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Be SMART WITH MONEY

The plan is to set up an emergency fund, choose the right investments and buy property so your money can work for you.

By **SISONKE LABASE**

Every time you look at your salary, do you wonder where all your hard-earned cash is going? And regarding the choices you make every month: Are they worth it? Are you being savvy? If you were to lose your job today, would you survive? Our country's current economic climate is tough, thanks to junk status and the recession. This means we all need to be even smarter with our money. Use our five-point plan to guide you.

1. Retire well

Pushing back the idea of retirement until you're in your 30s is a bad idea. You need to start saving towards retirement from your very first pay cheque. "The sooner, the better," says Sonia du Plessis, a financial planner at Brenthurst Wealth. "Take ownership and know your retirement comes first – that's what paying yourself first is. You can save up to 27% of your income towards a retirement or pension fund where you can get tax back from the South African Revenue Service."

Retirement is about living a comfortable life after 60, when you no longer work and have no steady income. The longer you wait, the harder it will be, as statistics show that only 6% of South Africans can retire with the same lifestyle they had when they were working.

TRUE LOVE reader Thembisa, 32, says: "I want to relax and enjoy old age, and not to be that woman who decides to refurnish or renovate her home or buy a flashy car – and then find out I don't have money to enjoy retirement. I'm trying my best to save right now."

Says Barbara Mundell of the Financial Planning Institute of Southern Africa: "The sooner you start saving, the more you'll benefit from compound interest – defined as earning interest on interest. Let's look at this example: one person starts saving R1 000 per month for 10 years, then leaves all that money invested for 20 years. Another person only starts saving 10 years later, and saves R1 500 per month for a period of 20 years. At the end of the period, the first person – who invested R120 000 in total – has 25% more capital, compared to the person who only started saving

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later, and who has invested a total of R360 000 over 20 years."

2. Set up an emergency fund

This is the cushion you need, should you fall on hard times. Many people don't have enough saved, like Zintle, 39. "It's hard keeping up with my rent, car, retirement and other expenses and still be able to put money aside. I really don't know what I would do if I lost my job."

Du Plessis says Zintle's situation is not an exception. "Now, more than ever, we need to relook at our finances and budget. We must live within our means."

It may be hard to part with money now, but it's worth doing so in the long run. Palesa Thloloe, a financial adviser at Liberty, says: "Consider a unit trust or any short-term savings account for flexibility. A little goes a long way. One thing you don't want is to borrow money if your car breaks down. The money should be there to safeguard you when the unexpected happens. If you can, try to have at least three times your salary as a safety net."

Thandi Ngwane, the head of strategic markets at Allan Gray, advises: "If you commit to investing via a monthly debit order, consider increasing the annual percentage increase – the amount your deposit goes up each year – from the start, as this will help you to slowly raise your contribution without having to think about it."

3. Invest wisely

There are various forms of investment, from stocks and money market funds to unit trusts, tax-free savings and offshore accounts. It's about choosing one that works best for you. The deciding factors are the interest and cashing-out conditions.

Du Plessis says: "Offshore investment are a good idea for all South Africans. If you can have at least a quarter of your money exposed to offshore markets, it'll be great, because our market has been flat for the past three years. You can move money offshore via a unit trust where it's an asset swap – the money is offshore, but is converted back to rands. You can start with a minimum of R10 000. Or, you may want to invest in multi-listed companies."

Another great form of investment is tax-free savings. Whether you do so month to month, or just deposit a lump sum in the account, is up to you.

"Tax-free savings depends on each bank, but you could start with as little as R500 per month, and there's legislation on the maximum per year per person," explains Thloloe. "You can't put in more than R33 000 per year, and in one's lifetime it's R500 000. You can also deposit that as a lump sum and watch it grow. The growth isn't limited. But if you exceed the annual investment limitations, you'll be taxed heavily."

The financial market can be tricky territory, which is why Ngwane warns that with fluctuating markets, you shouldn't panic and withdraw your money. "The key ingredients for reaping the rewards of compound interest are time and patience," she says.

"However, our emotions get in the way and sometimes result in us abandoning our investment objectives in favour of switching between investments, or trying to time the market. This can destroy the value of your investment. It's hard not to panic if the market suddenly dives. A good, independent financial adviser can assist you in putting a plan together and encourage you to stick to it."

4. Buy property

You may have your own home or be considering buying one. But bear in mind that with every investment there are pros and cons. "Every different class of investment asset – whether it's cash, bonds, equities or property – has its own unique benefits and risks," says Mundell. "An optimal investment plan would include a form of property investment, but due to everyone's circumstances, one can't simply say that property is a good or a bad investment."

She adds: "What most people don't take into account, is the added costs involved in an investment property. Things like maintenance costs, complex levies and increasing rates and taxes can affect the investment return of property. Most people also forget the tax they'll pay on the profitable rental income they receive, and when they sell the property they don't know about the capital gains tax. Globally, we have seen a slowdown in the growth of property values, so it shouldn't be the only investment."

Thloloe says diversifying your portfolio makes more sense than having property as your only investment. "Have your house, but remember that it isn't a liquid asset – if you need money now, you can't get it. We all know how hard it is to sell a house. It could be the one you live in or are renting out, but because of the economic climate, it takes at least three to six months to sell a house. So have other forms of liquid investments that you can access, such as savings."

5. Save for education

Going to school is about investing in yourself. It pushes you to be better and increases your chances of getting a promotion. Many companies even offer to pay their employees' study fees as they see it as an investment: you bring back new fresh ideas and enrich the company. If your employer doesn't pay your fees or you can't afford to study part time, explore other options – perhaps there is a scholarship or bursary you can qualify for. Open a savings account specifically for studying.

"An endowment policy (a contract that pays a lump sum after a specific term or on maturity) is a great way of saving for school fees as it forces you to put in the money because you've signed a contract. You can save towards education – not only for yourself, but for your kids as well. Whether it's monthly or in a lump sum, many of these policies lock up your investment for a minimum five-year term. Thereafter you can withdraw the funds, so it's a great way to look out for yourself and your children," says Thloloe.

These saving and investment moves may seem tough now, but in the long run, you'll be proud of yourself. With just these five smart moves, your net worth may rise all the way to the top. ■