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ON THE MONEY!

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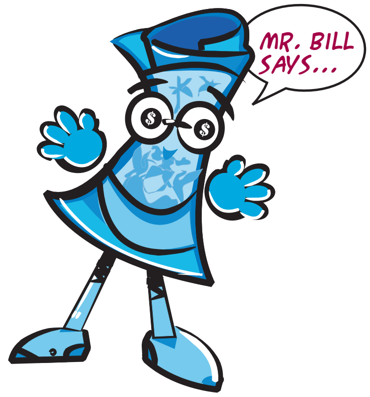

A Guide to Financial Planning

Fundamentals of Investment Decision Making

Part 4 of a 5-part series

This fourth part in our series on investing provides basic information on features of investment products.

INVESTMENT PRODUCTS

There are four main classes of investment products. They are:

1. Equity. This represents a share in the ownership of a company. Equity usually takes the form of common and preferred stocks. Equity shares can yield returns via dividends declared by companies either during the financial year or at the end of the financial year. They can also yield returns through capital gains on the sale of equity shares that would have increased in value.

2. Debt (bonds or similar securities). Debt products involve the investor, who invests by providing a loan to the bond issuer. The lender (the investor) will be repaid the amount loaned plus interest at some future date.
Debt Instruments therefore incorporate the arrangements between the investor (lender) and borrower (the issuer).The debt contract specifies the rate of interest, time of the interest payment and the repayment of principal.
The term "bond" usually refers to a debt instrument issued by a corporation or government or state agency.

3. Cash and cash-equivalents are assets which can be quickly converted to cash.

4.Real Estate or property.

In today's financial markets there are many combinations of and modifications to 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.

1. Liquidity (marketability): This refers to the ease with which you can turn the investment product into cash, at or near the market value at the point in time when is may be necessary to do so. Real Estate will have a lower liquidity than a mutual fund product, because it is easier to cash-in on a mutual fund investment than it is to sell property.

Liquidity of any investment instrument is determined by its trading volumes and its rate of turnover in the marketplace. For example, if a share is actively traded, the investor, as a holder of the share can easily sell his shares and obtain the proceeds of the sale within a three-day period. The converse is true if the share is not actively traded.

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

3. Risk: This is the degree of uncertainty associated with the expected return from the investment. (The chance or possibility of losing part or all of your investment). It is important to note that generally, the higher the expected return on an investment, the more risky that investment is likely to be.

Remember you had to work hard to earn your money. Invest it wisely.

PRIMARY AND SECONDARY MARKETS DIFFERENTIATED

The primary market

The primary market refers to new issues of shares and other investment instruments by either a new or an existing company or other entity. That is, the sale of shares and other instruments that have not yet been bought or sold on the market.

The secondary market

Secondary markets are markets where investors can buy or sell shares and other tradeable instruments listed on them. These instruments have already been traded (bought and sold) and are being re-traded on the securities market. The Central Bank of Trinidad & Tobago recently launched the secondary market for government securities providing a mechanism for government securities to move from investors in the primary market to a wider group of end investors.

Equity shares are appropriate investments for the investors who are not risk averse since they are likely to be more prepared to undertake greater risks to earn potentially higher returns. An investor needs to closely monitor a company's performance to gauge its performance history and investment potential.

Securities & Exchange Commission Trinidad and Tobago

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