

www.cmda.com.fj



Like most people you want to be better off than you are now. You may want greater wealth so that you can educate your children, provide for a comfortable retirement or buy that dream home. The fact is the financial decisions that we make today will to a large extent significantly affect the lifestyles we lead in the future. But how many of us have taken the time to carefully map out a plan to help us achieve these financial goals. Many of us will spend a lot of time carefully planning other major events in our lives such as a wedding or buying a car but will put off or neglect financial plans for the future. You need to act today and think about a plan to help you achieve your financial goals...  
a road map for your investment journey.



you will want to be better off than you are now

# Why you should **INVEST**

think about an investment and act today



**INVESTING**  
*Smart*  
**CMDA**



**SPSE**

South Pacific Stock Exchange

*This series of leaflets is designed to help you along the way.*

# Why you should Invest?

## What is Investment?

People who own businesses, put their personal money into those businesses to increase their wealth. This is investment. But for most of us it involves using part of our income to buy investments such as shares, units in unit trusts, bonds or property. We are putting our hard-earned money to work for us to earn even more money. These investments can be attractive because they produce income in the form of dividends, interest or rent and can rise in value over time. This means that when you sell them in the future you can get more for them than you paid. This is called making a capital gain. The money a person makes from an investment is called "a return". Typically it will be in the form of income and/or capital gains/losses.

Many of you are probably already investing...in your own homes, in the shares of a listed company or in a deposit at a commercial bank. But are you investing wisely? How do you make your investment decisions? Do you understand the investments that you own? Can you do better?

*Read on to learn more about how you might achieve greater wealth in the future.*

## Why Should I Invest?

Everyone has financial goals. Think about yours. You will want a secure retirement and the ability to pay for your children's education or to buy a decent home.

A fortunate few can rely on the money from a wealthy inheritance or a very high-paying job. For most, however, meeting financial goals means saving your money and investing it wisely. Careful investment can help you gather wealth faster and therefore meet your aims sooner.

There is also a need to invest to ensure that you protect your hard earned money from the effects of inflation. Inflation is an increase in prices over time, which means a given amount of money will buy less and less. Inflation causes your money to drop in value. For example \$5,000 today will only be worth \$2,800 in 20 years time if inflation is constant at 3%. This means that you must try to ensure that the value of your savings and investments (i.e. your capital) rises at least by the current rate of inflation. To grasp this concept, if inflation is 3% and you are earning 7.5% on your investments, your real earnings are 4.5%.

Successful investing does not require detailed knowledge or a lot of understanding of financial language. With an informed and sensible approach to your investment strategy and by being patient and disciplined, you can be a successful investor.

## How is Investment Different from Saving?

Saving involves simply setting money aside for future spending. It is usually put in a safe place, such as a savings account at a commercial bank, which you can get access to easily. Savings typically are low risk. But they also attract low interest rates.

By investing your money, you can earn more income and build wealth faster. The secret to this wealth building lies in the "power of compounding".

## What is Compounding?

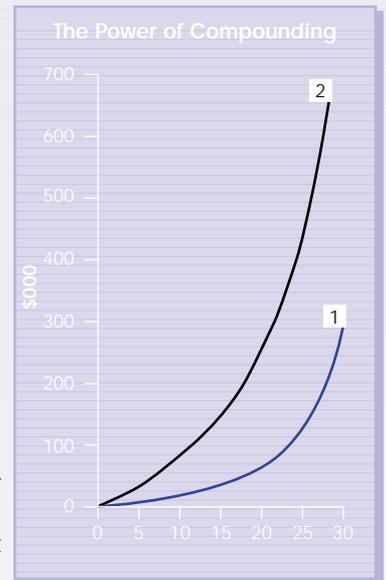
Compounding refers to how your money can grow faster over time. This is what happens when you reinvest income earned from your initial investment rather than spending it. This reinvested income will earn additional income, which you reinvest as well. If this cycle is allowed to continue, it eventually has a "snowball" effect. This is because with each cycle your total investment grows larger and therefore earns even more income in the next cycle.

