WHERE TO SAVE YOUR MONEY

Starting your first investment can be a little intimidating, there are so many opportunities to lose money or get ripped off. At the same time, you know that it is a good idea to save but you have so many things to do with your money. The good news is that there are some easy-to-understand investment options that are low cost and will generate good growth, you just need some common sense and patience.

Before choosing an investment, you should set your investment goals. These will usually be linked to time where you may have a goal that needs to be achieved in months (e.g. a holiday) or years (e.g. saving for a house). The length of time will determine what type of investment you should make.

SHORT TERM GOALS: 1 MONTH TO 3 YEARS

If you have a goal that needs to be achieved within a period of three years, you should not be taking investment risks. Rather invest in a money market or fixed deposit account at a bank. Make sure you ask lots of questions before signing any forms to start an investment at a bank. Some banks will get you to speak to a "consultant" or "advisor" who will try to steer you into buying a unit trust or other product where they charge upfront commission. With cash investments, you should be very cost conscious as fees will eat into your returns. Don't make any investment where the bank charges initial fees for making a money market investment.

Most of the banks offer instant access money market accounts where they charge no fees and pay relatively high interest. Generally you will earn higher interest on bigger amounts and on amounts that are invested with the bank for longer periods. This means you will earn more on a six month fixed deposit than on a 32 day notice account. Be sure to shop around and don't blindly follow the advice of the "consultant" at the bank because they earn commission so they are not paid to look after your interests. You can also invest in a money market unit trust offered by an investment advisor but make sure that you do not pay upfront fees; it is acceptable for an advisor to earn an annual fee from your unit trust but only if your interest is better than the banks.

LONGER TERM GOALS: 3 YEARS

If you are planning for a long term goal i.e. more than 5 years, you should be prepared to take investment risk. That means you should look at shares instead of cash. Shares will give you three or four times more growth than cash but shares are more risky. That is why you need to invest this money for longer periods of time. There are many ways to invest in shares, you can buy them directly through a stock broker, via an Exchange Traded Fund (ETF), through unit trusts, endowments or even retirement annuities.

With smaller amounts of money, the cheapest and easiest way to invest in shares is through an ETF. An ETF allows you make one investment where you buy many underlying shares. You can invest on a monthly basis with a minimum of R300 per month or with a R1,000 lump sum. The only real downside is that they charge an annual fee of 1% when you do monthly investments, but this is still low compared to most share based unit trusts.

You could also buy individual shares directly through a stock broker. This would mean that you would actually own Anglo or SAB etc. This would require some research on your part as you need to be very sure of what you are buying. Individual shares can generate great returns but can also lose you loads of money if you choose badly. You should aim to buy shares in minimum lump sums of R30,000 per share. You will need 8 shares to have a properly diversified share portfolio so you will require R240,000 to start your own portfolio.

You can access shares through unit trusts. You get many types of unit trusts as they are allowed to invest in shares, cash, bonds or property. It is important to understand that a unit trust is not the same as shares. It is merely a way for many investors to pool their money to lower costs. Unit trusts are well regulated so you can rely on the information supplied in the marketing material – often called fact sheets. The fact sheet explains the risks, costs and returns of the unit trust. Try to invest in funds that have a track record of at least 5 years or more. Don't buy the best performing unit trust of the moment because top fund today could easily be the worst fund in six months. Look for a fund that has generated consistent growth and has beaten the JSE over 5 years or more. There are not many of these funds because it is hard to beat the JSE, so do your homework. Be wary of costs, you should not pay upfront fees and you should only pay annual fees of 1.5% - 2.3% per year.

SAVING IS NOT COMPLICATED BUT IT IS DIFFICULT

If you follow the investment principles set out above, you will be a very effective saver. People often try to create a sense of mystique about the investment business, in truth it is not a complicated business but it is very difficult. This is because most people are incapable of spending less than they earn and they don't like to wait for 5 years to achieve a goal, they want instant gratification. With investments, time and patience are your biggest allies and short term thinking is your greatest enemy.