OLD MUTUAL SUPERFUND

MEMBER INVESTMENT UPDATE

June 2019 | Q2

It feels like every year goes more quickly than the last! In the midst of all our hurry, it is hard to slow down and think clearly about our future, to plan the things in life which are "important, but not urgent right now".

This quarter's Investment Update provides you with a couple of thoughts about how you can improve your journey towards saving for retirement – so that you can make the most of the rest of your life.

In theory, saving for retirement is easy: Start early; save for as long as you can; save as much as you can; and let the effect of compounding do the rest for you. However, in reality it is not so easy.

SAVE AS MUCH AS YOU CAN

You can only save if you have money to save. . We all know that our expenses very quickly expand to meet our income! At every stage of our lives, we experience financial pressures: paying off student loans, buying a home, paying school fees, paying for a child's wedding, or supporting elderly parents.

So what can we do? "Spend less, save more" is much easier said than done! The first key is to pay attention to each element of our spending. Do you know how much you are spending on that cup of coffee every day or having drinks with friends after work? What is the total cost over time of your shiny new smart phone? To help you get a handle on these costs, Old Mutual has put together some great budgeting resources online.

Once you know what your monthly financial commitments are, you can see what you can cut back on so that you can afford to save. An important trick is to **save first** – so when you get paid, put the amount into your saving pot. Then live on what you have left. Initially you may find that you have to dig into your savings before the end of the month, but gradually you will get used to saving and then you can consider more permanent savings such as increasing your contributions to your retirement fund.

MAKE YOUR SAVINGS WORK HARD FOR YOU

Now that you are saving, you want to ensure you have the right investment strategy that suits your specific needs.

So how do you figure out what your investment strategy should look like? Ask yourself a couple of questions:

- **For how long will you be saving?** For the majority of us, our retirement saving is a very long-term investment, since our retirement may be 10 or 20 years away, or even more. Typically, if you are far from retirement, you are able to invest in more growth-focused, higher risk investment portfolios. Remember that you need to keep your savings invested even after retirement – so even as you near retirement, you should still have a long-term focus.
- **What will you do with your money when you retire?** As you get with five to ten years of retirement, you can benefit hugely by getting assistance from an accredited financial adviser to help you with this process. This will include looking at what type of annuity you may need when you retire and the type of investment choices in retirement.
- **Do you understand that investment risk is not always a bad thing?** The most common investment risk that people fear is the risk of short-term negative returns. If you have a higher exposure to growth assets (which are more volatile than most other asset classes), there is a higher chance of negative returns in the short term. However, this risk is "rewarded" by the potential of higher investment returns in the longer term. If you don't take on a suitable level of investment risk (by investing in growth assets), you face the much more significant risk of not earning sufficient investment returns over the long-term. If you pick an investment with very low volatility (such as a money market investment), your investment growth over the long term will not be high enough to provide for your retirement. This is because inflation eats away at the value of your money. If you are willing to accept more volatility (with a greater chance of negative returns in the short-term) you are likely to be rewarded in the longer term by higher returns. If you elect a more conservative option, you are likely to have less volatile returns but can expect lower longer-term performance.

Your investment strategy will also be influenced by more personal factors such as your other provision for retirement, your health, the age of your dependants and your financial expectations after retirement.

SAVE FOR AS LONG AS YOU CAN

We all love the idea of retiring early and spending the rest of our life in luxury! Sadly, the mathematics of this dream does not work for most of us. You need to aim to save for at least 35 to 40 years if you are going to have a comfortable retirement – so start young, and do not cash in your savings when you change jobs!

WRAPPING UP

Saving for retirement is not easy and not generally a topic that is discussed around a campfire. It may seem like a boring topic, but the reality is that it is one of the hardest and most important things you need to think about and do something about it now.

You have to start somewhere and if this investment update has only made you think about what you spend on a daily basis and helps you manage your budget it has already helped you to take a step in the right direction.

As always, we strongly encourage you to seek the advice of a professional financial adviser to help you make the most of your financial future. Your adviser should complete a full needs and risk analysis before giving you advice.