

# FUNDamentals



## Time-tested investment principles

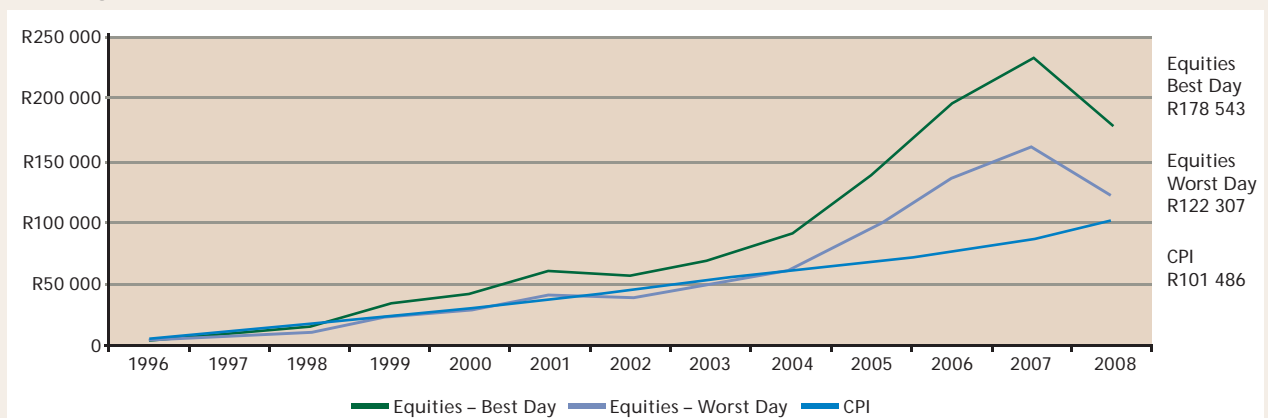
We believe the following principles remind long-term investors of the benefits of staying the investment course by remaining invested in the markets.

### 1. It's not when, but if you invest that counts

#### Any time is a good time to start investing

While no one can predict which investments will perform well and when, investors should be aware of market cycles and how events impact corporate performance, investor confidence and ultimately, investment returns.

Recurring Investment R5000



#### Equities – Best Day

Investing R5,000 in Equities on the “Best Day” Each Year—When Stock Prices Were Lowest

#### Equities –Worst Day

Investing R5,000 in Equities on the “Worst day” Each Year—When Stock Prices Were Highest

#### Inflation

Investing R5,000 in January of each year

Line Chart Source: Bloomberg.

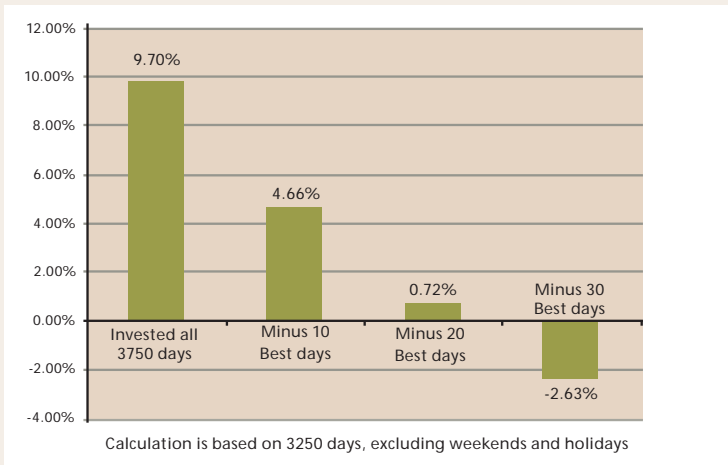
Assumes all dividends were reinvested and there were no fees or sales charges. Past performance is not indicative of future results. The equity investment is represented by the values of the JSE AISI Top 40 Index over the period, with purchases made on days with highest and lowest values respectively, and plotted based on December 31 values of each year.

Whatever the current economic climate, an experienced financial adviser can offer personalised guidance that combines knowledge from past business cycles with analysis of factors currently impacting an investor's portfolio.

## 2. It's time in the market, not market timing

### One key to success: patience and commitment

Average annual total returns of the JSE AISI Top 40 1996 – 2008



Switching investment funds to seek improved performance doesn't always result in improved performance

The decision to switch investment funds to seek improved performance with another doesn't always result in improved performance. This example serves to illustrate that performance chasing for any investor can be a difficult strategy to execute. Past performance is not a guarantee of future results.

## 3. Put time on your side – start investing today

### A R100 000 investment over 20 years: the power of time and compounding

|                                      |   |
|--------------------------------------|---|
| Starting age                         | 45  |
| Monthly investment                   | R 1,000.00                                |
| Number of years making contributions | 20  |
| Ending value at age 65               | R 765,696.91                              |
|                                      | Number of years to invest 0 until age 65  |
|                                      | Ending value at age 65 R 765,696.91       |
| Starting age                         | 35  |
| Monthly investment                   | R 1,000.00                                |
| Number of years making contributions | 20  |
| Value at age 55                      | R 765,696.91                              |
|                                      | Number of years to invest 10 until age 65 |
|                                      | Ending value at age 65 R 1,986,020.59     |
| Starting age                         | 25  |
| Monthly investment                   | R 1,000.00                                |
| Number of years making contributions | 20  |
| Ending value at age 65               | R 765,696.91                              |
|                                      | Number of years to invest 20 until age 65 |
|                                      | Ending value at age 65 R 5,151,225.92     |



## 4. Save a little, save often

### Rand cost averaging or every Rand counts

Take advantage of market fluctuations - without worrying about timing your transactions - by Rand cost averaging. With Rand cost averaging, you budget a fixed amount of money to invest at regular intervals. By implementing this strategy, you buy more units when prices are low and fewer when prices are high, generally resulting in a lower average cost per unit.

