PSG Wealth

RANDS AND SENSE

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RANDS AND SENSE - PERSONAL FINANCE

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Have a strong personal balance sheet

The famous investment guru Warren Buffet once remarked that "you only find out who is swimming naked when the tide goes out." An event such as the Covid-19 pandemic has had a devasting effect on the lives of people across the globe. Many would have been better able to cope with the devastating effects of the pandemic if they had built a strong personal balance sheet.

What does it mean to have a strong personal balance sheet?

Firstly, do not have too much debt. During difficult times it is challenging to make debt repayments when there is a squeeze on your cash flow. Not all debt is bad though. Credit card and clothing account debt are examples of bad debt which should be avoided where possible. An example of good debt is a bond on a property purchased in a good area. This type of debt is usually fine, as long as you are still able to maintain repayments in the event of a significant rise in interest rates. If not, your asset may be repossessed by the financial institution.

Secondly, have a diversified portfolio of investments. This means that you should not have all your eggs in one basket. It is good to have a healthy exposure to growth assets which are likely to grow at a rate greater than inflation. A well-diversified portfolio should include investments in shares or equities, unit trusts, property and some cash. It is prudent that you do not only have all your investments in one geographical area, such as in South African investments. A strong balance sheet should consist of assets domiciled in local and offshore jurisdictions.

Thirdly, invest some of your money in liquid investments such as a money market accounts at a bank which can be instantly accessed in the event of a crisis. Shares and unit trust investments tend to be invested with a longer-term time horizon and it is not advisable to sell these types of investments at short notice.

Fourthly, take advantage of as many available tax-saving opportunities as possible. An investment portfolio should include investments such as pension or provident plans and retirement annuities. They reduce the amount of tax payable, are exempt from estate duty and cannot be attached by creditors. Tax-free investments are also extremely tax-efficient investments and should form part of a well-diversified portfolio of investments.

Finally, make sure your balance sheet is protected. Have sufficient life, disability and dread disease cover, belong to a well-established medical aid scheme and make sure that your physical possessions are insured at their replacement value. The asset column of your balance sheet could be completely wiped out in the event of something unexpected happening to you or your loved ones.

The current crisis will pass but there will be another sometime in the future. We just do not know when it will occur and in what form it will take. A Certified Financial Planner will be able to assist you to ensure that you are not left "swimming naked" when the tide goes out again.

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