

How Investments Make Money: Understanding Returns and Risk

When investors talk about “making money”, the focus often falls on performance numbers alone. But returns don’t appear magically - every investment generates returns in a specific way, whether through interest, dividends or capital growth, each with its own risks and time horizons. Understanding *how* returns are generated is one of the most powerful tools an investor can have. It helps set realistic expectations, reduces emotional decision-making, and leads to better long-term outcomes.

This article explains the main sources of investment returns across cash, bonds, and equities and why balancing them carefully is essential.

The building blocks of how returns are earned

All investments, regardless of structure or label, ultimately earn returns in four ways:

1. Interest, paid on cash and bonds
2. Dividends, paid by companies and property
3. Earnings growth, as businesses expand over time
4. Changes in valuation, as prices move relative to fundamentals

Assets rely on these sources in different proportions. That is why they behave differently, even when they sit in the same portfolio.

Cash: stability today, trade-offs over time

Cash earns interest and provides certainty. It serves a clear role in meeting short-term needs and giving investors flexibility. Over the past decade in South Africa, inflation averaged 4.8% a year. Cash returned around 6.8%, with money market funds closer to 7.2%. That made holding cash feel more rewarding than usual.

Looking ahead, the picture is likely to change. With inflation closer to 3%, cash returns are likely to trend lower as interest rates adjust. Cash may still preserve capital in nominal terms, but its ability to grow purchasing power meaningfully is more limited.

The risk with cash is not volatility. Although cash plays an important role in portfolios for liquidity, stability, and short-term needs, it is rarely a wealth-building asset on its own.

Income funds: stability with trade-offs

Income funds are designed to provide a reliable stream of income by investing in interest-bearing assets and, in some cases, credit-sensitive securities.

They sit between cash and bonds in terms of risk. To deliver income above cash, income funds accept exposure to credit quality, liquidity, and market stress. That means capital values can move, even if income remains stable.

The key insight is that income funds reward structure, not speed. They work best when investors understand the trade-off between yield and resilience, and resist the temptation to chase income when conditions are most favourable.

Bonds: income depends on who you lend to

Bonds are effectively loans. When investors buy a bond, they are lending money to a government or a company in return for regular interest payments and the return of capital at maturity.

Two risks matter most. The first is interest rate risk. When interest rates rise, the value of existing bonds usually falls. The second is issuer risk. Not all borrowers are equally reliable, and higher yields often reflect a greater risk that the borrower may struggle to repay.

High-quality issuers tend to offer lower yields but more dependable outcomes. Lower quality issuers offer higher yields, but with greater uncertainty, particularly during economic stress. This is why bonds can behave very differently from one another, even within the same asset class.

The challenge for investors is recognising that bonds are not risk-free. They reward patience and careful selection, not shortcuts.

Listed property: income that behaves like equity

Listed property funds earn returns through rental income and changes in property valuations. They are often grouped with income assets because of their distributions, but they behave much more like equities in practice.

Property is sensitive to interest rates, debt levels, and economic conditions. When rates rise or growth slows, property prices can fall sharply, even when rental income remains intact.

The key misunderstanding is treating property as defensive. It can play a useful role in diversified portfolios, but it should be approached with the same long-term mindset as equities, not as a substitute for cash or bonds.

Equities: one asset, different ways of investing

Shares represent ownership in businesses. Over time, equity returns come from a combination of cash that companies return to shareholders through dividends, the growth of those businesses, and changes in how much investors are willing to pay for them. Equities reward time, not precision. The different “styles” of equity investing are simply different ways of choosing which businesses to own, and which of these return sources investors rely on most.

Quality equity funds: stability at a price

Quality strategies focus on businesses that resemble well-run utilities or trusted household brands. They tend to grow steadily, generate reliable cash flows, and hold up better during economic downturns. Examples include Nestlé, Microsoft and Visa.

Investors often pay a premium for these traits. The key risks are paying too much for perceived safety and misjudging what is truly durable. Even strong franchises can be disrupted by technological or structural change. Quality strategies can also become concentrated in certain markets, particularly the United States.

Growth equity funds: tomorrow's potential at today's price

Growth strategies focus on businesses driving change. These are often companies introducing new products, new technologies, or new ways of doing things, and reinvesting heavily to expand their reach. Companies such as Revolut, Shopify and Anthropic show how innovation can displace established players across banking, retail and software services.

Returns come from capturing innovation and long-term change, rather than current profits. This makes growth investing highly sensitive to expectations. When progress is delivered, returns can be strong. When growth slows or innovation disappoints, prices can fall sharply, even if the business remains viable.

A helpful way to think about growth is that investors are backing what a business could become. The risk is paying too much for that future, or assuming progress will arrive sooner than it does.

