



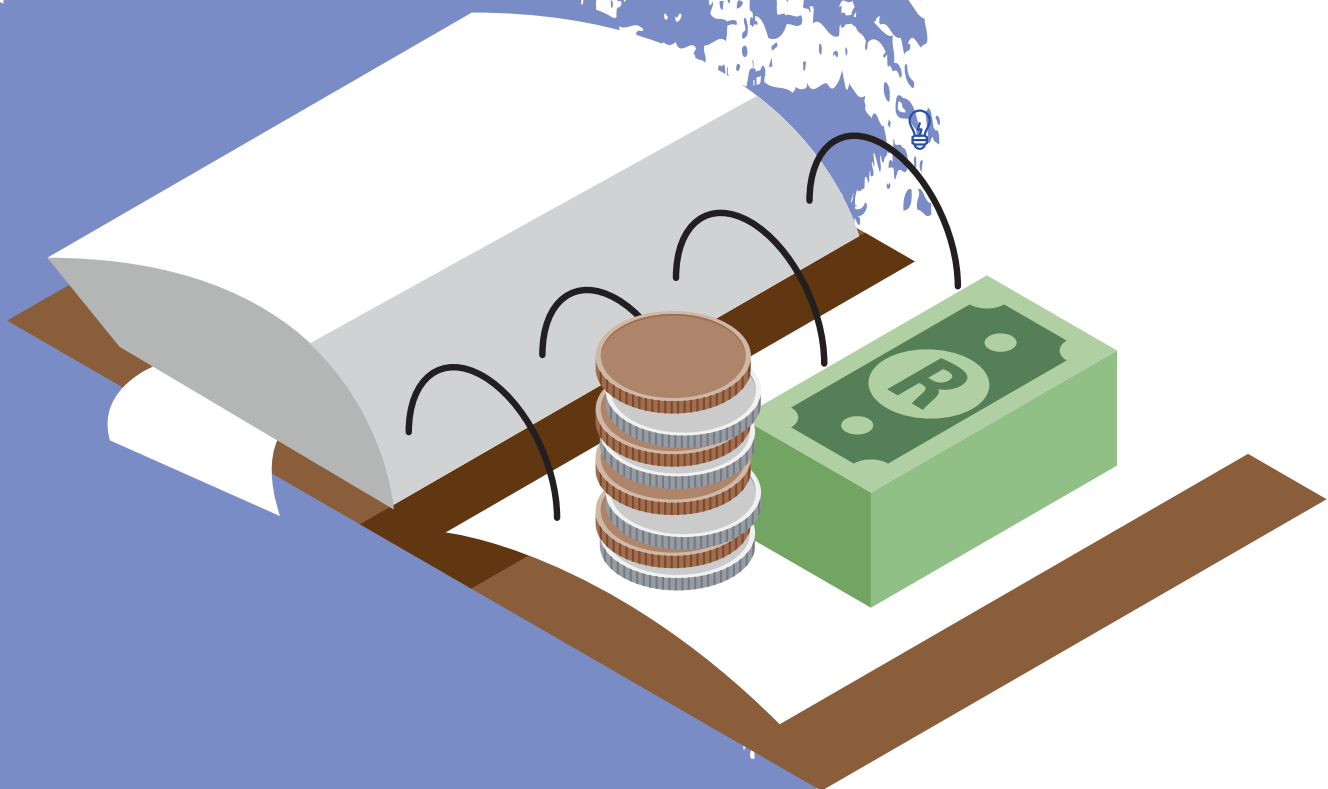
## Introduction

There are a number of reasons to invest. You may want to earn a return on idle resources, generate a particular sum of money, save for a specific goal or provide for future uncertainties, like the Covid-19 pandemic, for example. Ensuring that you have enough money to retire is also very important.

Depending on what you invest in, and how you choose to invest, you may make a profit if you sell your investment for more than you paid for it. You may also be able to earn income whilst you own your investment.



Refer to the Financial Safeguard Theme, sub-topic Fixed and Variable Interest Investment Products, for more on investment products.





## 1. Understanding investments

Naturally, we all want to achieve the highest return possible. However, we need to consider that different investments carry different types and levels of risk, and that returns are often not a black-and-white scenario. It is therefore important to balance the amount of risk with the return you want to achieve.

Before you invest, it is crucial to have an investment goal in mind and to consider exactly how long you may have to invest. You need to have an investment plan/strategy. This will help you decide how much money you want to invest and how you want to invest it. For example, do you want to grow your capital, save to beat inflation, or preserve the money you are putting away for retirement?



**NOTE:** Investing can be described as using your money to buy something that you believe will earn you more money in the future.

