Key investment considerations ahead of the holiday season

28 November 2021 – The much-anticipated Black Friday deals offered consumers the opportunity to take advantage of major discounts which may have helped them to save a bit more. This relief could not come at a better time, as we head towards the holiday and festive season. The holiday season shopping rush may present further temptations to buy goods at discounted prices, however the question to ask ourselves is whether we really need any of these items?

“When it comes to building sustainable wealth, spending large amount of money on nice to have items is not a winning formula,” says Renzi Thirumalai, Head of Investment at FNB Wealth and Investments. We need to be frugal with how and where we spend our money especially during the holiday season.”

Thirumalai advises that you think of the following, before taking cash out of your pocket:

**Remember your long-term goals**

As a consumer it is easy to be swept up in the discount, deal madness, but it’s essential not to lose sight of the long-term goals that you have set. Spending outside your means will lead you to incur short-term debt with a costly interest rate. These future short-term debt repayments will mean less money allocated to your long-term investment and savings vehicles. That is why it is imperative to consider the future repercussions of a short-term purchase. If possible, purchases should only be made with excess funds that have been specifically put aside for the relevant items. Short term purchases must not impact long term goals and our long-term investment and savings vision.

**The must have vs the nice to have**

Nice to have items are exactly that, “nice to have”. However, although attractive on the surface, the deals on nice to have items are not always as great as they appear. The fear of missing out or FOMO is a strategy deployed by retail chains to entice consumers to buy what they don’t really need. As a consumer we don’t need 5 pairs of sneakers just because they appear to be 50% off, or a new cell phone because you have the older model which is in perfect working order. Take the time to draw up a specific budget which can be used as to decide which of those “must have” items you should consider before purchasing at a store or online. This will assist in not overspending and allow you to acquire the “must have” items you or your family need.

**Buy asset classes not items**

It is important to note that funds spent are funds not working for you. Buying that new smart phone might seem like a deal now, however what will that purchase be worth in 5 years’ time? Well, if you
manage to keep the phone from breaking or getting stolen probably 30% of the original purchase price. That means a 70% depreciation on your purchase. Investing or saving these funds will result in an appreciation of this money, meaning the short-term expense, ends up costing a lot more than the major deal offered on the surface. It’s important to keep that in mind when looking to take advantage of marketing deals. R5000 for a new phone now seems like a great deal, but the opportunity cost of what that could turn into, means that deal is costing a lot more when you take investment returns and compounding into consideration.

The holiday and festive season is always an exciting time of the year. When your spending is done correctly or aligned to your overall budget goals you will see your savings and investments grow. Before you decide on making a purchase, ask yourself two very important questions, do I really need this item and what will the long-term impact of this decision be. If the answers to these questions are in line with your long-term strategy, then you have considered the purchase and are not simply falling victim to clever marketing tactics or FOMO which could impact your long-term nest egg,” concludes Thirumalai.

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