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Challenging Conventional Wisdom

NEWSLETTER

Monthly Newsletter – April 2014

Note from Theo and Warren

The table below shows the performance of the main investment asset classes in South Africa over the last 12 months to the end of March. It's interesting to see that listed property and bonds have delivered no growth over the last year in stark contrast to their long-term returns.

For example, listed property has averaged 23% growth per year over the last 10 years (an exceptional period for this market) but only 1% over the last year. This is a good illustration of how asset class performance always returns to the long term average over time.

When we consider the local stock market, the ongoing concern about the high levels of the JSE are valid, but this does not mean that we should avoid shares as an asset class. Rather we should adjust our expectations of the future growth that we can expect from shares. At current levels, we would anticipate that shares might average closer to 10% growth per year for the next five years.

While this is not as good as the growth that we have seen in the recent past, it is still likely to be better than any of the other major asset classes. Property is still considered to be expensive and so are bonds, so if interest rates continue to rise, it is likely that these asset classes will also deliver muted growth over the next few years.

Index name	Asset Class	Returns over last 12 months	Returns over the last 10 years p.a.
JSE All Share	Shares	23.57%	19.54%
JSE ASSA All Bond	Bonds	0.80%	9.16%
JSE Listed Property	Listed Property	1.12%	23.16%
Stefi 3 month	Cash	5.08%	7.36%
SA CPI	Inflation	5.92%	5.91%

Our conclusion is that there is no reason to be gloomy about the prospects for growth from our investment markets. We just expect lower growth than we have seen over the last few years.

-- Theo and Warren

Six money myths

Whether or not we realise it, we all think about money in a particular way, and the beliefs we hold are formed during childhood, mostly, or gleaned from the society we live in.

The problem is, many of these beliefs aren't true: how many of these do you hold?

1. The more money I earn, the happier I'll be – the amount you earn doesn't always correlate with how much you have. Sometimes people who earn a lot spend a lot too. What matters more, is how you manage your money.

And more money doesn't necessarily mean more happiness either. Rather, research shows that what you spend on has more of an impact on your happiness.

2. My kids should be my financial priority – of course, if you're a parent, your first responsibility is to make sure your kids are clothed and fed and comfortable, but when it comes to bigger personal finance goals, like saving for your retirement versus their tertiary education, the opposite is actually true. You have to take care of yourself first, so you're able to take care of your kids. Just remember – there are student loans to pay for tertiary education, but there are no loans for your retirement. And that could put financial pressure on your kids later when they end up supporting you.

3. Debt is always bad – there are plenty of debts that are 'bad', of course: money you borrow to pay for something other than an asset that's likely to increase in value. And being in debt to a friend or family member is another instance. Even a car loan isn't great, because you car's value decreases with time. But there is good debt – money you borrow to pay for something you expect to increase in value. Student loans and property are two good examples.

4. I should put off my life goals until I can afford them (having kids, going back to school, etc.) – this really depends on your personal financial situation. So, if you can't afford your rent, then you should probably wait before you have a child, for example. But generally speaking, you should be saving up for longer-term money goals so you can create the life you want, without the cost taking you by surprise. Start an emergency fund so you're always covered, and also set up separate savings accounts to fund your different goals.

5. Never rent when you can own – buying a house shouldn't be a romantic decision, it should be a financial decision. Start by assessing where your life is headed – if you don't plan on being in the same city or even neighbourhood for the next few years, it makes no sense to buy property, because it takes time for property to appreciate. Also decide how much you can actually afford – there are a lot of costs that come with home ownership outside of your mortgage.

6. Money is the root of all evil – money, on its own, isn't good or bad. It's what you do with it that matters. There are examples of rich, corrupt people, but there are also examples of rich, moral people, like Bill Gates, and poor, corrupt people. Always remember that money is about choice, and you can use it to reach your goals, whatever they might be.

Get more done

Are you struggling to get things done? You might want to rejig your routine a little so that it suits you. Here are some tips that might help you refine the way you do things.

1. Do something for yourself first. This is the reverse of what we're usually taught – get the 'have to' stuff out of the way and then do the 'want to' stuff. But if you do something you love first, you start the day in a more positive frame of mind, and more inspiration means more productivity.

2. Take the time to refine things. We live in a world of instant gratification where it's all too easy to dash things off. But the approach writers take – of a rough draft and several rewrites – works in other spheres too. Often when you come back to something you notice the errors and refinements required, which saves time in the long run.

3. Change your routine to suit your life. Good routines are quirky and idiosyncratic and only really work for the person practising them. So find a system that helps you get the work done, and then use it.

4. Save time wherever you can. Walk fast. Have a quick lunch. Read the newspaper on the train or bus to work,

pack the dishwasher while the kettle boils and listen to audiobooks while you're on the treadmill. All those minutes saved can give you an extra hour or two in a day.