



**FIN-ED**  
FINANCIAL EDUCATION

PART **1** OF 4

# UNDERSTANDING YOUR INVESTMENT OPTIONS

The Building Blocks of a  
Successful Investment Portfolio



Smart choices today.  
Stronger future tomorrow.



# Understanding Your Investment Options

## The Building Blocks of a Successful Investment Portfolio

When it comes to investing, many people assume that all investment products are the same. In reality, different investment products serve different purposes, offer unique tax benefits, and help investors achieve specific financial goals.

Understanding the various investment options available is the first step towards building long-term wealth and financial security.

## Discretionary vs Compulsory Investments

Before exploring the different investment products, it is important to understand the difference between **discretionary** and **compulsory** investments.

### Compulsory Investments

Compulsory investments are designed specifically for retirement planning and are governed by legislation. These investments usually provide valuable tax benefits but restrict access to your money until retirement.

Examples include:

- Retirement Annuities (RAs)
- Pension Funds
- Provident Funds
- Preservation Funds

### Discretionary Investments

Discretionary investments allow you to invest and access your money when required. These investments offer greater flexibility but generally do not provide the same tax deductions as retirement products.

Examples include:

- Unit Trust Investments
- Tax-Free Savings Accounts (TFSA's)
- Endowments
- Offshore Investments
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## Why You Need Both

A well-structured financial plan should typically include both discretionary and compulsory investments.

Compulsory investments help ensure that sufficient capital is accumulated for retirement, while discretionary investments provide flexibility for emergencies, opportunities, education costs, travel, or early retirement needs.

Think of compulsory investments as your long-term retirement engine and discretionary investments as your flexible wealth-building toolkit.

## INVESTMENT OPTIONS:

### 1. Unit Trust Investments

#### What is a Unit Trust?

A Unit Trust pools money from many investors and invests it into a diversified portfolio of assets such as shares, bonds, property, and cash.

#### Main Benefits

- Flexible contributions
- No fixed investment term
- Easy access to capital
- Professional fund management
- Diversification across many investments



#### Why Investors Choose Unit Trusts

Unit trusts are ideal for investors who want flexibility, accessibility, and long-term growth without having to manage investments themselves.

#### Investment Type

##### Discretionary Investment

## 2. Tax-Free Savings Accounts (TFSAs)

### What is a TFSA?

A Tax-Free Savings Account allows South Africans to invest while enjoying significant tax benefits.

### Main Benefits

- No tax on growth
- No tax on dividends
- No capital gains tax
- Tax-free withdrawals



### Why Investors Choose TFSAs

TFSAs are one of the most tax-efficient investment vehicles available and are particularly valuable for long-term investors.

The earlier you start, the greater the tax-free benefit over time.

**Investment Type:** Discretionary Investment

## 3. Retirement Annuities (RAs)

### What is a Retirement Annuity?

A Retirement Annuity is a retirement-focused investment designed to help individuals save for retirement while enjoying valuable tax deductions.

### Main Benefits

- Contributions are tax deductible
- Investment growth is tax free within the fund
- Protection from creditors in many circumstances
- Encourages disciplined retirement saving

### Why Investors Choose RAs

Retirement Annuities are often the most tax-efficient way for individuals to save for retirement while reducing their current tax liability.

**Investment Type:** Compulsory Investment

## 4. Preservation Funds

### What is a Preservation Fund?

A Preservation Fund allows individuals who leave employment to preserve their retirement savings instead of withdrawing them and paying unnecessary tax.

### Main Benefits

- Preserves retirement capital
- Continues tax-free growth
- Prevents erosion of retirement savings
- Flexible investment choices

### Why Investors Choose Preservation Funds

Investors use Preservation Funds to protect and continue growing their retirement savings after changing jobs.

**Investment Type:** Compulsory Investment

## 5. Endowment Policies

### What is an Endowment?

An Endowment is a long-term investment policy offered by life insurance companies, typically with a five-year restriction period.

### Main Benefits

- Tax-efficient for higher-income earners
- Estate planning benefits
- Beneficiary nominations available
- Simplified tax administration

### Why Investors Choose Endowments

Endowments are often attractive to investors in higher tax brackets who want a tax-efficient investment solution with estate planning advantages.

**Investment Type:** Discretionary Investment

## 6. Offshore Investments

### What is an Offshore Investment?

Offshore investments allow South African investors to invest outside the country in international markets and currencies.

### Main Benefits

- Geographic diversification
- Exposure to global companies
- Currency diversification
- Reduced reliance on the South African economy

### Why Investors Choose Offshore Investments

Offshore investments help investors spread risk and access opportunities that may not be available in South Africa.

**Investment Type:** Discretionary Investment



### Which Investment is Best?

There is no single investment product that is best for everyone.

The most successful investors typically combine several investment products to achieve different objectives.

For example:

- A Retirement Annuity for retirement savings.
- A Tax-Free Savings Account for tax-efficient growth.
- Unit Trusts for flexibility.
- Offshore Investments for diversification.
- An Endowment for tax efficiency and estate planning.

The right combination depends on your age, financial goals, tax position, risk tolerance, and investment time horizon.

## Final Thoughts

Successful investing is not about finding the perfect investment product. It is about selecting the right combination of investments that work together to achieve your financial goals.

A well-diversified portfolio that includes both compulsory and discretionary investments can provide growth, flexibility, tax efficiency, and financial security throughout your lifetime.



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