#### Average

##### Recurring investment in a rising market

|                 | Jan  | Feb   | Mar   | Apr   | May   | Jun   | Jul   | Aug   | Sept  | Oct   | Nov   | Dec   | Total  | Cost / unit |
|-----------------|------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|--------|-------------|
| Invest          | R100 | R100  | R100  | R100  | R100  | R100  | R100  | R100  | R100  | R100  | R100  | R100  | R1200  | R30.10      |
| Unit price      | R24  | R25   | R26   | R27   | R28   | R30   | R31   | R33   | R34   | R36   | R37   | R39   |        |             |
| Number of units | 4.00 | 4.167 | 3.846 | 3.704 | 3.571 | 3.333 | 3.226 | 3.030 | 2.941 | 2.778 | 2.703 | 2.564 | 39.863 |             |

##### Recurring investment in a variable market

|                 | Jan   | Feb   | Mar   | Apr   | May   | Jun   | Jul   | Aug   | Sept  | Oct   | Nov   | Dec   | Total  | Cost / unit |
|-----------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|--------|-------------|
| Invest          | R100  | R100  | R100  | R100  | R100  | R100  | R100  | R100  | R100  | R100  | R100  | R100  | R1200  | R22.14      |
| Unit price      | R24   | R22   | R27   | R18   | R16   | R19   | R21   | R23   | R25   | R29   | R25   | R24   |        |             |
| Number of units | 4.000 | 4.545 | 3.704 | 5.556 | 6.250 | 5.263 | 4.762 | 4.348 | 4.000 | 3.448 | 4.000 | 4.167 | 54.209 |             |

##### Recurring investment in a falling market

|                 | Jan   | Feb   | Mar   | Apr   | May   | Jun   | Jul   | Aug   | Sept  | Oct    | Nov    | Dec    | Total  | Cost / unit |
|-----------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|--------|--------|--------|--------|-------------|
| Invest          | R100  | R100  | R100  | R100  | R100  | R100  | R100  | R100  | R100  | R100   | R100   | R100   | R1200  | R13.53      |
| Unit price      | R25   | R22   | R20   | R19   | R18   | R16   | R15   | R13   | R12   | R10    | R9     | R7     |        |             |
| Number of units | 4.000 | 4.545 | 5.000 | 5.263 | 5.556 | 6.250 | 6.667 | 7.692 | 8.333 | 10.000 | 11.111 | 14.286 | 88.703 |             |

##### Lump Sum investment

|                 | Jan   | Feb | Mar | Apr | May | Jun | Jul | Aug | Sept | Oct | Nov | Dec | Total | Cost / unit |
|-----------------|-------|-----|-----|-----|-----|-----|-----|-----|------|-----|-----|-----|-------|-------------|
| Invest          | R1200 |     |     |     |     |     |     |     |      |     |     |     | R1200 | R24.00      |
| Unit price      | R24   |     |     |     |     |     |     |     |      |     |     |     |       |             |
| Number of units | 50    |     |     |     |     |     |     |     |      |     |     |     | 50    |             |

### Why should you begin Rand cost averaging now?

Rand cost averaging is a strategy that is:

- **Automatic** – Transfer a set amount directly from your bank account on a monthly basis
- **Sensible** – Systematic investing allows you to avoid the temptation of timing the market, while allowing you to reduce your average cost per share
- **Affordable** – Low monthly premiums
- **Profitable** – Allows you to buy more shares when prices are low

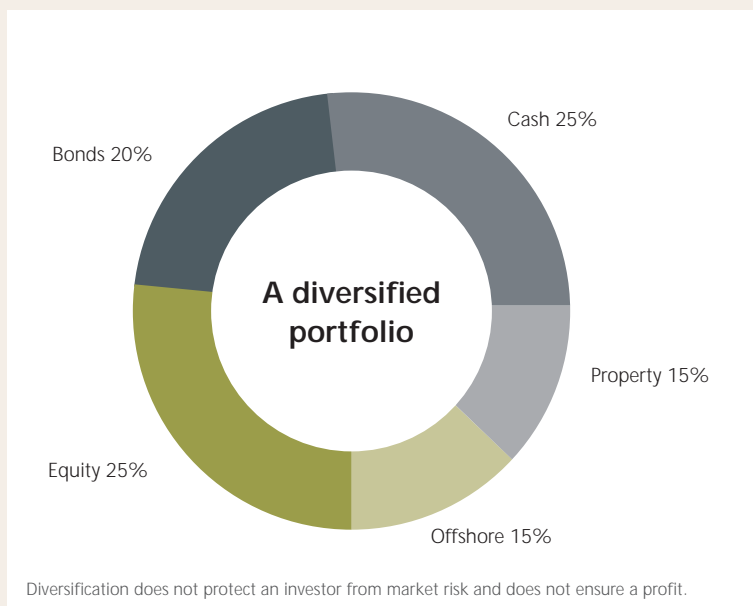
Because Rand cost averaging involves regular investments during periods of fluctuating prices, you should consider your financial ability to continue investing when price levels are low. This approach reduces the effects of market fluctuation on the average price you pay for your units. Most importantly, it helps you maintain a regular investment plan. Such a plan, however, does not assure a profit and does not protect against loss in declining markets.

