First Capital

<u>Issued by First Capital Holdings' as part of its Investor Education Series</u>

Understanding Your Investment Options

By Dimantha Mathew, Manager – Research, First Capital Equities (Pvt) Ltd

It is a truth universally acknowledged that money does not grow on trees. It is also however accepted that with prudent investment and a modicum of financial planning, you can develop your finances. Here are a few basic tenets of investing, both for those already in the know and those hoping to cautiously test the investment waters.

What's the difference between saving and investing? How do I start?

The terms saving and investing are often used interchangeably. While there are similarities, there are also fundamental differences. Saving is a prelude to investing and refers to the practice of keeping aside money on a regular basis, to be accessed later. While interest is accrued on savings, investment is a step further, where one attempts to grow one's money and build wealth. Investment is a more active process than saving and varying investment tools contain varying elements of risk.

Understanding Risk

Unlike savings accounts, it is important to note that investment earnings are not always guaranteed. Types of risk related to investment include financial market movements, interest-rate risk, inflation risk, currency risk and political risk. As these can affect investments positively and adversely, diversification of investments is important. Well thought out diversification can reduce the risk profile of your investment portfolio.

As the age-old maxim goes, don't put all your eggs in one basket. Properly managed diversification can significantly lower risk while maximizing returns. Hence it is important to arm yourself with the correct information and **identify both your short-term and long-term financial goals** before embarking on your financial journey.

Identifying Investment Goals and the investment time horizon

Before mapping out your investment plan, you need to **identify your funding capacity** i.e. understanding your ability to allocate excess funds for investment purposes either as a lump sum or on a monthly basis. Secondly, identify the **investment time horizon** that you have earmarked for your investments. Before investing it is important to know when you will require your funds. Each investor's financial goals and time horizon may differ. For example you may require a monthly income after retirement as well as a lump sum to finance your children's university education or buy a new car.

Evaluate the acceptable risk level and embark on building a **diversified investment portfolio** in line with your risk appetite and expected return. One needs understand that higher the risk higher the return and similarly lower the risk lower the return. Regardless of which investment instruments you choose and time horizon you invest for, be sure to meticulously evaluate the instruments and companies with whom you intend to place your hard earned money, and don't be afraid to ask questions.

What kind of investment instruments are available?

The choice of investment instrument will vary according to your investment time horizon and individual risk appetite.

In addition to bank deposits, government securities, equity and debt listed on the stock market, unlisted securities such as securitized papers and commercial papers, unit trusts as well as private equity are some of the options available for consideration.

Table 1 outlines the element of risk and investment horizon for different investment instruments.

Instrument Type	Level of Risk	Investment Period
Unit Trusts	Very Low to High*	Overnight – Long-term*
Bank Deposits	Low	Short – Medium term
Government Securities	Very Low	Short or Long-term
Listed Debt Instruments	Low	Short or Long-term
Unlisted Debt Instruments	Medium to High	Medium – Long-term
Equity	Medium to High	Medium – Long-term
Private Equity & Debt	High	Long-term

Table 1

** Depends on the type of unit trusts*

Navigating the investment landscape

Once you have considered your investment options and decided on your investment time horizon, carefully examine your debt commitments. It is strongly recommended that you seek professional advice before you invest. While you may prefer to make your own investment decisions through self-education, a qualified financial professional or investment advisor might be better equipped to advise you on the investment opportunities available to meet your goals and risk appetite.

When vetting an investment advisor, be sure to understand the services they offer, terms of compensation and track record. A perusal of their affiliations, history and assets under management is also recommended.

Good communication, clear articulation of your financial goals and mutual trust are essential when relying on the services of an investment advisor. A good investment advisor can guide you in matching financial tools with your monetary goals and help you mitigate risk and regularly monitor the performance of your investments.

Furthermore, investors can turn to regulators such as the Central Bank, Securities and Exchange Commission of Sri Lanka and the Colombo Stock Exchange for information or queries.

-END-

Note to Editors

This article is a part of First Capital Holdings PLC's Investor Education Series. The Investor Education Series is aimed at improving investment education and financial literacy in Sri Lanka and enabling investors to make informed decisions about investments and the financial market and is not an endorsement of specific products.

About the Writer

Mr. Dimantha Mathew, Manager - Research, First Capital Equities (Pvt) Ltd

Dimantha has over 8 years of experience in the investment banking space in Sri Lanka with extensive exposure in equity research, fund management, corporate finance and advisory services.

He holds an MBA from the University of Wales and is an Associate Member of the Chartered Institute of Management Accountants and Chartered Global Management Accountants. He also holds a Bachelors' of Law Degree from the University of London and is an Attorney-at-Law in Sri Lanka.