Diversifying life beyond your pension

By Fred Razak

5 Sep 2022

Business writer Naved Abdali is quoted as saying, "The most significant benefit of a diversified portfolio is psychological stability when you need it the most."

Source: Pixabay

We work our entire lives looking forward to a comfortable retirement, which, for many of us, means getting a hard-earned pension pay-out. And the South African Treasury recently amended Regulation 28 under the Pension Fund Act.

This limits the extent to which retirement funds can be invested in particular assets. The primary purpose is to protect retirement funds from inadequately diversified investment portfolios. This amendment makes a strong case for diversification. Beyond the sum of your pension fund, diversification of your portfolio can boost your retirement nest egg.

Diversification is just that – several baskets of assets that spread your money out instead of having “all your eggs in one basket”. And while you keep making your pension payments, there is no reason you shouldn’t pursue other baskets on the side.

The short game vs the waiting game

Short-term investments have their place just as much as long-term investments do. While long-term investments may have greater yield, short-term investment grants you access to the funds you want within a shorter period – perhaps a rainy day, a deposit on a car or a family emergency.

Municipal bonds are standardised debt instruments issued by municipal entities. Short-term municipal bonds have an expiry period of one year in South Africa. Long-term bonds can last up to 30 years.

Municipal bonds guarantee a fixed interest rate over the period of investment. So, you are pretty secure in knowing how much money you will have access to by the expiry period. With bonds, you can either invest in the short or long-term, but short-term bonds are popular because of their quick accessibility.

For argument’s sake, if diversification is your objective, you might invest partly in short-term bonds – say 10 to 15% and put 60 to 70% in stock trading. Timing is critical when investing in stocks; they can take far longer to be profitable. So, having both in your collection of baskets can be beneficial as you never know when you might have one of those rainy days.

If you choose to invest in stocks in our current bear market, you may need to wait until certain stocks drop and start selling off to get them at a good price. Then, once the market settles – which could conceivably happen somewhere between now and the next 24 months – you have the option to cash in for profit.

Recession is here, whether it is official or not. And we have all seen it coming. How long that recession will last, we can’t be sure. Looking back, between 2009 and 2010 and 2012 to 2013, the markets didn’t go up that much. But every other year, we went up about 10 to 15%. That’s a substantial move.

10% per year in a decade is a hundred percent return. So, if you put in a hundred thousand, you made a hundred thousand in 10 years, and that's not compounded. The true secret of investing is arguably more straightforward than you think. Just buy something that has the capacity to accumulate over time – and wait for your moment to strike.

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In boom-and-bust investment scenarios, as we’ve seen historically, investors can jump in if they spot an opportunity. History has shown us that when markets bust, they may take 20 years to bounce back. But the point is, they are highly likely to bounce back. We saw a significant boom and bust with Intel and Cisco stocks, which traded at a high of $60 around 2002 and then crashed to about $5. They eventually bounced back to the $60 level in 2020 – 18 years later.

In other words, if you had bought those shares at $5 and held onto them, you could have made a substantial profit by playing a long waiting game. Astute traders know where to look for those stocks instead of the more obvious growth-orientated Microsoft, Google, Apple and Amazon, among others.

That said, the growers are very aggressive on the up-side and may take an equally fierce beating on the downside. Like forest fires that clean up the environment, market clean-ups boom and bust the same way, even if they seem disastrous at the time. They provide opportunities for new companies to come in and allow people who weren't in the investment game before to get into the fray when the stocks fall to more affordable levels.

Beyond your shores

Many South Africans are turning to offshore investments to combat the ever-declining Rand-dollar exchange rate. And that isn’t necessarily as simple as just buying dollars. Investing in solid properties like Microsoft puts your money offshore but has more scope to grow than a simple offshore bank account – provided the stocks’ growth potential remains solid.

If we look inward to local asset investment and buy a home at R1.2m, that translates to approximately $71 000 (give or take). Anyone looking to stay in South Africa might be okay with that. But if you are considering moving abroad or living out your retirement offshore – as many South Africans are – there are several limitations given that South Africa's property market is declining, and so is the Rand-dollar exchange rate.

Property prices are steadily rising in Europe and the United States. Values have doubled – even tripled – in the aftermath of Covid. While this may boom and bust as other markets do, currency-exchange restraints will always be a factor if you consider leaving South Africa and buying property offshore.

The law of motion

Newton's law of motion states that if an object is at rest or on a single trajectory, it will remain at rest or moving in a straight line unless an external force moves it in another direction.

Currently, South Africa's economy is declining. Unless a formidable force emerges to change its trajectory, it is likely to continue in the same direction. But diversification in your investments can make you a force unto yourself, driving your upward trajectory despite the economic climate.

Retirement planning is multifaceted and based on very personal goals. How you choose to invest, diversify or save is entirely a product of your appetite for risk and your perception of the desired outcome.

Beyond your pension plan, opportunities to secure the life you have always desired do exist if you allow your money to be productive. There is no right or wrong way to retire, but we can empower ourselves by inventing our own future realities.

ABOUT THE AUTHOR

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