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BUILDING WEALTH SINCE 2004

IN THIS ISSUE

Comparing financial strategies, the article demonstrates that investing in an equity portfolio consistently outperforms paying off a bond faster over long-term milestones, even when factoring in taxes, market volatility, and management costs.

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BOND OR PORTFOLIO?

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Every bonus season, every time an investor inherits some money, sells a second car, or finally gets the increase they have (not so patiently) been waiting for, I get some version of the same phone call: "Should I throw this at my bond, or should I invest it?" It is, without exaggeration, one of the most common questions in my inbox, tied only with "is now a good time to invest offshore" and the ever optimistic, "can I deduct my whole home office".

The honest answer is the one nobody enjoys hearing: it depends. But "it depends" does not make for a satisfying conversation, so let us do what any self-respecting financial planner should do before any discussions: run the actual numbers, using today's rates and today's tax rules, and then argue, referencing the result. A number without context is just a guess wearing a suit.

WHAT YOUR BOND REPAYMENT IS BUYING YOU

Before comparing bond versus portfolio, it helps to understand what a bond repayment does in the early years, which is, in terms of equity, disappointingly little. Buy a R3 million home with a 10% deposit and take a 20-year bond at 10.5% (roughly today's prime lending rate), and your monthly instalment lands at R26,956.

In month one, R23,625 of that – 87.6% of the payment – is pure interest. Only R3,331 actually reduces what you owe. The bank, unsurprisingly, wants payment for the risk it carries on your behalf before it lets you build wealth off its money.

Figure 1 shows how that split evolves over the full 20-year term. Notice how long the gold section (interest) dominates before the teal (principal, your actual equity) takes over. This is precisely why paying off a bond faster feels so satisfying: those early extra payments go almost entirely toward principal, working far harder than the minimum instalment ever could.

WHERE DOES YOUR BOND INSTALLMENT ACTUALLY GO?

