

The Secret of the Buffalo



“Protect your assets, make your money work for you”



THE SECRET OF THE BUFFALO

The mighty buffalo is deliberate and steady, waiting all day for the hot African sun to pass. It steadily grows and protects its herd, knowing its strength and future are in its numbers.

What can I learn from the Buffalo?

- Buffalo form really big herds, some of the biggest in nature. A single herd can consist of over 450 animals! This gives the buffalo a great deal of protection.
- Buffalo have no natural enemies except lions, and lions are actually pretty scared of them in a herd. Hyenas and leopards may occasionally attack the young, but they don't take on the herd. Lions often come off second best when they attack the herd.
- The buffalo knows its wealth and strength is its family. Even though building a large herd takes a great deal of patience, it pays off in the end.
- Buffalo can inspire you to grow your wealth patiently. You can be inspired to protect your assets using the combined strength of an insurer.

Learner Outcomes

At the end of the module “The Secret of the Buffalo” you will be able to:

1. Understand why you have to invest to increase your assets.
2. Have a clear understanding why you have to insure to protect your assets and pass on wealth to future generations.
3. Explain the power of compound interest.
4. List and explain four financial options to save money and thereby ensure long-term financial stability.
5. Know your rights when dealing with investment brokers and products.




How can I make my money grow?

In the Secret of the Lion, we learned about the different types of savings and investment vehicles you could use to grow your wealth, see page 15. What is important to know is the power of compound interest in growing your wealth quickly.

Just like you pay interest on loans, a financial institution will pay you a reward for investing your money with them. Financial institutions, like banks, or companies like Old Mutual, invest your money, or lend it out to other customers (subject to strict government rules), at a higher rate of interest than they would pay you. Either way, their job is to make your money grow - and your job is to choose the investments that suit you, and to stick with them.

The buffalo knows that a small herd can grow steadily into a huge herd, once the young buffaloes are born, and start maturing and breeding. It knows that its strength lies in its numbers, and that long-term growth is essential to its survival. Just like the buffalo, if you leave your investment for a long period of time, the investment not only grows each year, but grows exponentially. This means that you not only earn interest on your initial investment, but the interest gets added each month or year to the initial amount, and you earn interest on that interest as well. This interest is called **compound interest**, and is the key to long-term growth and wealth. On the next page we look at how this actually works.



Hmmm!
Winning the Lotto would be nice, but get real! Forget the “get rich quick” schemes. Patience and slow, steady investment is the key to growing your wealth.

Saving without interest

If you saved US\$1 000 each and every year for 10 years, and kept your savings under your mattress, your money wouldn't earn any interest. After 10 years it would be worth:

US\$1 000 x 10 years = US\$10 000

Saving with interest

This sounds like a lot of money, but compare it to savings with interest. If you had saved it in an investment that earned 10% interest per year, it would be worth more than US\$17 500 after 10 years. This is because the **interest is compounded**, causing the investment to grow much faster. See how this works next...

Beware of inflation!

Inflation can threaten the growth of your investments. That is why investors always look at the “**real growth**”. Real growth is the actual growth of your investment minus the current inflation rate. But what is **inflation** and how is it measured?

Simply put, inflation is a measure of how much the prices of goods and services increase from year to year. It is calculated by taking an average **shopping basket of goods and services** that most people would use, such as the price of basic groceries, rent, transport, electricity, etc., and then comparing the total price of the basket to what it cost the year before. From this, the average percentage increase for the year is calculated and called the **inflation rate** or **consumer price index (CPI)**. This is published monthly by the government.









































This means the value or buying power of your money decreases by the inflation rate. So, US\$100 last year could buy more than US\$100 can buy this year. To get the same goods and services this year, you would have to spend US\$110 if the inflation rate was 10%. In the 80s and 90s inflation was above 10% in Zimbabwe, but it has dropped more recently to between 3% and 5%.

So make sure your investments always take inflation into account! An inflation rate of 5% can cut the real value of your investment by half in just over 10 years.