Value equity funds: income and recovery

Value strategies focus on businesses that are out of favour. These companies are often priced cheaply because recent performance has been weak, sentiment is negative, or uncertainty is high. Current examples include pharmaceutical shares like GlaxoSmithKline, financial services firms like Charles Schwab and energy companies like Repsol. They frequently offer higher dividend yields, which can support returns while investors wait for conditions to improve. The potential upside comes from recovery and re-rating over time.

The main risk is a value trap¹. Some companies appear cheap but never recover, either because the business model is impaired or because the industry has changed permanently. Value investing requires patience and judgement, and it can test conviction for long periods before outcomes improve.

Behaviour: why timing matters

Two truths can exist at once. Markets move in cycles, and so does investor behaviour.

- Quality can feel safe, yet can disappoint if bought at too high a price.
- Growth can feel exciting, yet punish investors who arrive late.
- Value can feel uncomfortable, yet reward patience.

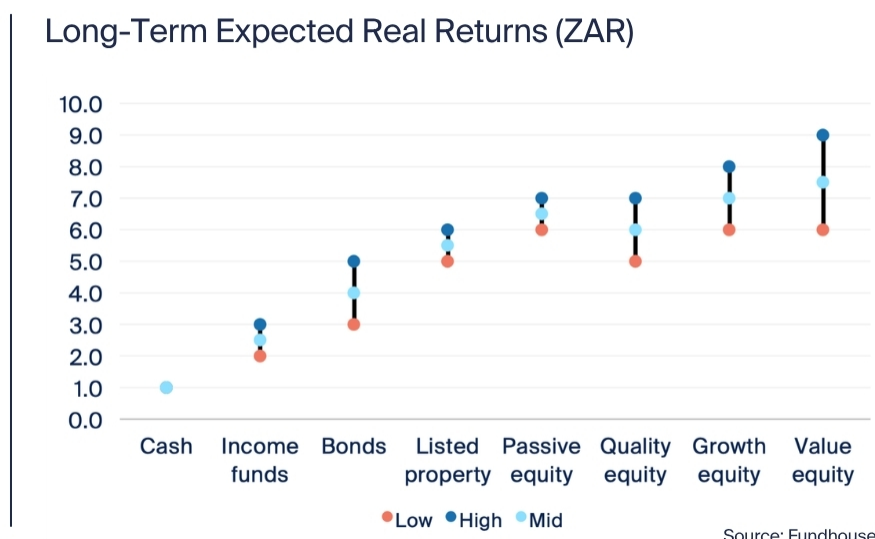
Capital often flows toward what has already worked and away from what has recently disappointed.

Understanding these patterns helps investors stay disciplined with strategy, rather than reacting to recent performance.

How different parts of a portfolio work

Investment type	How it makes money	Role in a portfolio	What can go wrong	When it usually feels hardest
Cash	Interest	Day-to-day liquidity and short-term needs	Loses buying power to inflation over time	Holding too much for too long
Income funds	Interest and distributions	Regular income with some stability	Credit stress, liquidity pressure, small capital losses	Treating it like cash or chasing yield late in the cycle
Bonds	Interest and price changes	Income and stability	Issuer default; duration risk	Owning rate-sensitive bonds when interest rates rise
Listed property	Rental income and valuations	Income and diversification	Equity-like volatility and debt risk	Expecting it to behave defensively
Passive equity	Broad market growth	Diversified core, long-term growth at low cost	Full exposure to market falls	Selling after sharp drawdowns
Quality equity	Reliable earnings and dividends	Smoother growth	Paying too much; business disruption	Buying when reliability is fully priced in
Growth equity	Strong future earnings growth	Long-term upside	Prices fall if growth disappoints	Buying when optimism is highest
Value equity	High dividends, earnings recovery and valuation re-rating	Diversification and patience	Cheap businesses that stay cheap	Giving up before recovery

The chart below summarises these long-term average real return² ranges, based on decades of data. It is designed to set realistic expectations and to show how higher long-term return potential generally comes with wider ranges of outcomes along the way.



Why portfolio balance matters

No asset or style performs consistently across all environments. Each carries its own risks, and each rewards patience differently. Balanced portfolios are not designed to chase the best-performing asset each year. They aim to earn a sensible return for the level of risk taken, over time.

By combining different sources of return, balance reduces reliance on any single driver of performance, limits unnecessary trading, and helps contain the tax and transaction costs that often arise from chasing short-term results.

Staying invested

Investing is not about avoiding discomfort. It is about understanding it in advance. When investors know how their portfolio is meant to behave, they are better equipped to stay invested when markets test conviction. Good portfolios often look obvious in hindsight and uncomfortable in real-time.

[1] A value trap is a company that appears cheap but fails to recover because its business model has weakened or become obsolete.

