Are you sitting on savings you could be investing?

30 Oct 2020: The COVID-19 pandemic has affected people's finances in very different ways. While it has highlighted the need for emergency savings as a buffer against tough times, it has also created anxiety and uncertainty for those worried about job security and market volatility, causing some to sit on extra cash that would normally be invested.

“Lockdown resulted in an enforced reining in of spending, with eating out, shopping and travel severely curtailed and day-to-day costs like fuel and transport reduced by working from home,” explains Nomi Bodlani, head of Strategic Markets at Allan Gray. “While the economy is now more open, many are relooking their spending habits, hoping to make more permanent changes.”

Although there is little evidence of what habits South African investors will adopt post-pandemic, especially in light of an ailing economy and dismal household savings rate,consumer spending is likely to be fundamentally different for many months to come, and so too will people’s spending and saving habits.

“The pandemic has had many financial consequences. If you are fortunate enough to have found yourself with additional savings, and if you want to make adequate preparations for a financially fit future, now is a great time to get started or to accelerate your investment efforts,” says Bodlani.

She adds that many investors sitting on extra cash – whether from deferred spending or from that holiday that never happened in 2020 – are feeling jittery about the markets. The latest data released by the Association for Savings & Investment South Africa (ASISA) echoes this sentiment, showing that many investors are opting for the perceived safety of money market funds, despite the fact that interest rates have headed south.

“While it is understandable that investors are shying away from risk at this time, in an environment of lower interest rates, investors looking for long-term growth need to make sure that a portion of their portfolio is exposed to growth assets, such as equities, which have proven to deliver growth over the long term,” Bodlani explains.

Adjusting for inflation, equities have returned7.5%per year versus bonds at4.3%and cash at2.5%over the last two decades.“It is therefore important to have an appropriate amount invested in equities to generate potentially higher real returns,” she says.
The other piece of the puzzle not to overlook is an element of offshore exposure.

“Investing offshore gives you exposure to different economies and geographies and allows you to access sectors and companies that aren’t available in South Africa. It also helps you to shield your portfolio from rand weakness and protect the buying power of your cash.”

However, Bodlani cautions against simply investing offshore in response to news headlines and market noise.

“Investors’ appetite for offshore assets seems to be at its strongest when the South African narrative, and the rand, are at their weakest. This is understandable, but expensive as you use a weak currency to buy expensive offshore assets. The decision to invest offshore should be part of your long-term investment strategy and should align with your long-term investment goals.”

She explains that you should figure out how much of your investment portfolio you want to place offshore, and what you are trying to achieve, and then formulate a plan to invest as regularly as possible in carefully selected assets.

"If you don't know where to start, or if you are feeling overwhelmed, chat to an independent financial adviser who can help you decide on the best course of action for your extra cash. He or she will be able to help you choose appropriate investments to meet your long-term investment goals, and make sure that your choice is appropriate for your needs and circumstances. He or she can also guide you through periods of uncertainty – like we are currently experiencing – and make sure you get the most out of your investments," she concludes.

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