Saving with interest

If you saved US\$1 000 every year at the beginning of the year, for 10 years, and invested it at 10% interest per annum, your money would grow by a US\$1 000 each year, as well as the interest that it earns on the interest. Let's look at how compound interest grows the money:

| | New Added Savings | Total Savings at Beginning of Year | 10% Interest per Year | Total Balance with Interest |
|----------------|---|--|--|--|
| Year 1 |  US\$1 000.00 |  US\$1 000.00 |  US\$100.00 |  US\$1 100.00 |
| Year 2 |  US\$1 000.00 |  US\$2 100.00 |  US\$210.00 |  US\$2 310.00 |
| Year 3 |  US\$1 000.00 |  US\$3 310.00 |  US\$331.00 |  US\$3 641.00 |
| Year 4 |  US\$1 000.00 |  US\$4 641.00 |  US\$464.10 |  US\$5 105.10 |
| Year 5 |  US\$1 000.00 |  US\$6 105.10 |  US\$610.51 |  US\$6 715.61 |
| Year 6 |  US\$1 000.00 |  US\$7 715.61 |  US\$771.56 |  US\$8 487.17 |
| Year 7 |  US\$1 000.00 |  US\$9 487.17 |  US\$948.71 |  US\$10 435.89 |
| Year 8 |  US\$1 000.00 |  US\$11 435.89 |  US\$1 143.58 |  US\$12 579.48 |
| Year 9 |  US\$1 000.00 |  US\$13 579.47 |  US\$1 357.95 |  US\$14 937.42 |
| Year 10 |  US\$1 000.00 |  US\$15 937.42 |  US\$1 593.74 |  US\$17 531.12 |

Note how the interest gets more and more each year, growing exponentially, even though you are investing the same amount each year. This is because you earn interest on both your initial investment, and on the interest that you have earned.

This shows that an investment grows slowly in the first few years, but grows by leaps and bounds after a couple of years. The longer you leave it, the greater the impact compound interest has on the growth of your investment.

Compare the **US\$17 531.12** return on investment with 10% compound interest over 10 years, with that of the **US\$10 000** with no interest when put under the mattress! If the interest was compounded monthly, and not annually as above, the returns would be even more — over **US\$18 000!** Most investments compound interest monthly, earning you better returns.

Did you know...?

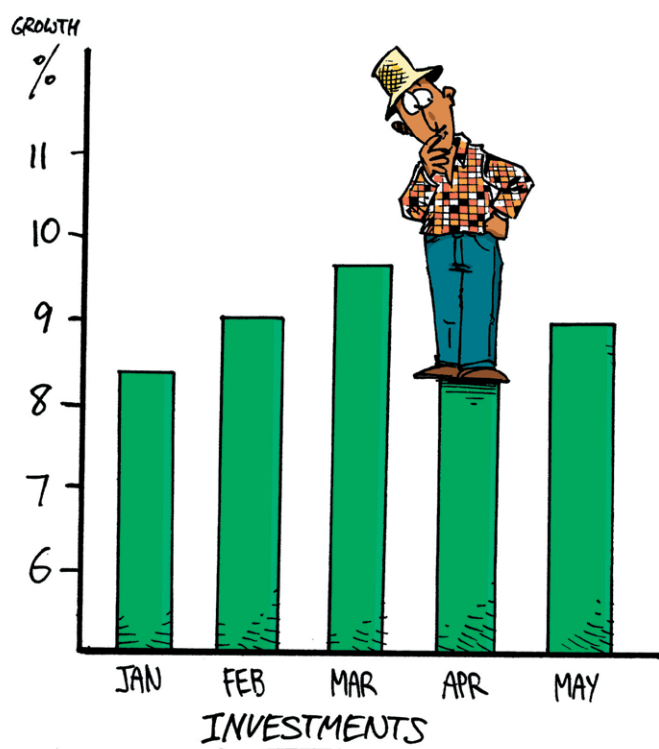
If you invest directly in a company, in shares or unit trusts, you don't always earn interest on your investment. By buying shares in a company or unit trusts, you actually become a part-owner of the business, and you would share in the profits of the business. These are paid to you, the shareholder or unit trust holder, as a dividend.

