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"Financial success is not a hard science, but rather a soft skill where different strategies work for different people at different times.

Develop a healthy relationship with money that aligns with your values and life goals."

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ADOPTING A 'RESILIENT MINDSET': NAVIGATING FINANCIAL SUCCESS AMID ECONOMIC CHALLENGES

By Marise Smit, Certified Financial Planner®, Brenthurst Wealth Pretoria

With the rand falling to new lows, the economy teetering as the world struggles to recover from COVID, the continuing war in Ukraine and Eskom being unable to keep the lights on, it's easy to feel despair.

You may feel that the odds are stacked against you, but I'm a firm believer that, no matter if things are going well or seem to be going from bad to worse, it is important to adjust one's mindset about wealth and financial decision-making to have a healthy relationship with money in any economic environment. As such, I'd like to address a few key viewpoints on the matter.

DIFFERENT PERSONAL EXPERIENCES

Personal experiences with money largely shape our unique behaviors and attitudes towards it. Financial success is not a hard science, but rather a soft skill where different strategies work for different people at different times.

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The power of compounding in wealth creation cannot be overemphasised. Small, consistent investments over a long period of time can lead to significant wealth due to the compounding effect.



A few general observations in this regard:

- Our families and environments introduce us to money. A person who grew up in a pay cheque-to-pay cheque home may develop a mindset of scarcity and become extremely frugal, or they may seek to earn more to flee their background. However, a wealthy person may be more comfortable taking financial risks due to a safety net.
- A series of successful investments can lead to overconfidence, sometimes causing a person to take on excessive risk. Conversely, investors who have lost a lot may become too cautious and miss out on good opportunities.
- Personal finance and investing education, whether formal or informal, may help people with investment decisions and managing their money. Without this instruction, people may avoid financial markets or handle their money poorly.
- Attitude towards debt can heavily influence a person's wealth, especially those with a willingness to take on high-interest credit cards, rather than being debt-averse. Some people use debt to build wealth, for instance, through investing in education or real estate.

People can learn and change their financial behaviours over time. The important thing is to develop a healthy relationship with money that aligns with your values and life goals.

WEALTH VS RICHES

It is important to distinguish between being rich and being wealthy. Being rich typically refers to having a high income or extravagant lifestyle, often tied to a high-spending habit. It is more about the present, showing a substantial flow of money.

Being wealthy, on the other hand, is about financial stability and freedom over a long period of time. It's about accumulating assets, having control over your time, and not worrying about maintaining your standard of living. It is more sustainable and independent of an immediate income stream.

COMPOUNDING

The power of compounding in wealth creation cannot be overemphasised. Small, consistent investments over a long period of time can lead to significant wealth due to the compounding effect.

Let's look at a simple example:

Let's assume we invest R1,000 at the beginning of each month, with an annual interest rate of 5%.

In the first month, you deposit R1,000, but there's no interest yet because you've just made the deposit.

In the second month, you deposit another R1,000. Now you have invested R2,000, but you also earn interest on the first R1,000. If we assume the interest is compounded monthly, the annual 5% interest rate would be approximately 0.4167% monthly. So, you earn about R4.17 in interest on your first R1,000.

As you keep doing this, the interest starts to build up. By the end of the first year you wouldn't have just R12,000 (which is what you'd expect from depositing R1,000 per month for 12 months), you'd have about R12,418 thanks to the interest you've been earning each month.

Now, this does not seem so impressive over such a short investment term, but if you kept this up for 30 years, depositing R1,000 at the beginning of each month and earning 5% annual interest compounded monthly, you wouldn't have just R360,000 (which is R1,000 per month times 12 months times 30 years), you'd actually have approximately R1,326,200! THAT'S THE POWER OF COMPOUNDING.

You earn interest, not just on your original investment, but also on the interest that investment has already generated. Over time, this can lead to exponential growth of your money.

FINANCIAL RISKS AND UNCERTAINTIES

I would encourage any investor to prepare for uncertainties because unpredictable financial downturns are an inevitable part of life. Having an emergency fund and insurance is more of a necessity than a choice.

EMOTIONAL CONTROL

One of the key lessons any investor must learn is the importance of controlling greed and fear. Investing often involves a roller-coaster of emotions. Being emotionally driven can lead to irrational financial decisions. Emotional control is key to making rational, well-thought-out decisions based on sound financial analysis, not temporary market fluctuations or emotions. This goes hand in hand with having patience.

Patience is crucial in wealth building because investing is a long-term game. Instant gratification can lead to poor financial decisions. However, over the long term, quality investments generally trend upward. Patience is also key in waiting for the right investment opportunities to come along, rather than rushing into poor investments out of a sense of urgency or fear. These factors combined can make the difference between success and failure in investing. Certified financial advisors are in the best position to help you navigate your financial decision-making journey.

ADVISOR PROFILE: MARISE SMIT, CERTIFIED FINANCIAL PLANNER® | PRETORIA



Marise has been a financial adviser in our Pretoria office since April 2015. She was recognised as Brenthurst's Top Financial Adviser in 2020, receiving the Brenthurst Award of Excellence.

Marise obtained BCom Investment Management & BCom (Hons.) Financial Management degrees from the University of Pretoria. She also obtained a Post Graduate Diploma in Financial Planning from the University of the Free State. Through practical experience and appropriate qualifications, she can advise clients on all investment related matters, focusing on pre-and post-retirement planning as well as offshore investments.

Marise is a CERTIFIED FINANCIAL PLANNER® professional and is fully qualified to give advice on all investment matters.

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