Thinking about Investing– Here's what you should know

~Part 4~

Deciding on an investment strategy involves 3 steps:

1. **Establishing your investment goals**
2. **Determining your tolerance for risk; and**
3. **Establishing your intended mix of assets for your portfolio**

However, in order to decide on the assets which you want to include in your portfolio mix you must understand the various types of investment products.

Investment Products

There are four main classes of investment products:

1. ***Real estate***

- Land
- Buildings

3. ***Debt Instruments (Bonds)***

A debt investment in which an investor loans money to an entity (corporate or governmental). The funds are borrowed for a defined period of time at a fixed interest rate. Bonds are used by companies, and governments to finance a variety of projects and activities.

The agreement will specify

- Duration of bond
- Rate of interest
- Time of the interest payment
- Repayment of the principalp

2. ***Equity***

- Shares in the ownership of a company (stocks)
- Dividends are paid based on performance
- Capital gains are received based on share value

4. ***Cash and cash equivalents***

- Cash or other assets that can easily be con-verted to cash (e.g. Money Market Mutual Funds)

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However, in today's financial markets there are many combinations of these basic categories which form new investment products.

Characteristics of investment products

The fundamental aspects of any investment product are Liquidity, Expected Return and Risk. Any investment proposal must clarify these three characteristics.

1. **Liquidity (marketability)**: The ease with which you can turn the investment product into cash, at or near the market value at the point in time when it may be necessary to do so. Real Estate will have a lower liquidity than a cash-equivalent product like a mutual fund, because real property cannot be as easily converted to cash as a cash-equivalent product.

2. **Expected Return**: The overall profit that you might expect to receive from your investment – either as income (dividends or interest) or as capital gains or losses from changes in the market value of the investment product.

3. **Risk**: The degree of uncertainty associated with the expected return from the investment.

Did you know that we do outreach sessions? Get more information on our Investor Education programme by contacting the Communications Unit at 624-2991 Ext.1275 or 1259.

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