

## **Savings clubs: A great way to invest**

*Many of us would like to put money aside for saving and investing but struggle to remain committed and disciplined each month. Being part of a savings club is a great way to reach your financial goals, writes Noluyolo Betela.*

Saving can be difficult on your own, but South Africans have always been creative when it comes to solving problems. To help us get into the habit of regular saving, over 11.5 million of us have joined savings clubs and stokvels. In fact, the National Stokvel Association of South Africa estimates that there are well over 800 000 stokvel groups in South Africa.

### **Group accountability improves outcomes**

If you struggle to save each month or find yourself regularly dipping into your savings, it may be a good idea to team up with people who share similar savings goals. As a member of a savings club, you commit to making regular contributions and are accountable to the other members of the club. This can help create a regular savings habit and get rid of the excuses that stand between you and your savings goals.

Traditionally, most savings clubs keep their members' contributions in cash or deposit them into a bank account. The downside with this method is that traditional bank accounts generally don't earn enough interest to beat inflation and the value of your money decreases over time.

Many stokvels are not aware that there are other options available to them in the form of investment products, like unit trusts, which allow you to grow your money and get returns that beat inflation in the long run.

### **Investment options for clubs**

Unit trusts give savings club members a number of benefits, including exposure to different types of assets and flexibility. Savings clubs can access their money in a unit trust investment at any time, there are no fixed or minimum investment periods and you won't pay any penalties when you withdraw. However, we encourage investors to take a long-term view and avoid making unnecessary withdrawals. This gives investors the chance to enjoy the benefits of compound interest, which is earning interest today on the interest your investment generated yesterday.

The returns generated by unit trusts aren't guaranteed and the value of your club's investment may go up or down over time. If your savings group decides to invest in a unit trust, it is important to do some research to make sure you choose a unit trust that matches your club's goals and needs. There are several types of unit trusts available, which have different underlying investments and are appropriate for different timeframes.

For example, if your goal is to save for something in the near future, like the festive season, you will be looking to invest for about a year. This is a short-term goal and your chosen unit trust should protect your savings over this time period. A low-risk money market unit trust might be suitable. If the goal of your savings club is to save for your children's tertiary education, you would typically have an investment horizon of at least three years and would be able to consider unit trusts that aim to achieve higher returns over a longer time period, but carry more risk over the short term, such as a balanced fund.

Some savings clubs have more than one investment goal, such as saving for a holiday over the short term and saving to purchase property over the longer term. In this case, you can

split your investment contributions across more than one unit trust. Each unit trust would cater to the specific needs of each investment goal.

If your club is not comfortable making these decisions on its own, there is merit in consulting an independent financial adviser. An adviser will be able to look at the needs of your club and find the best investment solution, as well as the most suitable investment manager, for you.

### **Your club, your rules**

As a savings club, you set your own rules around how the club is managed, who can administer the funds, when you access the funds, how many members you have and how much you need to contribute. Your club should draw up a constitution that spells out these rules and provides guidelines for dealing with various situations, including what would happen if a member stops contributing, decides to leave the club or passes away. As your club is a standalone entity, it is important to keep your club's paperwork up to date, especially when there are changes to membership.

The National Stokvel Association of South Africa has some great templates and guidelines to help formalise your savings club and get started.

### **How to save as a club through Allan Gray**

It is relatively easy to open and manage a unit trust investment as a club with Allan Gray. Take note of the following:

- Your club can have any number of members.
- Your club will need to meet our minimum investment amounts, which are currently R500 if you are setting up a monthly debit order or R20 000 if you are depositing a single lump sum. You can also do a combination of both.
- Your club's account information and balances can be accessed at any time using our online portal.
- We recommend opening a bank account in your club's name, as this will make your investments easier to manage. Members can pay their contributions into this bank account. We will collect funds from this bank account when you instruct us to increase your investment and deposit funds into this account when your club makes withdrawals from your investment.
- If a member who is one of the authorised signatories passes away, the club's investments would still be active. However, Allan Gray would require an updated copy of the club's constitution and/or resolutions and a copy of the member's death certificate in order to process any investment instructions.

*Commentary contributed by Noluyolo Betela, client relationship manager, Allan Gray*

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