There are two categories of investments namely:

- Variable income investments. A variable-income investment pays interest or dividends at a rate that changes based on a variety of factors, such as the growth of the company being invested in, its economic situation and the behaviour of the financial markets. An example of a variable income investment is buying shares in a company.
- Fixed interest investments. An investment that pays interest at a rate known in advance by the investor, for example, government bonds.

### 1.1 Return on investments

When you invest, your invested amount of money is called your capital and the things you invest in, like shares, bonds and unit trusts (more officially named collective investment schemes), are referred to as assets.

What you earn on an investment is known as your Return on Investment (ROI).

If the price or value of your asset increases over the period you own it, your capital grows. Some assets may also earn income for you whilst you hold them, like dividend payments from companies that pay out profits (dividends are sums of money paid regularly, normally once a year, by a company to its shareholders out of the profits the company has made).

The money that you get from your investments that exceeds your capital amount is your Return on Invested Capital (ROIC) and could include capital growth and interest earned. Your ROI is the return you earn on any amount you view as your investment, and here you could view your reinvested interest earned (for example) as part of your invested amount.

The return on investment is expressed as a percentage. When formulating your investment plan, you need to decide what percentage of return you will need in order to achieve your goal.

Of course, you need to be very mindful of the fact that returns from investments that are dependent upon the performance of the financial markets or companies, etc., are not guaranteed. Often, the past performance of an investment cannot be used as a foolproof indicator of the future returns that may be earned from that investment.



#### NOTE:

- Capital is the money you invest.
- Assets are the instruments you invest in.
- Return is the difference between what you invested and what you get out at the end.
- Positive return = profit.
- Negative return = loss.

### 1.2 Risks and investment

Returns are very closely associated with risk, both type and level. These differ, depending on what you invest in. The most obvious and significant doomsday risk is the likelihood that you will lose all your money on a permanent basis. Risk can also mean that you don't reach your financial goal or that the investment value goes up and down unpredictably. For this reason, it is imperative that you understand what you are buying, and when and how it will earn you a return.

The value of an investment can also move up and down unpredictably as the asset prices change. For example, think about shares and bonds. Their prices are affected by supply and demand. If there is a high demand for a particular share, then the price will increase, however, if there is a sudden large amount of shares being sold then the price will decrease. Other things also impact share prices, such as economic cycles, global issues, etc.

This is known as investment volatility. Volatility can result in a permanent loss of money if you sell your asset for less than you bought it for at a moment when the price of the asset has moved down. This can be perceived as a risk. However, if your investment goals are to be achieved over the long term, you may be able to recover from volatility-based losses over time.



NOTE: Risk can be described as the possibility of loss, injury or other adverse or unwelcome circumstances. – Oxford Dictionary



NOTE: Stock market volatility is when the stock market goes up one day, and then goes down for the next five, then up again, and then down again. History has shown that time in the market is what generates good returns.

#### 1.2.1. Basic risk and return

Risk means the chance that something might go wrong, and you could lose your money. Here's a simple analogy:

- Low Risk: Saving your money in a bank is like storing it in a safe place. It's as secure as the balance sheet of that bank, and you'll earn a small amount of interest.
- Medium Risk: Investing in something like a small chicken farm. The chickens can lay eggs (profit), but if they stop laying eggs, get sick or prices drop, your income might decrease.
- High Risk: Investing in a cow. The cow could give you milk and help you earn a lot, but if the cow gets sick or dies, you could lose everything.

### 1.3 Importance of investment

Over time, the risk of the value of your investment decreasing as a result of inflation, rather than market volatility, is real. However, it is a bigger reality if you do not invest at all, or put your money in a savings account that pays less interest than the inflation rate.



Your money will lose value over time because of inflation, which everyone experiences. You will find that 10 years ago you could buy a whole lot more with R100 than you can today. Inflation decreases the value of money.

For this reason, you should be aware of how inflation can reduce the value of your money (inflationary erosion) when choosing an investment that fits your goals.

As previously stated, the longer you invest your money, the more opportunity you have to regain losses incurred as a result of market volatility. Also, bear in mind that the longer your investment runs, the more opportunity you have to realise compounded interest or income.

#### 1.4 Golden rules of investment

The golden rules of investment are:

- Invest early
- Invest regularly
- Invest for the long-term
- Diversify your investment options to avoid “placing all your eggs in one basket”

## 2. What is not an investment?

We have discussed what an investment is and the considerations when making an investment.

The following, for example, are not investments:

- Funeral cover
- Short-term insurance, such as car and household insurance
- Timeshare
- Buying a car

Why must I invest? It is an opportunity to:

- Grow wealth
- Generate a specified rate of return
- Grow your capital
- Become financially independent
- Provide for future uncertainties
- Be able to live comfortably during retirement

## 3. Investment considerations

There are four things to evaluate before you consider investing your money:

- What is your debt situation? You should not be investing money if your debt exceeds 35% of your household income.
- What is your savings situation? Have you made provision for emergency fund savings, retirement funding and medium-term savings? Should you save for your children’s education?
- Are you insured for eventualities? Do you have short and long-term insurance cover?
- How well are you preparing yourself for your retirement?



