Master your money

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What do you need to know to start investing?

Reader's question answered.

CAPE TOWN – In this advice column Mark Lapidus from Liberty Investments answers a question from a reader who wants to start her investment journey.

Q: I'm a 23-year-old female and recently started with my first job. I earn R8 000 a month and would love to invest some of my money, but I am not well literate on which investment options are good and have great rewards.

I am staying with a relative and don't pay any rent or have any car instalments or anything of that sort. My monthly expenses in total are R4 000, so I would love to invest my money in something that will allow for my tomorrow to be secure and safe as I'm also looking forward to starting a family one day and soon would like to have my own house.

A: Congratulations on making a fantastic decision to start investing early rather than spending all your disposable income. There are various options which could be considered when looking to invest and I will outline a few of them.

You could go to your bank and invest in a money market account where the money is immediately accessible or invest in a fixed deposit account which may have a higher interest rate but access to the money may be restricted. These are safer options as your money is protected, but they aren't the best way to earn long-term returns.

Unit trusts and exchange-traded funds are a good way to invest over longer periods and there are many different funds to choose from. Balanced or multi-asset funds have become very popular as they give you a diversified exposure to a number of asset classes, which spreads your risk as well as your sources of potential return.

Endowment polices are another option and here you may be able to take out capital guarantees to ensure that you don't lose any money. However, be aware of the costs involved.

Retirement Annuities are a great way to save for retirement in a tax efficient manner. You may be eligible for tax deductions on the contributions you make and there is no tax payable on income or capital gains with the retirement annuity.

Which of these is best will depend on the investment term – in other words when you will want to spend the money. The choices you will make will be different if you are saving for a new car or house in the next few years compared to if you are saving for your retirement which may be more than 40 years away.

If your investment horizon is short, you need to make sure that the investment vehicle allows you access to your funds early. As an example it wouldn't be appropriate to invest in a retirement annuity for a short-term investment goal as you cannot access your funds until age 55.

Different portfolios also have different risk profiles and generally the longer the time horizon the more risk can be taken within that investment. So choice of portfolios also needs to be consistent with the time horizon of the investment and not only the product type.

While every individual will have different investment objectives and take a unique approach, there are a number of tried and tested 'rules' that have helped millions of people to achieve their investment goals. If applied diligently, they can certainly help aspiring young investors to do the same.

Rule 1: Always have a plan.

It has become something of a cliché, but when it comes to investing, if you fail to plan, you really are planning to fail. Committing yourself to a realistic, carefully considered investment plan means you have to give the necessary thought to where you are, where you want to be, and how you can realistically get there. Importantly, I strongly recommend partnering with a reputable financial adviser for this process, and then putting your plan down on paper.

Rule 2: Diversify. Diversify. Diversify.

Given the volatility of investment markets, this is one rule you ignore at your peril. Putting all your investment eggs into one proverbial basket is a recipe for potential disaster. It's very seldom that every type of investment will perform badly at the same time, and by exposing your money to various opportunities, you know that if one under-performs, the others might pick up the slack.

Rule 3: Understand the principles of fear and greed, then manage or avoid both.

There is no place for emotion in investment. So when you allow your fear of losing money or your desire to make quick money to dictate your thinking, you can be pretty sure that poor decisions are going to be the result. That is why it's vital that you stick to your investment plan, control your emotions, and never blindly follow other people's sentiments or tips.

Rule 4: There's no time like the present.

One of the key components of investment success is time in the markets. The sooner you start investing, the bigger your rewards will be. That is why even if you only have a small amount to invest right now, making the effort could be worth a small fortune in returns over the long term.

Rule 5: Always invest in yourself first.

This is the one rule that far too many investors of all ages neglect. You are your most important source of income throughout your life.

In order for you to get the most appropriate advice for your particular situation, it would be best to speak to a financial adviser who can guide you through the different available options and recommend which is best for you.

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If you have any questions you would like answered by financial planning experts, please send them to editor@moneyweb.co.za.

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