momentum

investments

guiding the conversation

insights you can act on with your clients

Helping you get the most out of your client conversations

wealth

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guiding the conversation

In today's complex financial environment, investors need advice more than ever. We are committed to supporting you with market-leading insights and tools that can help you encourage your clients to re-evaluate their investment perceptions and reassess whether they are on course to meet their long-term financial goals.

Your clients face a number of challenges as they take on the ever greater responsibility of jointly planning for their financial future. In order to assist you in further understanding some of the psychological challenges that your clients face, we have conducted a large-scale survey to highlight some of the various investor behavior and attitude biases towards investing.

In essence, our objective in conducting this study was two fold:

- To provide you with unparalleled insight into your clients frame of mind which is capable of assisting you in getting the most out of your conversations with them, and
- To understand clients' financial needs and preferences when it comes to saving and investments.

Our study clearly reveals that investors' actions are not necessarily aligned with their stated investment goals. By providing you with these insights, our intention is to assist you in prompting your clients to reassess their current investment challenges from an investment objective perspective. It is our hope that given a great understanding of behavioral finance your clients will be empowered to identify how their emotions might be preventing them from adopting the most appropriate investment approach.

The role of behavioural finance

We often like to think of investing as a mechanical process guided solely by logic but the truth is that investing one's hard-earned savings is sometimes difficult, with emotions significantly influencing the investment approach. Behavioural finance can help to provide more insight into how your client's emotions may be influencing their decisions.

For some of your clients, the obvious mismatch between their long-term investment goals and their desired short-term investment preferences poses a significant challenge for you. By highlighting some of the major behavioural finance themes, your clients are likely to identify with certain traits and become more accepting of how these emotions may be holding them back from making sure that they benefit from the greatest probability of securing financial wellness.

Do not let your clients' emotions dictate their investment approach

Behavioural finance influences

Home bias

An investor's preference for the familiar

Naturally, your clients are likely to have a preference for things that they are familiar with. This bias is clearly evident in many South African investors who often have the vast majority of their savings invested in companies and assets that are geographically close to their homes and hence familiar to them. Interestingly, studies have shown that investors and professional money managers have a preference for investments in their own communities, this is despite South Africa accounting for less than 2% of the global economy. Effectively, home bias can result in the placing of all one's eggs in one very small basket.

Risk and loss aversion

Disproportionate dislike of losses and risk

For many investors (particularly those currently invested in money markets), risk and loss aversion is likely to be their primary deterrent from acquiring exposure to comparatively more volatile asset classes. Investors may be unwilling to put their capital at risk for different reasons. For example, a retiree may wish to preserve their capital base, whereas many investors may simply be frightened by the prospects of short-term losses. It is important for an investor to contextualise the fear of a short-term loss against the longer-term need to grow their capital for their financial wellness.

Time preference

Unwillingness to forgo instant gratification

This refers to an investor's tendency to value something today far more than how they tend to value the same asset in the future. This behavioural influence is clearly evident in the concept of instant gratification where people are seldom willing to forgo a purchase today (e.g. the purchase of a new vehicle) in favour of a future benefit (e.g. saving for retirement).

Herding

An investor's tendency to follow the crowd

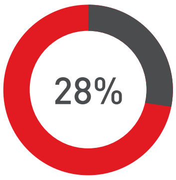
In many ways there are some positives to the anomaly of herding. An example of this can be observed when investors benefit from momentum in markets resulting from a disproportionate amount of buyers all chasing the same asset(s). However, the primary danger of herding is that it can generate a false sense of security for your clients. As tempting as it is to use circumstantial excuses to justify extreme price gains, the most extreme risk caused by herding is price bubbles. Markets are undeniably most dangerous when investors are piling indiscriminately into an asset class.

Momentum survey feedback

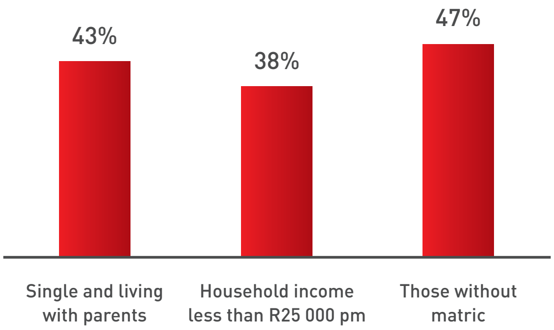
If someone offered you R100 000 now or R150 000 in six months' time, which would you choose?

