

EASTERN CARIBBEAN CENTRAL BANK



INVESTMENT INSIGHTS

1. Investing: What it means, How it works and What you need to know

While most people are familiar with the term saving, and probably have an account or two with a commercial bank or a credit union, others are intimidated when we talk about investing, which seems to bring to mind images of financial genius, reserved for a chosen few. In fact investing is not a complicated concept, and the majority of investors are individuals just like you and me, preparing for their children's college education, planning their retirement, making arrangements to pay off a mortgage or simply trying to generate additional income.

Saving and investing have similar objectives. Saving is about putting away the money you have, while taking only minimal risk. So you work hard, get extra cash and put the money in a safe place. Investing is using the money you have to make more money. Because your expectations for returns are higher, there is greater risk involved, but these can be minimised with careful planning.

Here are some simple guidelines to consider when investing.

The first is a well known saying "Don't put all your eggs in one basket". Investments take many forms, from stocks or shares, treasury bills, bonds, notes, to art or real estate. It is always best to spread your investment over a variety of products with the potential to do well.

Second, Understand your choices. Research the various options open to you. All potential investors need to understand how financial markets operate, the financial instruments that are available, the terms and conditions that apply and the benefits that they offer. Try to remember that "all that glitters isn't gold", so if something sounds too good to be true, it probably is.

Next set aside small sums regularly, rather than investing large sums periodically. "One penny full basket". But careful planning is essential. Assess your personal financial situation and examine your monthly income against your monthly expenses. Determine how much money you need for routine expenses such as food, shelter, health care, transportation, and entertainment and set aside something for emergencies. Any money left over is the amount you can afford to invest.

The next step is determining your personal investment objectives. Decide how long you will invest for, and whether you wish your investments to grow slowly but steadily over time, or whether you wish to make quick money, or perhaps even a mix of both. How much do you wish to make and how much risk are you prepared to take? Investments vary in risk, and high-risk instruments usually yield more attractive returns. However, keep in mind that the greater the risk, the more likely you are to lose your investment.

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These are important steps in building a portfolio that matches your needs and your pocket! Nothing matters quite so much as developing an investment plan and having the discipline to stick with it. Weaving in and out of different investments is a recipe for financial disaster.

Most of us know where to go if we wish to invest in a motorcar, or real estate, and how to go about opening a savings account with a commercial bank, but we are at a loss in knowing what to do when we wish to buy stocks or shares or other financial instruments, which are traded in the securities market. This is where investors or buyers, people like you and me, with a little extra cash and companies or governments, the sellers who need money and have investment products to offer, transact their business.

The securities market can be unorganised, with the buyers seeking out the sellers to effect a trade among themselves, or it can be organised, with a central point, called a securities exchange at which trading takes place, usually with the help of agents called brokers or broker-dealers. In this series we will look at investing in an organised securities market.