Finding certainty in uncertain markets

The growing appeal of guaranteed products.

Patrick Cairns / 20 June 2017 00:04

In the current environment, many investors don't know where they should be putting their mo

There is a great deal of uncertainty across the world and it is difficult to find opportunities th attractive both in terms of their risk and potential return.

"Investors are very nervous," says Roenica Tyson, investment product manager at Glacier by

"That's understandable if you look at volatility in the market and political uncertainty around tl But unfortunately it's causing investors to focus on the short term, and make emotional decis almost ignoring their long-term investment strategy."

The economic and political landscape in South Africa does make it very difficult to feel confic about future returns. At the same time, markets are in a period of sustained underperformanc JSE has not beaten inflation for the last two years.

"What we're seeing is a lot of people moving into cash and looking for bank deposit-type investments," says Tyson. "They clearly want to have some certainty around their investment, especially around protecting their capital."

This has been exacerbated by the current low return environment. Even investors in multi-ass that have become a popular way to reduce volatility are concerned about the growth that they been receiving.

"Over the last couple of years cash has generally outperformed these funds, which has left m clients thinking that they would be better off with a bank fixed deposit or other investment tha provide a guaranteed return," Tyson points out.

However, while cash may seem safe, it does come with its own risks. The first is that over tim returns from cash do not offer a lot of protection against inflation, particularly after tax.

"For higher marginal tax payers, they will be paying away a lot of what they earn in interest as says Francis Marais, a senior research and investment analyst at Glacier. "If you add that to tl inflation has on the purchasing power of their money, investors are really moving backwards.

The other problem for investors is if they decide to take their money out of the market and mo into cash, how will they know when it is the right time to go back in to the market? Missing ou start of any new bull market could be significant.

"If you miss that initial return, it can make a big difference to your long-term performance," sa Marais.

"Over the long term, the compounding effect could mean that you lose a lot of money."

This creates a dilemma for investors. They may understand that it's important to invest for th term and stay true to their investment strategy, but it's very difficult to do when there is so mu uncertainty and the short-term risks seem high.

A potential solution to this problem is products that offer investors some level of guarantee w providing exposure to market-related performance.

"The price that clients are willing to pay for certainty has certainly increased in the last few ye

Tyson says. “The amount of money going into guaranteed solutions has significantly increase volatility and uncertainty in South Africa has gone up.”

A key feature of these products is that they eliminate the chance of any loss. The investment is guaranteed.

At the same time, they allow clients to receive equity-type returns. These may also be enhanc depending on the type of product.

An example that is currently open for investment is the Glacier Capital Enhancer. It is a five-ye investment that is linked to the performance of the Euro Stoxx 50 and FTSE 100. It therefore local investors offshore exposure, but with returns guaranteed in rands so that currency risk i eliminated.

The investment offers 100% capital protection and a guaranteed return over the investment t currently set at 78% (12.2% per annum) so long as the combined index is higher at the end five-year period than it was at the start of the period. If the return from the combined index is than 78%, investors will receive any upside beyond that level.

Tyson explains, “Currently we are making the Glacier Capital Enhancer available in a Sinking F Policy, providing investors with some further tax advantages and ensuring tax efficiency is op

An important consideration for investors is that this is a five-year investment, so they should invest long-term capital, and they will also not receive any dividends. Importantly, they are als exposed to credit risk, as the guarantee is offered by a third-party bank and if it defaults, that impact their capital.

“Only leading global banks, with a long-term credit rating of at least A+ from Fitch are conside says Tyson.

Ultimately, however, these kinds of products offer a risk profile close to cash, but with the pot for equity market returns. And investors looking for some degree of certainty may find this at

“They offer a good alternative,” says Marais. “If you are thinking of moving a portion of your a into fixed interest investments, then this might be something worth considering instead.”

For more information, please speak to your financial advisor.

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