

**FINANCIAL LITERACY -  
INVESTING 101**

20% return, double your saving in two years... you have read ads on possible investments and you are tempted to make your saving grow.

Great. But first are you really ready to invest? Investing is usually **the last step** in managing your money. You have **first to get your debt** into control. Interest on debt is usually high. The first way to get more out of your money is to avoid paying interest altogether, especially on “bad debts”. The **second step is to save**. You cannot invest if you don't have enough saving. The best ways to save is to set money aside in a bank account as soon as you are paid. Control your expenses by noting down all that you spend, stick to what you have planned to spend in your budget and use envelopes for the various needs and wants you may have.

Are you ready to save now? Not yet. There is a very important difference between **investing and saving**: saving is just keeping money aside. Investing is putting your money in a venture which can be more or less risky. Because investment is always risky, you should make sure not to invest ALL your saving. Always keep some **saving for emergencies** and for your **short term goals**. Investment is for the long term. The first thing to do once you start saving money is to **open a saving account**. This will enable you to get a small return and your saving will be available in case of emergency.

As investment is **risky**, you may wonder why invest altogether? Do you remember our article on saving? You should save for various reasons: emergency, short term goals like quarterly bills or yearly expenses, big projects like buying a house, children's education and retirement. Retirement and big projects can be long term, in 20 or 30 years or more. What will happen with your saving if you leave them in a bank account? **Inflation** will gradually eat it up! So for the long term, it is better to take a risk and get a higher return on your saving.

So are you now ready to invest? Have you determined your goals and calculated how much you need to save every month to fulfil them? Great! The three fundamental notions about investment are **risk, return and liquidity**. Before you invest, always check these three elements. **Return** is usually the one with bold letters! It is how much you can gain from your investment. There is no return without risk. Very often, the higher the return, the higher the risk may be. So always check and ask questions on the risk. You should also check the real return, which is how much you will really pocket after inflation, taxes and all the fees. Don't be afraid to ask questions about the fees! There are two main kinds of return: you can get a revenue (**interest** for the types of investment where you lend money to a company or the bank like saving account or bonds, **dividend** for stocks) or your investment **value** can go up (like for stocks). In this case called a **gain**, you only get the revenue when you sell your investment.

## **Financial Literacy**

*Because money is more than adding up figures*

**Risk** is how much you may lose. Be aware you might lose your whole investment. Risks depend on the type of investment but also on the economic situation, on the intermediary you choose... Check where you put your money before investing! **Liquidity** is how quickly you can cash your investment. For example, investing in a property is not liquid because it takes time to sell.

The four main types of investment are **cash, bonds, stocks and property**. In terms of return, stocks historically perform better than the others on the long term. If you save for a short term goal, stocks won't be the right investment. You need to choose the investments which fit your goals and how much risk you are ready to take. Stocks are bits of the ownership of a business. If the business goes well, stocks will go up. But if the business goes badly, your stock will go down. And if the business goes bankrupt, your stock will be worth nothing.

Investing is **not gambling** - it is for the long term. Buying and selling all the time is usually very costly and not efficient. Make sure you invest regularly, even when the markets are down, and you **diversify** your investment: don't only invest in stocks of the same company. Invest in the various main categories of investment and in each category, diversify. Consider buying **mutual funds** which are diversified investments already and are easier to access for first time investors. And don't forget to **track** your investment every 3 to 6 months.

If you have questions or stories to share about investing, send me an email: [Sophie@aandbmake3.com](mailto:Sophie@aandbmake3.com) , call 2868.5399 or read [www.aandbmake3.com](http://www.aandbmake3.com)