FINCOMMUNICATIONS

**Mistakes the wealthy don't make**

*People who get wealthy and stay wealthy do so by* <u>*not making*</u> *these 5 common investment mistakes. The good news is they're not rocket science, and we can all learn from them.*

1. **The wealthy don't put all their eggs in one basket**

Wealthy folks always embraced the age old investment policy of diversification. The modern world presents us with myriad opportunities to invest in varying geographic locations, intangible and tangible assets, listed or private companies, fine arts or collectable wines and much more besides. By investing in a broad spectrum of assets which all grow at different rates and stages, the wealthy are able to minimize risk across their investment portfolios.

We don't all have the good fortune and insight to invest directly in all of these options, but unit trusts make diversification accessible to the everyman. They allow a group of people to pool their investments into various asset classes as determined by the investment philosophy of the asset management company and the specific unit trust's mandate. Which is basically a fancy way of saying you have no excuse not to diversify!

**2. The wealthy always rebalance their investment portfolios**

Rebalancing your investments is the process of readjusting the overall asset allocation in your portfolio to maintain your original investment objectives. This usually entails buying and selling varying proportions of unit trusts and other assets. Rebalancing protects your gains and helps you reap the full benefit of diversification.

If you've invested in a portfolio of unit trusts, make it your business to remain in touch with your financial advisor about rebalancing your portfolio at least annually to ensure that you remain on track in achieving your goals.

**3. The wealthy don’t think they can time the market**

The wealthy aren’t gamblers and don’t entertain illusions of being able to ‘time the market’ (i.e. buying in before prices rise and then getting out before prices fall). While this tactic may conceivably work the first time you try it, it’s bound to end in heartache in the long run. Even financial analysts and fund managers are unable to accurately predict these market shifts as no two business cycles are the same.

Prudential doesn’t claim to forecast better than others or to be able to time the market for superior returns. We persistently and consistently purchase assets that are undervalued by the market and sell them once they’ve reached a fair market value, and in doing so create wealth for unit trust holders.

This topic is particularly relevant in present-day South Africa as many investors are tempted to sell out of local equity-based unit trusts and invest in cash as it has outperformed local equity over the last couple of years. This can be seen as timing the market for a short term return and is a sure way of losing out in the long term. Now may well be the time to be brave and buy undervalued local equity based unit trusts.

Smart investors don’t try to time the market, but rather to stay the course and honour time in the market. Or as Warren Buffet puts it, “Be fearful when others are greedy, and greedy when others are fearful.”

**4. The wealthy never get emotional about their investments**

The wealthy aren’t emotional about their investment choices, and they don’t bother to keep up with the Joneses**.** They embrace frugality as the new black, remain optimistic and invest spare money to compound investment returns. The wealthy are happy when they’re in control of their money, and they use debt wisely to invest for superior returns.

The wealthy tend to divide, rather than share roles and responsibilities. They delegate and embrace various professional disciplines including investment specialists who have better insight than they do. If you haven’t already done so, it’s high time you started disregarding your feelings and embracing professional financial planning advice. Or as our man Warren put it, “It’s better to hang out with people better than you. Pick out associates whose knowledge is superior to yours and drift in that direction."

**5. The wealthy give back**

The wealthy are generous with their time and money. They give to their families by providing for things that matter, including education, kick-starts for new businesses and deposits on homes. They take advantage of the donations tax exemption on the first R 100 000 in annual donations. The exemption is available to both spouses (should you be in a relationship) and is an effective estate planning technique which affords you the benefit of being able to give during your lifetime. Even more importantly, the wealthy give to their families by teaching and encouraging disciplined and consistent investment behaviour.

The truly wealthy are inspirational in their giving. Mark Zuckerberg, co-founder and chief executive of Facebook, announced in 2015 that he and his wife would give away 99% of their Facebook shares during their lifetime. This pledge was made in an open letter to their newborn daughter.

One of the best ways to give in South Africa is to provide employment. Earlier this year the Institute of Race Relations reported that over 17 million South Africans are living off social grants. This translates to approximately 29% of the population. Even if you don't have an immediate need to staff up, consider creating a job…If we all created just one job, we could make a real difference to our economy, in the process growing our collective wealth.

**The final word**

Making money is one thing, but keeping it is an entirely different matter. By avoiding these 5 common investment pitfalls – year in and year out – your nest egg will grow, and your long-term financial outlook will surely be bright.

*Has this got you thinking about wealth ? Speak to a financial adviser or find out more about Prudential's unit trust funds by contacting our Client Services Team on 0860 105 775 or at* [query@prudential.co.za](mailto:query@prudential.co.za) *for more information.*