## 5. Diversify your portfolio

Spread your money across a variety of investments—equity, fixed income and cash

The old saying about “not putting all of your eggs in one basket” is especially true when it comes to investing. A properly diversified portfolio should include a range of asset classes from both South Africa and abroad: equities of different sectors and capitalisations; bonds with varying maturities; and even cash instruments like money market funds.

Diversification can help reduce overall portfolio risk — if a single investment is not performing well, its performance should be balanced by other investments which are doing better at that time.



Diversification can help reduce overall portfolio risk

## 6. Plan your asset allocation

It's key to helping you achieve your goals

Asset allocation is the process of developing a personalised, diversified investment portfolio by strategically mixing different asset classes in varying proportions.

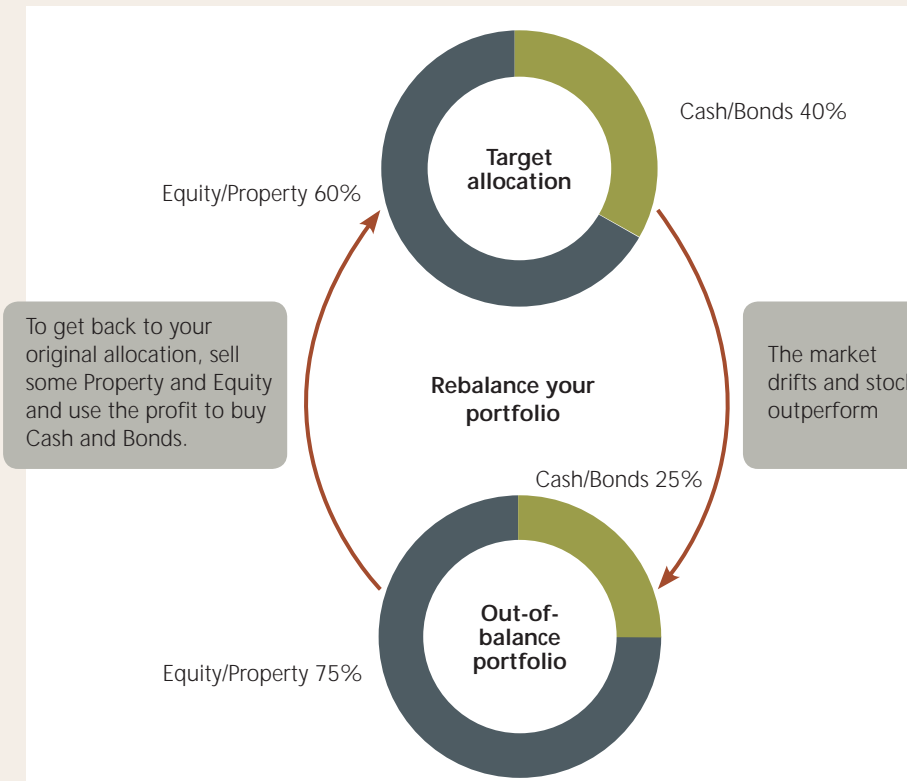
When working with your financial adviser to plan your asset allocation, make sure to discuss your:

- **Goals:** Saving for retirement, funding a child's higher education, buying a new home
- **Time Horizon:** How long your investments will be working toward your goals
- **Risk Tolerance:** How comfortable you are with potential fluctuations in the value of your investment portfolio

## 7. Rebalance to stay on track

### Markets change, and your portfolio should too

Once you've worked with a financial adviser to decide which investments best suit your portfolio, it's important to revisit those decisions. Markets change, and rebalancing helps you maintain your target asset allocation. If the value of an asset class in your portfolio increases, the ratio of the other asset classes could change. Over time, you could end up with more risk than you realise, if your assets aren't adjusted periodically to ensure they still meet your target allocation.



Rebalancing helps you maintain your target asset allocation

The idea behind rebalancing is to get back to the original allocation that was developed with your **Goals, Time Horizon** and **Risk Tolerance** in mind.

#### How do you know when its time to rebalance?

Review your asset allocation regularly with your financial adviser to ensure your investments are in line with your needs and expectations — and invariable market shifts.

All investing involves some degree of risk, whether it is associated with market volatility, purchasing power or a specific security. The equity markets are volatile, but not all stocks are equally volatile. Fixed income investing entails credit risk and interest rate risk. When interest rates rise, bond prices generally fall.

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