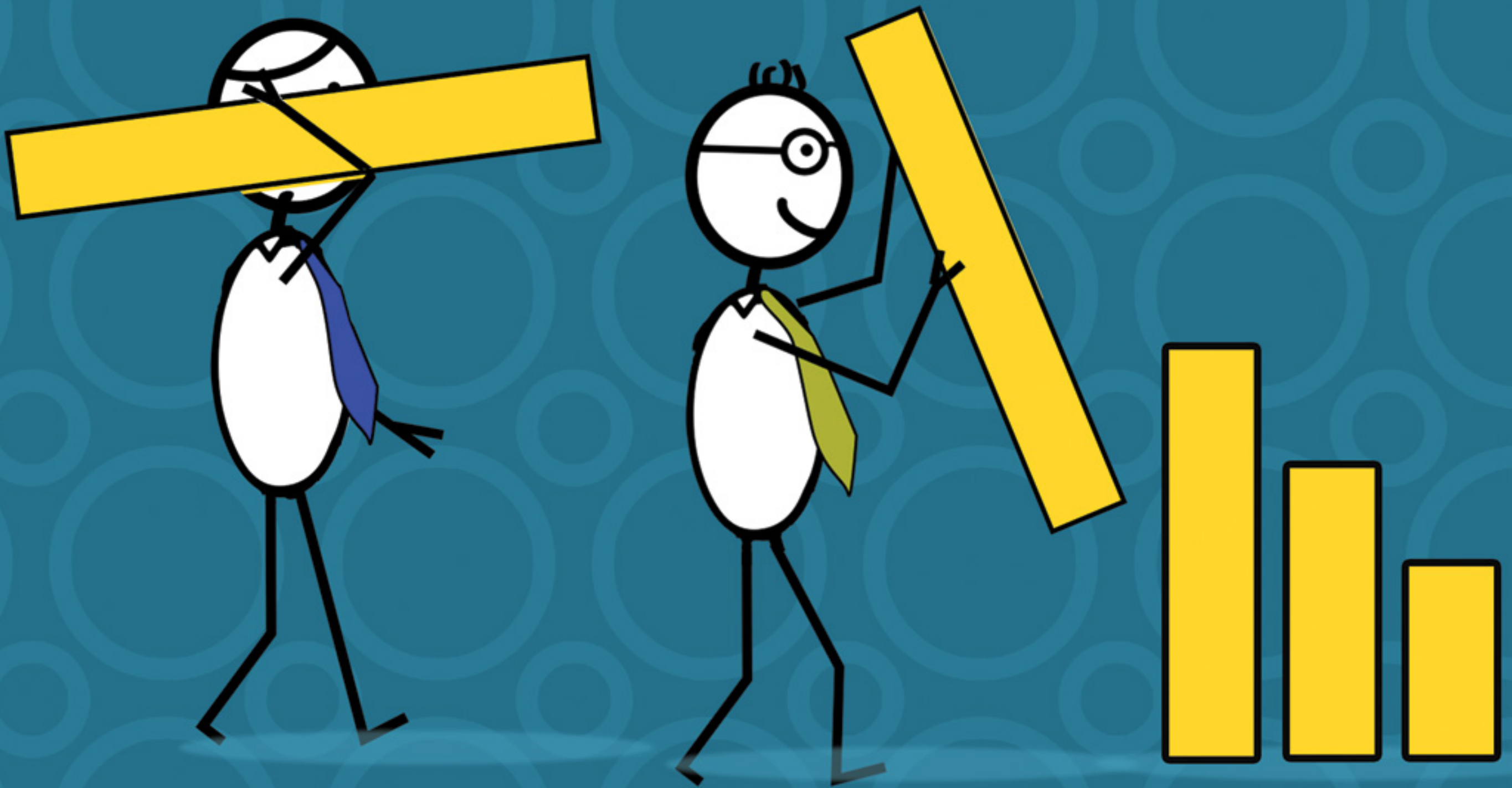


Investment



Investment Concept and Definition

Investment

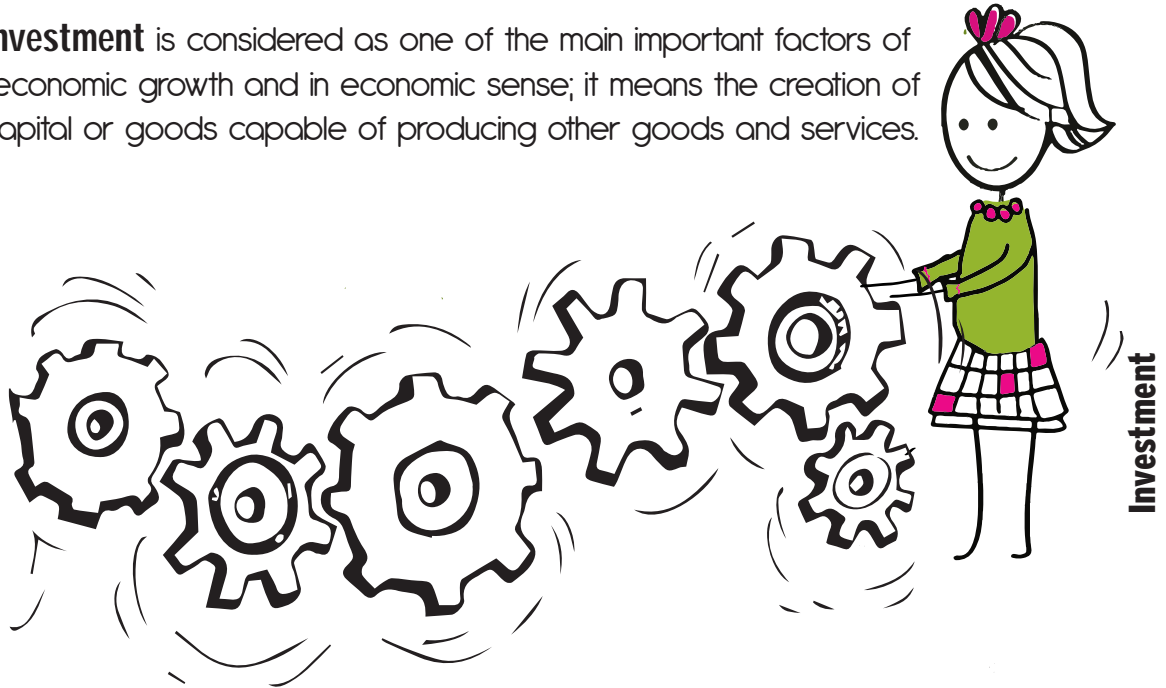
It is
interesting
to highlight
that wealthy
people are
those who earn
interest and
everyone else
Pays **interest**

The most
important
thing is to
have your
money work
for **you** not
you for **it**

The more
money
you invest the
more money
you are
likely to
have

Investment is the purchase of an asset or item with the hope of generating income or appreciating in the future, the purchase of goods that are not consumed today but are used to create future wealth.

Investment is considered as one of the main important factors of economic growth and in economic sense; it means the creation of capital or goods capable of producing other goods and services.



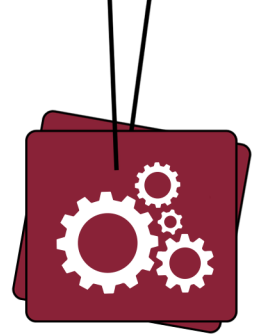
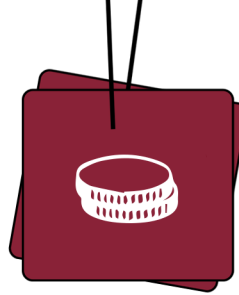
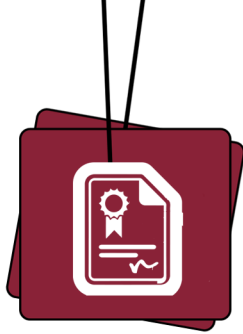
In finance, an investment is a monetary asset purchased with the idea that the asset will provide income in the future or appreciate and be sold at a higher price.

