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SA investors turn to guaranteed investment solutions amid COVID-19 uncertainty

Just when South Africans thought they'd seen the worst in 2020, the second wave of COVID-19 infections hit. Given this latest resurgence of volatility and uncertainty, local investors are understandably concerned about the state of the market and what they can do to protect themselves.

This is according to Fareeya Adam, Head of Retail Product Solutions at Momentum Investments, who notes that the effect of COVID-19 on both global and local markets has been far reaching and severe. "At the end of March 2020, it was a scary place for investors – far worse than the 2008 financial crisis. The S&P 500 fell more than 36% in roughly 30 days, while the South African equity market was down nearly 30%.¹"

However, as astute investors began to recognise the need to structure and manage their portfolios accordingly, Adam says that this year brought about an increased demand for guaranteed investment solutions. "Demand for guaranteed income products is up more than 50% year on year, and this is a trend that looks set to continue. These solutions come in various forms and can offer investors peace of mind, irrespective of how the market performs. With certainty, planning for the future becomes a lot easier."

Adam goes on to unpack the three general types of protection benefits offered by guaranteed solutions. "Firstly, the minimum return guarantee gives you a minimum return at the end of a term and the potential for additional returns if the markets perform well. These investments tend to offer a lower return guarantee because of the upside potential, but if the markets perform poorly, your capital is protected along with your minimum return.

"Then there is the guaranteed growth benefit, which ensures that at the end of your term, you know exactly what your maturity value will be. With this type of investment, you sacrifice any upside if the markets perform well, but there is no market risk and your investment growth is always protected."

Lastly, Adam explains guaranteed income. "This benefit gives you a regular income. You have options that can guarantee an income that increases or remains the same, and can choose if your income must be paid for the rest of your life or over a specific term. Market fluctuations will not affect your income, and your income is guaranteed based on the selections made."

In terms of the above three types of protection benefits, Adam says that investors can get them individually, or as a combination of a growth and income guarantee. "How much of your investment portfolio should be diversified depends on your individual life cycle stage, and personal investment needs and goals.



“A 25-year-old who just started his first job, for example, can take on more risk, so would likely need a smaller conservative portion that considers a guaranteed solution with potential for upside if the markets perform well. A 45-year-old parent, on the other hand, would likely want a more cautious approach with an investment that can offer guaranteed growth no matter what happens in the market.”

To find out what kind of role guaranteed solutions can play in **your financial planning during these uncertain times**, Adam recommends consulting with a financial adviser. “Not only will an adviser help you identify the guaranteed investment solution that best matches your long-term investment goals, they will also help you avoid making emotional decisions so that you do not take on unnecessary risks and make costly mistakes.” For more information go to www.momentum.co.za/guaranteed-solutions

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Source

¹ Moments with our investment gurus – October 2020