TRINIDAD AND TOBAGO SECURITIES AND EXCHANGE COMMISSION

Investment Basics

TWELVE (12) USEFUL TIPS

2010

57-59 DUNDONALD STREET, PORT OF SPAIN, TRINIDAD W.I.

Tip 1

The Trinidad and Tobago Securities and Exchange Commission or SEC is the regulator of the securities market in Trinidad and Tobago. That means that we are responsible for ensuring that the **industry operates in a fair, transparent and efficient manner**.

- We register all issuers and market intermediaries involved in securities transactions.
- We ensure that companies disclose information relevant to the securities that they are selling to the public
- We conduct market surveillance to ensure compliance with the law
- And we take action against those who contravene the law

Tip 2

Financial planning is the **allocation of today's money to meet tomorrow's needs**.

- An investor's financial needs will be influenced by his age, his family composition and his position in his career path.
- Not all needs can be precisely determined.
- Contingencies must be provided for in the event that some unforeseen needs arise.
- Changing life circumstances can also cause financial needs to change.

Make investments based on sound financial objectives which are clearly defined in specific and measurable monetary terms. If you are not clear on your purpose for saving or investing you undoubtedly will not achieve your desired objectives

Tip 3

As an investor you should **write down all of your financial goals and on this basis prepare your financial plan**. If you determine that you do not have the financial capability to achieve them, then these goals have to be prioritized.

Tip 4

An investor's financial needs will be influenced by his age, his family composition and needs, his position in his career path etc. Not all needs can be precisely determined. **Contingencies must be provided for in the event that some unforeseen needs arise**. Changing life circumstances also cause financial needs to change.

Tip 5

The first step in financial planning is to **write down all of your financial goals** and on this basis prepare your financial plan.

The next step is to **determine your financial position** or balance sheet. That is your individual income, assets, and liabilities. Income includes salary, interest, dividends and self employment earnings. All routine expenses are met out of this income.

Tip 6

After having determined your income and assets you have to **determine all expenses and prepare a cash flow statement** which itemizes your income and expenses. These expenses include living expenses, payments already committed such as mortgage payments, insurance, loans and taxes. As long as your total assets exceed your total liabilities you have positive net worth.

Tip 7

The balance sheet shows what the investor owns and what he owes. The cash flow statement shows cash inflows and outflows. Together these statements tell an investor's financial status and hence what money may be available for investment or saving.

It is critical that the investor lives within his means or income. Whatever is left over after this is considered surplus and is available for saving or investment. His choices will be determined by the investment choices available within the economy with the intent to meet his stated objectives.

It is important to remember **that the financial plan is not static and is to be reviewed** and amended as changes in needs arise.

Tip 8

Here are some questions that potential investors should ask themselves.

- **When should I consider investing?**

You should consider investing when you want to generate a return on your existing resources; if you want to generate a certain income to meet a particular goal or need; if you want to make provisions for an uncertain future.

You must however do so, armed with the relevant knowledge gleaned from your exhaustive research.

- **What should be my investment objectives?**

Investors generally have three objectives. They want to have:

1. A safe investment
2. Generating handsome returns
3. Providing high liquidity.

Unfortunately you don't often get all of these wrapped up in one perfect investment package.

- **What are my investment options?**

A wide variety of options exist from which to choose. Your choice depends on the amount you have to invest, your investment goals, the time frame within which you expect your return, and the level of risk that you are willing to entertain

Typically you have to trade off. For example you may have the potential to earn high returns but the risk here is increased. If you want high liquidity you may have to adjust your expectations on your returns.

Tip 9

What care should I take when investing?

Before making any investment decision you should 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. Determine the costs and benefits of the investment
5. Assess the risk/return profile of the investment
6. Know the liquidity and safety aspects of the investment
7. Ascertain if the investment is appropriate to your needs/goals
8. Compare the details with other investment opportunities
9. Deal only with registered financial institutions/intermediaries
10. Find out your options if something goes wrong

Once you have done all of this research and you are satisfied that your financial objectives are met, make the investment.

Tip 10

When deciding upon your investments it is important to establish an investment strategy. This investment strategy involves 3 steps:

1. **Establishing your investment goals** (What you need from your investment portfolio and when you need it?);
2. **Determining your tolerance for risk; and**
3. **Establishing your intended mix of assets for your portfolio.**

Here are some details on how to establish an investment strategy.

Step 1: Establishing your investment goals

Your first step as an investor is deciding what you would like to achieve. You may have financial goals – to make a down payment on a house in two years, to help pay for your children's education in ten years or simply to earn an optimum return from your current investments. If you are working, you need to plan for your retirement.

The answers to the following questions will help you to establish your investment goals:

- How much money do you have to invest now?

- Will your employment income allow you to invest additional money in the future? How much? Are you confident that will continue?

The first step in establishing an investment strategy is to **determine your investment goals**

Here are additional questions that you should ask yourself to help you to establish your investment goals:

- What are your monthly financial obligations, and how much do those obligations change from month-to-month or year-to-year?

- Do you have other valuable assets that will play a role in your financial future?

- Do you have any outstanding debts that you would like to pay off?

- Do you plan to make any major purchases in the future?

Tip 11

The first step in establishing an investment strategy is to determine your investment goals

Here are additional questions that you should ask yourself to help you to establish your investment goals:

- What are your monthly financial obligations, and how much do those obligations change from month-to-month or year-to-year?
- Do you have other valuable assets that will play a role in your financial future?
- Do you have any outstanding debts that you would like to pay off?
- Do you plan to make any major purchases in the future?
- Are you a participant in a registered pension plan?
- Do you expect to inherit money at any point in the future?
- How much money would you like to have readily accessible in case of emergency?

These questions will enable you to have a clear understanding of your financial situation and thereby help to clarify your investment goals. The idea is to pool all incomes then subtract all obligations and then, depending on the disposable income left, decide whether you want to save or invest

Tip 12

The second step in establishing your investment strategy is **determining your tolerance for risk**. The general rule of thumb is the higher your expected return the higher the risk. In other words, if you want higher returns, you must be prepared to take greater risks.

Your risk tolerance can be affected by three factors.

The first is:

Time – the amount of time you have to achieve your financial goals. People with long time horizons may be willing to endure periodic fluctuations with respect to the value of their returns as compared to people with shorter time horizons.

The second is:

Cash requirements – the urgency of cash returns from the investment may determine how much the person is willing to lose. People who rely on the returns generated from their investments to meet day-to-day expenses will be much less comfortable with the risk of losses.

The third is:

Emotional factors – your emotional response to changes in the value of your investment is a fundamental measure of your risk tolerance. Will you lose sleep if your investment declines tomorrow?

The final step in establishing your investment strategy is deciding on the **mix of investment products (assets) that you will seek to purchase.**

In deciding on your mix of assets (portfolio mix) you must consider steps 1 and 2. More fundamentally you must consider your expected returns, risks and the timing of these returns.

To summarize in order to establish your personal investment strategy, you should carefully consider:

- Your knowledge about the financial markets and investment products;
- Your financial portfolio, risk tolerance, available funds for investment and;
- What you intend to accomplish through investing.

If you think you have encountered a scam or you are dissatisfied with the service you have received, you can lodge a complaint with the SEC by calling 1-868-624-2991 or visiting us at 57-59 Dundonald Street Port of Spain, Trinidad W.I.