The decision to invest is the same, except in shares the dividend is not guaranteed. It could be bigger or smaller than you expected, making it a riskier investment. You should make your investment decision based on what percentage dividend you expect to get each year, or how much you expect the company to grow each year. Long-term growth must still be your objective!



Sound principles to help me create wealth

1. Investments are **risky**. The risks affect the **returns** and growth potential. The greater the risk that an investor takes, the greater the returns expected. If you expect high returns, be prepared to risk a large loss as well. Choose **risk levels** that you are comfortable with, taking into account your age, income and family circumstances.
2. Avoid **get rich quick schemes**. If it sounds too good to be true, then it probably is. Although there are a few overnight millionaires, most wealth is accumulated through long-term savings and investment.
3. **Time in the market** is more important than trying to **time the markets** correctly. Don't wait because you think it is a bad time to invest. The longer you have an investment, the greater the returns.
4. Have a **long-term strategy**. Changing investments is expensive. Many investments only start earning real growth after a couple of years.
5. Don't put all your eggs into one basket. **Diversify your investments**, making sure you have a range of high, medium, and low-risk investments. Spread your investments between the stock market (shares), property, and interest-earning bonds or savings accounts. That way, if one sector goes through a slump, your other investments keep your **portfolio** stable and growing. You could consider taking some money **offshore**, to spread your risk even further.
6. Choose an adviser that you can trust. Before you invest your money, make sure that your adviser conducts a proper needs analysis for you. Stay away from advisers who promise you fantastic returns they can't guarantee.
7. Ask to see the **admin costs and broker's commission** upfront for any policies or investments. See how much of your investment goes to cover expenses, and how much is **actually invested**.
8. **Past performance** is not an indicator of **future performance**. Just because an investment has done well in the past, doesn't mean it will be a winner for the future. This depends on factors such as the market, the economy, the environment and management.
9. Investments **change daily**. Don't make decisions based on daily fluctuations. Rather take a longer-term view over several years.
10. All markets go through **highs** and **slumps**. Ride them out and stick with your long-term strategy.
11. When you are younger, you might afford higher-risk investments, as you have time to wait for the slumps to recover. As you get **older**, invest in lower-risk, stable, income-generating investments.
12. Look for **real returns on investment** – remember inflation eats into investment growth. Your return should at minimum be higher than inflation.
13. **Be responsible** for your investments. Good financial advice is important, but remember **knowledge is power**. Read up about your investments and keep up to date.
14. **Review** your investments regularly. Check your returns and read all your statements carefully. While it is not good to chop and change investments often, you might need to make changes to keep your portfolio balanced and to meet the needs of changing times and circumstances. Arm yourself with knowledge and speak to your adviser about sensibly adapting your portfolio.



How can I protect my assets?

Once your investments and net worth start growing, you need to look at ways to protect your assets.

This includes making plans for your family if you should die or become unable to work. **Insurance companies** provide **insurance cover** to reduce your risk. For a certain amount paid monthly or yearly, they will pay you out if an **insured event** occurs. If you have car accident insurance and you have an accident, the insurance company will pay you the money to fix your car, provided your payments are up to date, and you were correctly insured.

Insurance falls into two types – long-term insurance and short-term insurance. Not everyone needs to insure every-

thing. Insurance can be expensive, and you need to do an **insurance analysis**, to help you decide which assets are most at risk, and which you need to insure. Make sure you understand your insurance policy, especially any conditions that they expect you to fulfil, such as burglar bars on your house, or always parking your car in a locked garage. If you don't meet their conditions they could **refuse** your claim, and you would end up getting nothing back if you are robbed. It is **your responsibility** to make sure you have enough insurance cover. You must update your policy when you buy or sell more goods, or change your assets and lifestyle in any way.

