Central Bank of Trinidad & Tobago

The National Financial Literacy Programme

ON THE MONEY!

A fortnightly publication of The National Financial Literacy Programme

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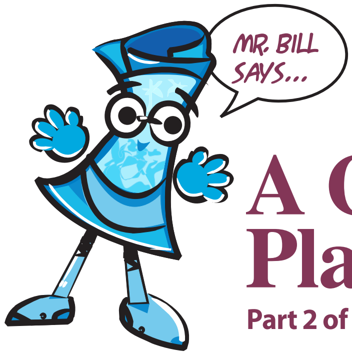


A Guide to Financial Planning - Investing

Part 2 of a 5 part series

This second article on the Securities and Exchange Commission briefly highlights the differences between saving and investing. Its main focus is on issues you should consider when contemplating investment pursuits.

Saving versus investing

Both saving and investing involve putting aside your money or not using it for immediate consumption. However saving and investing are two very different activities. Saving involves regularly putting aside money from your income for a specific purpose or goal. Inherent in saving is the idea of spending at a later date. Investing, on the other hand, involves using your money to make more money, usually for the longer term. Inherent in investing is the idea of wealth-creation.

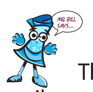
As a general rule, money that is held in a savings account is at low risk and does not earn a high rate of interest. Money held in an investment account would usually earn two streams of returns:

1. interest or dividend income and
2. income from the appreciated value of the original investment .

However, the risk of incurring losses is also higher.

Some questions to answer when considering investing:

What should I look for when investing?



There are at least four basic investment attributes:

- Safety i.e. the level of assurance that the investment will not go 'belly-up' and result in losses to you.
- Rate of return i.e. in general, you want to earn substantially more income than in a typical savings account.
- Liquidity i.e. how quickly your investment can be converted to cash.
- Duration i.e. how long you are prepared to leave the money invested.

There are trade-offs associated with these characteristics:

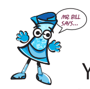
- The more risky (and therefore less safe) the investment, the higher the expected rate of return.
- In general, the potential for positive returns improves with longer term investments.
  A relatively safe investment with high liquidity is therefore not likely to have a high rate of return!

What factors should influence my investment options?

Your investment options should be guided by:

- The level of risk you are willing to accept.
- The amount of money you have to invest.
- Your investment goals.
- The time frame within which you expect to realize your gains.

When should I invest?



You should consider investing when:

- You have excess cash and you want to use your money to make more money (wealth-creation).
- There is a particular financial goal or need to be met in a medium to long term time frame e.g. children's education, retirement, starting a business, leaving an inheritance (planning ahead).

You must do so however, only after conducting proper research and armed with the relevant knowledge.

Still want to invest? Then here are some tips!

Investing always involves a certain amount of risk. You should therefore know what you are getting into. Before making any investment decisions you should undertake the following:

1. Obtain and carefully read written documents detailing the nature of the investment.
2. Verify the legitimacy of the documents.
3. Evaluate the costs vs. the benefits of the investment.
4. Assess the risks/return profile of the investment.
5. Know the liquidity and safety aspects of the investment.
6. Ascertain if the investment will yield the returns you need for what you want to accomplish.
7. Compare the details with other investment opportunities.
8. Find out what options exist if something goes wrong.

In executing your investment transaction, deal only with registered financial institutions or intermediaries. A list of these is available on the SEC website.

Once you have done the research, equipped yourself with the appropriate knowledge and you are satisfied that your financial objectives would be met, then **make the investment!** Keep monitoring the performance of your investment.

Securities & Exchange Commission, Trinidad and Tobago

For further information contact the SEC :
(868) 627-4861 ext: 1275 or visit the website at
www.ttsec.org.tt