KASI INITIATIVES THINKING DIFFERENTLY

Newsletter 3
2013 Edition

KASI INVESTMENT CLUB UMBRELLA
A KASI INITIATIVES INNOVATION

THE WAR OF SAVING AND INVESTING

April was a great month for Kasi Investment Club Umbrella (KICU), a Kasi Initiatives innovation. KICU presented for the first time at the Johannesburg Stock Exchange (JSE) with special focus on the use of Exchange Traded Products (ETPs) by Stokvels / Investor Clubs. According to our Director and Founder of Kasi Initiatives, Gladwin Mfolo "The attendance was overwhelming and feedback humbling, interesting conversations occurred and got us thinking further in expanding our value proposition".

One of the outcomes from the conversations was around the war between saving and investing. What are the differences between saving and investing? This subsequently inspired this newsletter edition and below is what our researchers came up with.

SAVING AND INVESTMENT DEFINED

Perhaps the best place to start this conversation is to define the difference between saving and investing. Saving and investing are both important for one's financial well-being but they are not the same.

Saving, it's an act of setting aside money for a particular purpose, such as short-term goals (for example: the purchase of a car or home), or to create the ever increasingly important emergency fund (for unexpected expenses). This will be saved on extremely safe and liquid accounts; money saved would readily be available when you need it. The highest goal of saving should be to keep pace with inflation but avoiding risk at all costs.

Investing, it's an act of buying specific investment products, such as shares, bonds, ETFs, ETNs, property or unit trusts, with the long-term goal of increasing the value of your principal (the original amount of money you invested). Investing can be also be focused toward specific purposes, e.g. retirement or tertiary tuition and so forth, but the goals for which people invest tend to be far off in the future. Investing puts your money to work.

Both saving and investing are key to achieve individual goals set in life. There are a number of investment and saving products in which one can invest and each one is structured to meet a selection of saving or investment needs.

SAVINGS OR INVESTMENTS?

Now that you know the difference between saving and investing you might be asking yourself this question: Which one do I start with?

Start by identifying your goal, for example: are you investing for growth or income? – Investing in growth would require a lump sum or a monthly basis investment for a select period of time. On the other hand, income would require a product that will ensure some capital growth and pay out an income on a regular basis.

Let's look at saving:

Saving always comes first, think of it as the foundation upon which your financial house is built. The reasons is simple – unless you inherit a large amount of money, it is your savings that will provide you with the capital to feed your investments.

