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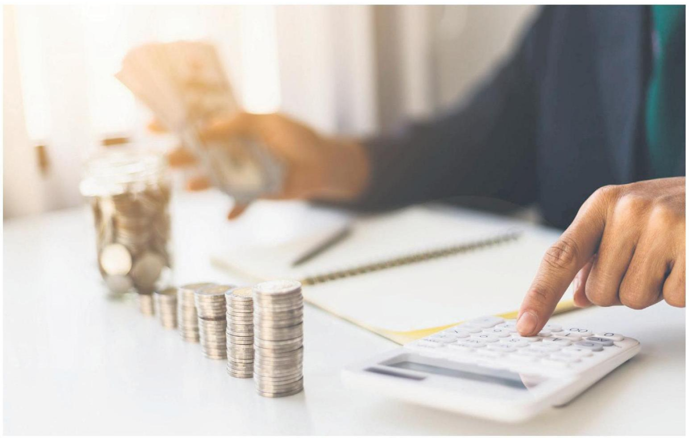

MONEY SENSE. A once-off lump sum investment, while riskier, can give you a better return on your investment. Picture: AdobeStock

Lump sum vs phasing?

BEFORE MAKING A DECISION: WEIGH THE PROS AND CONS OF EACH OPTION

Multiple deposit investment allows you to take advantage of rand-cost averaging.

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For many years investors have been contemplating between investing a lump sum amount once off or phasing it in over a period, especially during difficult and volatile market conditions like we have been experiencing lately. It becomes more pressing to make the correct decision.

A lump sum investment is when you invest a large amount of money all at once. This is done in a single transaction, but the key is that you invest the entire amount at once. Phased in is where you take the lump sum and invest it over a period of time – three or six months. There are several advantages to phased-in investing.

Phasing investment

Phasing in your investment allows you to take advantage of rand-cost averaging. A strategy of investing a fixed amount of money on a regular basis, regardless of the market price. This helps to smooth out your investment costs and reduce the risk of buying high and selling low.

Second, a phased investment can be less expensive than lump sum investing. If you invest through a broker, you may be able to get discounts on commissions if you invest a smaller amount of money each month. However, there are also some disadvantages to phasing investment.

First, it can take longer to reach your investment goals. This is because you are investing less money each month. Second, phasing investment can be more complicated than lump sum investing. You need to keep track of how much money you are investing and when you are investing it.

Lump-sum investment

On the other side, a once-off lump sum investment can give you a better return on your investment. This is because you are investing your money when the market is down and immediately getting into the market. When the market is down, stocks are typically cheaper, so you can buy more shares for your money. This can lead to higher returns in the long run.

A disadvantage to lump sum investing is that it can be riskier. You could lose money if the market goes down after you invest your money. Second, lump sum investing can be expensive. If you invest through a broker, you may have to pay commissions.

Which option is best?

So, which option is best for you? It depends on your individual circumstances and risk tolerance. If you are comfortable with risk and want to potentially get a higher return on your investment, then lump sum investing may be the best option for you. However, if you are risk-averse and want to reduce your risk, then phasing investment may be best.

Ultimately, the best way to decide which option is best for you is to talk to a financial advisor. They can help you assess your individual circumstances and risk tolerance and make a recommendation that is right for you.

Here are additional factors to consider when making your decision:

- Your investment goals: What are you hoping to achieve with your investment?
- Your time horizon: How long do you have until you need to access your money? If you need the money in the short term, then you may want to avoid lump sum investing as well as a high allocation to the equity market.
- Your risk tolerance: How comfortable are you with risk? If you are risk-averse, then you may want to consider gradually investing your lump sum.
- Your financial situation: How much money do you have to invest? If you have a large amount of money to invest, lump sum investing may be the best option.

It is important to weigh all of these factors carefully before making a decision.

▶ *Haumann is a certified financial planner at Brenthurst Wealth.*