R2.7m bond, 20 years, 10.5% interest

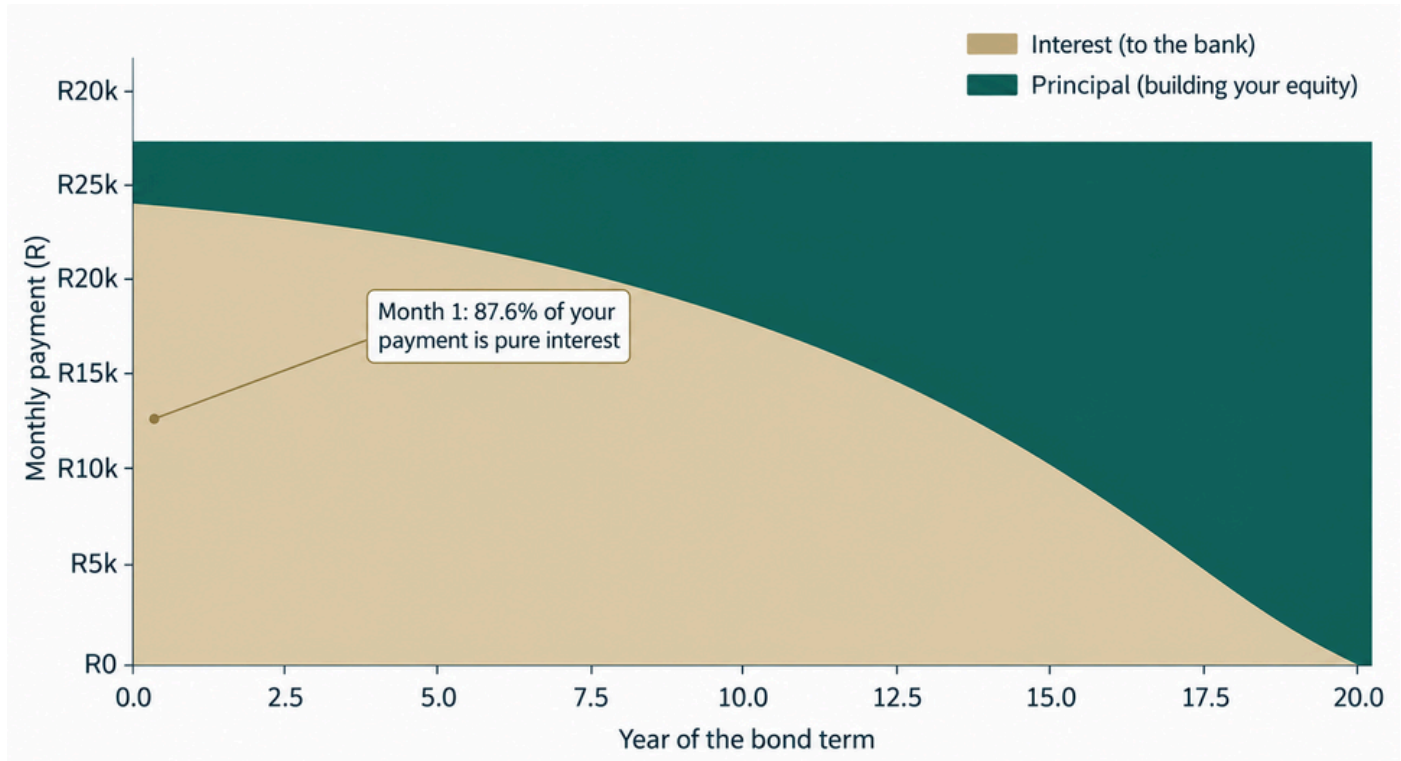


Figure 1: How a R2.7 million bond's monthly instalment splits between interest and principal over 20 years, at a 10.5% lending rate.

THE TRADE-OFF, PROPERLY FRAMED

This is where the “what do I do with my extra R10,000” question gets interesting, because it is really an opportunity cost question in disguise. Every extra rand you put into your bond earns you a guaranteed, tax-free return equal to your interest rate: 10.5% in this example. Every extra rand you put into a diversified equity portfolio earns you, honestly, nobody knows for certain. Long-run history offers a reasonable planning assumption rather than a promise.

A blended JSE and global equity portfolio has historically delivered somewhere in the region of 12% a year before tax. Strip out South Africa's 20% dividends withholding tax on the dividend-yielding portion of that return (roughly 3 percentage points of the 12%), and you land on a net expected return closer to 11.4%.

For completeness: a savings account currently pays somewhere around 6% to 7%, and that is before SARS takes its share – interest above R23,800 a year is taxable if you are under 65 years old. If your bond costs you 10.5% and your savings account pays 6.5%, parking spare cash there while a 10.5% bond quietly compounds against you is, financially speaking, paying to keep your money warm.

So, the genuine contest is bond (a guaranteed 10.5%) against equities (an expected, not guaranteed, roughly 11.4%). That gap is closer than it would have been a decade ago, which makes what follows more interesting, not less: even with borrowing costs and expected returns this close together, one strategy still comes out ahead at every single milestone we tested.

MEET KAGISO AND ZANELE

To make this concrete, meet two entirely hypothetical clients (any resemblance to actual Brenthurst clients is coincidental, and frankly a compliment to their financial discipline). Both buy the same R3 million home with the same 10% deposit and the same R26,956 minimum bond instalment. Both can find an extra R10,000 a month, every month, for years on end without fail, which itself is a heroic assumption to which we will return.

Kagiso the Compounder pays only the minimum on her bond for the full 20-year term and invests her spare R10,000 in a diversified equity portfolio from month one. Once her bond is finally settled at year 20, she redirects the full R36,956 into her portfolio for the remainder of the period.

Zanele the Bond-Basher puts everything, extra R10,000 and all, straight at her bond. She is completely debt-free in 9.8 years. From that point on, she redirects her full former bond instalment, R36,956 a month, into investments.

Assuming the home appreciates at 5% a year and the portfolio grows at our net 11.4% assumption, here is how the two of them compare (house appreciation excluded from the investment figures below, since both own an identical home):

	Year 10	Year 20	Year 30
House value	R4.89m	R7.96m	R12.97m
Kagiso: bond balance	R2.00m	R0	R0
Kagiso: investments	R2.15m	R8.48m	R32.83m
Kagiso: net worth	R5.04m	R16.44m	R45.80m
Zanele: bond balance	R0	R0	R0
Zanele: investments	R0.07m	R8.17m	R31.98m
Zanele: net worth	R4.96m	R16.13m	R44.95m

