



SAVING VERSUS INVESTING

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What every South African needs to know to build real wealth

Most South Africans are taught from an early age to save. Put money aside, don't spend what you don't have, build a nest egg. This is solid advice, but it's only half the story. The other half - that actually builds wealth - is knowing when saving is no longer serving you by itself, and when it's time to start investing.

Given that South Africa has high inflation and a strict tax regime, the vehicle you use to save your money matters. With inflation hovering around 4%, a volatile rand, and a tax system that quietly erodes interest income, keeping your money in a savings account can leave you worse off in real terms year after year. Understanding the difference between saving and investing, and knowing which one to use and when, is one of the most important financial decisions you will ever make.

The difference between saving and investing

Saving is about protecting your money. Investing is about growing your money.

When you save, you put money in a low-risk, easily accessible account such as a savings account, a money market fund, or a fixed deposit. Your capital is protected, your returns are modest and predictable, and you can access the funds when life demands it. Saving is ideal for short-term goals (anything under three years) and, critically, for your emergency fund. Saving forms the base for your investments – after all, you can't invest if you can't save.

Investing means putting your money to work by investing in assets such as shares, unit trusts, ETFs, bonds or property. These asset classes may carry more risk but offer the potential for significantly higher returns over time. Unlike savings, the value of your investments can fall in the short term. But over five, ten or 20 years, well-constructed investment solutions have historically outpaced inflation by a meaningful margin.

The question isn't which one is better. It's knowing which one serves you at each stage of your financial life.

Why saving alone isn't the ideal strategy

Here is a number worth sitting with: based on approximately 95 years of South African market data, the historical average real return on cash would take about 87 years to double purchasing power. For equities, that historical average reduces the doubling time to roughly 11 years¹.

That gap exists because of three forces that are particularly powerful in the South African context.

Inflation is the first. At 4%-7% per year, South African inflation quietly erodes what your money can buy. If your savings account earns 7% and inflation runs at 6%, your real return is just 1%. Apply "Rule 72": divide 72 by your inflation rate, and you find that at 10% inflation, your money halves in purchasing power every 7.2 years. Your balance may grow, but your wealth does not.

¹ Source: Source: Old Mutual Investment Group, [Long-Term Perspectives](#) (analysis of South African asset class returns since 1929).



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Tax is the second. Interest earned in a savings account is taxed at your marginal rate, which can be up to 45%, once it exceeds the annual exemption of R23,800 (or R34,500 if you are over 65). That 7% interest rate, after tax at a marginal rate of 31%, becomes an effective return of around 4.8%. After inflation, you may be earning next to nothing or even losing ground.

Compounding structure is the third, and often the least understood. Imagine a bank advertises 7% interest. That sounds straightforward, but it matters how that interest is applied. If it's a 7% nominal rate compounded monthly, your money actually grows by about 7.23% over the year because each month's interest starts earning interest itself. By contrast, if the 7% is paid only once at the end of the year, your return is exactly 7%. A 7% Effective Annual Rate (EAR) already accounts for this compounding effect, whereas a 7% nominal rate does not. The difference may seem tiny in a single year, but over decades, those extra fractions of a percent compound into thousands, or even hundreds of thousands, of rands.

When life happens

Before we talk about investing, we need to talk about why saving matters so much in the first place.

According to recent research², only 34% of South Africans have an emergency fund sufficient to cover six to 12 months' worth of expenses, and only one in three South Africans has enough emergency savings to withstand a prolonged financial shock.

Although there are no statistics available on these life events, by looking at statistics on serious illness and the divorce rate alone, it could be estimated that nearly 40% of South Africans will experience a serious life-changing event before the age of 50 (such as retrenchment, serious illness, divorce, or a major accident). Without adequate savings, unforeseen life events can have devastating consequences on your finances. It can lead to you having to make desperate decisions, such as withdrawing from your retirement annuity early, selling long-term investments at the worst possible time, or taking on high-interest debt that sets your financial goals back by years.

How much should you save? Consensus recommends that you should have at least three to six months of living expenses in a liquid, accessible savings vehicle before you consider investing. On a salary of R40 000 per month, that means between R120 000 and R240 000 set aside and untouched.

This savings pocket, known as your "emergency fund", is not dead money. It is the foundation that allows everything else to work.

A practical framework: Where your next rand should go

A sensible financial strategy is to start by building a small emergency fund to cover unexpected expenses and prevent relying on debt when life throws you a curveball.

Once that initial buffer is in place, focus on paying off high-interest debt as quickly as possible (such as credit card debt), as the interest you're paying is likely costing you more than your investments could reasonably earn. After your expensive debt is under control, continue growing your emergency fund until it can cover three to six months' worth of living expenses (or more, depending on your circumstances).

Once your high-interest debt is cleared, build your full emergency fund in a tax-efficient solution that beats a money market rate and gives you unrestricted access to your funds as needed.