Long-term insurance

Long-term insurance provides cover for events that you could expect to happen in the future. This includes:

- Life insurance cover pays out a lump sum to your beneficiaries if you should die. You can take out term insurance for a fixed term, if you have to provide life cover insurance for a fixed period of time, such as for the bank while you repay your mortgage bond. Whole life insurance would cover you until you die and is useful if you want to leave a lump sum for your family when you die.
- Disability insurance pays out if you are disabled and cannot work anymore. Often your payments are added to a life cover policy.
- Retirement and endowment policies pay out when you retire or after a fixed period of time. They are a way of saving for the future, and some can include life cover. There are many options available, and you need to take care that the one you choose meets your long-term retirement and savings needs.

Medical insurance

Medical insurance is not the same as medical aid cover. If you want private health care, you need to contribute to a medical aid fund which will pay for your day-to-day medical costs, and certain hospital costs. Again many options are available, and you need to find cover that suits your needs.

Medical insurance is one way to make sure that you can afford the best care in life-threatening situations. You can insure certain medical conditions like a heart attack, car accidents, cancer, etc., and should you suffer from one of the listed conditions, you will be paid out a lump sum, to help cover any extra costs.

Short-term insurance

This provides risk cover for your possessions for a short period of time. If you sell the item, like your car or business, or no longer want to insure something, you can cancel the insurance cover on it. Make sure you understand exactly what the insurance cover is for, and that you meet their insurance requirements. Research your insurance needs and shop around for quotes. Cheaper often means that you get less cover, but short-term insurance is quite competitive and some good deals can still be found. Most short-term insurance policies have an excess which you would be required to pay first if you claim. Check what excesses your policies have.

- Homeowners insurance covers your physical house for damage caused by fire and natural disasters. If you have a bond, the bank will force you to take out this insurance. Different policies have different exclusions, so check your policy carefully.
- Household insurance covers the contents of your home against fire, water and lightning damage, accidents, theft, etc.
- Motor vehicle insurance covers your vehicle for theft or accident damage. Your premium depends on the value of your car, and what type of insurance cover you take out.
- Business insurance can cover your business against theft, fire or accidental damage.
- Travel insurance is often taken out when you travel internationally to cover lost baggage, delays, theft or medical costs in a foreign country.
- Personal liability insurance is often included in a policy to cover you against being sued for accidental death or injury on your property through your negligence.



How can I make the best decision for myself?

Unfortunately, there are no sure investments.

Where should I get advice from - the bank, a broker, an agent, a stockbroker, a financial adviser?



The millions of investment opportunities available can be scary. Some are less risky than others, so it is important that you get the best advice possible. Your adviser must conduct a thorough needs analysis of your circumstances, and help create an investment plan that works for you.

There are many financial advisers or **intermediaries** out there, all earning commission on the policies that they sell or investments that they make for you. Some work directly for the banks, insurance or investment companies. Others are independent and can sell investments for a whole range of companies. Find out who your adviser works for, and which companies he is allowed to represent. **Do not** take the first investment offered to you - shop around, gaining as much knowledge as you can about the risk, return and most importantly the commission and admin charges that you will pay on the investment.

Many people have bought policies without understanding the terms of the investment, causing great losses to themselves. Intermediaries now have to abide by a code of conduct laid down by the **Financial Advisory and Intermediary Services Act (FAIS) of 2002**.

Know your rights - your adviser must:

