INVESTING YOUR MONEY

INTRODUCTION

Investment is part of your overall financial planning. If you have some savings, you may want to invest them to maximise your return. This webpage aims to provide you with some guidance on the factors to consider before investing as well as the do's and don'ts when investing.

DIFFERENCE BETWEEN INVESTMENT AND SAVINGS

Investment differs from savings. In savings,you will generally get back your savings,plus some interest. However, in an investment, you may or may not get back the sum invested or you may get much more than the initial amount invested. The potentially higher return is to compensate you for the higher risks undertaken by you.

PLANNING YOUR INVESTMENTS

Smart investments are not a matter of luck, but a result of careful planning. When you invest, you should not rely on hearsay. You must spend some time understanding the market, either through research or seeking out expert advice. Below are some of the issues you should be aware:

Step 1 – Know why you want to invest

- Before you invest, you should know the purpose of your investment, that is your financial goals and objectives. Your financial goals may be to:
  - Buy a car
  - Purchase a house
  - Send your children for higher education
  - Go for a holiday
  - Plan for a comfortable retirement in the future
- Your investment objectives can be either to:
  - Maintain the purchasing power of the principal amount invested
  - Obtain income from your investments
  - Grow your net worth
  - A combination of any of the above

You can achieve your goals by investing your savings based on the time frame

when these financial goals can be met. Also,
it is important that your investment plans fit into your overall financial planning objectives to get the best possible results to achieve your financial goals.

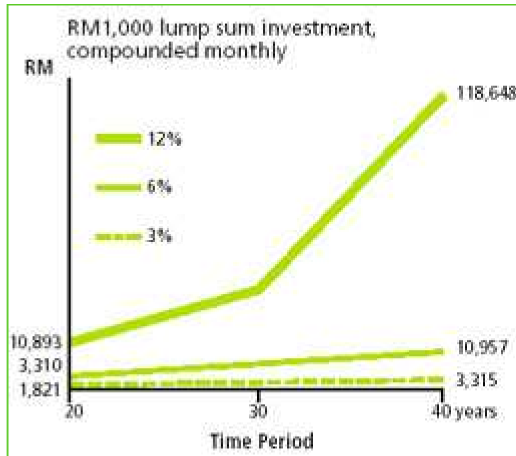
Step 2 – Know the key issues to consider when investing

- As investments are long-term commitments, you must consider your ability to invest before you commit yourself. Among the key issues to consider are:
    - How much money do you have for a medium to long-term commitment?
    - Do you fully understand the product that you are investing in?
    - Does the intended investment fit into your overall portfolio?
    - Have you compared returns on other similar investments?
    - Do you understand the risks involved and do you know your tolerance level for loss? (i.e. how much changes in the price/value of your investments can you tolerate)
    - What are your expectations towards returns on your investments? (i.e. how much returns will you be satisfied with)
    - What is your time horizon for the investment? (eg. 5 years, 10 years, etc.)
    - Do you have the flexibility to sell the investment in the event of emergency?
    - How can you monitor the performance of your investments against your changing needs?

Step 3 - Know the concepts of investing

- **Diversification**
  A proven strategy for successful investing is diversification – to vary your investment. Diversification is an effective way of minimising risks and protecting you from volatility in a particular asset class or industry. Different types of investments are exposed to different risk and by diversifying, the losses in some investments can be offset by other investment gains.

- **Time Value of Money**
  Time is the greatest asset for anyone who wants to invest. The earlier you invest, the greater is your return on the value of your money. This is due to the concept of compound interest where you will earn interest on your original investment and the interest earned. Even one percentage point can make a difference in the long run. The chart below illustrates how RM1,000 investment will grow over a period of 40 years with different rates of return.



- **Impact of Inflation and Taxes**
  Proper planning and ensuring a minimum average rate of return on investment in the longer term is also crucial as the money you have today may not be able to buy you the same amount of things in the future. This is because inflation reduces the value of money. Although you may earn a return on your investments, the actual value of your investments may be reduced due to the effect of inflation. The investment goal is for your money to grow above the rate of inflation. Tax will also reduce your return on investment unless your investments are tax exempted. Therefore, you should invest in an asset which allows you to get the best return after taking into consideration the effect of taxation and inflation in the longer term.

- **Maximising Returns**
  As an investor, you will always try to get the highest return on your investments. The time needed for your money to double can be calculated using the Rule of 72. Divide 72 by the rate of interest you earn on your savings. If the return calculated is unsatisfactory, you may consider other options that pay a higher rate of return.

- **Ringgit Cost Averaging**
  "Ringgit cost averaging" is a technique widely practiced in the unit trust industry. It involves investing a fixed amount of money for specified interval such as monthly, quarterly or yearly regardless of how the stock market performs. When fund prices are higher, the additional money invested will buy fewer units but when prices are lower, the same amount of money allows you to buy more units. Implicit in this approach is that at some point in time, markets will recover as they move in cycles, at which time profits can be taken.

- **Risk-Return Relationship**
  There are many types of investments in the market and each has a different level of risk and expected return. Certain types of investments (e.g. savings bond) tend to be"safer" than others, meaning your original investment is preserved but the rate of return may be lower. Investments which promise higher returns (e.g. equity unit trust or shares) will also have higher risks. As a result of the risk return trade-off, you have to consider the level of risk associated with different types of assets and choose the appropriate asset to invest.

