

Bit by bit can make a big difference!



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There may be occasions when you have a large, once-off savings amount available to invest – when selling a property, for example, or when receiving an inheritance. But times are tough, and without such a windfall you may not have this spare cash on hand to put away.

Even then, remember that a regular, disciplined savings plan can help you work towards your financial security. Recurring premiums allow you to set up an automatic debit order that adds manageable monthly amounts to your investment on an ongoing basis. Investors at all income levels can therefore build a substantial investment over time.

In addition, recurring premiums offer investors a number of benefits:

A DISCIPLINED WAY TO SAVE

By setting up an automatic debit order to add to your investment on an ongoing basis, you're bumping saving to the top of your priority list. You remove the temptation to spend this money on anything else or to tweak your monthly savings goal should your budget start tightening before payday. Keep yourself in the habit of saving an appropriate monthly amount by increasing your debit order when your monthly income grows. By further opting for an automatic annual premium increase, you can ensure that your contributions are keeping pace with inflation.

STRUCTURE WITH FLEXIBILITY

Although recurring premiums do provide for discipline, new generation, unit trust based products also provide for changes in your personal circumstances. Depending on your product particulars, recurring premiums can be lowered to product-specific minimum amounts or, in some cases, be ceased altogether. Should you be faced with unexpected additional monthly expenditures, for example, you have the flexibility to structure your investment accordingly. You can also choose to increase your monthly premiums should you find you have more available to save. These adjustments to recurring premium amounts can be made as often as necessary, and without incurring any costs.

BENEFIT FROM INVESTMENTS OF SCALE

PPS Investments calculates your ongoing administration fees on a client level, as opposed to an individual product level. If the combined value of all your investments with us reaches a specified threshold, you'll benefit from correspondingly lower fees. Each recurring contribution you make will have the added benefit of moving you closer to the next threshold on our sliding scale.

THE POWER OF COMPOUNDING RETURNS

Compounding occurs when investment returns are added to your original investment and these additional amounts then start generating returns as well. Over time, you therefore earn returns on an increasingly larger investment, which magnifies the growth of your savings. In fact, Einstein himself referred to the effect of compounding as the "most powerful force in the universe"!

Consider a monthly debit order of R1,000, invested for ten years at a constant rate of return of 10% (compounded monthly).

Monthly saving	Total amount invested	Growth		Compounding effect		
		Without compounding	With compounding	Rand terms	% of total return	% of total amount invested
R1,000	R120,000	R186,000	R204,845	R18,845	9%	16%

Through no additional effort or outlay, this investor would have made close to R20,000 purely from the impact of compounding – a return of 16% on the amount invested.

Compounding is primarily influenced by two factors: Compounding frequency and compounding term.

In the first instance, the more regularly returns are added to your original investment amount, the faster this initial capital grows. The second factor to consider is how long you remain invested, as the longer you expose yourself to potential returns, the greater the impact that compounding will have.

Let's look at another example to compare returns that would have been generated over a longer period. Using the same monthly debit order of R1,000 and a constant rate of return of 10%, consider the difference in total capital accumulated at retirement (age 65 years) had an investor simply started saving five years earlier:

	Start investing at 25	Start investing at 30
Total contributions	R480,000	R420,000
Total interest	R5,844,079	R3,376,638
Value at retirement	R6,324,079	R3,796,638

So you invest R60,000 more, but earn almost R2.5m extra!

RAND COST AVERAGING

Rand cost averaging is the technique of buying a fixed rand amount of a particular investment on a regular basis, regardless of the price. In this way, more units are purchased when prices are low and fewer units are bought when prices are high.

By investing in regular monthly amounts, you get an average cost per unit over time. So not only do you avoid the risk of investing all your money at an inopportune time when units are very expensive, but you also don't have to worry about keeping abreast of market movements to time your investments tactically. Through rand cost averaging, the impacts of market fluctuations are smoothed out over the long term.

As we approach the end of the year, why not look at starting 2013 afresh? Consult your financial intermediary, examine your monthly savings habits and evaluate whether you are

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able to allocate a suitable monthly sum – or a portion of the salary increase you may soon be awarded – to an appropriate savings vehicle. Remember that a debit order investment allows you to start out with a relatively small investment amount, so you can start saving as soon as possible and stay invested for longer. ■