PRUDENTIAL **INSIGHTS**

Prudential Investment Managers

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Financial freedom: What is it, and how can you get there?

As we reflect on Freedom Day in South Africa, perhaps it is a good time to also think about the idea of financial freedom. Many people consider financial freedom to be something elusive, like winning the lottery. But in reality, it is more achievable than people think – provided you are prepared to adjust your lifestyle and expectations somewhat.

Financial freedom generally means that you have enough money saved to maintain your lifestyle for the rest of your life, without being dependent on a monthly salary. You may choose to keep working, but you have the freedom not to if that suits you better. Being financially free means you do not have accumulated debt or bills you struggle to pay off. You can cover unexpected expenses when they arise, and generally have the resources to meet your financial obligations. In short, you can afford to be relaxed rather than stressed out about money. Sounds good, doesn't it? To get there you need to make savvy choices, and the sooner you start the better. These four guidelines will get you on track.

1. Adopt a new mindset

Did you notice that the description of financial freedom above says nothing about fancy cars, designer wardrobes or enormous homes? These items are status symbols that are often associated with "wealth", but they may simply represent excessive debt. Material possessions are not an indicator of financial freedom. In fact, financial freedom may be more likely to be associated with a mindset of frugality. We are not suggesting you forego all luxuries in life, but rather be conscious in your choices. If you can learn to think of every rand saved as a rand earned, you'll find that having a more prudent mindset can be rewarding.

2. Start where you are

Do you know where you stand financially? How much have you saved up, what are your debts, what are your living expenses, and how much can you afford to set aside for savings every month? Putting actual numbers to this is an important first step if you are aiming to be in control of your financial habits. Drawing up a budget for your monthly expenditure is a helpful way to keep track of your income and spending, and may help you find new ways to save.

3. Pay off your debt

There is no freedom if you are deep in debt. Paying back what you owe is a priority, and a good strategy is often to pay off your loans based on the interest rate charged, starting at the highest rate and working your way down. Once you have settled up what you owe, make it a habit to avoid future debt. If you use a credit card for practical purposes, commit to settling it on time every month. And if you can't afford to pay for something upfront, rather save up and buy it when you can.

4. Put your money to work

There is no better way to grow your money than through investing. Once you have determined how much you can save every month, put your money to work. Our fund selector tool can help you find the right product to help you meet your goals.

Different types of investments offer different ways to grow your wealth. For lower-risk options, savings accounts, money-market investments and bonds allow your savings to earn interest. If you reinvest this interest, you'll earn interest on the interest, and this effect – known as compounding – can be powerful over long periods of time.

If you invest in equities (shares) you won't earn interest, but you can receive regular dividends, plus your investment will grow through capital gains: if you buy a share for R10 today, it may be worth R50 in a few years' time – the difference in price (R40) is capital growth that belongs to you. Many equities earn dividends too – these are a portion of the company's earnings that are paid out to shareholders. . Equities are a higher-risk asset that are great for earning investors higher returns over time – the trade-off is that equity investors must be patient and prepared to sit tight through some short-term losses over time.

As an example, the **Prudential Equity Fund** is ranked in the top-performing 25% of all ASISA SA general equity funds for all annual periods out to 10 years, having returned 62.6% over one year, 9.5% p.a. over three years and 11.2% p.a. over 10 years, outperforming the median fund return in the category over all these periods (as at 31 March 2021).

Earlier, we said that a rand saved is a rand earned. When that rand is invested, it keeps on earning over time. This is the best path to financial freedom over the long run. It requires commitment and a new mindset that values saving more than spending.

Prudential offers a range of savings and investment solutions that can help you achieve your financial goals - and even that elusive financial freedom.

For more information, please feel free to contact our Client Services Team on 0860 105 775 or email us at query@prudential.co.za.