M&G Insights

M&G Investments
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Five ways we fool ourselves about money

We're all good at fooling ourselves from time to time, especially when it comes to things that we think we can easily get away with, like skipping a session at the gym (under the guise that we'll work extra hard the next time) or overspending on that big-ticket item (with the idea that we'll make up for it by cutting costs elsewhere). But when it comes to something like investing, putting on those "rose-coloured" glasses can be costly. So, in the spirit of April Fool's Day this year, we've listed five ways we commonly fool ourselves when it comes to our own finances, and techniques for correcting those foolish ways.

1. You think you have more than you actually do

Too often we forget about expenses or don't keep an eye on how much is in our bank account. We think there is more money available than there actually is, especially if we're making use of an overdraft facility. Then, suddenly, we don't have enough left to get through the month, let alone enough to set aside for an investment. One way to overcome this is to set up a budget to give yourself a clear idea of your income and expenses – and then prioritise "paying yourself first" by setting up a debit order investment that comes off your account at the end of the month. At M&G Investments, setting up a debit order investment is quick and easy, you can get going online in under 10 minutes for as little as R500 per month.

2. You think that time is on your side

Procrastination is thinking there is plenty of time to do something when, in fact, time could be running out. Thinking that there is always “next month” to start investing is a classic example. And this can carry on for years. However, the longer you delay working towards meeting your financial objectives – especially your retirement - the more you miss out on the power of compound interest, which is the ‘magic’ multiplier that boosts your investments - but that also takes time to work.

While on the subject of retirement, there have been numerous studies to suggest that South Africa is in a retirement crisis, with the vast majority of South Africans not having enough saved up to sustain their standard of living in retirement. Which begs the question: when last have you looked at your retirement savings and figured out whether you’re on track to draw a decent income when you retire? By always knowing where you are, you can identify where you need to make adjustments. For a reality check on your retirement savings, try our Retirement Calculator.

3. You believe risk is bad

While everyone will have a different appetite for risk, avoiding it altogether can mean losing out on achieving your investment goals. A great example is avoiding equities because they have a higher risk profile than other types of assets. But, if you avoid equities altogether, your investments are likely to lose their purchasing power. This is because your investment growth needs to at least outperform inflation for it not to lose its purchasing power. Historically, equities have been the best way to avoid that – which means that you should have some level of equity exposure in your portfolio. The M&G Balanced and Inflation Plus Funds are great examples of funds with varying risk profiles that are well-positioned to outperform inflation due to the level of risk assets that they hold (such as equities and property).

4. You think you'll carry on working

When we're younger, we feel invincible and think we'll be able to work forever. This may cause us to delay saving for retirement or even not save at all. But the reality is, you can't work forever and the longer you put off saving, the more you'll need to invest later in life to have enough capital to eventually retire. The money you save buys your pension, so the less capital you end up with, the less income you'll have in retirement. Let time work for you, not against you. No matter what age you are, start saving now and keep going. That way you'll maximise your chances of living a fabulous life once you do feel like slowing down.

5. You think investing is difficult or out of your reach

Bring up investing around the braai and you may hear people saying it's "too difficult to understand" or that it's "only for rich people". Fortunately, at M&G Investments we've taken the guesswork out of investing through our broad range of online tools to guide you along the investment process, from helping you determine how much you should contribute to reach your financial goals, to which funds are best suited to your investment needs. Investing has also become significantly more affordable compared to years gone by, starting from as low as R500pm for a debit order investment (as mentioned earlier). And for those who are interested in learning more about investments, we have a range of easy-to-read articles on our Insights page as well a six-part Guide to Investing series. Investing has really never been as easy and as affordable as it is now.

For more information on investing with M&G Investments, please feel free to contact our Client Services Team on 0860 105 775 or email us at info@mandg.co.za.