Instant gratification

Percentage of respondents which opted to take the R100 000 immediately

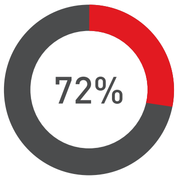


Tendency towards instant gratification was most prevalent amongst:



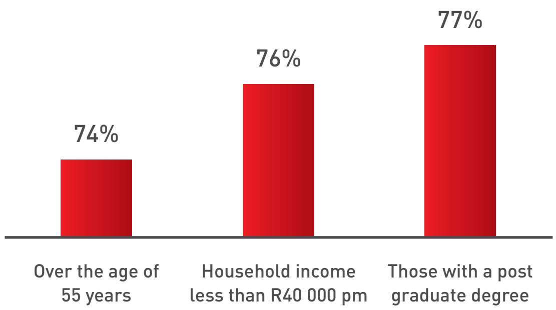
Delayed reward

Percentage of respondents who decided to delay the short term reward motivated by the exceptional six month return



"A guaranteed return of 50% tax free over six months is difficult to beat. Great news in uncertain times."

Tendency towards delayed reward was most prevalent amongst:



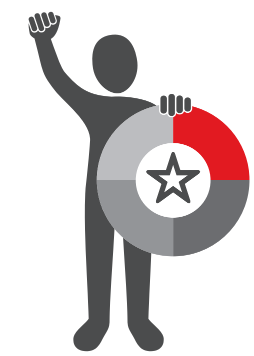
Understanding your client's preferences allows you to have more meaningful and constructive conversations

Insights into your clients frame of mind

Six distinct groups of clients emerged from our study of middle income and affluent individuals in South Africa. Each of these groups are characterised by their own unique needs and preferences. Below is a brief description of how you can identify these individuals, as well as the preferred means of communicating with each specific group.

Six distinct groups

1



Concerned achievers

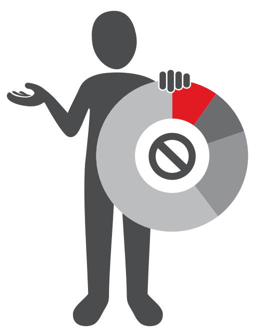
2

Savvy suburbain

3

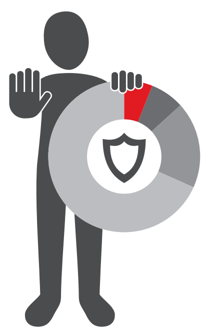
Determined educated

4



Content conservatives

5



Established traditionalists

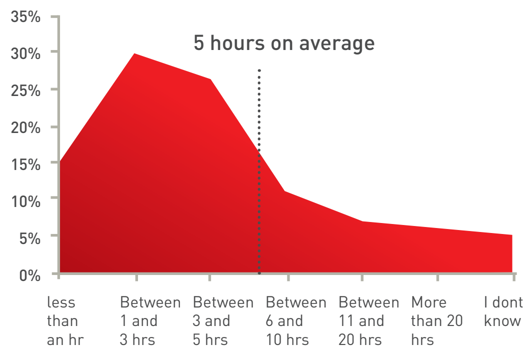
6

Young materialists

5 hours

average time per month spend managing their finances

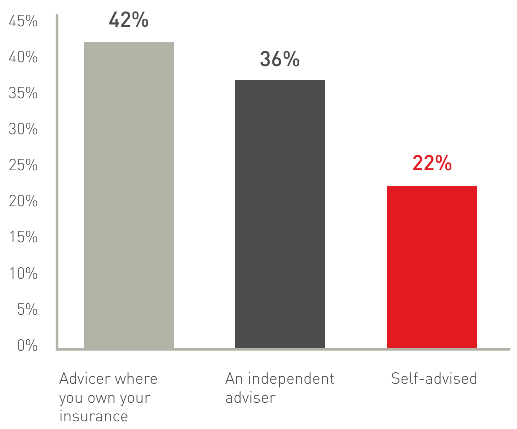
Time your clients spend managing their finances