² Source: Santam. (2024). [Sanlam Financial Confidence Index Research Report 2024](#).



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Investment vehicles versus savings vehicles

Savings accounts

Make use of a high-interest savings account and/or a Money market account or fund that can be accessed via your bank provides easy access, capital protection, and earns interest. This is an ideal vehicle in which to set aside funding for immediate emergencies.

Notice deposits and fixed deposit accounts can offer attractive interest rates, but your money may be locked in or subject to penalties if withdrawn early. Best only to use these if you have other liquid emergency savings.

Hybrid solutions - The Capital Edge Solution by OIG

OIG's Capital Edge Portfolio strategy offers investors a low-risk and stable long-term total return while allowing regular withdrawals. The portfolio will predominantly invest in interest-bearing investment products, while also making use of up to 50% hedge funds.

The portfolio aims to provide investors with a high level of liquidity, preservation of capital, and a competitive return on investment. The fund seeks to maintain a stable return profile, offering investors a secure and low-risk investment option suitable for cash management needs or as a short-term investment vehicle. The fund is designed for investors seeking to minimise risk while earning income over a short-term investment horizon.

The portfolio extends its allocations to include a wider range of asset classes than just Money Market Funds. These allocations are meticulously managed to achieve smooth returns whilst minimising risk.

By investing in the [OIG Capital Edge Portfolio](#), investors effectively grow their investments in different asset classes and are subsequently taxed differently, which could lead to improved investor outcomes. The income component makes use of an investor's interest exemption (R23,800 for individuals under 65 years old, and R34,500 for individuals aged 65 and older). The Hedge Funds component makes use of an investor's Capital Gains Tax (CGT) annual exclusion of R50 000. Hedge funds within a Collective Investment Scheme structure are taxed on their investment returns as capital, not income.

Exhibit 1 | Income tax versus CGT overview

Feature/tax attribute	Wrapper (50% hedge funds, CGT-taxed)	Traditional income fund (income-taxed)
Type of tax applied	CGT on hedge fund portion	Income tax on interest distributions
Effective tax rate	Up to 18%	Up to 45%
Tax deferral	Yes – CGT only on disposal of units	No – taxed annually
Compounding efficiency	Higher (due to tax deferral + lower rate)	Lower (annual tax erosion)

Long-term investment vehicles

Once you've established a solid financial foundation, focus on building long-term wealth through tax-efficient investment vehicles.

Start by maximising your Retirement Annuity (RA) contributions. Contributions of up to 27.5% of your taxable income (subject to the annual limits) are tax-deductible, providing an immediate and guaranteed tax benefit while helping you build retirement capital.

Next, consider opening a Tax-Free Savings Account (TFSA). With an annual contribution limit of R46 000 and a lifetime limit of R500 000, all growth, dividends and withdrawals are completely tax-free. Invested in a diversified, low-cost equity portfolio over the long term, a TFSA is one of the most effective wealth-building tools available to South African investors.



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Beyond these tax-efficient vehicles, consider investing through a discretionary investment, such as an endowment, unit trust fund or a flexible investment portfolio, depending on your personal circumstances and tax position.

As your wealth grows, it's also worth diversifying beyond South Africa. Using your R2 000 000 Single Discretionary Allowance (SDA), you can invest offshore through global investment solutions, providing exposure to international markets and currencies. For South African investors, offshore diversification is not simply about pursuing higher returns; it's an important way to reduce concentration risk, broaden investment opportunities and protect purchasing power over the long term.

The cost of starting late

The most powerful argument for investing is not about returns; it is about time. Time in the market will always prevail over timing the market.

Consider two investors, both contributing R1,000 per month at an average annual return of 10%. The first starts at age 25. The second starts at age 35. At retirement (age 65), the early starter has accumulated R6 300 000. The late starter has R2 300 000. A single decade of delay costs R4 000 000 in wealth.

The bottom line

Saving and investing are not competing priorities; they are complementary strategies, each serving a different purpose at a different stage of your financial journey. Save first to build stability and protect against the unexpected. Invest once that foundation is in place, to build the long-term wealth that a savings account simply cannot deliver.

South Africa has created a powerful investment toolkit - from Retirement Annuities and Tax-Free Savings Accounts to global investment opportunities and low-cost portfolios. These are all valuable advantages. But the greatest driver of long-term wealth isn't the product you choose; it's the time you give your money to compound. And time is the one asset no government, adviser or investment manager can replace.

Start with what you have. Start now. The decision, and the wealth it creates, is yours.

Every person's financial circumstance, goals, risk tolerance and investment time horizon are unique. The most appropriate savings and investment strategy will therefore differ from one individual to another. Speak to a qualified financial adviser who can help you develop a personalised financial plan and recommend the most suitable approach for your specific needs and long-term objectives.

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