INVESTMENT REPORT

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INVESTMENTS TO AVOID IN 2022

By Ruan Breed, Financial Advisor at Brenthurst Wealth Stellenbosch

At this time of year it is tradition to give investors a glimpse into what they can expect in the upcoming year. These predictions typically focus on the opportunities that you should consider to cash in on, but I'll be breaking from this tradition by offering insights into which investments to avoid in 2022.

1. INVESTMENTS WITH HIGH UPFRONT COMMISSIONS

One way to squander your returns is to invest with an advisor or large insurance outfit focused more on their financial gain than your well-being.

All too often their retirement products are structured around their own needs such as earning upfront commissions and fees. Also, you must ask whether an insurer's attention is sufficiently focused on managing your portfolio vs their primary business of short-term and life insurance.

The biggest danger is that you are sold a product or investment that is not managed appropriately, which could mean you will miss your retirement goals.

My advice: Steer clear of brokers and insurers who have a greater interest in earning commissions and fees rather than looking after your investment portfolio.

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2. AVOID INVESTMENTS YOU DO NOT UNDERSTAND

This sounds like common sense to me, but the explosion of cryptocurrencies and meme stocks seems to have clouded many investors' minds.

The problem with many of these fads is that they are not legitimate investments. Look at our home-grown Bitcoin Ponzi scheme Mirror Trading International that duped some 260,000 investors out of 23,000 Bitcoin.

The promise of great riches from schemes that sound too good to be true almost always are.

MY ADVICE: Always be clear about what the underlying asset is that you are investing in. A legitimate financial advisor should easily be able to comply with this by reporting to you on the funds and assets they manage on your behalf.

3. CASH & MONEY MARKET INVESTMENTS

Interest rates are simply too low at the moment to justify holding significant amounts of capital in cash or money market instruments for the long term.

It makes sense to have capital in these safer assets if you are saving for a short-term goal or have an investment horizon of less than 18 months.

But, unless you are holding this money in reserve as dry powder to take advantage of investment opportunities, you are doing more damage than good to your portfolio.

MY ADVICE: If you have a long-term view, and your goal is capital growth, then you will need to strongly consider higher risk investments.

4. TAX-FREE SAVINGS ACCOUNTS AT COMMERCIAL BANKS

I'm of the opinion that the name Tax-Free Savings Accounts (TFSA) does an injustice to this product, which should rather be labelled a Tax-Free **Investment** Account.

That is to say if you do not take up accounts offered at the mainstreet banks, because their annual returns of around 5%-7% simply do not offer any meaningful value after costs and inflation.

The aim of TFSA is to encourage South Africans to save by offering a vehicle that can deliver long-term capital growth without sacrificing any gains to SARS. The secret to using this vehicle is the ability to leave the money untouched for as long as possible – more than 15 years will be ideal.

MY ADVICE: Rather invest in a tax-free investment account available on dedicated investment platforms such as Momentum Wealth, Sygnia or Ninety One. These funds have shown much higher returns, in the region of 10% and more.

5. RETIREMENT ANNUITIES FOR YOUNG INDIVIDUALS

A retirement annuity (RA) is the go-to solution proposed by many advisors, usually those associated with the large insurers.

One of the big selling points is that they offer 'tax-efficient investing' because of the monthly rebate, but they also come with limitations that you need to be aware of. And because of these limitations, I believe that younger investors should avoid these investment options for the time being.

Here is my reasoning:

Retirement Annuities need to comply with Regulation 28 of the Pension Funds Act that limits the offshore exposure allowed in the fund. This has led Reg. 28 funds to drastically underperform over the past decade.

Another drawback is the possibility of changes in legislation (as is already on the cards) that could further limit your options.

The reason I suggest that young investors should avoid RAs as a retirement planning option is because the tax advantages are insignificant when you are earning an entry-level salary.

Furthermore your capital is tied up in the RA until age 55, and when you retire you have no choice other than to use at least two-thirds of your capital to purchase a living annuity. Thanks to recent legislation, you will not be able to access any of your capital in a RA for three years after you emigrate from South Africa.

So, there are many other factors to consider than just a tax deduction.

MY ADVICE: Young working adults would be better off investing their money in a TFSA where they can get 100% offshore exposure with much healthier tax advantages in the future.

Read more about investment planning.

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