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SECRETS FINANCIAL PLANNERS WANT YOU TO KNOW

By Maria Smit - Certified Financial Planner®, Brenthurst Wealth Pretoria

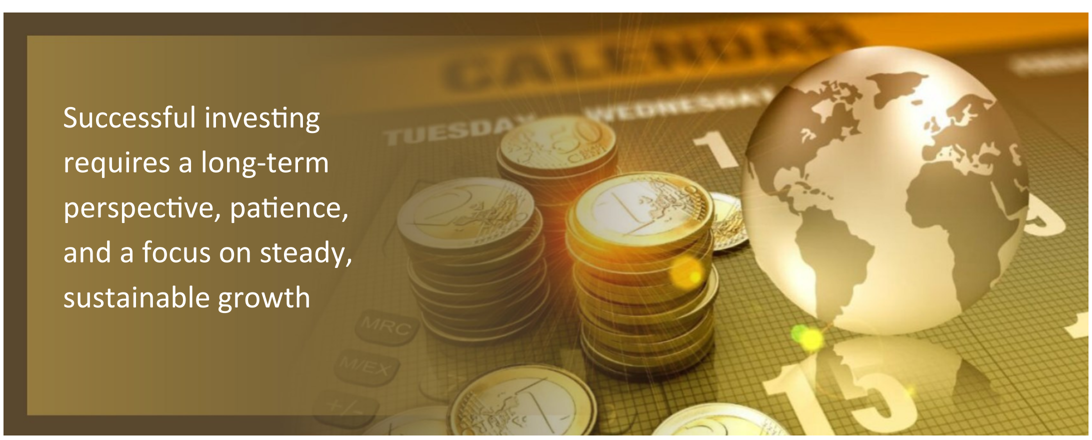
Successful investing requires a long-term perspective, patience and a focus on steady, sustainable growth over time.

As financial planners, we often get asked what the secret is to retiring wealthy. There are a few rules you can live by to give you a head start. But investing is like a marathon – you need to put in the work over the long term. There is no quick sprint in the last few years of retirement.

Not taking risks over the long term ensures that you take longer to double your money.

While it's important to be cautious when investing, avoiding all risk when investing over the long term can actually be counterproductive. Financial planners use the rule of 72. This rule is explained as follows:

The number of years required to double your money at a given rate: divide 72 by the interest rate. For example, if you want to know how long it will take to double your money at 8% interest, divide 72 by 8 and you get 9 years.



Brenthurst Wealth Management (PTY) LTD FSP No. 7833

Most South African money market accounts give you an interest rate of 7%, so it will take you almost 10 years to double your money. According to the South African Savings Institute, the four asset classes, or principal investment markets, are cash (the short-term money market), bonds (the long-term money market), property and equities (the share market). And their historical performance in real terms (after inflation) is as follows:

ASSET CLASS	% GROWTH AFTER INFLATION
Cash	0 to 1%
Bonds	1 to 3%
Property	2 to 4%
Equities	7 to 9%

So, this can give you an idea of how long your investment would take to double.

It might sound like a lot now, but prices of all consumer products have grown by more than that, so you must use the second rule. This shows you how fast the current inflation rate will reduce your investment's present value. To do this, you divide 70 by the current inflation rate to calculate how fast your investment will reduce to half its present value.

An inflation rate of 7% will reduce the value of your money by half in 10 years. Accounting for inflation when investing can help you make more informed investment decisions that consider the impact of inflation on your investments over time.

ESTIMATING HOW MUCH YOU NEED TO ENSURE FINANCIAL FREEDOM AT RETIREMENT

The 4% rule is a commonly used guideline for determining how much you can safely withdraw from your investment portfolio each year to provide for your retirement needs, without depleting your savings.

The rule suggests that if you withdraw 4% of your portfolio value in the first year of retirement, and adjust that amount annually for inflation, your portfolio should last for at least 30 years. For example, if you have a R1 million portfolio, the 4% rule suggests that you can withdraw R40 000 in the first year of retirement, and then adjust that amount for inflation each year. The 4% rule assumes a moderate investment portfolio allocation, typically consisting of a mix of equities and bonds. It also assumes a 30-year retirement period, which may not be applicable to everyone.

It's important to note that the 4% rule is a guideline and not a guarantee. Your actual retirement needs may vary based on your lifestyle, expenses and investment portfolio performance. Additionally, market volatility can impact the success of the 4% rule. In a declining market, the amount you withdraw from your portfolio may need to be adjusted to avoid depleting your savings too quickly. Overall, the 4% rule can be a helpful guideline for determining your retirement income needs and withdrawal strategy.

So, in short, what advisors want you to understand is that, yes, investing is often compared to a marathon, rather than a sprint. This means that successful investing requires a long-term perspective, patience and a focus on steady, sustainable growth over time.

Consult with an experienced, accredited advisor to devise a financial strategy suited to your goals and circumstances.

ADVISOR PROFILE: MARIA SMIT | CERTIFIED FINANCIAL PLANNER ®

MARIA is a CERTIFIED FINANCIAL PLANNER® professional, a member of the Financial Planning Institute of SA and is fully qualified to give advice on all investment matters.

She joined Brenthurst Wealth in 2019 and has been in the financial services industry since 2015, working as a liaison between Financial Advisers and clients, assisting in all financial planning related duties.

Maria obtained a BCom Economics degree from the North West University's Potchefstroom Campus. She also obtained her Postgraduate Diploma in Financial Planning from the University of the Free State in 2019 and is qualified to give advice on all aspects of investing.

Phone: +27 12 347 8240 | **Email:** maria@brenthurstwealth.co.za | **Mobile:** +27 79 696 6860

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