### 3.1 Your budget

It is vitally important to sort out your debt situation before investing money. Remember that the interest payable on loans far exceeds the interest generated on investments. Also, should you consider investing in a high-risk investment and you end up losing some money, you may find yourself unable to pay your debts. To ensure you are financially ready to invest, it is essential to first focus on clearing your debt.

Here are some steps to help you get started:

- Draw up your “GET-OUT-OF-DEBT” plan.
- Spend with cash only.
- Cut off your credit facilities.
- Negotiate with your credit providers to re-spread your debt to a manageable level.
- Work your plan with the intention of using the money you currently spend on debt on your future investment portfolio.



**NOTE:** Rule of thumb: Have at least 3 months' worth of salary in savings before thinking about investing in other products.

### 3.2 Financial needs

Financial journalist and author, Maya Fisher French, advises that when considering how to grow your wealth, certain stages of your life need to be taken into consideration.

#### The 20s – the Acquisition Stage

During this stage, you are literally acquiring. In your 20s you are probably completing your further and/or higher education, getting a job, a car and considering purchasing a home. From a financial security perspective, you would be considering medical cover, disability cover, and retirement planning. Yes – you should be considering retirement planning in your 20s already, if for no other reason than because of inflation over time, which means you need compounding of income over a longer term.

#### The 30s – the Game-Changing Stage

In your 30s you may be in a stable employment situation, and you may be earning more as a result of the increased work and perhaps educational experience. You may already have acquired a car and a home, be it a humble abode or a mansion. At this stage, you may be considering starting a family and as such, you should consider using your additional income for your financial planning rather than buying further luxury goods, a smarter car or a bigger house.

#### The 40s – the Sandwich Stage

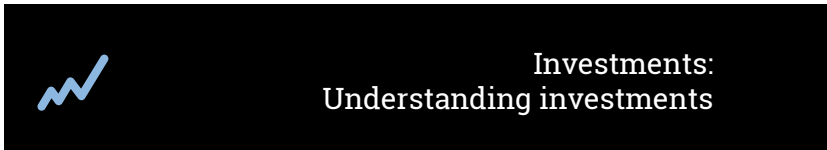
In your 40s you should technically be settled with relatively stable employment and plenty of work experience. During this phase of your life, you will, however, feel mounting pressure from the life that you have carved out for yourself. For example, you may need to pay for school fees, aftercare, car financing, home loans and the infrastructure required to keep your home ticking over. Your financial planning may well be focused on educational savings and life cover. At this point in your life, you have to start planning for your retirement if you have not already done so.

#### The 50s – the High-Risk Stage

Career wise, your risks increase as you proceed closer to retirement age. Many companies consider the “close to retirement” candidates first when downsizing. At this stage of your life, you should consider how to maximise your retirement contributions and perhaps some medium-term savings that will assist you with a “self-employment” strategy until you are ready to retire.



## More about



### The 60s – the Sweet or Sour Stage

This is absolutely your last chance to maximise your retirement funding. Your dependants may have moved on, and your mortgage should be paid up, so you could use the surplus cash flow to increase your retirement contributions. This is the stage of your life when you should be starting to wind down and enjoy the fruits of your hard labour. This is also the period you may experience immense regret for not having taken care of your financial matters earlier.

Irrespective of which stage of your life you find yourself in, you should be focusing on 5 key savings priorities:

- Emergency funds (crisis cash)
- Paying off short-term debt
- Medium-term savings
- Protection
- Retirement funding

© 2025 FSCA

#### Disclaimer

The information contained in this information booklet has been provided by the Financial Sector Conduct Authority (FSCA) for information purposes only. This information does not constitute legal, professional or financial advice. While every care has been taken to ensure that the content is useful and accurate, the FSCA gives no guarantees, undertakings or warranties in this regard, and does not accept any legal liability or responsibility for the content or the accuracy of the information so provided, or, for any loss or damage caused arising directly or indirectly in connection with reliance on the use of such information. Except where otherwise stated, the copyright of all the information is owned by the FSCA. No part of this information booklet may be reproduced or transmitted or reused or made available in any manner or any media, unless prior written consent has been obtained from the Financial Sector Conduct Authority's Office of General Counsel.

#### FSCA Contact Details

Riverwalk Office Park, 41 Matroosberg Road, Ashlea Gardens, Extension 6, 0181, Pretoria, South Africa | 012 428 8000 |  
Share call number: 0800 20 FSCA (3722) | [info@fsc.co.za](mailto:info@fsc.co.za) | [www.fsc.co.za](http://www.fsc.co.za)