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IN THIS ISSUE

Retirement planning demands constant adaptation, especially with fluctuating interest rates.

Falling rates can reduce returns on bonds and cash, so diversifying with equities, real estate and alternative investments is essential to mitigate these risks.

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WILL FALLING INTEREST RATES DERAIL YOUR RETIREMENT PLANS?

JOHAN BURGER, CERTIFIED FINANCIAL PLANNER® | HEAD OF BRENTHURST GEORGE

When planning for retirement, interest rate changes can have a big impact on the performance of your investments and your long-term financial security. The tricky part is that this impact will be felt when interest rates rise, and when they fall. So, even though we're expecting central banks to start lowering rates in the coming months, this can have a negative effect on your portfolio performance if it isn't correctly balanced.

As you plan for the future, it's important to consider how your portfolio might react and what adjustments can be made to align with your retirement goals. What follows is a summary of how different asset classes are affected by changes in interest rates.

We always recommend that your portfolio should have a mix of different asset classes that let you ride out these swings in interest rates and market cycles.

Let's have a look how you can use these different investment options to make the most of interest rate changes.

1. FIXED-INCOME INVESTMENTS

DURING RETIREMENT, FIXED-INCOME INVESTMENTS OFTEN SERVE AS A CORNERSTONE OF A STABLE FINANCIAL PLAN. What you need to know is that the value of existing bonds tends to increase when interest rates fall because their fixed payments would be higher than newer bonds with lower yields.

If you currently hold bonds, this can give a temporary boost to your portfolio's value. However, buying new bonds in this environment may offer lower returns.

OPTION TO CONSIDER: Extending the duration of your bond holdings can help lock in higher rates for a longer period, giving you more stability as you navigate your retirement years. Longer-duration bonds tend to benefit more from falling interest rates because they lock in higher interest rates for a longer period.

If you're drawing income from discretionary investments or living annuities, consider allocating roughly three years' worth of income into bonds or similar fixed-income investments. Bonds are generally less volatile than equities, which can help you weather short-term market fluctuations while still receiving a steady stream of income.

2. LISTED EQUITIES

EQUITIES PLAY A CRUCIAL ROLE IN MOST RETIREMENT PORTFOLIOS, ESPECIALLY AS A PROVEN SOLUTION TO COMBATING INFLATION, THAT WILL GROW YOUR CAPITAL OVER THE LONG TERM. In a low-interest-rate environment, dividend-paying stocks can become more attractive because they can offer higher returns than bonds or savings accounts.

OPTION TO CONSIDER: Focus on high-quality dividend stocks that make stable and consistent payouts. These can help supplement your income during retirement, particularly when traditional fixed-income vehicles underperform. One of the benefits is that some growth stocks can be an appealing option when interest rates are low. With cheaper borrowing costs, companies can expand more easily, potentially leading to better returns.

If you're looking for growth in your portfolio during retirement, growth stocks could help to give you above-inflation returns over the long term. However, it's important to maintain a balanced approach, especially since equity markets can be very volatile.

3. REAL ESTATE

INVESTMENT PROPERTY CAN BE AN IMPORTANT ASSET CLASS FOR RETIREES WHEN INTEREST RATES DROP. Lower rates can make property investments more affordable, reducing your monthly mortgage costs and increasing property values. And, given the right circumstances, this could lead to higher rental income that pays a steady stream of passive income.

OPTION TO CONSIDER: If you have existing rental properties, falling interest rates may boost the value of your properties, allowing you to benefit from a higher valuation and rental income. This extra income can offer more flexibility during retirement, letting you diversify your portfolio further or reinvest in other areas for growth.

4. ALTERNATIVE INVESTMENTS

IF YOU'RE CONCERNED ABOUT MARKET FLUCTUATIONS, ALTERNATIVE INVESTMENTS LIKE COMMODITIES CAN OFFER A HEDGE AGAINST UNCERTAINTY. Gold, in particular, performs well when interest rates fall because lower rates can weaken currencies and raise inflation expectations.

OPTION TO CONSIDER: Adding physical gold to your portfolio through exchange-traded funds (ETFs) could help lower the risks when interest rates and inflation fall. Gold is a stable store of value, which can be very useful to maintain buying power through your retirement.

5. CASH AND CASH EQUIVALENTS

WHILE CASH AND CASH EQUIVALENTS MIGHT OFFER A SENSE OF SECURITY, THEY OFTEN LOSE VALUE IN A LOW-INTEREST-RATE ENVIRONMENT. The returns you're offered on savings accounts and money market investments will be lower, making it harder to generate above-inflation income from these sources.

OPTION TO CONSIDER: Instead of holding large amounts of cash in low-yielding accounts, consider reallocating excess cash to higher-yielding investments. Even small adjustments can give you a better return while still offering liquidity and safety in your retirement portfolio.

6. CURRENCY AND INTERNATIONAL INVESTMENTS

CHANGES IN INTEREST RATES CAN ALSO IMPACT INTERNATIONAL INVESTMENTS, ESPECIALLY WHEN IT COMES TO CURRENCY FLUCTUATIONS. As South African investors are aware, a weaker currency can quickly erode the value of your assets if not managed properly.

OPTION TO CONSIDER: Consider diversifying your investments into international assets that may benefit from these currency shifts. Partnering with a fund manager who can adapt to these shifts can help ensure that your international investments remain resilient over time.

7. ADAPT TO PROTECT YOUR RETIREMENT

Retirement planning requires constant adaptation, especially when interest rates fluctuate. In a falling interest rate environment, options that we've just discussed can help protect and grow your retirement portfolio.

And don't ignore your debt. Paying off high-interest obligations, such as credit card debt, can make a major difference to preserving your wealth.

Lastly, I always encourage my clients to stay informed and flexible to have the best chance of adapting to changing interest rates with confidence. Doing so will pay off in the long run and help you live a comfortable retirement.

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JOHAN is the head of financial planning and the key individual at the George and Pretoria office, as well as a director of Brenthurst Wealth Management (Pty) Ltd. He earned a B.Com degree in Financial Management from the University of South Africa in 2004 and also studied international business at Lynn University in the USA. Johan gained initial experience at Inter-dynamics, an Australian Risk Analyst Company, before joining Brenthurst Wealth in 2006 and completing his National Certificate in Wealth Management.

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