

Our investment goals depend on our personal priorities in life and there is no generic set of goals that applies to everyone, and no set timeline for achieving them. Even though certain goals may be similar in nature, we all have different timelines, risk profiles and personal circumstances, and our portfolios need to be constructed accordingly.

### Consider your time horizon

Your time horizon has an important impact on your choice of savings vehicle and how much you need to contribute. Saving for short-term goals provides the foundation for financial security. Short-term goals can include putting money aside for an emergency fund to cover unexpected expenses and to act as a buffer for potential short-falls. Your medium- and longer-term objectives could vary, from saving for your child's education or wedding, for example, to saving for your retirement.

Since different types of investments behave differently over time, knowing how long you have to invest, and thinking about when you might need access to your money, can help you decide how much short-term volatility you can afford.

It is important to put a plan in place and to pick the investments, or combination of investments, that are appropriate for each objective and time horizon. A longer time horizon usually means you can afford to take some risk with your money to achieve growth that contributes meaningfully towards your goals. If you are going to choose more risky investments, however, you need to be comfortable with market fluctuations. Returns do not come in a straight line. If you decide to draw money early from a long-term investment – either because you need it, or because you lose your nerve – you run the risk of locking in losses if the market is going through a down period.

On the other hand, choosing to save in a bank account, or with a very stable investment product, presents you with another risk: inflation. Over time, inflation erodes the value of your money, leaving you able to buy less with the same amount of rands. Unfortunately, even if you save consistently, if the money you put away doesn't grow enough to at least have the same amount of purchasing power at some point in the future, then you are not being rewarded for your discipline and sacrifice and you are in fact losing money.

### Risk versus volatility

'Risk' and 'volatility' are not the same thing. Think of risk as the potential of permanent loss of capital, whereas volatility is essentially the fluctuation in an investment's value. Different types of investments carry different levels of fluctuation, and also deliver different returns. Asset classes with the potential for greater returns are associated with increased short- to medium-term volatility. Although the dips and troughs in value from a volatile investment should be on paper only, they result in permanent capital loss if you disinvest at the wrong time.

You should avoid volatile asset classes if you know you will need to access your money in the short term. However, just because an investment is more volatile does not necessarily mean that it more risky in the long term. The real risk is permanent capital loss, not how smooth the ride is.

### Make conscious choices

Understanding how much risk you are comfortable taking on, and how much return, ideally, you need to achieve, and investing accordingly, is key to allowing you to remain disciplined and committed to your investment plan. This can be difficult at times: between the fear of losing hard-earned cash and the fear of missing out on a great opportunity, it is understandable that many investors get distracted along the way and have the urge to chop and change their investments. If you make conscious choices based on your personal profile, it is easier to stay committed to your long-term plan. A financial adviser can help tailor your savings to suit your characteristics and objectives and ensure that you have a diversified portfolio that caters for both short-term and long-term goals.

### Adjust your behaviour

The best way to ensure things go according to your plan is to have a plan in the first place. There are also some good habits that you can consider adopting:

#### 1. Pay yourself first

Acknowledging your future financial needs and making a proper plan to meet these is a discipline that will benefit you enormously. It is the most valuable gift you can give yourself. As Warren Buffet says: 'Don't save what is left after spending; spend what is left after saving.'

#### 2. Automate disciplined and consistent saving behaviour

Set up a debit order that goes off at the end of the month when you receive your salary. This will mean that you don't have to think about putting the money aside; you will quickly get used to a lower 'usable' income.

#### 3. Invest tax refunds

If you are lucky enough to get some cash back from SARS after submitting your tax return, consider using the cash to bolster your savings.

#### 4. Maximise your bonus or raise

Many of us mentally spend our bonuses, and maybe even the additional income we're looking forward to next year. But before making those plans a reality, consider maximising the tax benefits you receive from contributing to a retirement annuity (RA). Bonuses can also be seen as a savings windfall – they give you a chance to take a big step ahead in your financial plan.

#### 5. Preserve your retirement savings

If you change jobs and have access to your retirement savings, resist the temptation to cash in. Rather think long term and transfer your savings to a preservation fund.

#### 6. Be patient and disciplined

While it is tempting to focus on short-term gratification and avoid long-term decisions, a patient and disciplined savings process will pay off in the long run.