



Getting started with Investing Part 2 of 3 - Creating Your Investor Profile

Last week we discussed the basics of investing – knowing the Regulator, setting financial goals, and understanding your risk tolerance. In this article, we'll focus on creating your personal investor profile and guide you through the process of selecting an investment option that will help you achieve your financial goals.

Investor Profile

An investor profile is an outline of what your preference is when it comes to investing. In the United States, FINRA Rule 2111 states, '*A customer's investment profile includes, but is not limited to, the customer's age, other investments, financial situation and needs, tax status, investment objectives, investment experience, investment time horizon, liquidity needs, risk tolerance, and any other information the customer may disclose to the member or associated person in connection with such recommendation*'. A proper investor profile can help with the selection of appropriate investments. Key considerations to note when creating your investor profile are your preferences, circumstances and risk tolerance.

1) Know yourself and understand what is important to you. Success would usually depend on ensuring that your investment strategy fits your personal characteristics. No investor is the same; each investor comes from a unique background and has specific needs relative to their individual goals. Therefore, you should always pay attention to both your investment objectives and your personality.

2) Investment Objectives

An investor with a diversified portfolio with years of accumulated funds for investing will obviously have different financial goals than, let's say, a newlywed couple just starting out. The former, in an effort to increase their wealth further, will have no qualms about investing \$1,000,000 in the real estate market, as they can clearly afford the risk. However, the married couple's primary focus will likely be on having a strong savings pool to make the down payment for their first home. In this instance, every cent will count and the couple cannot afford the risk of losing their money in a speculative venture. So always consider where YOU are in your particular life stage and weigh both the costs and benefits for your long and short-term objectives.

3) Personality

Your personality traits may determine how much volatility you are willing to experience in your investments or your desire to research investments. Some people love nothing more than digging into financial statements and crunching numbers. To others, the terms balance sheet, income statement and stock analysis may sound overwhelming and off putting.

As referenced in the previous article, a key determinant of what investment may work best for you is your individual risk tolerance.

What are your investment options?

Now that you are aware of your investor profile, the next question is “which investment product(s) should I use?” Keep in mind the old adage, “Don’t put all your eggs in one basket”. We recommend using a multi-faceted approach to investing so that if something goes wrong with one product, you don’t lose all of your money. Therefore, it is prudent to have diverse types and a wide variety of investments in your portfolio.

The three (3) major types of investment products available locally, which the Trinidad and Tobago Securities and Exchange Commission (TTSEC) regulates and which you can consider, are:

- 1. Equities (stocks/shares)**
- 2. Bonds**
- 3. Mutual funds**

Stocks/Shares

A stock is a collection of shares. A share is a security (financial instrument) that represents ownership in a corporation. A stock refers to the ownership of a corporation represented by the number of shares purchased. Essentially when you purchase a stock, or share, you become a part owner of the business. According to the type of share purchased, it entitles you to the right to vote at the shareholders’ annual general meeting and allows you to receive any profits that the company allocates to its owners. These profits are referred to as dividends. Stocks are volatile. That is, they fluctuate in value on a daily basis. When you buy a stock, you are not guaranteed anything. Many stocks don’t even pay dividends, in which case, the only way that you can make money is if the stock increases in value. When the stock price increases and is more than what you initially paid for it, you can make a *capital gain*, should you decide to sell the stock. It is also important to note as well that you can sustain a capital loss if the stock decreases in value.

Bonds

A bond is a debt instrument issued by a private corporation or government agency to raise money for various long-term projects. The investor is thus “lending” money to a company or a government for a specific project or projects for a specified period. Periodic interest payments are made at pre-identified times and the “loan” is paid in full at maturity (the end of the loan period).

Mutual Funds

A mutual fund is a collection of stocks and bonds where each investor in the fund owns shares or units which represent a portion of the holdings of the fund. A mutual fund collates or “pools” money from the many investors to purchase a diverse mix of securities and has a full-time investment fund manager to make and monitor investments.

The types of securities that a particular fund invest in are identified for the benefit of investors in the fund’s prospectus (description of the investment or securities), which is a legal document, required by and filed with the TTSEC.

Popular investments which are regulated (legally structured and managed) in Trinidad and Tobago are:

Stocks or Shares (Equities)	Bonds	Mutual Funds
Give you part ownership, or shares, in a corporation.	When purchased, are a loan to a specific entity, which promises (but usually doesn’t guarantee) repayment of the money you invest, plus interest for the use of that money. The ‘issuer’ (the entity selling the bond) of the bond agrees to pay the buyer of the bond a specified rate of interest for a pre-determined length of time. The issuer will repay the face value of the bond (the principal) when it “matures,” or comes due.	A mutual fund pools money from many investors which is then invested in stocks, bonds or other financial instruments. Each share or unit represents an ownership slice of the fund and gives the investor a proportional right, based on the number of shares/units that he or she owns.
Over a long period (ten or more years) investments tend to grow faster than savings. You should never invest until you have adequate savings (at least three to six months of income to cover your living expenses).		

Before confirming any investment decision, you should also undertake these steps:

1. Obtain written documents detailing the nature of the investment;
2. Read and understand those documents;
3. Verify the legitimacy of the investment;
4. Deal only with registered financial institutions and intermediaries; and
5. Find out your options if something goes wrong.

The TTSEC’s Investor Education programme also offers you the opportunity to participate in a virtual market prior to investing via its investing game Investor Quest TT (IQTT) - <https://www.investorquest-tt.com> . IQTT is free and open to all members of the public and provides a safe online environment where you can get a feel for what it may be like, should you decide to venture into the real world of investing.

Investing is not as difficult as it may seem, and is actually a good way to make your money grow and work for you, once you do your due diligence, follow some of the steps we have outlined and exercise your rights and responsibilities as an investor. Next week, we will share information about some of the warning signs and red flags of investing that you should look out for, especially in these challenging times.

For more information on the securities market and the role and functions of the TTSEC, please visit our corporate website at www.ttsec.org.tt. To become a smart investor, **download our**

Investor Protection Mobile Application via the Google Play and Apple Stores. You can also take the investor education online course on our investor education website, www.investucatett.com, and test your knowledge in our interactive investing game InvestorQuestTT at www.investorquest-tt.com, and remember, to connect with us via Facebook; Twitter, Instagram, LinkedIn or You Tube.

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