

When School Maths Comes Back to Haunt You!

I am writing this article while attending the Financial Planning Institute's (FPI) Annual Conference in Cape Town. The FPI is the professional body that oversees the Certified Financial Planner designation of which there are only 5,000 out of around 190,000 registered advisers. Presenters are the cream of the crop. I bumped into an old acquaintance who has joined the Board of the FPI as part of their post workplace purpose, and we were discussing the need to uplift the profession and root out the nefarious elements that exploit investors' naivete. We agreed that the problem lies in the paradigms created by the marketing machines of the large industry corporates.



**Robin
Gibson**

When I spend time teaching people about finance, I ask them where they got their first experience of percentages. It usually takes a bit of prodding or an exclamation from one participant. At school!

Exactly. We get a working knowledge of percentages at school. In fact, the experience of them is emotion driven. That's because your earliest experience of percentages

was in test scores. In that respect, nothing has changed. Children still dread taking a low score home to mom and dad. It's generally linked to reduced leisure and increased study!

This experience shapes almost all your future interactions with percentages. It does what psychologists call anchoring. It anchors your understanding in a particular way that your brain sees the percentage and immediately recognizes and interprets it, with no effort required.

Now I'm sure none of you ever got as low as 1% or 2% for a test. That would have required a catastrophic intervention! Yet you are still anchored with the idea that this is an absurdly low or insignificant percentage. Ordinarily you would be right, but let's change the context.

In the world of long-term investing, the most important percentage is the real return. Real return refers to the percentage return achieved above inflation. If my investment grows at the same rate as inflation, then all I am doing is retaining my wealth relative to the escalating cost of goods and services. That might be a successful outcome if I had also been drawing an income out of my investment, but not if I was looking for growth.

SPEED READ

- School taught us to underestimate small percentages. A 1% or 2% difference might seem insignificant, but in long-term investing, it can have an enormous impact on your wealth.
- Real returns are what really matter. The return you earn above inflation determines your growth in purchasing power. For a pure growth investment, a 6% real return is pleasing; 8% is exceptional.
- Investment fees consume a surprisingly large portion of your wealth growth. If your investment earns 6% above inflation, a 1.5% annual fee consumes 25% of that real return, before considering the compounding effect.
- The price of advice matters as much as its quality. Traditional investment structures can cost 2.25%–3% annually. Harvard House's integrated approach aims to deliver transparent investment management, financial advice and reporting at a fraction of that cost.

For argument's sake, if inflation was 4% and my investment returns 10%, then I have grown my real wealth by 6%. That's effectively free money! (Ignoring the risk I took to achieve that outcome). However, what returns are reasonable to expect from an investment portfolio over a longer period? Firstly, what matters is where I invest. If the money is in the bank, I am very likely to hardly beat inflation. At the other end of the scale, an investment in shares is likely to exceed the inflation rate + 6% threshold. Of course, there will be periods where it could be more than 10% better and times when it's only 3% or 4% better. Nonetheless, over the longer term, we would argue that a real return of 6% would be pleasing and 8% exceptional.

There is a caveat. Anything that reduces the quantum of real return becomes destructive. The obvious one is income

withdrawals. If you are drawing at 10% or 12% per year, then no matter the return, you are destroying capital.

A far more insidious impact is the cost of investing. Contemplate this thought: if you are getting a real return of 8% then for every 1% of cost you pay, you are losing 12.5% of your real wealth growth. That is a very small number if you only started with R1,000, but if you started with R1,000,000, that amounts to R10,000 every year, and it escalates.

It's worse if the investment doesn't reach the 8% real return threshold, because at a real return of 6% you've lost 16.7% of the wealth growth. If your investment costs increased to 1.5% per annum, then you stand to lose between 18.75% and 25% of your real wealth growth, depending on the return achieved.

We all know there is no free lunch. No one does anything for free, and costs are a reality. But this is the reason why Harvard House uses direct share portfolios for clients wherever possible. Aside from the complete transparency (you see all our decisions – the good, the bad and everything in between - not just the top ten holdings!), the ability to build a dedicated dividend flow to meet your individual income needs that is less volatile than the capital value of the portfolio, and the personalized approach, the costs associated with this offering, which include asset management, financial planning and detailed reporting, are just 1% per annum, excluding VAT.

This compares extremely favourably with industry norms. Typically, there is a cost of 0.5% per annum for platform and reporting, 0.75% p.a. for financial consulting (a fee that appears to have escalated markedly over the last number of years from the traditional 0.5% p.a.) and anywhere between 1% and 1.75% for asset management, especially when performance fees are taken into account. When aggregated, this amounts to a typical fee of between 2.25% and 3% per annum. At that level, you're losing somewhere between 28% (at best) and 50% (at worst) of your real wealth growth, depending on the return. Those statistics would deteriorate further if your portfolio were exposed to an asset class with a lower real return.

