Don’t let good news headlines thwart your savings plans

Positive sentiment in the country is being fuelled by a change in political leadership, the stronger rand, a higher-than-expected GDP growth rate and a more optimistic consumer outlook. The latest decision by ratings agency Moody’s to keep South Africa's sovereign debt at above investment grade and revise its outlook from negative to stable, confirms this.

But, says Rob Formby, chief operating officer designate at Allan Gray, while the current mood is indeed good news for South Africans, investors should not let this distract them from continuing to tighten their belts.

“These good news headlines are a relief for many South Africans, but the reality is that a lot of work is required to fix the economy and the country. South African investors should not make changes to their long-term savings plans based on the recent euphoria alone,” says Formby.

Despite the recent interest rate cut, a Value Added Tax (VAT) hike – the first increase in the country since 1993 – coupled with the below-inflation increase in the bottom three personal income tax brackets and no inflation adjustment to the top four tax brackets, will see people out of pocket.

“Amidst this climate, we should still look at frugality as the new normal, adopt a savings mentality where possible, and look for ways to rein in spending,” he says, adding that going back to investing basics in 2018 will help investors stick to their plan.

“Investors should focus on spending less money than they earn, saving wherever their budget allows, and starting as early as possible.”

A recent report released by Lloyds Banking in the UK is calling for 2018 to become known as the year of savvy spending: It claims that, an astounding, 50% of people have changed their spending habits since the start of the year.

“South Africans would do well to follow this trend,” Formby notes.

Formby further reminds investors not to make sudden changes to their portfolios in response to the news headlines.

“Investors often lose out on performance when trying to adjust their investments based on day-to-day news and events. It makes far more sense to base investment decisions on what you need to reach your goals, and then stick with the plan,” he concludes.