FIN-ED
FINANCIAL EDUCATION

PART 2 OF 4

INVESTING FUNDAMENTALS

The Principles That Every Successful Investor Should Understand

Strong principles today.
Stronger wealth tomorrow.

Published: June 2026
Category: Investments
Reading Time: 5-7 minutes

Investing Fundamentals

The Principles That Every Successful Investor Should Understand

Most people believe successful investing is about finding the perfect investment or choosing the fund with the highest return.

In reality, successful investing has far less to do with choosing the "best" investment and far more to do with consistently applying a few timeless principles over many years.

Understanding these fundamentals can help investors make better decisions, avoid costly mistakes, and build lasting wealth.

Saving vs Investing

Many people use the terms "saving" and "investing" interchangeably, but they are not the same thing.

Saving

Saving generally refers to keeping money in a bank account, money market account, or similar low-risk vehicle where the primary objective is capital preservation.

The advantages of saving include:

- Low risk
- Easy access to money
- Suitable for emergencies and short-term goals

The disadvantage is that savings often struggle to keep pace with inflation over long periods.

Investing

Investing involves placing money into assets such as shares, bonds, property, or unit trusts with the objective of growing wealth over time.

The advantages of investing include:

- Potential for higher long-term returns
- Protection against inflation
- Wealth creation over time

The trade-off is that investments can fluctuate in value in the short term.

A simple rule of thumb is: **Save for short-term goals. Invest for long-term goals.**

Understanding Risk and Reward

One of the most important investment principles is that risk and reward are closely linked.

Generally speaking:

- Lower risk investments offer lower expected returns.
- Higher return potential usually comes with greater short-term volatility.

For example:

- Cash investments are relatively stable but typically offer modest returns.
- Shares can fluctuate significantly in value but have historically produced superior long-term growth.

Many investors become uncomfortable when markets fall and are tempted to move into cash. Unfortunately, this often results in locking in losses and missing the eventual recovery.

Successful investors understand that temporary market declines are a normal part of the journey towards achieving higher long-term returns.

The Power of Compound Growth

Albert Einstein allegedly referred to compound growth as the "eighth wonder of the world."

Whether he said it or not, the principle remains powerful.

Compound growth occurs when your investment earnings begin generating earnings of their own.

Consider the following example:

- Invest R100,000.
- Earn 10% per year.
- Leave all growth invested.

After the first year, your investment grows to R110,000.

In the second year, growth is earned on R110,000 rather than the original R100,000.

Over time, the effect becomes dramatic.

The longer your money remains invested, the harder it works for you.

Why Starting Early Matters

When it comes to investing, time is often more important than the amount invested.

Consider two investors:

Investor A

- Starts investing at age 25.
- Invests R2,000 per month.

Investor B

- Starts investing at age 40.
- Invests R4,000 per month.

Despite investing double the amount, Investor B may still end up with less money at retirement because Investor A had an additional 15 years of compound growth.

The lesson is simple: **The best time to start investing was yesterday. The second-best time is today.**

The Importance of Consistent Investing

Investing should not be viewed as a once-off event.

Building wealth is usually achieved through regular contributions made over many years.

Benefits of investing consistently include:

- Building financial discipline
- Reducing the temptation to time markets
- Benefiting from market fluctuations through regular purchases
- Allowing compound growth to work more effectively

Many successful investors build wealth not because they invest large sums of money, but because they invest consistently over long periods.

The Hidden Cost of Withdrawals

While contributing regularly helps build wealth, frequent withdrawals can significantly reduce long-term investment growth.

Every withdrawal has two consequences:

1. The capital withdrawn is no longer invested.
2. The future growth that capital could have generated is also lost.

For example, withdrawing R100,000 today may not only reduce your portfolio by R100,000 but could potentially cost several hundred thousand rand in future growth over the next 20 years.

For this reason, investments intended for long-term goals should only be accessed when absolutely necessary.

The less you withdraw, the more opportunity your investments have to grow.

Diversification: Don't Put All Your Eggs in One Basket

Diversification simply means spreading your investments across different asset classes, sectors, countries, and investment managers.

A diversified portfolio may include:

- South African shares
- International shares
- Bonds
- Property
- Cash
- Alternative investments

Diversification helps reduce risk because different investments often perform differently under varying market conditions.

No single investment consistently outperforms every year.

By spreading risk, investors reduce the impact that any one investment can have on their overall portfolio.

Diversification is not designed to maximise returns; it is designed to improve the consistency of returns while reducing unnecessary risk.

Final Thoughts

Successful investing is rarely about finding the next winning share or predicting what markets will do next.

Instead, it is about understanding and applying a few simple principles:

✓ Start early

✓ Invest consistently

✓ Stay invested

✓ Understand risk

✓ Limit unnecessary withdrawals

✓ Diversify your portfolio

✓ Allow compound growth time to work

Investors who consistently follow these principles often achieve far better outcomes than those who constantly chase performance or react emotionally to short-term market movements.

FinEd – Empowering Better Financial Decisions Through Education

This article is intended for educational purposes only and should not be construed as financial, tax, accounting or legal advice. Professional advice should be obtained before implementing any financial strategy.