



Prudential Investment Managers

AUGUST 2019

Stokvels and unit trusts: know the difference!

Depending on who you ask, there are anywhere between 800 000 and a million stokvels running in South Africa, handling anywhere between R40 billion and R50 billion a year. That's an astounding number, which begs the question: what are stokvels and how do they compare to unit trust?

Stokvel 101

As the saying goes, there's safety in numbers. So while you might not be able to save up a load of money in a short space of time all by yourself, you may have greater success if you got a group of friends together and pooled your savings.

That's the basic thinking behind stokvels: they're invitation-only savings clubs, where a group of people each chip in a fixed amount of money, and then at a certain point in time (usually at the end of the year), the total pot gets either shared among each member, allocated to a single member (don't worry...each member gets a turn) or used to collectively buy items to be shared among all the members in the group.

There are no set rules around stokvels. It could be five people or 25 people. The contributions could be R100 or R1000; usually everybody gives the same, but there's no set amount. Those contributions can be weekly, monthly, fortnightly... whatever works for you and the group. And when it's your turn to get paid out, you can do with it whatever you want. The main benefit of stokvels is that they help everybody in the group to keep on track with their savings. It's all about mutual commitment and shared goals. You're in it together.

How do unit trusts compare?

Unit trusts, (like stokvels) involve a group of people pooling their money together, drawing on the 'strength in numbers' to gain access to assets that would have otherwise been difficult (or costly) to access themselves.

Unit trusts serve a very specific goal... and that's to make your money grow over time.

While stokvels are used primarily as savings vehicles, unit trusts serve a very specific goal... and that's to make your money grow over time. The way that it works is relatively simple: you choose a fund that you like (or more specifically, a fund that matches your investment objective, time horizon and risk profile), and then you use your contributions to purchase units in that fund. As the value of your units goes up or down (depending on how your fund performs), so does the value of your investment.

Another difference worth mentioning is the extent to which both vehicles are regulated. In most instances stokvels are self-regulated, however they may be required to comply with the Friendly Societies Act depending on their size and nature. Certain organisations like the National Stokvel Association of South Africa (NASASA) are also around to provide stokvels with some level of guidance. Unit trusts, however, are highly regulated by various acts (such as the Collective Investment Schemes Control Act, Income Tax Act, Financial Intelligence Centre Act and Financial Advisory and Intermediary Services Act), and regulatory bodies (such as the Financial Sector Conduct Authority). What this basically means is

that there are significantly more controls in place to protect your money when it comes to investing in unit trusts, compared to saving in a stokvel.

If you're considering joining a stokvel, make sure that you've done your research and that the group you are joining is above board. Ask questions like: is the stokvel registered with NASASA, does it have a constitution (this basically sets out the rules and requirements) and is my money safe and earning the best interest. Most stokvels tend to keep their members' contributions in a bank account, where they earn little or no interest. A far more efficient way to "park" your money is to invest it in a low-risk fixed-income unit trust, such as the Prudential Income Fund. These types of investments have the potential to grow your money at a significantly faster rate compared to leaving it in a bank account.

And this is probably the biggest difference between stokvels and unit trusts. While the one is regarded as an informal savings club, the other is a well-regulated investment vehicle, designed to grow your money over time.

For more information about unit trusts or how to invest with Prudential, contact our Client Services Team on 0860 105 775, chat with us on social media or email us at query@prudential.co.za.