*To illustrate this wonderful concept, let's use an example:*

Say you have \$2,000 available, which you invest immediately. Thereafter, you invest an additional \$100 every fortnight. Any interest income you receive is also invested. Now assume that you are able to get 8% interest on your investments per year. How fast does your money grow?

1. After 5 years, you would have accumulated \$18,936. You would have \$44,187 after 10 years and \$137,960 after 20 years. If you waited patiently for another 10 years, you would have accumulated \$346,401!
2. What's more, if you invested \$200 each fortnight instead of \$100, you would accumulate a massive \$670,836 after 30 years!

The graph illustrates these figures and clearly shows the acceleration in growth. It's no wonder that Albert Einstein once referred to compounding as the most powerful principle he had ever witnessed!



Note that in addition to the effects of compounding, you may also benefit from capital gains on your investment. The larger the initial investment, the rate of return (interest) and length of time you invest, the more powerful the effect of compounding!

## IDENTIFYING YOUR INVESTMENT OBJECTIVES

### Do I have enough money to invest?

It is generally not wise to invest without having some savings and it may not be a good idea to borrow to invest. You must also ask yourself whether you are in a position to invest your money for a period of time. Are you prepared to be patient about getting a return? Investments generally produce higher returns in the longer term so you must be prepared to be patient.

You must not make a decision to invest your money based on emotion. Take your decisions calmly. Carefully think about what you want to do and why, identify the risks involved and determine whether you can bear these risks to enjoy higher income and capital gains. Risk is the chance that you may lose money. Study all the relevant information and get advice if you can. Remember that the final decision to invest must be yours.

### What are my expectations?

One way of determining what your investment objectives are is to ask yourself a series of questions about what you want from the money you wish to invest. The following questions will assist you in determining your investment objectives and whether investing would fit into these objectives. Are you looking:

- For safety of your principal (i.e. your original investment)?
- For ready access to your money?
- To earn an immediate return?

If this is what you want, a possible course of action is to put your money in savings deposits, on which you will earn interest and the value of your principal will not rise or fall. However, the return that you earn will not be as large as returns from other forms of investments.

*On the other hand:*

- Are you looking for higher returns?
- Are you willing to take some risk to earn higher returns?
- Do you want to earn income, capital gains or both?
- Would you like to add to your income from the returns on your investment?
- Do you have enough money to invest?
- Can you afford to make a loss?

If you answer "yes" to these questions, then you may wish to consider investments such as unit trust, shares and bonds.

### How do I Invest?

*Important steps in investment are as follows:*

1. Define your investment objectives - Why are you investing? How much money do you need to accumulate? How long should you invest for? How much should you invest? What level of risk are you prepared to take? You can clarify your investment objectives by doing the following.
2. Determine how much to invest - This will require you to match 2 things: the amount you need to meet your objective and how much you can afford to invest. If they don't match, you have to reassess your objective or identify areas of your budget where you can make savings or increase income. Be realistic! A plan that is too ambitious and which requires you to make many sacrifices or drastically rearrange your current lifestyle is likely to fail.

3. Choose what to invest in - Different investments have different risk and return characteristics. Your selection of investments will depend on your investment goals and personal risk-return choice.
4. Diversify your investments - Spreading your investments around or diversifying is one of the best ways to reduce investment risk and improve your chance of achieving more consistent investment returns. Invest across different asset classes e.g. shares, bonds and property or invest in a unit trust, which has a variety of investments. The different asset classes respond differently to different conditions i.e. they move up and down at different times. So when things are not going well in one kind of investment, losses can be made up by returns from better performing assets. Of course some investors may prefer a higher risk/higher return investments and others lower risk/lower returns. It all depends on your investment objectives.
5. Implement your plan - Put your plan into action and stick to it. Remember, with the power of compounding, the many small payments you make will eventually be worthwhile. If you have trouble remembering to make regular payments or have the urge to spend your money on other things, arrange automatic deductions with your bank.
6. Monitor your investments regularly - Investment opportunities and your personal or financial circumstances may change over time. This may require changes to your investments so that they continue to meet your risk-return preferences and ultimately, help you achieve your goals. It is good practice to review your investments regularly, preferably with professional advice, to determine whether a new approach is necessary.

