return can have such a huge impact on two people's fortunes, people that for all practical reasons, followed more or less a similar path and strategy? The answer to this question is unfortunately YES and the difference is in most instances even bigger.

Disclaimer: Although all possible care was taken in the drafting of this document, the factual correctness of the information contained herein cannot be guaranteed. This document does not constitute advice and anyone planning on taking any financial action based on this document, is strongly advised to first consult with their personal financial advisor. ProVérte Wealth & Risk Management is an authorised financial service provider with FSP no. 5966.

What should you learn out the above example?

· I still encounter too many people who don't have an clue about what the average return on their investments were the past 5 or 10 years and how it compares to inflation. Knowledge is power. It is absolutely crucial that you can evaluate your investment's performance against your personal and retirement goals. If you are wandering down Allister's path, but shouldn't be, a U-turn needs to be made, rather sooner than later.

· Make an effort to determine what a **suitable risk profile** is for your investments. Client's aversion for volatility often leads to portfolios that are simply too conservative, given their investment goals and time frame. The implications of a too conservative approach should now be quite apparent from the above example.

· By reducing the cost of your investment vehicles, you can achieve better returns, without taking on more risk. Without having to sacrifice on quality and essential advice or value adding services, make sure you are operating in a cost friendly environment. Evaluate your fund-, administration- and adviser fees.

· The irony of rugby and investments is that you can only attack if you are in a position of strength. The moment you are on the back foot in injury time and try to fix the problem by attacking, there is a good chance that you'll end up with more points against you. You should under no circumstances take on more risk in an attempt to wipe out shortages at retirement.

Although all possible care was taken in the drafting of this document, the factual correctness of the information contained herein cannot be guaranteed. This document does not constitute advice and anyone planning on taking any financial action based on this document, is strongly advised to first consult with their personal financial advisor. ProVérte Wealth & Risk Management is an authorised financial service provider with FSP no. 5966.

Feel free to contact the Author, should you have any questions or comments on this month's article in the TwoCents.
☎ +27 (0) 21 850 0471 info@proverte.co.za

Disclaimer: Although all possible care was taken in the drafting of this document, the factual correctness of the information contained herein cannot be guaranteed. This document does not constitute advice and anyone planning on taking any financial action based on this document, is strongly advised to first consult with their personal financial advisor. ProVérte Wealth & Risk Management is an authorised financial service provider with FSP no. 5966.