NET WORTH OVER TIME:
Investing from day one vs. clearing the bond first

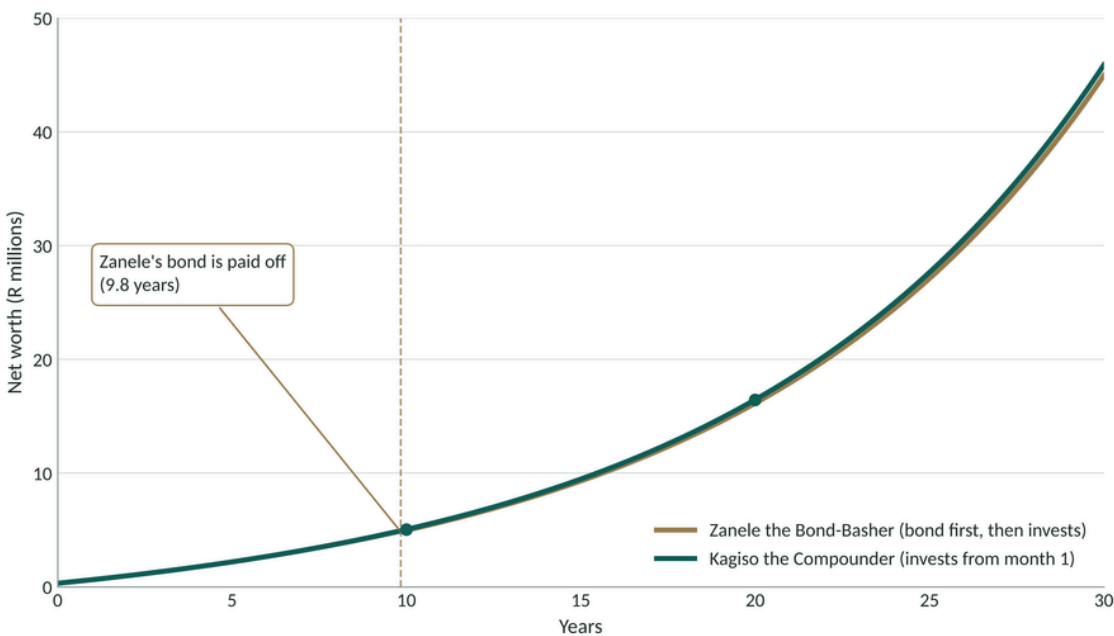


Figure 2: Net worth over 30 years for both strategies.

Kagiso is already ahead at year 10, by a modest R78,540. Zanele owns her home outright at that point and Kagiso still owes R2 million on hers, yet Kagiso's decade head start in the market has already closed the gap and edged past it. By year 20, Kagiso's lead has grown to R314,340. By year 30, it sits at R846,602, on a net worth north of R45 million for both.

SAME HOUSE, SAME EXTRA R10,000/MONTH:
Different order of operations

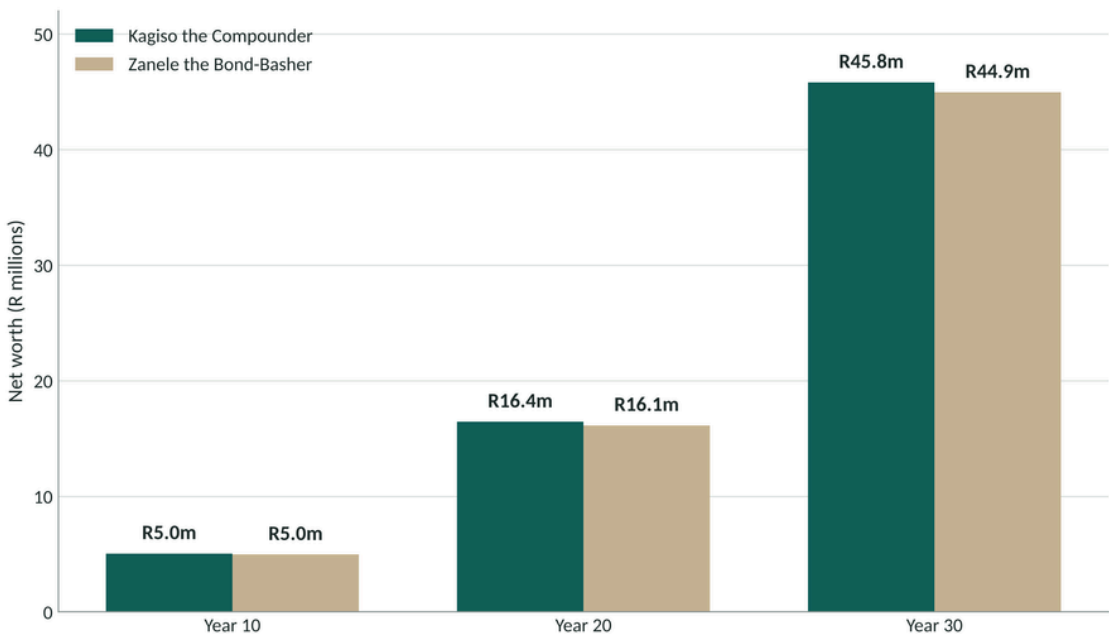


Figure 3: Net worth comparison at the three milestone years.

THE REAL-WORLD FACTORS WORTH PLANNING AROUND

The numbers make a genuine case for investing early, and it holds up under scrutiny. A good financial plan goes further than a spreadsheet, though, so here is how that case gets managed in practice, rather than just asserted.

THAT R846,600 LEAD HOLDS UP EVEN IN A TOUGHER ENVIRONMENT FOR IT.