22%

are self-advised

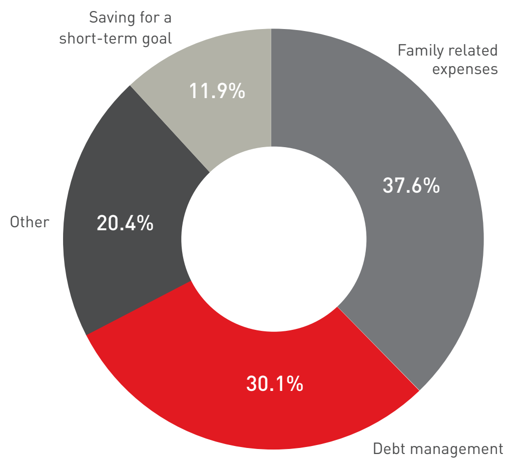
Where do you get your advice?



37.6%

claim taking care of their family is their primary goal

Current financial priorities



1 Concerned achievers

respect me

Generally speaking, concerned achievers are driven to make money. They are often high income earners, materialistic and extremely sensitive to being respected.

Key preferences:

- Appreciate independence and place a great deal of emphasis on control.
- Thrive on the ability to make their own decisions.
- Place significant value on the perception of being treated with respect.
- Have an innate preference for well-known brands.
- Value honesty and professionalism.

Guiding the conversation

Whilst willing to accept risk to achieve their financial goals, concerned achievers tend to place a large emphasis on their future financial security and the task of making it more sustainable.

They are extremely focused on achieving their financial goals and tend to view financial advisers as long-term partners in managing their wealth. They tend to be anxious about their finances and are often suspicious of being misled.

How to identify them

Spend	average **household spend** is **R826,547** per annum
43%	**earn** between **R50,000 and R79,999** per month
28%	are **self-employed**

2 Savvy surburbian

empower me

Savvy suburbians tend to be well educated with a high likelihood of a post-matric education. They are the most knowledgeable segment with regard to their financial affairs and are generally not afraid to talk about their finances.

Key preferences:

- Tend not to be risk averse.
- Trust financial service providers.
- Likely to understand the rewards of accepting risk.
- Tend to be quick in making financial decisions.

Guiding the conversation

As a function of their tendency toward education, savvy suburbians understand the importance of investments and are likely to undertake lump-sum as well as regular investments. Savvy suburbians are also the most likely segment to own direct shares. They like the ideal of innovation and tend to engage regularly with financial tools in scrutinising the financial advice which they have received.

These individuals are quick to make financial decisions and tend not to focus on price but rather choose to place significant emphasis on service and relationships.

How to identify them

Spend	average **household spend** is **R525,122** per annum
63%	are owners of **fixed property**
26%	are members of a **mature family** (i.e. are parents)

3 Determined educated

enable me

The determined educated segment tends to exhibit a good level of financial understanding, yet is likely to be risk averse. They are often moderately anxious about their financial situation (both current as well as future) and regard the achievement of wealth their primary concern.

Key preferences:

- Tend to be risk averse.
- Value the freedom of choice and often value and engage in competitor comparisons.
- Prefer investments that offer some level of guarantee.
- Preference for tangible assets (hence their high exposure to property).

Guiding the conversation

The determined educated segment is less suspicious of being mislead and tends to trust financial advisers and financial service providers. The key to targeting this segment is to focus on their financial goals, whilst showing consideration for their tendency to be risk averse. This segment is generally open to financial planning, as long as it centres on their financial needs.

Determined educated are the most likely to make use of credit and are often characterised by the burden of having to support adult dependants. The determined educated segment tends to prefer investments that offer them some sort of guarantee, rather than the prospect of higher returns.

How to identify them

Spend	average **household spend** is **R575,634** per annum
70%	are owners of **fixed property**
23%	are **self-employed**

4 Content conservatives

convince me

This is the most risk adverse segment. By nature, content conservatives are introverts and tend to have a poor understanding of their financial situation. As a result, they often do not have confidence in their own financial decisions. They have a very little consideration for financial planning.

Key preferences:

- Tend to have the majority of their savings in cash.
- Investments often limited to banking accounts.
- Value simplicity.

