



Financial
SAFEGUARD



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Investments:
Making a financial
or investment decision

Introduction

There are many different types of investments available in South Africa and internationally. We also have a world-class financial services industry with many investment options for every type of investor. Our local financial services industry is regulated by the FSCA which oversees investment products and how they are marketed.

With so many choices available to you, making financial and investment decisions can be challenging. Here are a few tips on getting started.





1. Investment time frames

When you are making a financial or investment decision, such as setting financial or investing goals, time frames play a very important part. For example, the closer you get to retirement, the less willing you will mostly likely be to take risks with your money.

With this in mind, your goals may be short-, medium- or long-term.

1.1 Short-term goals

Short-term goals are goals you can reach quite quickly, for example, in six months or a year.

Examples of short-term goals might be:

- Saving towards travelling (a holiday)
- Paying off debt (like a clothing or furniture account)
- Building an emergency fund (a good rule is to have enough money set aside to cover expenses in the event of an emergency - at least 3 months of expenses when you are young and single and 6 months when you have greater financial responsibilities such as a family).

Setting and reaching short-term goals is a good stepping stone to working toward longer-term goals.

1.2 Medium-term goals

Medium-term goals tend to be a little bigger than short-term goals and are generally goals you want to achieve in around 2 to 3 years.

Examples of these types of goals could be:

- Saving for a car
- Saving for a deposit on a home
- Paying off a larger study loan

1.3 Long-term goals

Long-term goals are generally focused on planning and accumulating wealth for retirement or they could include an education plan for your children, for example. These goals typically extend longer than 5 years.

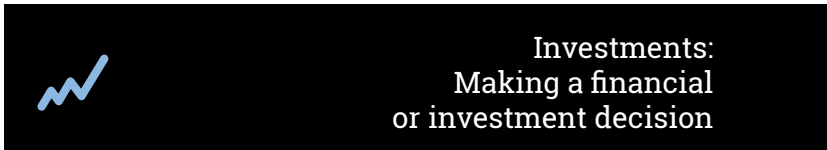
 Refer to the Financially Smart Theme, sub-topic Be in Control of your Finances, for more information.

2. Investment decision-making process

Work through the following steps to identify the type of investment option you should select. Start considering these decisions before you meet with your Authorised Financial/Investment Advisor, then they can help you find-tune your thinking during your meeting.



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2.1 Step 1 – Purpose

Money, savings and investments are ways to help you reach your goals. To make sure you choose the right tool to achieve your goal, you must first decide on your goal. For example, buying a car or a home, or funding your or your children's education or your retirement.

2.2 Step 2 – Time

How long do you have to achieve your goal? Is this goal a short, medium or long-term goal? The time you have available to achieve your goal will guide your choice of investment tool. For example, you don't want to be locked into a long-term investment if you need the money soon. Minimum investment periods may apply to long-term investments and you might therefore incur surrender charges, penalty fees or tax consequences if you cash them out early.



NOTE: Surrender value means the amount which the policy owner is entitled to receive if, at any point during the period of effectiveness of the policy, the policy owner chooses to cancel the policy.

2.3 Step 3 – Investment risk

Investing has a risk/reward relationship. How much risk are you prepared to take in order to get a return on your investment? The higher the risk, the higher the reward or loss. You therefore need to understand your own risk profile/tolerance.

When you think about risk, it is important to think of it in Rands and not percentages. Saying that your R10,000 investment could lose R1,000 sounds quite different and more 'painful' than saying you could lose 10%.



NOTE: If you are the policy owner, it means you own an insurance contract or policy—also known as being the policyholder.

2.4 Step 4 – Tools

All financial products have benefits, costs and rules of use.


Take advantage of the many tools available to you to compare the benefits, costs and rules of a financial product against what you need. For example, if what you need is a low-risk, income-producing fund, a high-return investment might not be your first choice. An experienced Authorised Financial Advisor can also assist in guiding you here.

These tools may be helpful:

- 2.4.1. Budgeting tools: Apps, calculators and spreadsheets like Excel and other online budgeting platforms help assess how much you can afford to invest. Your Authorised Financial Advisor can also do a risk assessment for you to establish your risk appetite.
- 2.4.2. Risk assessment tools: Online questionnaires or risk profiling tools provided by banks and investment platforms evaluate your risk tolerance, ensuring your investment choices align with your comfort level.
- 2.4.3. Financial news and reports: Websites, news outlets, and market analysis platforms (like Bloomberg, or Reuters) provide up-to-date information on market trends and economic events.
- 2.4.4. Investment simulators: Virtual tools allow you to practice investing without real money, helping you understand potential risks and returns.



