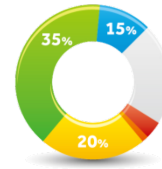
The ABC of investing

INVESTING FOR YOUR RETIREMENT REQUIRES CAREFUL THOUGHT, BUT JUST LIKE YOUR OTHER IMPORTANT LIFE DECISIONS, IT IS EASIER THAN YOU THINK.



Your retirement saving is invested monthly and can work hard for you. The Trustees of most retirement funds consult with investment experts to ensure that the range of investment portfolios on offer to members, matches the profile of these members.

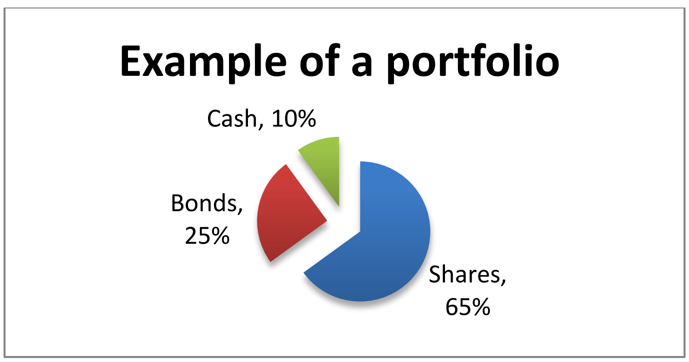
On quite a few retirement funds, members have the option of choosing a portfolio from among a few portfolios on offer. If this is the case on your Fund, it means that YOU are an investor. You now have the wonderful opportunity to decide which portfolio(s) will be best suited to your needs.

You need to choose an investment portfolio carefully though, as the decision you make has a direct effect on the benefit that will be payable to you on withdrawal or retirement. It is therefore important that you understand the basics of investing.

Important: Before you make any investment decisions or switch between portfolios on your retirement fund, always consult with an accredited financial planner (visit www.fpi.co.za for a list of accredited financial planners).

What is an investment portfolio?

Members of a retirement fund cannot invest directly in shares. An investment manager will combine different asset classes (see section below) and call it a portfolio. Portfolios will not always have investments in all the asset classes. In the graph below, 65% is invested in shares and the balance in bonds and cash.



What are the different asset classes or types of investments?

There are different asset classes (types of investments) available to retirement funds. The ones most often used are:

Shares	A piece of a company
Bonds	Similar to an IOU issued by the government or a company
Property	Investments in corporate parks, office blocks and retail shopping malls
Cash	Money in a bank

Let's take a closer look at each of these:

Shares	When you buy shares in a company, you are in effect buying a small part of the company and will share in any profits declared, in the form of dividends. This investment type has the highest potential to deliver returns which will keep pace with inflation over the long term; but also has a higher risk of capital loss over the short term, due to changes (fluctuations) in the stock markets. You can actually have negative returns when share prices fall.
Bonds	Bonds are loans made by government and big institutions, with a promise to repay the capital amount plus interest at a specified date in the future. It is therefore an IOU issued by the government, semi-government institutions and companies. Bond returns are linked to interest rates and typically yield lower returns than shares over the longer term, although over some periods of time in the past they have been the better performing asset class.
Property	Property investments are investments in, for example, large corporate parks where the retirement funds earn the rental income. Property investments are not very liquid (which means it is difficult to sell them at short notice) and are therefore not utilised for retirement funds on a regular basis. The route that most retirement funds prefer to take to be able to access property investments, is via the JSE. The funds buy shares in property trusts listed on the JSE and these can be traded like shares. The investment returns are a combined result of what happens to both the share market and to the underlying properties.
Cash	Cash or near-cash investments with reputable financial institutions are the least likely to expose investors to capital losses, but over the medium to longer term their lower-than-expected returns might not beat inflation.

What is an investment time horizon?

This is how long your money will be invested, usually until your retirement date and beyond.

How do I choose an investment portfolio?
You do not choose an investment portfolio based on historic investment returns. Your financial planner will help you determine how much you will need at retirement , what your investment risk profile is and ensure you are not invested too conservatively, moderately or aggressively for your age.. Based on this information, you will be able to select the portfolio that is right for you.

What is risk? All investment portfolios have some kind of risk. Some have the risk of losing money (also called capital risk) and some have the risk of not beating inflation over the long term (inflation risk). We will take a closer look at risk next month.