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STICKING TO THE BASICS OF INVESTING

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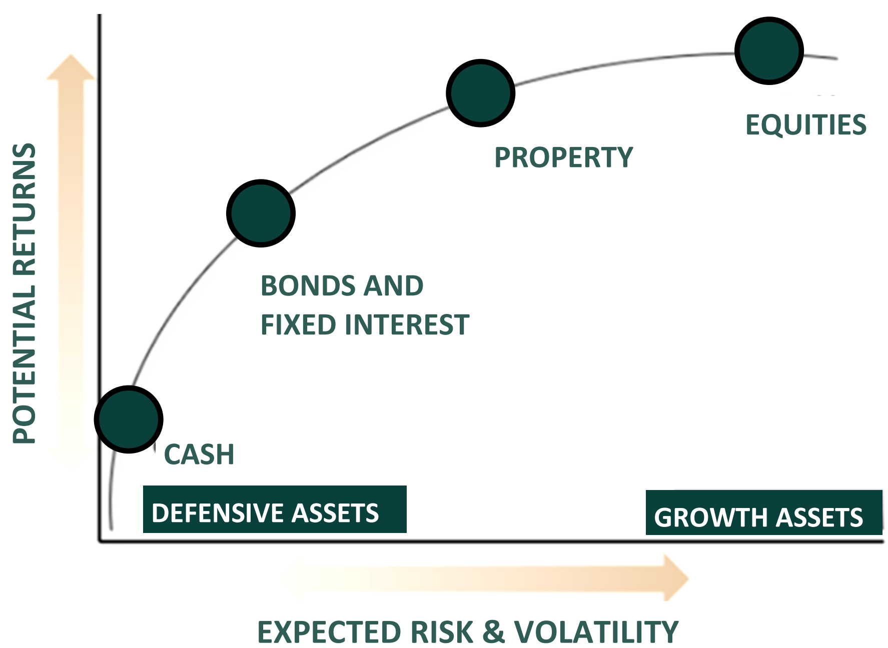
A QUICK REVIEW OF ASSET CLASSES

Investment diversification aims to reduce risk by allocating investments across various asset classes and securities. The rationale behind diversification is that different asset classes tend to have different risk-return profiles and may perform differently under varying market conditions. By spreading investments across multiple assets, investors can potentially reduce the impact of a single investment's poor performance on their overall portfolio.

SO, WHAT ARE THE DIFFERENT ASSET CLASSES AND THE RISKS ATTACHED TO THEM:



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CASH AND CASH EQUIVALENTS

Examples include money market funds and US treasury bills and certificates of deposit (CDs) that mature within three months. Cash equivalents are highly liquid and low-risk assets.

These investments provide stability and quick access to funds, but typically offer lower returns compared to other asset classes. Your risk of loss is low, but your growth potential is also low.

This vehicle is perfect for an emergency fund or if you have big impending expenses – putting funds in cash is a haven for the short term.

EQUITIES

Equities represent ownership in a company. You can get access to this ownership in many ways:

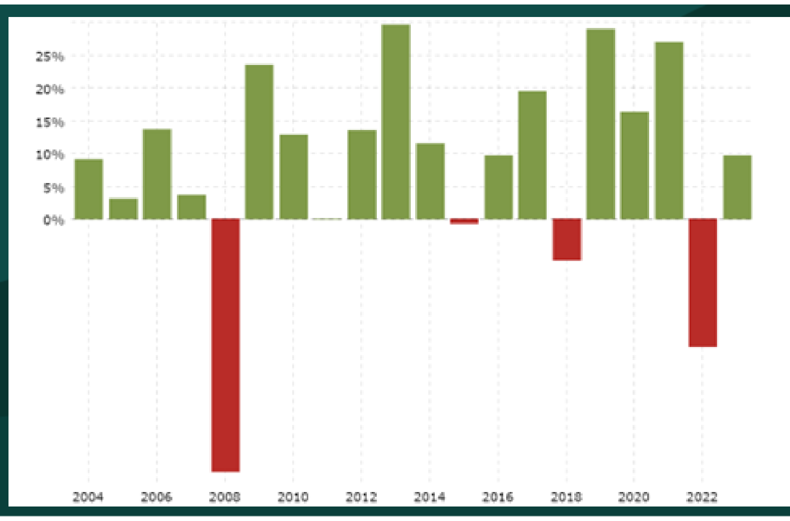
⇒ Owning direct shares;
⇒ Owning a fund that has a mandate to invest in equities; or
⇒ Buying an ETF or tracker fund that tracks equities**.**

Investing in equities offers the potential for capital appreciation and dividends. Equities are generally considered higher risk, but can provide higher returns over the long term. Equities have the most growth potential, but what goes up can also go down. There is no free lunch, so to speak — if you want growth, you must accept volatility.

If it weren't for that volatility, more investors would have put all their wealth into the equity market where they can generate the largest returns. However, it's possible for an equity portfolio to temporarily lose 20% or 30% of its value very quickly.

This is a great vehicle for investing over the long term, for example, saving for a long-term goal.

Equities have shown that if you sit tight during the volatility, you will be rewarded over the long term.



Source: Macrotrends

FIXED INCOME (BONDS)

Bonds are loans that are split up into units and sold to investors. Investors provide the principal upfront and then receive interest payments until the security matures. At maturity, investors are repaid the principal. The principal does not increase in value over time the way a stock would, but fixed-income securities should provide predictable income.

Bonds are debt instruments issued by governments or corporations to raise capital. Bonds are generally considered lower risk than stocks and provide income, but with potentially lower returns.

ALTERNATIVE INVESTMENTS

Alternative investments are a catchall asset class for anything that's not cash, equities or fixed income. Real estate, precious metals, cryptocurrency and peer-to-peer loans are alternative investments.

- **Commodities** include physical goods like gold, silver, oil, natural gas, agricultural products, etc. Investing in commodities can provide a hedge against inflation and diversify benefits. However, commodity prices can be highly volatile and influenced by factors such as supply and demand dynamics. Commodities are usually seen as negatively correlated with equities. This means that when equities go on a run, commodities tend to not do so well. The inverse is also true - when people are afraid of investing in the market, they tend to buy gold.
- **Real estate investments** involve purchasing properties such as residential homes, commercial buildings or land. Real estate can generate income through rent or appreciation in property value. It offers potential diversification and is often seen as a hedge against inflation.

No one knows what could happen in the market over the short term, so it is best to structure your portfolio in line with your needs. Do not take unnecessary risk by investing your emergency fund in gold. But also, be mindful that any buffer against market volatility always works both ways. If your diversification into cash or fixed income protects you from market crashes, it also limits your access to market growth.

ADVISOR PROFILE: MARIA SMIT, CERTIFIED FINANCIAL PLANNER ® | BRENTHURST WEALTH, PRETORIA

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.

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