- **Understanding Risk**
  Risk is an indicator of expectation about the potential gain or loss associated with investing over time. If you expect to make a large gain in a short period of time, the risks would be high. However, if you prefer long term investments, the level of risk would be lower. As the time period of an investment becomes longer, the variation and volatility in returns tend to be lower.

Step 4 – Know which investments are appropriate for you

Before you select any investment product, it is important that you understand how it works. Each asset is unique and has a different risk-return profile which you can invest in to realise different financial goals. However, it is important to realise that negative return is possible for most investment types. The graph here shows the risk-return of various types of investments.

FINANCIAL PLANNING AND LIFE CYCLE STRATEGIES

The amount of money to be invested in various assets depends on:

- Your goals and needs – to buy a house, travel or retirement needs
- Your age at the time of investment – this will decide how much risk you can take. For instance, if you are young, you can invest in relatively riskier investments
- Your income at the time of investment – if you earn more, you will have more money to invest. The level of wealth will also influence the types of investments you can hold
- Your occupation – if your job provides retirement plans, you may not want to have a separate retirement plan
- Time horizon – when do you want to sell your assets?
- Liquidity – how fast can you convert your assets into cash?
- Tolerance for risk – how much risk are you willing to take?

Different individuals have different background and will have different considerations when deciding on an investment strategy. You should select your investments based on your own circumstances. A common method used in deciding the investment strategy is the 'life cycle approach' which is based on the financial periods of the investor during his/her life. Click here to view the table:

WHAT IS YOUR RISK PROFILE?

When determining your risk profile, ask yourself the following questions:

- What stage are you at in your life? If you are young, generally, you can afford to take greater risks with a view to obtain higher returns in the long-term. If you are older, security will be an important factor.
- Is your goal short-term, medium-term or long-term? In general, if you have a long term investment horizon, you can afford riskier investments. However, if you need money for a down payment on a house in two years time, you should not invest in high risk assets.

- What kind of 'money personality' do you have? Some people are risk-takers and some are not. Therefore, understand your attitude towards money and risk, before making any investment.
- Are you willing to accept short-term movements in the value of your investments? If watching share prices go up and down upsets you, you should limit your share investments until you feel more comfortable with it.
- Are you prepared to accept higher risks for greater returns? Generally, no risk means lower return, so try to find a balance you are comfortable with.

GETTING FINANCIAL ADVICE

There are a number of parties offering financial advice, e.g., banks, remisiers, financial planners or insurance agents depending on the types of investments involved.

However, before you choose your financial adviser, ensure that the person is suitably qualified to give any advice.

SOURCES OF INFORMATION

Information on investment can be sourced from:

- Published reports of the company
- Newspapers, journals and magazines
- Internet
- Courses
- Seminars

PROTECT YOUR INTERESTS

For any investment you make, keep in mind the following tips:

- Understand the investment and the risks involved
- Select financial advisers carefully if you are engaging one. Ensure that they are qualified and experienced. Ask questions and make sure you understand the issues and procedures involved. Seek second opinion should you have any doubts
- Don’t be pressured into making a decision. Watch out for aggressive sales tactics that urge you to decide and act hastily

- Keep records of all transactions you enter into
- Be wary of schemes which guarantee a quick profit with minimal or no risk

THE DON'TS IN INVESTMENT

There are some practices that you should avoid when making investment decisions to minimise the risk of making a loss:

- DO NOT borrow to invest – You should not take other people's money to invest or take out cash from your credit card. If you do not have money, do not invest

- DO NOT invest just to get quick and high return – Quick returns always carry high risks. Always be cautious of illegal get-rich-quick-schemes that promise quick money for your investments. They make false promises and may run away with your money

- DO NOT invest in high-risk investments unless you are ready for it – Some investments involve a high degree of speculation and risk (eg. futures trading)

- DO NOT invest on the basis of 'hot' tips and rumours

CONCLUSION

One should not enter into any investment decision in a hasty manner. A smart investor must proactively seek information on the various investment options available. He or she must also be sensitive to the prevailing investment climate and market conditions. Investors must always remember to exercise prudence when it comes to making an investment choice and decision.

GLOSSARY

Bursa Malaysia Securities Berhad
The exchange where stocks and shares are traded in Malaysia.

CDS (Central Depository System) Account
It is an account opened under the investor's name (applicant must be at least 18 years old) with a stockbroking company.This account will enable the investor to buy and sell shares and to carry out activities on other non-equity counters (i.e bonds, warrant,loan stock,etc) which are under CDS.

Financial Goals
What a person intends to do with his/her money within a certain period of time.Goal setting is crucial to help in planning of expenses and in spending wisely.

Financial Planning
To organise your finances to meet your goals.These goals can include buying a house,financing your children's education or planning for retirement through proper management of your finances.

Investment risks
The risk that the value of an investment may be low due to factors like movement in asset prices arising from changes in the market sentiment, business cycles,company revenue performance and changes in credit ratings.

Liquidity
The ease at which you can convert your assets to cash at current market value.

Returns
What an investor can earn from his investments.

Securities
Investment instruments traded on the stock exchange.They can be shares,warrants or fixed income securities.

Separately Managed Equity Portfolio
A portfolio managed by fund managers where investors own the securities individually.

Yield
Similar meaning as returns.When you talk about bonds,the term used is yield.