BIZCOMMUNITY

Shun equities at your peril

By Anet Ahern

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The most recent figures released by the Association for Savings and Investments South Africa (Asisa) show a historic influx of investment into local unit trusts over the last quarter. In fact, this is the highest net quarterly inflow on record, at R88bn. Of this amount, around R44bn was invested by individual investors, and a big portion of that was brand new money that had not been invested before.

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This influx of investment may come as a surprise to many, in light of the Covid-19 pandemic, but it's important to look at what kind of investment has gained the most ground. South African interest-bearing money market portfolios attracted by far the biggest share of investment. This reflects a highly defensive mindset, which is in line with what we would expect given the impact of Covid-19 on markets and the economy as a whole.

Many investment portfolios have been severely bruised in 2020, and it is understandable that investors are looking for perceived safe havens, such as money market investments. However, investors need to understand that while these investments may have fared better during the pandemic, they are highly unlikely to help investors rebuild their wealth over the long term.

Building long-term wealth

Investors seeking a smoother ride by switching to cash or buying popular stocks at any cost may find that this 'safe' approach will in fact prove to be more risky over the long term. Governments across the globe have slashed interest rates to counteract the impact of Covid-19 on their economies. As a result of this, 'safe' assets have become even less likely to outperform inflation for the foreseeable future.

Equities remain the place to build your long-term wealth, despite the discomfort investing in them can cause from time to time, due to higher volatility. For those who are concerned about their retirement savings, and who have more than 10 years to go until retirement, investing part of their overall portfolio into equities remains crucial.

Although the overall message from the Asisa figures is that investors are in defensive mode, there are some signs of optimism in the SA equity space. In the last quarter, investors moved out of SA multi asset high equity, medium equity and low equity portfolios resulting in net outflows for these sectors, and instead favoured investing in the SA equity general portfolios.

International diversification

Locally registered foreign portfolios recorded net outflows for the second consecutive quarter. These foreign currency denominated portfolios are only accessible once the necessary clearance to invest has been obtained from authorities, and investors have bought the necessary foreign currency. This might show investors perceive the rand to be undervalued, with it having weakened considerably during the early stages of the pandemic.

However, international diversification remains an important consideration for investors. Analysis shows the rand has been undervalued relative to other currencies for some time. While it may reverse course, there is no certain way to predict when this is likely to happen. Investors should therefore ensure their portfolios are diversified appropriately in line with their risk profiles.

The market is currently presenting some incredible opportunities for investors who are focused on the long term, and who understand that the price they pay for a share is a critical component of its ultimate returns.

ABOUT THE AUTHOR

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