

How to invest your bonus

Got a bonus? Think of PUTs

When bonus time comes around, there are many articles and commentators giving recommendations about what to do with the extra cash.

One of the more common (and sensible) pieces of advice is to put at least some of the money into your home loan. With interest rates having risen to a four-year peak, any move to lower debt is encouraged.

But what if you do not own a home? Apart from paying off any other debt, one way to save for the future, and perhaps to start investing to generate enough capital to buy a home, would be to invest in Property Unit Trusts (PUTs).

Why would PUTs be a good option for your bonus?

- If you do not already own property, this would represent an excellent, low-risk method of gaining access to a property investment in a diversified portfolio.
- Because PUTs are collective investment schemes listed on the JSE Limited, you can invest much smaller amounts of money than buying property outright. Depending on your stockbroker, the minimum investment could be as little as one unit. This would not even be a deposit on most direct property investments.
- PUTs have a relatively low risk profile: they may only currently borrow up to 30% of the value of the portfolio.
- Diversification: PUTs invest in well-diversified portfolios across a range of properties in different geographic regions as well as in different market sectors. This spreads the risk for an investor substantially. The investor is also able to participate in the retail cycle, the commercial cycle and the industrial cycle. Each PUT does, however, have its own unique characteristics, so investors who favour a particular segment of the property market, or a specific region, could select a PUT which is tilted in that direction.
- Liquidity: Listed property is traded on the JSE Securities Exchange. As such, the investments are highly liquid. An investor can sell his stock and realise his funds within a few minutes of making the decision to sell.
- Maintenance of the properties is handled by professionals and investors are free to focus on other issues.
- Rent collection is also handled by professionals.
- PUTs offer investors access to opportunities which are otherwise difficult to find.
- Most financial institutions will allow a certain level of debt against the value of the units an investor has bought, which allows that investor to gear against the investment. The income component of a PUT will allow an investor to pay down the interest component of the debt, if geared.

Investors should note that at this stage, there is no exposure to residential property in PUTs. PUTs invest in commercial real estate and should be evaluated as separate investments in property outside of how the residential market is performing.

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For further information, please contact:

Wessels Maluleke

Ogilvy Public Relations

Tel: 011 709 9647

Email: Wessels.Maluleke@ogilvypr.co.za