Prudential Investment Managers

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Tips for successful investing towards a goal in the new year

So you're already saving for retirement, but you want to start 2019 by investing towards another special goal, like a deposit on a nice home for your family or a family trip to celebrate your mother's 60th? No problem. With sound financial planning and an informed approach to investing, that goal should be within your reach. Here's how to go about it.

First of all, well done for prioritising your retirement! No matter what your short-, medium- or long-term goals are, it's absolutely vital that you take care of your retirement first. It may seem a long way off, but there will come a time when you're not as able to earn an income as you are now… and your future self will be very grateful indeed.

Saving versus investing
You'll notice that we said "investing towards another goal" in that opening paragraph, and not "saving towards another goal". There's an important difference between saving and investing. Saving involves not spending your money. Whether you've stashed your

money in a bank account or in a sock under your bed, the key point here is that simply accumulating cash doesn't allow you to earn any additional money with it; in fact, its value is being eroded because of inflation. Our 5%-6% annual inflation rate in South Africa means your money needs to earn at least that rate of return just to maintain its purchasing power over time. Bank accounts rarely offer interest rates above inflation, and bank deposits might give you 1-2% p.a. above inflation over time.

Reward versus risk

Investing, meanwhile, puts your money to work immediately with the aim of seeing it grow over time. The rate of growth you receive (the return on your investment) will depend on the type of investment you choose, and this should be based on the objective of your investment. In general, if you have a short-term goal that is, say, 1-3 years away, you don't have as much time for it to grow, so any market downturns would have a bigger impact on your final return. Therefore your investment should be more conservative (such as a money market, income or diversified low-equity unit trust). If you have more time, say 5-7 years, your investment can carry more risk (such as a high-equity balanced or listed property unit trust), while potentially earning a higher return. And for 7 years or longer you can choose the most risky option of an equity unit trust, which in theory offers the highest upside growth potential.

While saving theoretically carries very little risk of you losing money, from the above you can see that investing does inevitably come with some measure of risk: as with most things in life, the higher the risk, the higher the potential reward. The trade-off, however, is that the potential for growth is usually far greater when it comes to investing, compared to a pure savings vehicle.

The good news is that you can help lower your investment risk if you have a medium- to longer-term goal, since the odds of your investment losing value decrease over time. So the longer you stay invested, the more likely you are to meet your goals. Another way to lower your risk is through diversifying the types of assets you invest in.

Key questions to answer
So it's obvious that the first question you should ask yourself when it comes to investing for a new goal is: What is your time horizon? The longer the time horizon, generally the more risk you can afford to take.

The second question you should ask is: Is your goal realistic? This isn't about being defeatist; it's about making sure you manage your expectations, that you regularly contribute the correct amount towards your investment, and that you balance investing with enjoying life. For example, it may be realistic to invest towards the five-year goal of an overseas trip; it may be beyond your reach to invest towards the two-year goal of buying a house! It's important to set goals, and even more important to make those goals achievable. Put a number on it. It may be R75,000 for an overseas trip in two years' time, or R150,000 to start a business five years from now.

With these questions answered, you should be able to determine the appropriate investment vehicle to achieve your goal. Your question now is: Which unit trust(s) should you choose? This is where our online Goal Calculator and Fund Selector tools will come in handy. And although the past performance of a unit trust fund is no guarantee of its future returns, our Past Fund Performance Tool can give you a rough idea of what growth to expect from each type of fund. At Prudential we would suggest that you start the new year by speaking to a financial adviser to help determine the investment strategy that's best suited to your budget, your risk profile and your goal. Your adviser will also help you stay the course when market conditions get tough, which increases the chances of getting the returns you're hoping for.

Remember always that the keys to investing are consistency and time… so the longer you stay in the market, the more likely you are to reach your new year's goal.

If you have any questions about how to invest towards a goal, speak to your financial adviser or contact our Client Services Team on **0860 105 775** or email us at query@prudential.co.za.

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