### How do I Choose the Right Investments?

- Choosing an investment requires careful analysis of the risks and returns of a particular investment and matching these to your investment objectives and preferences for risk and return. If you aren't sure, get advice from your financial adviser. The CMDA can give you the names of the licensed brokers and investment advisers who can help you.
- Short-term investors generally choose investments that mature early or can be withdrawn easily. They generally prefer lower risk investments, which reduce the chance that the value of their investment goes down just when they need to withdraw their money. These include relatively conservative investments like short-term bank deposits or lower-risk (short maturity) bonds.



- Longer-term investors are more willing to buy higher risk "growth assets" such as shares, property and bonds. They are less concerned about short-term ups and downs and recognise that these assets perform better when they are held over long periods.
- Investors who don't have the time and skills to actively manage their investments may consider managed funds such as unit trusts.

## INVESTMENT PRODUCTS

### What Types of Investment Can I Make?

*Investments can be grouped into four classes:*

- **Cash** - Includes bank savings and term deposits, treasury bills and RBF notes. This involves the investor lending money for an agreed period and interest rate. At the end of the period, the investor is repaid in full plus the agreed interest. Cash investments of this type are less than one year and generally have relatively low risk and returns.
- **Fixed Income Securities** - Includes bonds issued by Government, statutory bodies and other corporate bodies. This involves the investor lending money to the issuer for an agreed period and interest rate. Interest is paid in installments (typically six-monthly) and the borrowed amount is repaid at the end of the period. Fixed income securities are for more than one year and generally have risks and returns that are higher than cash but lower than shares and property.
- **Shares** - Represent part-ownership of a company. Shareholders benefit from dividends (payments from after-tax profits) and capital gains (increase in the value of shares). Since the return on shares is dependent on the individual company's performance, shares are generally riskier than fixed-income investments but offer the chance of much higher returns.
- **Managed Funds** - These include unit trusts. Managed funds pool the funds of a number of investors and invest these funds in other investments such as cash, fixed income securities, shares and property. Investors get both income and capital growth returns, similar to shares. The manager of the managed fund charges investors a fee(s) for the investing service.
- **Property** - Includes office buildings, apartment blocks or residential houses, which earn rent and can appreciate in value over time. Returns can be high but so can risks.

## RISKS OF INVESTING

### What are the Risks of Investment?

Risk relates to the likelihood that your investment returns will go up and down over time. This typically means

affect the performance of investments, general factors include:

- **Market risk** - This is the risk that unexpected economic, political or other conditions could have a bad impact on the investment returns in a particular market. This risk cannot be diversified away. For example, generally speaking high interest rates increases the likelihood that the returns that could be made from investing in shares would fall.
- **Currency risk** - If you invest in international markets, you will be exposed to currency risk, the chance those foreign currencies may fall in value relative to the Fiji dollar. This can reduce investment returns.
- **Issuer risk** - The return on a particular investment, such as a share or bond, is affected by the performance of the issuer. For example, a profitable company will have a better chance of paying dividends on its shares or interest on its bonds than a loss-making company. Therefore investors are exposed to the performance of the issuers of their investments, which, in turn, is affected, by the quality of the particular issuer's management, processes, workers and other resources.

### How do I find out more about Investments?

- **Do your own research** - Information on share investments is available on the Internet, newspapers and books.
- **Contact the CMDA** - The CMDA has free general instructional material on investing. If you need professional investment advice, the CMDA will be able to refer you to a licensed broker or investment adviser.
- **Consult a licensed broker or investment adviser** - A broker's or investment adviser's expertise can be extremely helpful in investing prudently and effectively. Professional investment advice is highly recommended if you are an inexperienced investor and/or you have a large sum to invest.

### Disclaimer

The contents of this leaflet are believed to be correct at the date of issue. They are intended for general purposes only and are not to be considered as providing securities recommendations or advice. The CMDA and SPSE do not give any warranty or accept any liability (whether arising from negligence or otherwise) for any error or omission, or for any loss arising from acting on the information in this publication, except where under law liability cannot be excluded.

Investments are subject to investment risk, including possible delays in repayments and loss of income and principal invested. The CMDA and SPSE do not guarantee investment performance or return of capital invested.