A decade ago, when bond rates and equity return assumptions sat much further apart, investing early was an easy call. Today's spread between borrowing costs and expected returns has compressed considerably, and investing still wins at every single milestone we assessed, year 10, year 20 and year 30. That durability is the actual headline. If rates ease from here, as they typically do over a cycle, the gap should widen again.

TAX TAKES A BITE, AND A PLANNER'S JOB IS TO MANAGE IT DOWN.

Sell both portfolios at year 30 in a single once-off transaction and pay capital gains tax at the maximum effective rate of 18% (after the R50,000 annual exclusion), and Kagiso's after-tax lead narrows to roughly R315,000. That simplified calculation is the worst case, not the realistic one: a planner realising gains progressively across multiple tax years, using annual exclusions and tax-free wrappers, meaningfully keeps more of that lead than a naive lump-sum disposal ever would.

THE 11.4% IS A LONG-RUN AVERAGE, WHICH IS EXACTLY WHY IT NEEDS MANAGING, NOT AVOIDING.

Equity markets can, and do, fall 20% or 30% in a single year. So, a portfolio someone will need money from soon should not be positioned the same way as one with 20 years to run. This is precisely what a properly constructed strategy is built to handle: de-risking as a goal approaches, rebalancing through cycles, and holding enough liquidity so that a retrenchment or a medical emergency never forces a sale at the bottom. Staying invested through volatility, with that kind of structure in place, is how the 11.4% assumption is essentially earned over time.

INTEREST-RATE RISK CUTS BOTH WAYS, AND SO DOES CONCENTRATION RISK.

Most South African bonds are linked to prime, not fixed for 20 years, so if rates rise, the guaranteed "return" from paying extra into your bond rises with them, but so does the pressure on your minimum instalment. It is worth flipping this around, too: a household that puts every spare rand into one bond ends up with its entire net worth concentrated in a single, illiquid, undiversified asset, in one suburb, one property market and one currency. Investing alongside the bond, even modestly, is part of how that concentration risk gets managed.

COSTS MATTER, WHICH ARGUES FOR INVESTING WELL, NOT FOR NOT INVESTING.

A paid-off house has no annual management fee, while a portfolio carries platform fees, fund total expense ratios and advice fees, typically somewhere between 1% and 2.5% a year, depending on the structure. That is an argument for keeping those costs low and the structure efficient, exactly what a well-built, appropriately priced portfolio is designed to do, not an argument for leaving the money out of the market altogether.

THE REAL RISK IS UNSUPERVISED INVESTING, NOT INVESTING ITSELF.

Money sitting in an easily accessible investment account is, psychologically, still spendable. Behavioural economists have written entire careers on “mental accounting”, the very human habit of treating money differently depending on where it lies, even though a rand is a rand. That is not an argument against investing the extra R10,000 – it is an argument against investing it without structure. A retirement annuity, a tax-free savings account, or a portfolio held with an adviser whose job includes talking a client out of raiding it early, all remove exactly this temptation. “Should I invest” and “should I invest completely unsupervised, with no plan and no one checking in” are two very different questions, and this article has only ever been answering the first one.

SO, WHICH ONE SHOULD YOU DO?

If I am being honest rather than diplomatic: the numbers modestly, but consistently, favour investing over accelerating the bond. And for most people, the real risk was never getting the maths wrong – it is failing to actually invest that extra R10,000, month after month, for thirty years. A further access bond (sometimes called a flexi facility) allows you to pay extra into your home loan while retaining the right to redraw it later, if you genuinely need to, which captures the guaranteed 10.5% saving without fully surrendering liquidity. For most clients, though, a properly structured investment plan, split (where sensible) between a retirement annuity, a tax-free savings account (current annual contribution limit R46,000) and a general investment portfolio, captures the upside this article has demonstrated, while managing the very risks described above.

The honest professional answer still depends on your risk tolerance, how secure your income is, whether you already hold three to six months of expenses in an emergency fund, your age and retirement funding gap, and your existing offshore exposure. Those are not spreadsheet inputs – they are the actual job of financial planning, and getting them right is what turns “the numbers in favour of investing” into an actual portfolio, rather than a good intention that quietly becomes a holiday instead.

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Charize joined the Brenthurst Wealth team in April 2021 as a financial advisor under direct supervision. She obtained her BCom (Hons) in Management Accounting from the University of South Africa (UNISA) and has been working in the finance industry for over 10 years.

She is registered with SAIPA as a Professional Accountant and Tax Practitioner and has completed her Class of Business and Postgraduate Diploma in Financial Planning through the University of the Free State. Charize is a CERTIFIED FINANCIAL PLANNER® professional, a member of the Financial Planning Institute of SA, and is fully qualified to provide advice on all investment matters.

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