

Momentum Media Release

FINANCIAL FREEDOM: A SOUTH AFRICAN ASSET MANAGEMENT PERSPECTIVE

19 March 2018: While financial freedom may mean different things to different people, being debt-free; gaining financial independence; and feeling a sense of financial stability, are all commonly listed components of this coveted liberty. The reality, however, is that most South Africans will never experience any of these comforts. Research Unisa conducted in collaboration with Momentum shows that 60% of the nation is unable to afford an emergency expense of R20 000, and only 6% can retire comfortably one day.

Speaking in the light of Human Rights Day, Jeanette Marais, CEO of Momentum Investments, says that the financial services industry has a responsibility to educate and inform clients and the broader public. "It is important to remember that most South Africans are taking care of people other than themselves. The sandwich generation, which refers to individuals in their 40s and 50s who not only have to look after their children, but also take care of their elderly parents, is particularly relevant." Everyone has to make the most of the money that they have.

Although it is a privilege to be able to help your family and even extended family financially, Marais says that it is also a reality for a lot of economically active young people that the money they earn is not their own. "When starting out on their financial journey, on the income ladder, the personal financial planning of these young people is more complicated, and as a result they cannot immediately start saving or investing in their own future."

There are positive legacies in the country as well, she adds. "Informal savings activities, like stokvels, can be very lucrative when managed correctly, and individuals who take part in these mostly spend their 'pay-outs' well. The problem, in terms of reaching financial freedom, is that informal stokvels are typically short-term and do not get invested formally to gain interest. This often means that they do not reap the rewards of a long-term investing strategy that is geared for a specific goal or outcome. Informal savings vehicles are not regulated and the participants miss out on the benefits they would have gained from the formal economy like earning interest, dividends or being able to take out loans against their investments and growing their personal wealth that way," she explains.

Marais believes that South Africa must continue to try and break down the barriers that are holding people back from reaching their financial freedom. "The low minimum wage, high rate of unemployment, and restrictive historical financial legacies, for both race and gender, are all major barriers that still stand between many South Africans and their financial freedom. Today, of all the asset managers in South Africa, only 18% are women and 16% are black. The more inclusive the society is, the better it will be for the economy.

"However, while these macroeconomic barriers are going to take some time to break, there are some common misunderstandings and misconceptions that – if demystified – will at the very least begin turning the tide for many hardworking South Africans who may be closer than they think to reaching their financial freedom," she explains.

The first of these is the misconception that a person needs to earn a lot to be able to save. "Many people do not understand the difference between saving and investing, so they don't realise that even with a small amount, like R50 a month, one could start saving to build up a big enough amount that they could one day invest.

"A recurring investment could also be a small amount, like R500 a month. The important point is that people should start somewhere – the sooner the better – and too often they are not aware of that," she says.

Many people also do not understand the financial services products they own, says Marais. "As a result, they do not know how to make the most of the benefits available from these products, and they do not have plans to provide for the best possible future."

People who are financially successful have a budget that they stick to and a financial adviser that they depend on, she says. "Many people think that only so-called rich people have financial advisers, but this shouldn't be and isn't the case. The job of a financial adviser is to take the mystery out of financial products and services. An adviser will help you to identify your goals and advise you on the best solutions to help you achieve them, so that you get the most financial benefit from your savings and investment vehicles. Lastly, they will help you to remain focused on the outcome and to stay invested – one of the most important ways to get South Africa closer to reaching financial freedom," says Marais.

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