Guiding the conversation

Content conservatives are generally distrustful of financial advisers. Trust is very important to this segment and they tend to trust large financial brands rather than independent financial advisers.

Due to their lack of financial knowledge, they require very simplistic investment products that are supported by extensive information. Financial decisions are likely to be made based on their needs, therefore it is important that this segment is made aware of the need(s) that a financial product could potentially satisfy.

How to identify them

Spend	average **household spend** is **R436,303** per annum
68%	**earn** between **R16,000 and R39,999** per month
58%	are **not** at all **materialistic**

5 Established traditionalists

protect me

Established traditionalists are primarily motivated by their desire for financial security. They tend to value being part of a community very highly and are likely to demonstrate a noted sense of social responsibility. This segment generally lacks financial knowledge and is likely to have experienced financial difficulties at some point in their lives.

Key preferences:

- Have an innate preference for routine.
- Place an overwhelming emphasis on financial security.
- Tend to be risk averse.
- Have a preference for cash and bank investment products.

Guiding the conversation

The concept of security is the most important consideration when interacting with established traditionalists. Investment products with an embedded guarantee tend to be favoured. Other requirements are a strong financial brand and simplicity.

Given their general lack of financial knowledge, education is an important tool which can be used to penetrate this segment. This segment often seeks financial advice.

How to identify them

Spend	average **household spend** is **R279,238** per annum
63%	**earn** between **R16,000 and R24,999** per month
21%	are **single parents**

6 Young materialists

understand me

Young materialists are often young, financially independent and single. They also tend to be well educated and find it easy to acquire information from various channels. As the most materialistic segment they are highly brand sensitive and often purchase on impulse.

Key preferences:

- Value the power to make their own decisions.
- Extremely brand conscious.
- Often scrutinise a financial product based on 'value for money'.
- Like to discuss their future financial aspirations.

Guiding the conversation

Being part of a prestigious brand is important when interacting with young materialists. This segment generally appreciates discussing their future financial aspirations and appreciates financial projections. Young materialists understand investment risk and are generally not particularly risk averse.

The young materialist segment is financially savvy and often welcomes the idea of dealing with financial advisers.

How to identify them

Spend	average **household spend** is **R322,303** per annum
41%	are **financially independent and single**
100%	**earn** between **R16,000 and R39,999** per month

Investment conversations for today's demanding investment environment

If investors want to achieve their financial goals, they first need to acknowledge their behavioural influences and learn to think objectively about how well their current financial positioning is aligned with their intended goals. We believe that over the long term it is important to empower your clients to think and plan more appropriately about how best to secure their financial futures. By having these sometimes challenging conversations with your clients, you stand to strengthen the trust-based relationships you share with your clients.

Generally speaking, your clients have three primary investment goals that which are likely to vary depending on their stage of life. These needs are growth, capital protection and income. For the majority of cases these needs are sequential: growth being the most important consideration for an investor in their twenties to approximately a decade prior to retirement, capital protection for an individual in their pre-retirement stage of life, and income for those who are no longer employed and earning a salary.

However, what our survey has revealed is that many middle income and affluent individuals' financial thinking is currently misaligned with their stated investment objectives. We believe financial advisers have an important role to play in helping their clients understand these misalignments. With your assistance and through the correct guidance and strategies, these individuals will be better equipped to take control of their financial wellness.

Getting the most out of your conversations

Use the various insights contained within this informational brochure in conjunction with the educational one pagers to get the most out of your conversations with your clients.

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MMI Group Limited 268 West Avenue Centurion 0157 PO Box 7400 Centurion 0046 South Africa
Tel +27 (0)12 675 3000 Fax +27 (0)12 675 3941 Share Call 0860 54 65 33 wealthservice@momentum.co.za www.momentum.co.za
Reg. No. 1904/002186/06 Momentum, a division of MMI Group Limited, an authorised financial services and credit provider

Momentum Wealth (Pty) Ltd
268 West Avenue Centurion 0157 PO Box 7400 Centurion 0046 South Africa
Tel +27 (0)12 675 3000 Fax +27 (0)12 675 3941 Share Call 0860 54 65 33 wealthservice@momentum.co.za www.momentum.co.za
Reg. No. 1995/008800/07 Momentum Wealth is an authorised financial services provider (FSP 657)

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