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OFF-THE-SHELF OR OUT-THE-BOX: WHICH IS RIGHT FOR YOU?

BY CHARIZE BEUKES, CERTIFIED FINANCIAL PLANNER®, BRENTHURST PRETORIA

It's easy to feel lost or confused about your retirement investing, especially whether your investments will deliver the returns you need. I've found that clients worry less about this once they have a better appreciation for what investments are available, and especially which are most appropriate for them.

One way to simplify your understanding is to think of the options as 'off-the-shelf' or 'out-the-box'. Something like choosing between a ready-made meal and a gourmet dinner, if you like.

The ready-made meal option offers you investment staples such as funds invested in stocks and bonds, as well as savings accounts. The beauty of these dishes is that they're familiar, reliable, easy to get, and they get the job done without much fuss. This convenience, however, does mean you sacrifice some of the flavour that a gourmet meal offers.

Stepping into a fine establishment to enjoy this gourmet dish is a completely different experience: your investment taste buds are treated to a variety of different flavours and sensations, designed to delight you. So-called 'out-the-box', or alternative, investments include instruments such as hedge funds, personal share portfolios (PSPs) and endowments.

Because these are not readymade meal-type investments, they are typically used by more experienced investors. Or by ordinary investors being advised by a qualified financial advisor who can help to structure a balanced portfolio of traditional as well as alternative investments. So, let's have a look at what the 'off-the-shelf' and 'out-the-box' options are.

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UNDERSTANDING TRADITIONAL INVESTMENTS

THE BEDROCK OF YOUR INVESTMENT PORTFOLIO STARTS WITH THE BASICS : STOCKS, BONDS AND SAVINGS ACCOUNTS.

1. LISTED EQUITIES

These are shares listed on a stock exchange, whether that's in Johannesburg, Cape Town, New York or London. Most South African investors own shares through their retirement plans which tend to invest in funds that own a share in listed companies. So, while you benefit from the growth in Apple shares, you don't directly own shares in Apple.

2. BONDS

Bonds are like loans by a government or company, with your money being used to fund development and growth. In return for 'loaning' the money for a fixed period, you receive regular interest payments and then get your initial investment back at the end of the investment term. Bonds are a good way to diversify your portfolio, while earning regular income and having lower volatility exposure.

3. SAVINGS ACCOUNTS

This is the pie and gravy staple of your off-the-shelf options. They're safe and reliable, paying some interest with minimal risk. They're an essential component of any financial plan, especially as a safeguard against unexpected expenses or emergencies.

FEASTING ON ALTERNATIVE INVESTMENTS

In the same way that your taste buds evolve over time, so will your investment preferences. Out-the-box investments are definitely an acquired taste that you develop as you become a more experienced investor.

Each of these options have their pros and cons, but they're definitely worth exploring when you feel that your appetite for greater variety has grown.

1. PERSONAL SHARE PORTFOLIOS

This will probably be your first step into the world of gourmet meals and is not unlike customising your meal from scratch by selecting each ingredient to suit your taste perfectly.

A **SHARE PORTFOLIO** is one you build up outside of your regular retirement contributions, which are often invested in funds consisting of multiple stocks. This diversifies your risk, which over the long term should produce positive returns.

A **PERSONAL SHARE PORTFOLIO,** on the other hand, is made up of direct holdings in listed equities, whether locally or abroad. This option is best if you like to be closely involved in your investments, tailoring the portfolio to align more closely with your goals and ambitions.

2. HEDGE FUNDS

THINK OF HEDGE FUNDS AS THE CHEF'S SPECIAL: crafted with a mix of ingredients and cooking techniques aimed at delivering a standout dish.

These funds use different strategies, like leveraging to amplify the size of your investments, or short selling to profit when stocks fall, to produce high returns in bull and bear markets. These investments aren't to everyone's taste because of the risks involved, as well as the higher price tag in terms of fees and minimum investments.

3. ENDOWMENTS

Endowments are the slow-cooked, hearty stews of the investment world, blending the comforting aspects of savings with the protective layer of life insurance. They're simmered over a set period to deepen the flavours, offering tax efficiencies especially for those in higher tax brackets.

Here are some key benefits of endowments:

- **Tax efficiency and offshore investment:** Endowments are great for saving on taxes, and they don't limit how much you can invest overseas. This is perfect for those looking to invest in international markets.
- **Easy tax management:** The endowment handles tax payments for you using a method called the 'five funds' approach, so you don't need to worry about reporting it on your tax return.
- **Protection from creditors:** If you've had your policy for more than three years, creditors can't touch it if the policyholder or their spouse is the one insured. This protection lasts for five years from when you start receiving policy benefits, making it a solid choice for business owners.
- **Access to your money:** Once the first five years are up, you can start withdrawing money from your investment without any limits on how much or how often. All the other benefits of the endowment remain the same.
- **Estate planning perks:** Using an endowment can reduce executor's fees (which can be up to 4.025%) if the policy pays out to a beneficiary when the policyholder dies.
- **Quick payout to beneficiaries:** Your beneficiaries can get their payout quickly because it's not tied up in the estate settlement process.

I'm sure you'll agree that adding these alternative investment options offer you greater flexibility as well as diversification of your risk. How many of your meals should be gourmet vs readymade is something you need to discuss with your financial advisor. The weighting of traditional vs alternative investments is directly correlated to your current status, your goals and your risk profile.

I would, however, encourage you to start broadening your tastes when the time is right. There are definite long-term benefits to your portfolio's performance.

CHARIZE BEUKES | CERTIFIED FINANCIAL PLANNER®

Charize joined the Brenthurst Wealth team in April 2021 as a Financial Advisor under the direct supervision of Maria Smit CERTIFIED FINANCIAL PLANNER®. She obtained her BCom (Hons) in Management Accounting from the University of South Africa (UNISA) and has been working in the finance industry for over 10 years.

Charize is registered with SAIPA as a Professional Accountant and Tax Practitioner. She recently completed her Class of Business and Postgraduate Diploma in Financial Planning through the University of the Free State and is currently enrolled to write the CFP board examination. Charize is fully qualified to provide advice on all financial matters.

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This year **our company celebrates its 20th anniversary,** a feat in itself, but beyond that we are proud to share that **Brenthurst Wealth is considered the leading boutique wealth manager**, as reflected by a recent survey run by the respected business and financial news website, **Daily Investor.**

Brenthurst was also crowned as the Top Boutique Wealth Manager in SA in 2017 & 2020 in the highly regarded Krutham (previously Intellidex) Private Banks and Wealth Manager Awards. **>> Read More**

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