

An adviser's perspective

Onalenna Disipi, a Liberty financial adviser, writes about the challenges facing clients in today's economic environment and explains how some clients have been successful in building wealth.

This year has been a tough one for clients. At the beginning of the year, people were starting to feel more optimistic but then petrol, food and electricity price increases started to take a bigger bite out of their budget. People are spending more and more on the basics and a sense of pessimism is returning.

Generally, South Africans are not saving enough so there is little to buffer them against these increasing costs.

Get rid of debt before interest rates go up

Most of my clients under the age of 35 are highly indebted. This makes it very difficult to start saving. My advice to them is to settle their short-term debt first before they look at investing because their high payments are eating into any returns they would receive from an investment.

Take action now to avoid the debt trap / taking on more debt to pay off existing debts

Right now, we are in an environment of very low interest rates, in fact the lowest in decades. Clients need to pay off their short-term debts quickly so that they do not find themselves falling further behind when interest rates start rising towards the end of the year. This needs to be a priority.

Clients with mortgages and other long-term financial commitments need to ensure that they can afford higher monthly repayments when interest rates go up. Settling short-term debt now will free up money for these repayments in the future.

Have a clear savings goal

Clients who have written down their goals will not stop until they have achieved them. I have many clients who start saving but if they have not set themselves specific goals, they tend to walk away from the saving plan when things get tough. Visualise what you are saving for so that the sacrifices today are worth it and saving is sustained.

A goal motivates people to continue saving

Make saving a part of your budget

Successful wealth creators also make savings part of their budget. Saving is one of their monthly commitments, they make it a habit. It is not something they do only once all other expenses are covered.

Take a holistic approach

Building wealth is not only about saving; it is also about protecting your wealth

Successful clients approach their finances holistically. They use a financial adviser to assess their whole financial situation and make sure they are protected if something happens to prevent them from earning an income – like having a disability or being diagnosed with a chronic disease.

Understand risk and know where to invest

You need to know which financial instruments to use for different savings goals. Many clients have very little knowledge of financial instruments so they are sceptical about things like unit trusts and endowments. Saving in bank accounts does not create wealth, yet many people prefer to save in bank accounts and money market accounts because they are comfortable with these instruments.

If you are investing for less than two years then the risk is higher as there can be significant movements in the stock market over this period. But over a longer term, inflation is more of a risk than the stock market because it eats away at the capital and any growth.

For example, if you are saving for a holiday in six months' time then a money market account, bank account savings plan or unit trust account with a conservative (low-risk) portfolio might be better because your capital will be protected. However, if you are saving for a 20-year goal, the risk of inflation is greater than market risk so you would need to invest in an asset class that yields higher returns and outperforms inflation over time.

The greatest comfort from an investment is growth that is higher than inflation.

Financial education

I see in my clients a real desire to save and to build wealth. Unfortunately, by the time they are sitting in front of me they have so much debt that they are living hand to mouth and do not have the funds to save.

More financial education is needed at an earlier age to ensure that the first pay cheque is not used for credit cards, store cards, expensive cars and unnecessary expenditure that creates debt and prevents people from creating real wealth.

People are drowning in debt instead of creating wealth.

There is plenty of information available, especially on the Liberty website, to help clients understand different investment vehicles. I would like to see more clients making use of this information so that we can help them create real wealth. Ideally, to receive a comprehensive financial plan, one would need to consult with a financial adviser.

Five strategies of successful wealth creators

1. *They always know what is going on in their finances*

Take a few hours every month and do your admin. File your policies and investments; go through your bank statements. Understand where you are spending your money – you will be surprised how it's the little expenses that eat away at our ability to save.

2. *They work with a budget*

Having a monthly budget gives you discipline as you know how much you can afford to spend.

3. *They do not have short-term debt*

Consumers who have managed to get debt free start with settling the smallest debt first. They use the 'freed-up' money to settle the next highest debt and so on until their short-term debts are fully paid off.

4. *They protect their wealth*

Your future income is your biggest asset. South Africa has one of the highest accident

death rates in the world; don't rely on the Road Accident Fund and your company pension or provident fund to pay you out. Make sure you seek financial advice to provide for unwanted events like disability and chronic diseases.

5. *They have a savings plan*

Know what you want to achieve. This will determine which investment vehicle to use. Write down and be specific about:

- What you are trying to achieve.
- How much time you have to save.
- How much risk you are prepared to take in the markets.
- How much you can afford to save.

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