The general aim of investing is to earn an after tax return greater than the rate of inflation.

Investment cannot occur without SAVING, which provides funding. Thus, saving or investing money for your financial goals makes you less tempted to spend it. It is in a totally different account from the one you pay your everyday expenses. Any interest or investment gains you earn will get you closer to your financial goals.

Expenditure on education and health is recognized as an investment in human capital, while research and development is an investment in intellectual capital.

Financial institutions offer a range of investment options for investing Your Money. It all depends on what kind of investment you prefer according to risk, duration, amount and other market factors.



Ways of investments

You can invest 'directly' through a bank (term deposits), sharebroker (shares and bonds), real-estate agent (property) or other brokers. If you invest directly in shares, bonds or property you'll need to be well informed about the sharemarket, and the business or real estate scene.

You can also invest 'indirectly' through a managed fund. In a managed fund your money is pooled with that of other investors, and a professional fund manager invests it in a variety of investments on your behalf.

Different types of investment



Shares/stocks

When you buy a **share**, you're buying a small part of a company and a share in any profit the company makes. Investor becomes a partial owner in the corporation by buying shares (also called stocks) of the company. Common shares are usually purchased for potential capital appreciation (earnings). Preferred shares give the owner a preferential claim to the assets/profits ahead of common shareholders.

If the company makes money you will share in the profits either by seeing the value of your shares rise (capital gain), by being paid dividends (share of profit you receive as a stockholder), or both; if the company suffers a poor year or the markets decline, your share values may fall and unlikely your dividends as well (resulting in a potential capital loss).

Changes in a company's profitability and in the economy as a whole can cause share prices to rise and fall (long term investment tool). Although prices might fall, you haven't lost any money through volatility unless you actually sell your shares.

Absolute risk is the risk of losing your money because the company fails and your shares become worthless.



Corporate & Government bonds

The bond's issuer pays interest to investors for loaning it money. A bond is a formal agreement where the borrower can use your money for a set period of time and you, as the lender, will get a specific amount of interest in return.

These bonds typically pay the highest interest rates; a bond's potential return is usually referred to as its yield; government bonds are safer than corporate bonds because they are backed by the "full faith and credit" of the government.

Mutual Funds

Mutual Fund companies represent a type of Investment Companies that invest shareholder's money through a diversified group of securities of other companies.

When you invest in a mutual fund your money is pooled with other investors' money and spread across different kinds of investments. A fund manager chooses the investments the fund invests in and each investor owns a proportion of the total fund.



Mutual Funds

A professional fund manager invests this pool of money in a variety of securities, depending on the fund's specific objectives. There are funds that invest in specific markets or geographical sectors.

As with any type of investment, there is an element of risk with mutual funds. Although the fund is diversified, it will still reflect the performance of the securities in that fund. And depending on the mutual fund, it can vary from very low to very high risk. Mutual funds are generally intended to be held as long-term investments. With mutual funds, you can potentially earn money in two ways: through distributions (profits of the funds that are passed on to you) or through a rise in the unit or share price.

There is also a risk that the various management and administration fees charged by a fund will reduce your returns. Fees can vary greatly between different fund managers and between different types of funds.

Buying managed funds instead of individual investments spreads your risk and requires less work than investing directly



Investing in Property:

The difference between an investment in property and your own home is that you earn an income from it. Returns from property investment come from rental income and from any increase in the value of property over time.

Property investments are not considered to be 'liquid' because you can't withdraw your investment quickly. To get money out you need to sell the property or increase the mortgage. People buy investment properties to make a long-term profit as prices rise. In the short term there may be little or no profit from rent after expenses like mortgage, insurance, rates and maintenance are taken into account.