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 **NOTE:** The risk/reward relationship means that the more risk an investor takes, the bigger the expected reward is likely to be (to make up for the possible risk).

Higher risk = higher reward
Lower risk = lower reward

2.5 Step 5 – Monitor and Adjust

Your needs change over time so make changes to your investments when needed. An investment advisor can help you make the right investment decisions for you.

 Refer to the Financial Safeguard Theme, sub-topics [Financial Advisors](#) and [Financial Plan](#) for more information.

3. Sustainable finance

Making any financial and investment decision is tricky enough. However, you may also like to consider how you can use your money and investments to help both the economy and society.

Sustainable finance is about making smart money decisions that help the environment and people, rather than only focussing on making a profit. It means considering the impact of investments on the environment and society, as well as how well companies are run (these environmental, social, and governance factors are known as ESG). Doing this leads to more long-term investments in activities and projects that are good for everyone.

3.1 What does sustainable finance mean in South Africa?

In South Africa, sustainable finance helps the country achieve its goals for a better future:

- It helps South Africa move towards a low-carbon economy, which means reducing pollution and using cleaner energy.
- It promotes financial stability by managing risks related to the environment.


Examples of sustainable finance in South Africa

Here are some ways sustainable finance is used in South Africa:

- **Green and social bonds:** these are like loans where the money is used for projects that benefit the environment or society.
- **Sustainability-linked loans:** with these loans, the interest rate changes depending on how well a company performs on environmental and social issues.
- **Carbon finance:** this involves financial tools that help reduce carbon emissions and protect the environment.



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3.2 Benefits of sustainable finance

Sustainable finance offers many advantages:

- Avoids greenwashing: It helps ensure that companies are honest about their environmental efforts.
- Attracts investments: It can bring in more money from other countries that want to support sustainable projects.
- Builds resilience: It helps South Africa prepare for and deal with the effects of climate change.

But what does this mean for you?

3.3 Benefits of sustainable finance for consumers

3.3.1. Choosing products that match your values

Sustainable finance allows you to make financial choices that reflect what you care about. If you want to support the environment and help communities, you can pick investments and financial products that do just that.

3.3.2. Earn better while supporting sustainability

Many sustainable finance options can help you earn money while also being good for the planet. By investing in responsible companies or projects, you can help the environment and grow your savings at the same time.

3.3.3. Helping local communities

Sustainable finance often supports local projects that create jobs and improve the economy. By choosing these options, you help your community grow and thrive.

3.3.4. More choices for consumers

As more people look for sustainable options, businesses are offering more green financial products.

By thinking about sustainability when managing your money, you can help create a better future, while also working towards your own financial goals


Practical scenarios of sustainable finance

Scenario 1: Thandi chooses Nedbank CIB

Thandi is an environmentally conscious investor looking to support companies that prioritise sustainability. After researching various banks, she discovers that Nedbank CIB has been recognised as the best bank for sustainable finance in South Africa. Thandi learns that Nedbank integrates environmental, social, and governance (ESG) factors into its lending practices and supports green projects. Impressed by their commitment to funding renewable energy initiatives, Thandi decides to invest her savings in Nedbank's green bonds. She feels confident that her investment will help promote a sustainable future while also providing her with solid returns.



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Scenario 2: John invests with Standard Bank

John is interested in investing in a company that makes a positive impact on society and the environment. He finds out that Standard Bank is a leading provider of sustainable finance solutions in Africa. The bank has committed to mobilising over R250 billion by 2026 for sustainable projects, including green loans and sustainability-linked funding. After reviewing their offerings, John decides to invest in a sustainability-linked deposit account with Standard Bank. He appreciates that his money will support projects aimed at reducing carbon emissions and promoting social development, aligning with his values of responsible investing.

Scenario 3: Cindy avoids a non-sustainable company

Cindy is exploring investment opportunities but wants to ensure her money supports ethical practices. She comes across a large mining company known for its environmentally harmful practices and lack of concern for community welfare. Despite the potential for high short-term profits, Cindy is turned off by the company's disregard for sustainability and social responsibility. Instead of investing in this company, she chooses to focus on financial services providers that prioritise sustainable finance. By doing so, Cindy feels she is making a more responsible choice that aligns with her commitment to supporting businesses that care about the planet and society.

These scenarios illustrate how Thandi, John, and Cindy make informed investment choices based on their values and the commitment of the companies they are investing in to sustainable finance. By opting for firms that prioritise sustainability, they contribute positively to their communities and the environment, while also seeking financial returns.

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