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5 SMART MONEY MOVES FOR 2022

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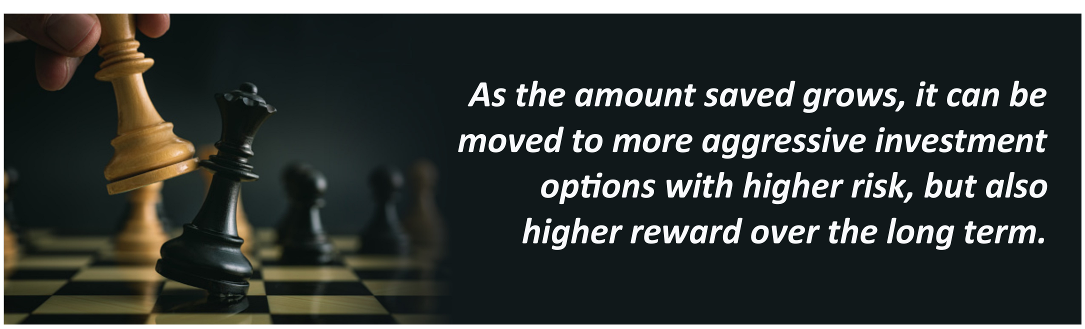
The 2021 year ended with a hike in interest rates, higher inflation, record high petrol prices, a new variant of the Covid-19 virus and, of course, regular bouts of load shedding. But life returned to a different kind of normal as people started traveling more, going out to restaurants and returning to offices.

The after-effects of 22 months of upheaval since lockdowns were introduced (in response to the outbreak of the Covid-19 pandemic) will linger for months, if not years. Navigating the new state of play requires careful management of personal finances.

1. JUST START AND MAKE IT AUTOMATIC

Financial advisors always recommend investors to start saving and investing from the moment they earn their very first income. Some, but not all, have adopted this discipline. But it is never too late to start. The amount can be small, but whatever it is, get going. Then automate it.

Sign a debit order or set up a monthly automated payment and, very important, set it to increase annually. Review various options such as tax-free savings accounts, unit trusts or even a call account will work when starting out. As the amount saved grows, it can be moved to more aggressive investment options with higher risk, but also higher reward over the long term.



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2. EXPECT EMERGENCIES

The dramatic changes brought on by lockdowns locally and globally provided financial challenges to many. The true value of having an emergency fund was finally realised and those who did not have such funds started making adjustments to their spending habits so as to set up such a fund. Saving for emergencies must be in an investment or savings product that allows for easy withdrawals. Saving up to six months of monthly income is ideal, but savings equaling just two months of income will make a difference when the unexpected happens.

3. KNOW WHAT YOU SPEND

Setting a budget is the cornerstone of a sound financial plan. By keeping track of expenses, you can identify where you spend money and where changes can be made. Drinking two cappuccinos per week at your favourite coffee shop (at R34 each for a regular size), adds up to R3 536 per year. As it is a small expense, most of us do not even consider the eventual cost. Subscriptions not fully utilised can also add up. Paying R400 per month for a gym contract, but only going to gym once a month, or receiving magazines that are rarely read, also eat into a budget that can be better utilised for savings and investing. It requires discipline to avoid instant gratification, but the long-term rewards will be worthwhile. In short, the frugal life is the safest road to wealth creation. To make it easy, look for a mobile app (e.g. Money Monitor or Wally) to track your spending habits.

4. UNDERSTAND DIVERSIFICATION AND ASSET CLASS SELECTION

Diversification is crucial for investment success. Markets all go through cycles. For instance, a sector might perform well – as is evident in the commodities boom late last year – or a region (e.g. the USA) or an industry (technology has been dominant for years). Selecting asset classes (stocks, bonds, cash, property, etc.) is a subset of diversification and, combined, these two factors drive investment success. This ensures that investment values are protected when one asset class or sector or region is underperforming while others deliver strong returns.

5. CONSULT AN EXPERT

There are several factors to consider when devising a personal financial plan: your personal circumstances, risk tolerance, investment goals and time horizon (especially important regarding saving for retirement), not to mention understanding economic factors, making sense of market fluctuations and determining which asset classes would suit you best. To navigate this and achieve your financial goals it is advisable to consult an experienced, accredited financial advisor. They spend all day, every day, looking at investment options, markets and tax considerations so as to develop financial and investment strategies. A professional advisor will take the time to understand your specific requirements and create a plan best suited to you.

The impact of the Covid-19 pandemic on the finances of households and investors around the world created challenges and, in some instances, caused panic. It is therefore especially valuable to have a financial advisor to guide you during the tough times. Beyond guidance, international research by companies like Vanguard has shown that investors who use a professional advisor achieve better returns over time in comparison to investors who manage their own financial plans.

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