INTUITION

4 SEPTEMBER 2026

The chassis vs the engine

One of the most useful lessons to emerge from our Retirement Redefined workshops is just how confusing the language of investing can be. Ask someone what they are invested in and they will often answer, "a unit trust", "an ETF", "a retirement annuity" or "a living annuity". Yet none of those answers really tells exactly how their money is invested. They describe the vehicle carrying the investment, not the engine driving it. Understanding the difference between the two is one of the simplest - and most important - steps towards understanding whether your investments are actually capable of taking you where you need to go.

SPEED READ

- **There are only four major investment "engines": cash, bonds, property and equity. Almost every retail investment portfolio is ultimately built from some combination of these four.**
- **An RA, unit trust, ETF or living annuity is not an asset class. It is the vehicle or structure that holds the underlying investments and determines things such as tax treatment, access and legal rules.**
- **It is the engine that largely determines the performance. The four investment engines have very different characteristics, some of which will let you sleep well at night now, but never achieve your long-term goals.**
- **Don't just ask, "What investment do I have?" Ask, "What is inside it?" Whether your portfolio can beat inflation and provide the future income you need depends far more on the underlying asset mix than on the name printed on the investment statement.**

Robin Gibson

Over the last 3 years Harvard House has hosted multiple small group sessions entitled **Retirement Redefined.** They are a mix of financial and psychological interactive sessions focused on the latter part of life that universally seems to arrive faster than people think.

What has been especially notable out of these sessions are the frequently-asked questions. Probably the most common is the one around investment terminology.

Harvard House holds the conviction that there are only four major retail asset classes in which to invest. *(Michael delved into these in great detail in last week's issue, so what follows is a brief summary. To get the most value out of this article though, I suggest re-reading Michael's article.)*

- Cash - whether fixed deposit, money market, or certificate of deposit - the characteristic is the same. A fixed or floating interest rate and stability of the capital. Income varies according to the interest rate but doesn't escalate relative to inflation. There is no possibility of capital appreciation.

- Bonds - not to be confused with the term we use to describe our home loan. I like to describe a Bond as a tradeable fixed deposit. An institution (government or corporate) issues "a loan" which is a commitment to pay the investor a fixed interest rate (or in the case of inflation-linked bonds, a base rate plus the latest inflation print) over a defined period with the repayment of capital at that final date. The "loan" is tradeable in the market with its price determined by whether current rates are higher or lower than the "loan's" rate and the term left to maturity. Whatever the position, over the long term the income doesn't escalate relative to inflation and any capital change is determined by external factors impacting interest rates, not the performance of the instrument itself.

- Property - while many investors have successfully built wealth owning direct commercial or residential buildings, our preference is listed property investments known as REITs (Real Estate Investment Trusts). This is because single properties experience significantly higher risk, require a singular buyer to realise and cannot be sold in pieces if liquidity or cash is required. The particularly attractive part of REITs is that investors can enjoy both income escalation at a faster rate than inflation and long-term capital appreciation. Of course, that long-term appreciation does come with short-term volatility.

- Equity - the term equity loosely refers to ownership less any liabilities. In respect of a company, it would represent a portion of ownership in that company, valued either by the balance sheet or by what a third party is willing to pay. In our world "equity" means the ownership of shares in a listed company traded on an exchange. Equity. like property, has also demonstrated a long history of growth in both income (dividends) and capital value. Often, the initial income earned from equity is lower than other asset classes, but it grows at a faster rate. It is also the asset class of these four options that has most successfully beaten inflation over time.

> *"Far too often we review clients' portfolios only to discover that they are blissfully unaware that their investment engine is unlikely to beat inflation over the long run. "*

As planners and investment professionals, we use these terms with a freedom that belies their general understanding. It is this assumption of understanding that leads to great confusion.

There is a second leg to terminology that deepens the confusion. I like to call this "The Vehicle". How an investment is housed are the familiar terms to the general public. Terms such as Retirement Annuity, Endowment, ETF, and Tax Free Saver are well understood by most, in fact they are household terms. People who own these vehicles believe that it is the vehicle itself that will deliver their outcome, rather than the underlying assets in which it is invested. This confusion leads to a potential for poor outcomes.

To help illustrate this idea, I like to take the vehicle analogy to its common use. Our motor vehicles. Let's use Volkswagen as an example and their famous 2.0 TDI Diesel engine. It's available in every body shell - the Polo, the Golf, the Amarok and the Caravelle to name just four options.

However, the performance is driven by the engine, not the body. The body does have an impact, more because of weight, aerodynamics, road surface and load. Yet none of these deliver the performance.

Similarly, as we have highlighted already, we have a lot of vehicles in the investment industry; unit trusts, retirement annuities, preservation funds, living annuities, tax free savers, ETFs and so forth. Like the Volkswagen you can fit any one of the four investment engines (cash, bonds, property and equity) in the bodies available, but you look to the engine for the performance characteristic, not the body shell.

When we ask clients about the underlying structure of their investments, they usually comment confidently that they are in unit trusts or ETFs or RA's. This tells us very little other than the tax treatment of the underlying returns or the legal parameters. What is far more important, however, is what the engine looks like? That is the far more important question in establishing whether your investment vehicle will take you where you hope to go.

Far too often we review clients' portfolios only to discover that they are blissfully unaware that their investment engine is unlikely to beat inflation over the long run. This is not something you want to find out too late, as the real power in the equity and property engine comes down to time. For decades, the investment industry has told clients that risk needs to reduce with age. Harvard House has never held that view. We are pleased to see that our long-held refrain is starting to be sung by many other institutions. So, go ahead and give us a call if you think you have other investments that need a look under the hood!

This 971 Bugatti Type 35B is appealing, but is in fact a replica, wihout an engine. Like investment vehicles, it needs a look under the hood.

Our next seminar will delve into the complicated world of AI and articulate how we have positioned portfolios to benefit from this fast-moving technology."

Topic:	Positioning your portfolio for AI
Natal Midlands	
Date:	10th of September, 2026
Venue:	Christ Church Howick, 23 Mare Street, Howick
Morning Time:	10am for 10.30am
Evening Time:	5.30pm for 6pm
Johannesburg	
Date:	8th of September, 2026
Venue:	Rosebank Union Church, Cnr Winne Mandela Drive and St Andrews Road, Hurlingham
Time:	7am for 7.30am
Cape Town	
Date:	N/A
Venue:	J&J Belmont Square, Belmont Road, Rondebosch
Time:	7.30am
Venue:	Helderberg Village Lifestyle Estate, 63 Bakkerskloof Rd, Helderberg Village, Cape Town
Time:	5.30pm for 6pm

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