Financial Information Month
October 2011

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Plan Your Financial Success
Focus on the key issues highlighted in the diagram and discover The Wheel of Your Fortune.
Ignore these and end up with The Wheel of Your Misfortune!

The Wheel of Your Fortune

- Income and Expenditure
- Risk Sensitivity
- Cash Flows
- Social Security
- Tax Management
- Pre-retirement planning
- Post-retirement planning
- Protection planning
- Debt Management
- Savings Products
- Investment Products
- Credit Products
- Private Pension Products
- Fixed Income vs. Variable Expenses
- What will be your scenario?

- Are you prioritising your spending? Do you follow a budget? Do you follow this formula: Spending < Earnings = Savings
- Are these adequate to meet your needs?
- Most if not all health care policies have an expiration date: Retirement of 69 or 74
- Are you adequately covered?
- Consider your financial situation, age, dependents, goals
- Earn more, spend less...Live smarter. Avoid money leakages and seek out passive income sources (e.g. rental income)
- Actively pursue tax minimisation strategies

Size and composition of your nest egg influences the age at which you can afford to retire and the retirement lifestyle you can have.

October is Financial Information Month - “Grow Your Savings”
What is money, or how do we define or identify money?

Money can be defined by the 4 basic functions it performs:

1. A medium of exchange and final payment;
   This is the most important function of money. In this role, money facilitates the exchange of goods and services. As a medium of exchange, money helps avoid the kind of frictions that would arise in an economy that trades through barter. The double coincidence of wants, which is an essential feature of a barter economy, severely restricts trade.

2. A standard of deferred payment (debt function)
   Money plays the role as a standard for deferred payment by facilitating the provision of services in one period while payment is made in a later period.

3. A unit of account
   In its role as a medium of exchange, money can be used as a unit of account, that is, a standard by which all other commodities are priced.

4. A store of value (asset function)
   As a store of value, money provides a means of holding and accumulating wealth in a form that can be readily converted into goods and services.

Holding money, as a store of value, provides some convenience in buying goods and services. One also has the assurance that the asset will at least retain its nominal value.

If money is held, in place of another financial asset, the holder foregoes the interest that could have been earned on another financial asset, such as a share in a mutual fund or in a company. What we are talking about now is, of course, the concept of saving and investing. For money to function as a store of value, its real value must remain reasonably stable over time. It is important, therefore, to consider the real value of money in any discussion about money! But, why save?

The saving and investment functions:

Broadly speaking without savings, there can be no investment!

Robinson Crusoe Island:
Imagine a small island on which there is one household. If Mr Crusoe works and consumes all that he produces, then...
clearly he has nothing in reserve for tomorrow.

Using other people’s money: Similarly, if a household consumes all its income, and saves nothing, in order for that household to make any investment, it must use other people’s savings.

A wise investor can benefit far more than a wise saver! Remember too, that when you have a loan that has a fixed rate of interest, inflation transfers to the borrower real income and penalises the lender who made his/her money available for lending. And there are many sources of lending, some mandatory while others are discretionary: national insurance schemes, unit trusts, credit unions, mutual funds, pension funds, bank savings etc.

Governments, firms and individuals need to have access to a ready supply of savings to invest. Perhaps the trick in becoming wealthy is to understand how to maximise one’s return from using other people’s money! And it is not that difficult. What one has to do, of course, is to find a project whose risk adjusted rate of return is higher than the cost of capital. And work hard to achieve a good outcome.

There are broadly two kinds of savings available to firms and individuals in a country:
1. Domestic savings – savings by individuals, firms and the government
2. Foreign savings – funds borrowed/invested from abroad.

If we have a low rate of saving, then to the extent we rely on domestic savings, our ability to invest could be significantly curtailed.

When there are good prospects for investment, as a country, we may need to rely on or attract foreign savings or foreign investors.

This is what we call foreign investment, and it can come in several forms: investment in shares, or investment in capital stock - foreign direct investment.

Now, why would anyone invest in our country, if they can't get in, can't get their goods out, or get people in to use their services here? This is where the Argyle International Airport comes in!

We are talking about investment, so we must speak about the largest investment project that this country has undertaken. Some people say that the Argyle Airport is not a good investment. They say it is not financially viable. I agree with them fully. It was never conceived as a financially viable project. It was always conceived as an economically viable project. And it will be. There are two main reasons:

1. Government as the investor, compared with a private man as an investor.

Cont’d on page 5
2. The benefit of having the lands at Arnos Vale available for sale.

Now there are New Opportunities for Investment for ordinary people in St. Vincent and the Grenadines.

Investment in the new city at Arnos Vale - hotels, residential villas, condominiums, restaurants, shopping and business centres, entertainment and recreational complexes etc.

I expect the 62 acres at Arnos Vale to become a far more attractive city, for businesses of all sorts, than Kingstown is.

Considering the price range of lands in Kingstown, let us assume that the land price in Arnos Vale rises to $500 per square foot.

At a sale price of $500 per square foot, the saleable land would have a value of about $1.15 billion and $1 billion after development cost:

a. Investment in the hospitality sector - enhanced air access/ cheaper tickets and more visitor arrivals

b. Investment in agri-business - cheaper freight to larger markets

c. Investment in professional services - banking

Now that we have had this discussion, and you have been trained in money management, I expect to see far more business people and more investment taking place in our country. You have to begin to see yourself as an investor too.

I wish you all the best as you put your knowledge to use for yourself and our blessed country.

“Revitalising and Rejuvenating Business Enterprises - Strategic Responses to Current Economic and Business Challenges”.

Presenters

Edwin Zephiri
Managing Director
Edwin Zephiri & Associates, USA

Clare Doyle
Marketing Director,
Elementis Specialties, USA

Rawlinson Isaac
Financial Consultant
St Kitts & Nevis

ECCB Headquarters, St Kitts and Nevis
18 October 2011

Participants from the other ECCU member countries will join via videoconference.

Visit us at www.eccb-centralbank.org
Riddles to Make You Smile

**R** is for Riddle, **R** is for Rhyme. Pretty please, do you have some time? Solve my riddles and you will be sure to smile…

1. If you fail to include me in your plan for your future
   You may not be able to afford to retire.
   
   What am I?
   __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __

2. I go Up and I go Down
   I have many analysts on a merry go round.
   
   What am I?
   __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __

3. Woe is you
   When you encounter unmanageable me.
   You bemoan how I keep getting bigger and bigger
   and still you won’t stop increasing my figure.
   
   What am I?
   __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __

4. Hello. Why are you ignoring me?
   Don’t you know we should be meeting monthly
   and having serious discussions about how to spend your money wisely?
   
   What am I?
   A __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __

5. Its pretty basic
   Nothing complicated nor psychedelic.
   I cannot stretch. Each one of me only has one hundred cents.
   So check yourself and your expense.
   
   What am I?
   A __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __

6. Don’t be silly
   You know you don’t need and can’t afford me.
   
   What am I?
   Your __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __

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**Rule No.1**: Never lose money.
**Rule No.2**: Never forget rule No.1.

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