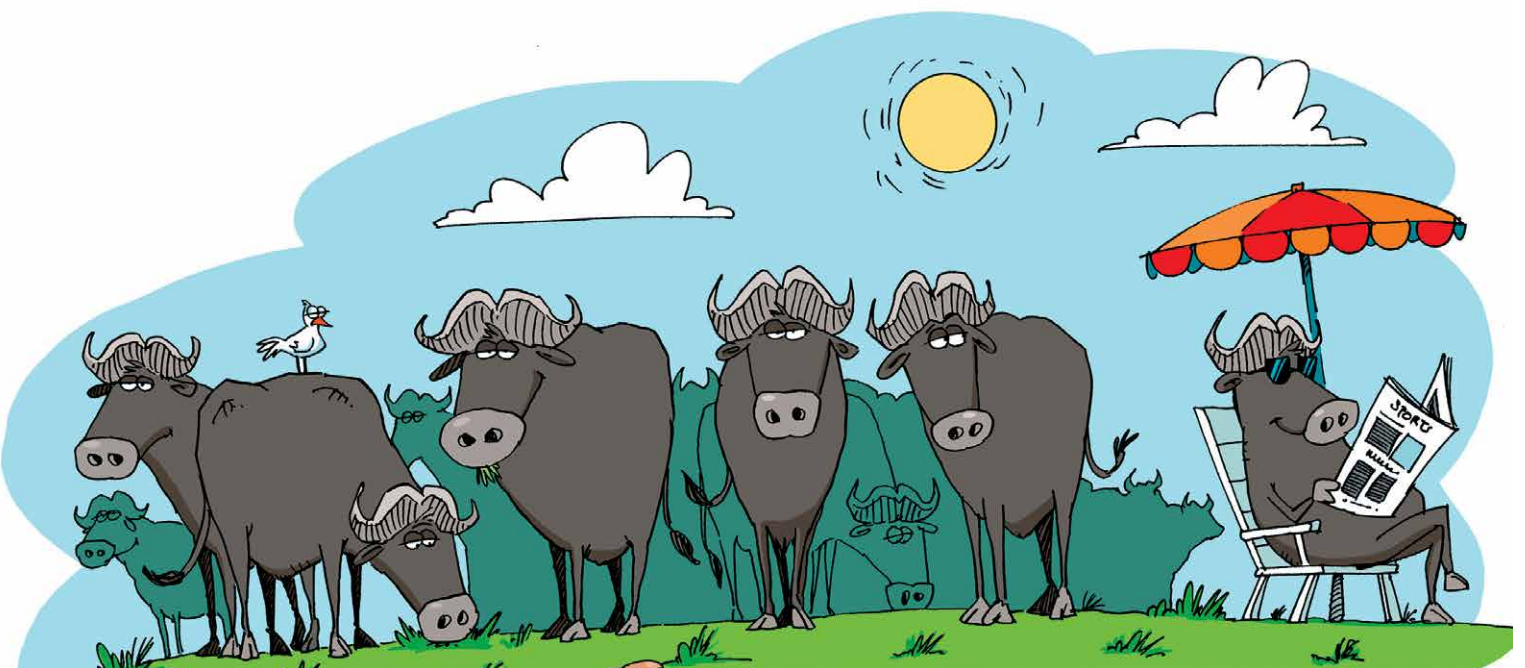
- Conduct a needs analysis.
- Protect your best interests.
- Give you enough information for you to make an informed decision.
- Disclose the commission and admin charges upfront.
- Make sure you fully understand all the terms and conditions of your policy.
- Provide you with all documentation within 30 days.

Take responsibility for your investments. Don't leave it all up to the adviser. Arm yourself with knowledge and shop around for better interest rates and charges. Research your adviser, making sure he is registered with the required authorities. Make sure that you don't sign any blank forms and be cautious with advisers who offer you fantastic returns. No-one can guarantee the future! Unfortunately, there are no sure investments.



What can I learn from the Buffalo?

- How can I make my money grow?: the power of compound interest
- Sound principles to help you grow your wealth
- How can I protect my assets?
- How can I make the best decision for myself?





Review the Buffalo

What have I learned?

Group Activity: (Groups of 7)

- Discuss why you have to invest to increase your assets.
- What are some ways you can use to protect your assets using the Secret of the Buffalo?
- Give some examples in your discussions.

What have I learned?

Self-assessment: (Individual Activity)

- Make a list of the assets you think you should protect.
- How will you protect these assets?
- What sort of questions should you ask the broker to ensure that you make the correct choice for your assets?
