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Where do you invest a lump sum in 2021?

While 2020 will go down in history for a virus that knew no geographic boundaries, it also could be remembered as the year of cancellations (from movies to vacations), the controversial US elections, lockdowns and social distancing. Fortunately, your clients have come through it all with a lump sum to invest but, given the uncertainty of 2020, where should they invest their hard-earned money?

Let's consider the three (broadly classified) types of investments.

Short-term investments

The past couple of years have been great for investors who invested in money markets pre-COVID. Many achieved positive real returns without having to take on too much risk. However, those days are gone. Interest rates that averaged 12.29% from 1998 until 2020, now sit at a record low of 3.50%. These yields will likely remain below inflation and are projected to trend around 3.50% in 2021 and 3.75% in 2022.

In stark contrast to a money market investment, the South African bond market currently offers the highest real yields in the world. Many believe that these high yields are factoring in certain risks, with the government defaulting on its local currency debt at the top of the pile. This scenario (high as it may be), is unlikely as the government would put the entire financial system at risk of collapsing. Against this backdrop, expect increased volatility in the bond market, but with scattered opportunities.

Long-term investments

Over the past five years, local shares have barely produced positive returns. Where will equity returns come from?

- Local equities: Most SA shares are pricing in a dreadful outcome for SA, and a merely bad outcome could see SA Inc. shares do quite well.
- FANG: The technology stocks consisting of Facebook, Amazon, Netflix and Google have driven returns in many client portfolios. At the time of writing, FANG stocks, which have flourished in the low-interest-rate environment, have delivered returns in excess of 230% over a five-year period, or an annualised return of about 27% in dollar terms. While there are some regulatory concerns from the US, Europe and China, the FANG stocks still have some value.
- China and India: Both China and India could continue to do well as components in a diversified portfolio. With the Biden administration, the relations between the US and China are likely to get better. There will also be considerable continuity in (favourable) American policy towards India.

Alternative investments

These type of investments, as part of a portfolio, potentially involve a very high level of risk and require a better understanding of the markets. Investing in gold is one of the most well-known options. Investors looking to invest in gold have two choices: purchase the physical asset (gold coins), or purchase gold shares through a collective investment scheme (CIS) or exchange-traded fund (ETF) that replicates the price of gold. Gold's demand, especially in an environment of low interest rates and unending uncertainty and turmoil, remains the singular driving force in its price, which is up (at the time of writing) above 30% for the year. However, factors such as the development of a coronavirus vaccine could change the fortunes of the precious metal.

Give it time and stay invested

Investing is personal, and there is no single form of investment that is suited for every investor.

While there are many options to invest a lump sum, the most important consideration is time. Most attempts at timing the market will fail and missing out on some of the market's best days during the early stages of a recovery can significantly affect your client's investment returns.

There is no crystal ball when it comes to investing, but following a consistent investment process and staying invested in a diversified portfolio will help your clients achieve their financial goals.