THE CHALLENGE IS NOT TO FIND BETTER INVESTMENTS, BUT TO BECOME A BETTER INVESTOR

INN8 INVEST

The money market and income funds conundrum

The local collective investment schemes industry attracted net annual inflows of R108 billion in 2022. The surprise, however, has been the ongoing large amounts still being allocated to money market and income funds – more than 20% of inflows. This raises the question of whether investors allocate money based on their true risk profile or sadly, continue to consider ONLY their risk attitude or tolerance when selecting investment portfolios.

Source: ASISA

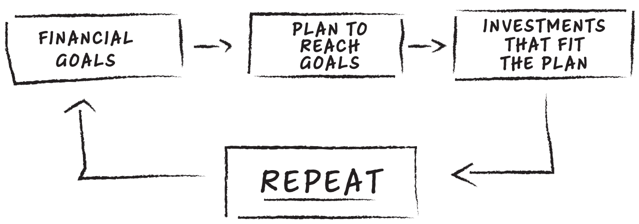
RISK PROFILE AND FINANCIAL NEEDS

Unfortunately, an investor's risk attitude has little to do with meeting their objectives or goals. If an adviser invests an investor's money according to his/her conservative risk profile for example, neither the adviser nor the investor would know whether the investment will meet the objectives of the investor, as required in terms of the FAIS General Code of Conduct.

Section 8(1)(c) of the Code of Conduct, states that an adviser must seek appropriate product(s) in accordance with the investor's risk profile **AND** financial needs.

INVESTMENTS THAT FIT THE PLAN

Risk tolerance is clearly a subjective test and should never form the basis of any attempt to establish the true risk profile of an investor. Risk tolerance could be a balancing factor and the final step to the contractual relationship with an investor, as per the Code of Conduct. Simply put, risk tolerance is how an investor feels about taking risk. It is where an investor strikes the emotional balance between seeking a favourable outcome and risking an unfavourable outcome.



Source: Carl Richards

Only through a thorough and carefully structured conversation as part of a systematic approach to investment advice, can advisers understand the true investment risk profile of an investor. A multi-dimensional process combines many factors – subjective and objective – to create a true risk profile or rather, an overall assessment of the most appropriate level of risk for an investor. The true risk profile of an investor is built upon three primary considerations – (1) the risk they would be **REQUIRED** to take to generate sufficient return, their (2) **CAPACITY** for risk and (3) lastly, their **ATTITUDE** towards risk.

You therefore need to ensure that money is invested in line with the **PLAN**. Your long-term investment needs **SHOULD NOT** be in 'short-term funds' – portfolios with short-term outcome expectations such as money market and income funds. Furthermore, short-term investment needs **SHOULD NOT** be invested in 'long-term funds' such as growth portfolios – a range of multi-asset portfolios with varying allocations to equities. Investors with shorter time horizons usually select conservative portfolios – and rightly so. Conversely, investors with longer time horizons are required – and are often more willing – to take on more risk in order to meet their longer-term needs.

THE PLAN REQUIRES DISCIPLINE, PATIENCE AND STAMINA

Warren Buffet once said: *'The stock market is a device for transferring money from the impatient to the patient'.*

Once an investor has developed an investment plan, the best thing they can do is stick to it. There is plenty of evidence that actual returns are far below what the markets deliver. The main reason is that too often people do not hold their investments for the long term. So, the shortest, simplest answer we can give is not to be impatient and look for 'better' investments, but to become a better investor – 'make a plan and stick with it'.

The INN8 Invest range caters for a wide range of outcomes and should comfortably fit into the plan adopted by an investor.

Albert Louw
Practice Manager

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