You might need, for some reason, to sell the property at a time when it has dropped in value.

Property investment usually involves more work than saving money in the bank or investing in shares and mutual funds. Most investors spend a lot of time looking for suitable properties to buy, finding and managing tenants, and arranging for maintenance work to be done.

Factors to be taken into consideration while taking investments decisions

Investment

Investments carry various degrees of risk that may depend on the amount invested, its duration and, most importantly, the rate of return. Knowing your investor profile will help you work out the kinds of investments (and mix of investments) you should consider.

There are four sides to your investor profile:

1- Duration: How long do you want to invest for?

2- Returns: Do you want income or growth?

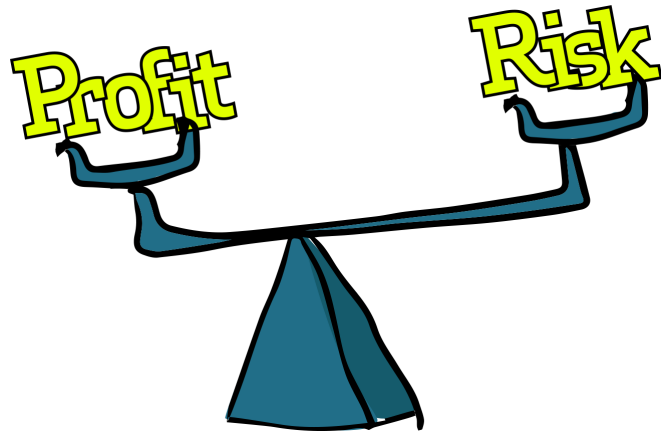
If you need short-term income from your investment, it's probably better to put your money where you can guarantee how much money it will earn. For example, bonds purchase paying a fixed amount of interest for a set period.

3- Liquidity: Do you need to be able to get your money easily?

Liquidity means how quickly you can convert your investment into cash before the end of your investment period.



High-liquidity investments mean you can get your investment anytime. However, in a low-liquidity investment, it may take time to find a buyer and complete the sales process. Property is usually a low-liquidity investment. Shares in public companies generally have reasonable liquidity.



Investment

4- Risk:

The risk/reward trade-off is the principle that an investment must offer higher potential returns to compensate for the increased potential unpredictability. So the greater the risk you take with your money, the higher the potential return on your investments.



Risks come in two types:

- **Volatility:** The possibility that the value of your investment will go up and down.
- **Performance:** The possibility that the investment could fail and you lose all or part of your money – or the investment gives you a lower return than you expected or needed.

Based on your budget and goals, you'll need to decide what type of investor you are and the financial risk you're willing to take with Your Money.



Advice / Tips for rational Investments

Before you take any investment decision, there are some important rules you should follow:

- **Set your goals:** Decide your financial goals. Set a strict budget. What do you want to achieve in the future? What is the final outcome that you want from your investments and what is your timeframe?
- **Know your risk profile:** You need to know what type of investor you are – essentially, how much money are you willing to lose? How much volatility (ups and downs) can you tolerate?



– **Spread your risk:** It's generally not a good idea to put all your money into a small number of, or very similar, investments. It's better to spread your investments across shares in different companies, industries and countries, as well as buying other asset classes such as bank deposits, bonds, and property. This is called diversification. For example, if you are considering high-risk investments, you can balance your risk with other investments in lower risk areas, like bank deposits or cash and bonds.

– **Know how you want to invest your money:** What mix of investments suits your investor type? Will you invest directly yourself or use managed funds? It's a good idea to choose the type of assets or markets you want to invest in first and then find a suitable fund manager that specializes in that type of fund.



-**Do your homework:** Research, compare and contrast everything – or get financial advisor to do that for you. Read the business sections of the newspaper go online, talk to bank managers and specialists, or accountants. Read any documents, such as the investment statement and/or prospectus, relating to the investment you are considering.

- **Avoid fraud websites**
- **Do not give any credit card details**



Investment



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