

Three good reasons to look into high interest investments

Is there any way to achieve a high investment return over the long term while still being cautious or risk-averse? The answer from most investments experts will be a categorical no. However, Neil Thompson, head of product and customer value proposition at African Bank disagrees claiming, yes, you can achieve above-inflation returns while being cautious.

“The conventional wisdom has been that the only asset class proven over time to offer a return on investment which outperforms inflation (in other words, a real return) is equities – and that comes at the cost of a risk to one’s capital. While that has been true in the past, in the current environment African Bank has a suite of high interest investments which comfortably outperform the JSE All Share Index’s (Alsi) return on investment over 12 months. These products include our three cash accounts: 32-day notice account; short-term deposit; and notice-deposit account,” says Thompson.

He notes that with equities, the potential for higher returns carries the increased risk of capital loss, as well as increased short-term volatility and sleepless nights. He explains that only if one is saving with long-term goals in mind, can an investor be positioned to tolerate volatility and thus benefit from equity exposure over time. But if one is nearing retirement and consequently running out of time for investments to return to their historic norm, or can’t tolerate as much volatility, there is still a way to get good returns and beat inflation – easily beating the current performance of the Alsi.”

That’s where African Bank’s high interest investments come in – they are currently the best rates in the market. “In South Africa, bank savings accounts currently offer returns ranging from 1% to a potential 8%. The median is effectively a negative real interest rate that it is barely keeping pace with the current inflation rate of 5.2% (May2021) year-on-year. Consequently, the purchasing power of an investor’s capital will be eroded by inflation over time. In contrast, African Bank offers South Africa’s best investment rate of 8.45% per annum, which is equivalent to 10% calculated on expiry after 60 months.

The interest rate on a fixed deposit investment starting at six months is 4.94%, paid out at expiry; 5.75% for a 12 month fixed deposit investment paid out at expiry, 6.93% for a 24 month fixed deposit paid out on expiry and 7.67% on a 36 month fixed deposit paid out on expiry.

“For someone approaching retirement, or retired, it is uncommon to include many equities in a portfolio due to their volatile performance. But until now pure cash investments have also not been a viable long-term investment strategy for someone in such a position. The reality is that investors have been compelled to introduce other asset classes to their portfolios simply to generate investment returns that beat inflation over time. Our high interest investments address this market and eliminate the need for them to take on unwelcome risk to their capital needed for retirement,” says Thompson.

“It is wise for investors to gauge their investment progress against a yardstick, and although there is no ‘one size fits all’, a common goal of anyone approaching retirement is to beat inflation,” concludes Thompson.

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