In an industry full of charming advisers servicing nescient mathematical scholars with an anchored understanding

THE IMPACT OF FEES ON CAPITAL					
Year	Starting Capital	Fees at 1%	Fees at 2.5%	Capital equal to Inflation	Annual Return required to match 1% Fees
1	R1,000,000	R987,434	R971,727	R1,040,000	11.51%
2		R973,685	R941,235	R1,081,600	13.19%
3		R958,639	R908,347	R1,124,864	15.06%
4		R942,176	R872,876	R1,169,859	17.17%
5		R924,161	R834,620	R1,216,653	19.55%
6		R904,448	R793,360	R1,265,319	22.27%
7		R882,877	R748,859	R1,315,932	25.39%
8		R859,274	R700,863	R1,368,569	29.01%
9		R833,446	R649,098	R1,423,312	33.26%
10		R805,184	R593,267	R1,480,244	38.32%

Assumptions:

Inflation =4%; Return = 10%; Income draw starts at R8,500 per month (10% draw)

The above example demonstrates the impact of increased fees on a R1 million investment with an R8,500 income withdrawal per month and equal investment returns, but with the impact of higher investment fees (1% versus 2.5%). The final column shows what investment return the higher fee portfolio will have to return to catch up.

of percentages, we continue to come across numerous examples of investments where substantial fees have been detrimental to the client's long term financial wellbeing.

Don't become a victim of charm. It might be flattering, but it doesn't put bread on the table in the latter years of your retirement. It would be far more lucrative to take the charming advisor out to lunch (at your expense) and enjoy the company, rather than making an impulsive decision to switch investments and consequently suffer a permanently higher fee structure that undermines your financial security.

BEWARE OF HIDDEN COSTS



High hidden costs eat away at your real return.



Our next seminar series will be held in November, when we traditionally review the past year and cast our eyes forward to the new year. We will do some with some trepidation, as we try to unpack whether 2027 will bring clam or chaos.



[Harvard House is on Facebook](#)



[Harvard House is on YouTube](#)

CONTACT DETAILS:

For more information on the range of products and services offered by Harvard House Investment Management and its associated companies (including Harvard House, Chartered Accountants), or for any financial advice, please contact the Company at:

HARVARD HOUSE GROUP



3 Harvard Street, Howick, 3290, South Africa



P.O. Box 235, Howick, 3290, South Africa



+27 (0) 33 330 2164

Topic:

Outlook for 2027 – a more normal year?

Natal Midlands

Date:	3rd of December, 2026
Venue:	Christ Church Howick, 23 Mare Street, Howick
Morning Time:	10am for 10.30am
Evening Time:	5.30pm for 6pm

Johannesburg

Date:	24th of November, 2026
Venue:	Rosebank Union Church, Cnr Winne Mandela Drive and St Andrews Road, Hurlingham
Time:	7am for 7.30am

Cape Town

Date:	26th of November, 2026
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



+27 (0) 33 330 2617



admin@hhgroup.co.za



www.hhgroup.co.za

The information contained in this newsletter comes from sources believed to be reliable, but Harvard House Investment Management (Pty) Ltd, Harvard House Financial Services Trust, Harvard House Insurance Brokers and Harvard House, Chartered Accountants (collectively known as the Harvard House Group), do not warrant its completeness or accuracy. Opinions, estimates and assumptions constitute our judgment as of the date hereof and are subject to change without notice. Past performance is not indicative of future results. This material is not intended as an offer or solicitation for the purchase or sale of any financial instrument. Any investor who wishes to invest with the Company should seek additional advice from an authorized representative of the firm. The Company accepts no liability whatsoever for any loss or damages whatsoever and howsoever incurred, or suffered, resulting, or arising, from the use of this newsletter. The contents of this newsletter does not constitute advice as contemplated in the Financial Advisory and Intermediary Services Act (FAIS) of 2002.

The Harvard House unit trusts are registered under the Fundrock Collective Investments Scheme. Custodian: The Standard Bank of South Africa Limited: Tel (021) 007-1500. Collective Investments are generally medium-to-long-term investments. The value of participating interests may go down as well as up and past performance is not necessarily a guide to the future. Collective Investments are traded at ruling prices and can engage in script lending. Forward pricing is used. Commission and incentives may be paid and, if so, are included in the overall cost. This fund may be closed to new investors. Collective Investment prices are calculated on a Net Asset Value basis and auditor's fees, bank charges, trustee and RSC levies are levied against the portfolio. The portfolio manager may borrow up to 10% of portfolio NAV to bridge insufficient liquidity. Fundrock Collective Investments (RF) Pty Ltd ("FR") retains full legal responsibility for the third party named portfolio. FR is a member of ASISA and is an authorised Financial Services Provider. Should you have any further queries or complaints regarding the suite of units trusts offered by the Harvard House Group, please contact: Fundrock Collective Investments Call Centre, Tel: (021) 007-1500, Email: sa-clientservices@fundrock.com. For your information, the FAIS ombudsman provides an independent and objective advisory service. Should you not be satisfied with the outcome of a complaint handled by FR, please write to: The Ombudsman, PO Box 74571, Lynnwoodridge, 0040. Telephone (012) 470 9080/99. Fax (012) 348 3447. Email: info@faisombud.co.za

Performance figures quoted for the portfolios are from Morningstar, as at the date of this document for a lump sum investment, using NAV-NAV with income reinvested and do not take any upfront manager's charge into account. Income distributions are declared on the ex-dividend date. Actual investment performance will differ based on the initial fees charge applicable, the actual investment date, the date of reinvestment and dividend withholding tax. Performance fees do not apply to any funds managed by Harvard House. The manager does not provide any guarantee either with respect to the capital or return of the portfolio. A schedule of fees, charges, and maximum commissions are available on request from the manager