Media Release
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Beware of get-rich-quick schemes in tough economic times

If it sounds too good to be true, you can safely assume that it probably is, says Leon Campher, CEO of the Association for Savings and Investment South Africa (ASISA).

Campher says while there will always be fraudsters devising schemes to trick unsuspecting members of the public out of their hard-earned cash, plying their trade becomes easier during tough economic times.

"Never before have so many South Africans faced financial hardship on such a widespread scale and desperation makes people more willing to take a chance on something that would normally set off alarm bells."

Campher cautions consumers to expect to be confronted by people trying to talk them into joining pyramids schemes, Ponzi schemes, WhatsApp stokvels or buying illegal products disguised as products belonging to ASISA members. "There is even a good chance that a family member or good friend, who fell for the enticing stories of impossibly high returns, will be the one trying to talk you into joining. However, these schemes inevitably collapse, leaving investors with nothing."

Campher says no matter how desperate your situation is right now, taking a chance on dubious products or schemes that promise "get rich quick" outcomes will lead to further hardship.

He says if you are currently struggling to make ends meet, the only place your money should be going is into ensuring that you have food on the table and a roof over your head. If that is covered, your next priority should be paying off your debt and ensuring that you have medical aid cover, life cover and disability cover.

According to Campher, the only way you are going to improve your financial situation in the long-term is by managing your everyday spending decisions and financial habits. He offers the following pointers to help you take control of your finances:

1. Live within your means

Campher says a common reason for not being able to save is that people are simply not aware of what they are spending. He adds that people generally do not account for those small everyday expenses which over time are tipping them into financial trouble. "The only way to understand exactly where your money is going is by drawing up a detailed budget", says Campher.

Once you have drawn up your budget, you need to streamline your finances by cutting back on wasteful expenditure and bringing your spending in line with your income.

Campher also points out that you need to learn to distinguish between wants and needs if you are going to be able to maintain a healthy budget over the long term.

2. Rid yourself of debt

Campher says it is important to differentiate between good debt and bad debt. "If you borrow money to buy property, this is considered good debt since the value of the property will hopefully appreciate over the years and exceed the loan amount and the interest paid. Apart from a student loan, which if managed correctly should help you to get a good education and hopefully a good income, all other short-term debt like credit card and store card debt is bad debt."

He notes that the most effective way to deal with debt is to prioritise repaying short-term debt with high interest rates such as credit cards, store accounts and car loans. Once this debt is repaid, turn your attention to long-term debt such as mortgage bonds, also utilising the money you have freed up on monthly short-term debt repayments, he says.

According to Campher, the cost of short-term debt will almost always exceed the interest you receive on fixed deposits and money market accounts. "For this reason, there is no point in saving money in a bank account while you are also servicing debt. "Having debt on your personal balance sheet is like having holes in the bottom of a bucket where your money keeps flowing through. You need to plug the holes first by repaying your debts before you can start accumulating wealth."

3. Pay yourself first

Campher says the "pay yourself first" approach means committing money to ensuring your financial wellbeing in the future before spending it on anything else. He acknowledges that saving can be difficult when your income may have been reduced or is under pressure from rising costs, but the reality is that you are likely to spend what is in your bank account until nothing is left.

The best approach, says Campher, is to save and invest first and then spend what is left. "By paying yourself first, you commit an amount, even if it is small, towards paying off debt, saving for emergencies, investing for your retirement and providing for unexpected life events such as death or disability.

"Make saving first a habit by automating your savings at the beginning of the month, so that you are not tempted into spending everything in your bank account," he suggests.

4. Invest wisely

Campher says only short-term savings for emergencies and expenses like next year's school fees should be held in a bank account.

"Investing wisely for the long-term means investing your money in regulated savings and investment products that have exposure to the stock market."

He points out, however, that the first rule of investing in regulated savings and investment products like unit trust portfolios is to only commit money that you will not need in the next five to 10 years. If you invest for the long-term you also benefit from the power of compounding where returns on your investments participate in future growth.

5. Consult a financial adviser

Consulting a trusted financial advisor instead of gambling with get rich quick schemes is one of the most important financial steps you can take for your future, says Campher.

"A trusted financial adviser can help you to develop a long-term financial plan that will help you achieve your financial goals. Research has shown that advised investors remain more disciplined about decisions to spend, save and invest, better financially protected and have more assets."

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ASISA represents the majority of South Africa's asset managers, collective investment scheme management companies, linked investment service providers, multi-managers, and life insurance companies.