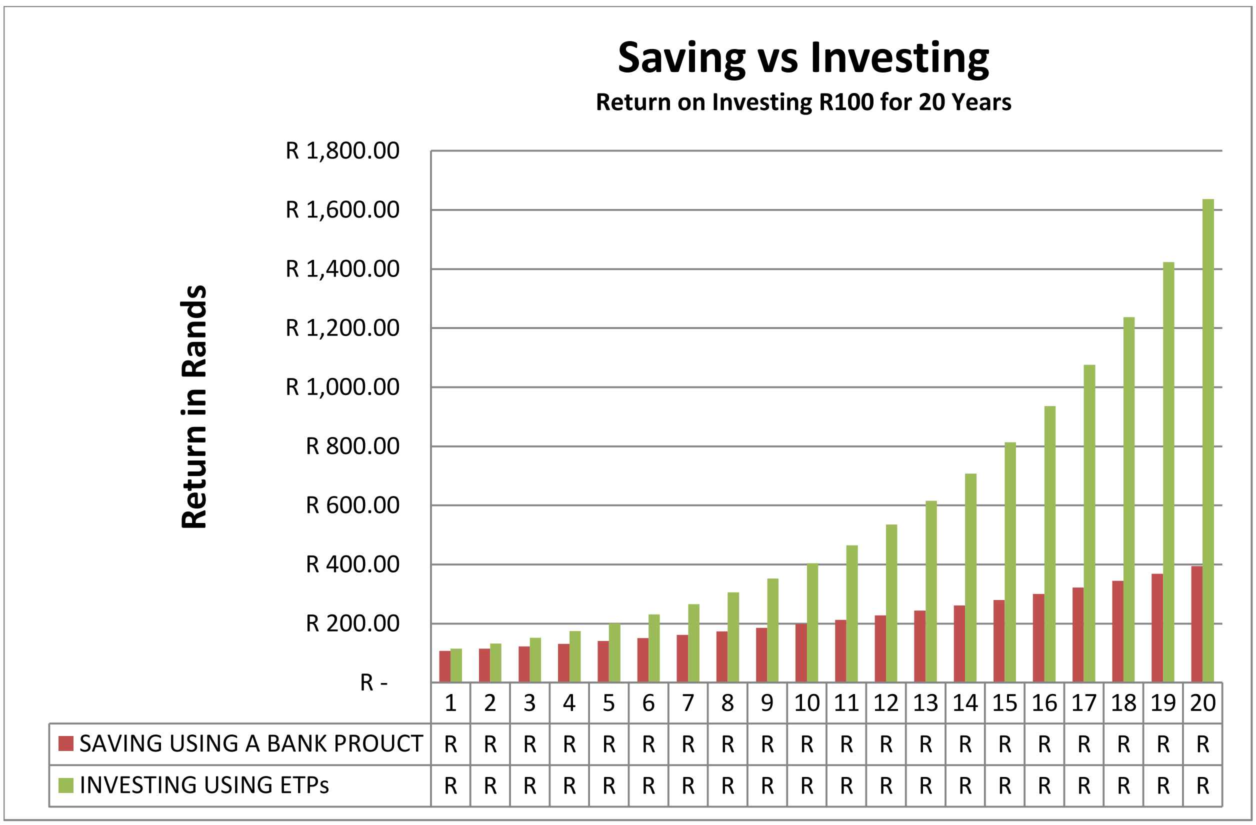
There are two general rules when it comes to saving:

- Your savings should be sufficient to cover all of your personal expenses, including your bond payments, loan payments, insurance, water and electricity, rates and taxes, food and retail expenses for at least 6 months. That way, if you were to lose your job, you will be able to have sufficient time to adjust your life without the extreme pressure that comes from living salary to salary.
- Secondly, any specific purpose in your life that will require a large amount of cash in 5 years or less should be savings-driven, not investment-driven, hence investing in the stock market is not recommended for savings.

Now let's look at Investing:

When the above general rules of saving have been satisfied, only then can investment be considered.

Saving is important, but it's not necessarily the best way to build wealth and financial security. Over long periods of time, investing has historically created greater growth (See below: Saving vs. Investing). The higher potential return associated with investing come with an element of risk. Unlike savings accounts, shares and bond investments can lose value, especially over shorter periods of time. Hence investment is long term commitment, such as retirement, tertiary tuition for a child who is still in crèche or primary school. Though there is an element of risk, it can be controlled, that is by combining many different shares and bonds so that returns of investment are not only dependent one class of assets. One good investment with diversification is Exchange Traded Products (ETPs)



According to Kasi Investment Club Umbrella (KICU), a 15% conservative annual return on Exchange Traded Products (ETPs) was used for 2013 and a return of 7.11% on savings was used benchmarked against one of the SA Bank Products. This is a hypothetical illustration and is not an indication of the performance of or any ETP product. Past performance is no guarantee of future results. Inflation would also need to be deducted from the annual percentage return.

If one is to be successful financially, one needs to be able to integrate savings and investing together. One needs to be able to save some money and invest other money that one has. Everyone should have some type of a savings account that is designated for emergency purposes. Once this is established, one can now devote a good portion of their income to investing. By investing one will be able to build wealth over the long-term. One would need to develop a portfolio and fill it with several different types of investment products but most importantly, one would need to educate and associate themselves with people who are like minded, like joining an investment club or social club with special interest in investments.

Finally when it comes to saving, one would also want to get in a habit of saving for large purchases, by doing so, one would be able to avoid taking on debt and paying interest to other people.