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BEST WAY TO INVEST: Monthly or lump sum?

As the tax year comes to an end, investors assess their retirement annuities and tax-free savings accounts. They also ask: *Why is there a variance in my monthly contribution returns?* The short answer is that debit order investments benefit from down markets.

But what is the best way for you to invest? Last year, 2023, was a good year in the markets. A typical balanced or pension fund delivered a return of approximately 12%, much higher than the 5.1% inflation and 8% of cash. However, a monthly investment return does not always correspond to the return on the fund fact sheets. This can be because of:

+ The initial low value of a monthly contribution; or
+ The timing of monthly cash flows.

Initially, market returns have a low impact on a monthly investment as the fund value is low. The table below shows the impact of a 10% market return on a monthly contribution of R1 000 pm versus a lump sum of R12 000.

Months	Monthly	Monthly growth	Lumpsum	Monthly growth
0	1,000		12,000	
1	1,008	8	12,096	96
2	2,024	16	12,192	96
3	3,048	24	12,289	97
4	4,080	32	12,387	98
5	5,121	41	12,486	99
6	6,170	49	12,586	100
7	7,227	57	12,686	100
8	8,292	66	12,787	101
9	9,367	74	12,889	102
10	10,449	83	12,992	103
11	11,541	91	13,096	104
12	12,641	100	13,200	104

Note: Monthly contributions on the 1st of each month

The table shows that the monthly growth is more for the lump sum investment. However, the timing of the cash flows also have an impact on the return. Monthly investments tend to perform better than a lump sum investment when the market first declines and then recovers. During a negative market cycle, a monthly investment will accumulate more units when the prices decline. When markets recover, there are more units in the portfolio, resulting in a higher return than a lump sum investment. The table below shows the difference between a negative and positive market cycle.

	01/01/2020 - 31/12/2023 (Negative - positive)		01/01/2021 - 31/12/2023 (Mostly positive)	
	Monthly	Lumpsum	Monthly	Lumpsum
Annual return	10.11%	9.13%	9.17%	10.48%

Source: Morningstar, ASISA South Africa Multi-Asset High Equity

Monthly vs. lump sum? The answer is not as simple as choosing the one over the other: Remain focused on your long-term goals and invest consistently.

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