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Investing for the short, medium and long term

Are you saving for a short-term goal or building up a nest egg for the future? Is your goal a bucket-list holiday in three years' time or your child's education a decade from now? Regardless of what you are saving for, one of the most important factors for any investment is your investment time horizon.

Investments that are short, medium or long term in nature each have their own implications and require their own approach to financial planning. There's a world of difference, for example, between saving for your retirement in 40 years' time, and saving for your honeymoon in Bali. But what exactly is that difference, and how should you approach those different goals? Here's the long and short of it.

Short-term investments

When we talk about the 'short term', we're usually looking at a one- to two-year time horizon. Your goal with a short-term investment might be a holiday trip, a new car, or a similar big-ticket purchase. One of your primary goals with short-term savings is to not lose money – and that's why some financial advisers would tell you that, for this time horizon, a savings account or a [money market](#) investment is a safer choice than more volatile investments

such as equities or property. Alternatively, an income fund, such as the [Prudential Income Fund](#), might also be a good option. Although income funds are low risk investments, they hold slightly riskier assets than money market funds, with the aim of producing potentially better returns in the short term.

Most importantly, when you're looking at a two-year goal, the amount of money you save is more important than the interest rate you earn. In this short timeframe there's simply not enough time for compounding interest to really work its mathematical magic on your money.

Medium-term investments

'Medium-term' refers to investments with a three- to five-year time horizon. So your goal is further away than a short-term investment, but it's not in the distant future like, say, your retirement. Medium-term investment goals might include paying for a wedding, starting a business, paying for your children's education, or something similar.

What makes medium-term investments so interesting (or complicated) is that you can afford to ride out some market volatility, which you can't in a short-term investment. On the other hand, though, the time horizon is still relatively short in investment terms, so you'll have less time to make adjustments than you would in a long-term investment. Remember that you'll want your money to be relatively accessible, and that you'll be able to incur some risk in exchange for a higher return.

There's no set game plan for medium-term investing, so your strategy will depend on your goal, your situation, your personality, your appetite for risk, and many other factors. Use our [Fund Selector tool](#) to find the fund that's most suitable for you.

Long-term investments

Long-term investments sit on the distant horizon. Your goal is usually more than five years away, but can be up to 30 or 40 years in the future – like your retirement, for example.

It's out of sight, but not entirely out of mind. You'll have to do some low-level management of your long-term investments, checking in once or twice a year to ensure your investment is growing and that

you're still on track for your goal. If it's retirement that you are saving for, run your numbers through our Retirement Calculator to see how you're doing.

That long time horizon gives your money time to work, and time to enjoy the benefits of compound interest. It also means you're able to diversify your portfolio, including a mix of assets that offer a healthy blend of risk and reward, and with sensible protection and varied exposure. Time is (relatively speaking) on your side, so you should be able to ride out the volatility of the market.

Choosing the right fund can be tricky, which is why it's usually best to speak to a good independent financial adviser to help you with your investment decisions. As always, if you need more information please feel free to contact our Client Services Team on 0860 105 775 or email us at query@prudential.co.za.