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Starting to save early is well worth the effort

HAVING enough money to be financially independent when you retire may seem like an impossible dream. But if you start saving early enough, you'll be surprised how quickly it adds up.

"A little really can go a long way," says Jeanette Marais, director of distribution and client services at Allan Gray.

"Many of us are reluctant to make the sacrifices needed to save even 10% of our salaries towards retirement, yet we expect a pension that pays us 75% of our final salaries, often for as many years as our saving years," she says.

"The only way we can hope to achieve this replacement ratio is through long-term commitment, good returns and sensible investor behaviour."

Marais says if you start early and save consistently over long periods, less of your total amount saved will be from your contributions and more from growth, which is why it usually doesn't pay to leave your money under your mattress.

"With inflation eroding the spending power of your money, the returns on your investment should be at least enough to compensate you for the length of time you invest so that the value of your money is maintained."

Marais informs that over the very long term (around 100 years), South African equities have delivered, on average, real returns of 7,3%.

"Based on this, if you allowed 40 years for retirement saving, two-thirds of your total amount would have come from returns and compound growth. As the time allowed for compounding increases, so the amount of growth, relative to your contributions, increases exponentially.

"Your first ten years of contributions are more important than your last ten years, as your money has that much longer to grow."

In fact, according to Marais, assuming a return in line with very long-term equity returns and taking historic inflation into account, an investor who contributes a consistent amount of R1000 per month for 10 years (R120,000) and then stops contributing but remains invested for another 30 years will accumulate just as much as one who delays starting for ten years and then contributes R1000 a month for 30 years (R360,000).

"This shows that starting to save a small amount is really worth the sacrifice in the long term," says Marais.

Finally, she says behave sensibly when it comes to your investments. Research has shown that the average investor earns much less than the funds they are invested in. This is because, on average, investors make poor decisions about when to buy, sell and switch between funds.

"The lesson is that investment success is not only about skill. It's also about behaviour. Investment performance doesn't come in a straight line. Investors who are taken by surprise by a period of short-term underperformance and sell their investments at the wrong time often miss out on a substantial part of the return in our unit trusts.

"Changes in your personal circumstances and capacity to take risk should encourage you to rethink your investment strategy, not short-term market fluctuations," concludes Marais.