[2] Real return refers to your investment return after inflation. It shows whether your money is growing in purchasing power.

Market Report

Tuesday, 31 March 2026

Market Performance (as a %)

Local Market Indices	CCY	3m	YTD	1yr	Ann. 3yr	Ann. 5yr	Ann. 10yr	5yr Vol	10yr Vol
SA Equity	ZAR	-0.8	-0.8	32.6	17.8	14.9	11.0	13.9	14.5
SA Listed Property	ZAR	-5.3	-5.3	27.5	22.1	17.2	3.0	17.1	21.7
SA Bonds	ZAR	-3.4	-3.4	18.6	13.7	11.6	9.8	7.9	8.0
SA Cash	ZAR	1.7	1.7	7.3	8.0	6.8	6.8	0.5	0.4
Balanced Benchmark	ZAR	-0.8	-0.8	22.8	15.3	13.0	10.2	9.3	9.9
SA Inflation (1 month lag)	ZAR	0.8	0.8	3.0	3.9	5.0	4.6	1.6	1.6
Global Market Indices		3m	YTD	1yr	Ann. 3yr	Ann. 5yr	Ann. 10yr	5yr Vol	10yr Vol
Global Equity	USD	-4.1	-4.1	19.0	16.9	10.4	11.9	14.6	14.6
Emerging Markets Equity	USD	0.0	0.0	29.8	14.6	3.5	7.5	17.3	16.9
Global Property	USD	0.4	0.4	8.9	6.7	1.8	2.8	17.9	17.0
Global Bonds	USD	-1.1	-1.1	4.2	2.5	-1.5	0.5	7.8	6.5
US Cash	USD	0.9	0.9	4.2	4.9	3.5	2.4	0.6	0.5
Major Indices Based to ZAR		3m	YTD	1yr	Ann. 3yr	Ann. 5yr	Ann. 10yr	5yr Vol	10yr Vol
SA Equity	ZAR	-0.8	-0.8	32.6	17.8	14.9	11.0	13.9	14.5
Global Equity	ZAR	-1.1	-1.1	10.8	15.5	13.7	13.7	14.2	15.5
Emerging Markets Equity	ZAR	3.3	3.3	20.8	13.2	6.6	9.2	13.0	13.7
Global Property	ZAR	3.6	3.6	1.4	5.5	4.8	4.4	16.3	16.9
SA Bonds	ZAR	-3.4	-3.4	18.6	13.7	11.6	9.8	7.9	8.0
Global Bonds	ZAR	2.2	2.2	-3.0	1.3	1.5	2.0	10.4	13.4
Commodities		3m	YTD	1yr	Ann. 3yr	Ann. 5yr	Ann. 10yr	5yr Vol	10yr Vol
Gold (US Dollars)	USD	6.9	6.9	47.8	32.4	22.1	13.9	16.3	15.0
Gold (Rands)	ZAR	10.5	10.5	37.5	30.8	25.7	15.6	14.5	16.8
Currencies		3m	YTD	1yr	Ann. 3yr	Ann. 5yr	Ann. 10yr	5yr Vol	10yr Vol
Rand / Dollar	ZAR	-2.5	-2.5	7.5	1.4	-2.8	-1.4	12.0	14.4
Rand / GBP Pound	ZAR	-0.8	-0.8	5.2	-0.9	-2.0	-0.6	9.7	14.0
Rand / Euro	ZAR	-0.9	-0.9	1.2	-0.6	-2.5	-1.6	9.3	12.5

Market index performance is based on publicly available returns from ETFs that track the relevant underlying indices.

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Spot Rates

		31-Mar-26	Latest Quarter	1 Year Ago	5 Years Ago	10 Years Ago	20 Years Ago
Currencies							
Rand/US\$	ZAR	17.1	16.6	18.4	14.8	14.7	6.2
Rand/GBP	ZAR	22.6	22.4	23.7	20.4	21.2	10.7
Rand/EUR	ZAR	19.7	19.5	19.9	17.4	16.8	7.5
Rates							
6m USD Cash	USD	3.7	3.9	4.5	0.0	0.7	4.6
Repo Rate	ZAR	6.8	6.8	7.5	3.5	7.0	7.0
Prime	ZAR	10.3	10.3	11.0	7.0	10.3	10.5
All Bond Index Yield	ZAR	9.0	8.5	11.6	11.6	9.5	9.7
Commodities							
Gold (\$/oz)	USD	4 623.3	4 324.7	3 125.3	1 704.7	1 234.3	583.6
Platinum	USD	1 908.0	2 027.0	993.0	1 182.0	976.0	1 076.0
Oil (Brent Crude) \$	USD	118.3	60.9	74.8	63.5	39.0	66.1
Inflation							
SA Inflation	%	3.0	3.5	2.7	3.2	6.2	9.4

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