



Prudential Investment Managers

DECEMBER 2020

Three tips to navigate this year's festive season

There's something about the festive season that makes it one of the most wonderful times of the year. While there are many reasons behind this celebratory attitude, which differs from one person to the next, a central theme is that it somehow becomes slightly easier to throw caution to the wind and to spend money more freely (and perhaps more carelessly) compared to the earlier months of the year.

While many of us may have gotten away with this type of frivolous spending in years gone by, 2020 has brought with it the sobering reality that our future earnings may not be as guaranteed as we might have thought. In fact, this festive season may very well require some significant adjustments to the way in which we think about money, and consequently, the way in which we spend it.

While working wisely with your money has always been important, the events of the past year have meant that the opportunity for carefree spending (and the ability to recover from it) may very well be off the cards. Fortunately, it's still possible to enjoy the festivities without

compromising your financial footing. To help guide you, we've listed three tips on how to navigate this year's festive season.

1. Live within your means

If you're feeling demoralised about having less money to spend this year, the reality is that you're not alone. The national lockdown has resulted in the closure of many sectors of the local economy, and while this was (and remains) a necessary step to help combat the spread of the pandemic, the result has been that many people lost their ability to earn an income during this time. This, of course, makes the prospect of taking on additional debt to fund your festive activities that more appealing (we'll discuss this in more detail below). However, it's important to remember that with debt comes additional risks, and that one of the most effective means of recovering from financial difficulties is to simply live within your means.

2. Beware the debt trap

With interest rates currently at exceptionally low levels, taking on additional debt may seem like an attractive option. But before you tap into your credit card or take out that personal loan, it's important to remember that the more debt you have, the more interest you'll end up paying in the long run.

A good starting point is to draw up a budget. This will not only give you a good idea of how much you have to spend but also where you might be able to free up some extra cash. And if you are considering taking on additional debt this festive season (something that is strongly discouraged), drawing up a budget will help you determine just how much you can afford to pay back as a monthly instalment, which is a great way of assessing how much debt you can assume without significantly worsening your financial position.

3. Don't withdraw from your investments

Another very real temptation in the current environment is to withdraw from your investments. It's worth remembering that investments are typically long term in nature, which means that by withdrawing you not only reduce the value of your investment in the present, but that you also risk eroding the potential for future gains in years to come.

We need only take a short trip through history to demonstrate this point. Looking back at the start of the Global Financial Crisis in 2008, many investors cashed in their investments at significantly low values. But what followed next was the longest equity bull run in history. Those who took advantage of the cheap valuations and stuck to their investment objectives benefited from the market recovery, while those who sold out of their investments locked in their losses and missed out on the significant returns that followed.

Already, we have started to see signs of a turnaround with local equities (the FTSE/JSE All Share Index) up 14.2% in rand terms and an impressive 30.2% in US dollar terms for the six months ending 30 November 2020. Granted, no one can predict the extent to which this recovery will continue, but the important takeaway is that cashing in your investment at the wrong time has potentially negative consequences.

As a concluding thought, this festive season will be a challenging one for many, and it's very likely that there will be far fewer gifts being exchanged this year. So if you're feeling the financial pinch, know that you're not alone and that there are certain strategies that you can employ (and others that you should avoid) to get through this festive season. Hopefully, these tips will help you emerge from what has been a turbulent year with your finances intact, and in a financially healthy position to start off the new year.

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