

How best to invest R1m

MONEYWISE: CHOOSING THE RIGHT INVESTMENT VEHICLE IS VITAL

➔ Consider putting the proceeds towards capital growth, the provision of a passive income stream.

Jonathan Braans

A Moneyweb reader asked: I am a 42-year-old traffic officer. I have recently received about R1 million from the Road Accident Fund (RAF), and I wondered how best I can invest this money? I'd also like to know how to select the best advisor for this guidance.

My current bond is paid up, and my pension stands at R1.7 million. I have 20 years of service. I want to retire at age 55 as I foresee my current injuries restricting my ability to work.

I'm also thinking about buying a bigger house for my family. Currently, the money is in a money market account.

Jonathan Braans answers:

You are quite correct in acknowledging that investing the funds into an appropriate investment vehicle is a significant decision.

I urge you to carefully consider whether buying a bigger house is necessary. There is generally a temptation to increase one's standard of living when coming into a significant sum of money.

Putting a large portion of that money into an illiquid asset that will not generate an income may not be the most appropriate strategy. Instead, consider investing the proceeds into an investment vehicle geared towards capital growth and the provision of a passive income stream (if necessary).

Getting into the specifics of your question, you state that you



GROWTH PATH. Financial expert suggests the reader invests the majority of the proceeds into an equity-oriented offshore solution. Picture: AdobeStock

intend to retire at age 55 – roughly 13 years from now. Your existing pension stands at R1.7 million.

I assume that you (or your employer) will continue to make monthly contributions toward this pension fund until the day you retire. This contribution is important and should bolster your pension over the next 13 years.

Upon retirement, most people opt to flip their pensions into a living annuity where a monthly income of 2.5% – 17.5% can be drawn. Most advisors would suggest keeping these drawings to a maximum of 7% to preserve capital for as long as possible. That would equate to about R10 000 per month on your pension as it stands currently.

You have the next 13 years to grow your existing pension (through contributions). You should also deploy the R1 million received from the RAF into a suitable growth-oriented strategy for at least the next 13 years. Given the relatively long period

R1.7m

is the amount of reader's existing pension fund.

of 13 years until your planned retirement, I suggest investing the majority of the proceeds into an equity-oriented offshore solution.

You are allowed to invest R1 million offshore, per calendar year, as part of your Single Discretionary Allowance. Investing offshore acts as a hedge against the volatile rand, and an equity-oriented solution tends to outperform a money market fund in the long run.

For example, money market rates are currently sitting at around 4%. Therefore, R1 million invested at 4% for 13 years would grow to about R1 680 574 at the end of the period.

Investing R1 million at, for example, 9% (a decent return

for an equity-oriented solution for 13 years would grow to about R3 207 957 – almost double the return achieved by the money market account.

Investing in equities does, however, come with an increase in risk of volatility. It would help to consider your risk tolerance and how comfortable you are with a higher degree of risk. For this reason, a more conservative strategy such as investing R150 000 in a liquid, conservatively managed unit trust (for emergency spending needs) and deploying the remaining R850 000 into an aggressive, offshore strategy, may prove to be a worthwhile consideration.

As always, I recommend that you consult an advisor who can assist you with these decisions and provide you with additional information related to the liquidity of the investment, your risk profile, and tax considerations.

► Jonathan Braans is a private wealth manager at NFB Private Wealth Management