

Unit trust fund investment hasn't accrued in value

A Moneyweb reader asks:

I am 65 and retired. I could only invest R500 000 in a medium risk equity/unit trust fund with emphasis on growth. My money has been invested since 11/05/2015.

Up to now it has remained at R500 000. I'm very worried as this money has to start supplementing my pension with at least R2 000/pm soon. What am I to do? Wait and hope ... or invest somewhere else? I realise I will lose money, and with interest taxed at a bank I might also invest at a loss after inflation. I'd appreciate any advice.

Marise Smit of Brenthurst Wealth answers:

The disappointment felt by equity

investors over the last three years is completely understandable, with South African Multi-Asset Medium Equity funds returning 5.17% annualised, barely beating CPI (by 0.11%). Over longer investment periods, one could reasonably expect a medium equity fund to return CPI+ 3%, which these funds did manage to achieve over the previous 10 years.

Please note that to provide appropriate advice, a better understanding of your personal circumstances and risk tolerance would be required. With full disclosure, the appropriateness of your current unit trust could be reviewed to determine the suitability of the existing asset allocation, also tak-

ing into consideration the current market environment.

Although medium equity funds aim to achieve a return of CPI+ 3%, these returns are not guaranteed, and a certain level of accompanying volatility will happen. This is where it is important to analyse your tolerance towards risk and your capacity to take on risk.

Taking into consideration your near-term need, it is very important to understand the effect that an income drawdown can have on the capital invested over the investment horizon. Assuming CPI is 6%, a return of 9% and a 30-year investment horizon, a monthly income drawdown of R2 103 would be sustainable, with

this income increasing by 6% per annum to keep up with inflation. This scenario results in the capital amount being depleted at the end of the investment term.

Note that as a rule, for someone at the age of 65, it would be more suitable to start with a 4% drawdown rate per annum, since the returns from these investments are not guaranteed or smooth (as assumed in the above example).

Using the same assumptions as before but reducing the initial drawdown to 4% per annum (roughly R1 667 per month/R20 000 per annum), you are reducing the likelihood of depleting the capital amount over the next 30 years. – *Moneyweb*