DIRHAMI

وعي مالي شخصي

Personal Financial Literacy

Lesson 15

The Basics of Investing

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مجلس أبوظبي للتطوير الاقتصادي

ABU DHABI COUNCIL FOR ECONOMIC DEVELOPMENT

Lesson 15

The Basics of Investing

Simply saving money in a savings account at a bank is necessary but not sufficient for securing your financial future. You need to develop a disciplined, long-term investment strategy that you can follow in both good times and bad. This means creating a long-term plan where you invest in a diversified and balanced portfolio for your future needs. By taking a long-term approach you can accept more risk thereby increasing your potential reward. Remember, the simple formula for investing success is:

Discipline + Diversification + Long Term ——› Investment Success

Sometimes the first steps in any program are the most difficult because we do not know how or where to begin. The first step in a successful investment plan is taking an inventory of your financial posture. This includes:

1. Making sure you have an accurate picture of your financial position by creating a personal statement of assets and liabilities.
2. Establishing an achievable monthly budget that includes monthly savings.
3. Making sure you understand how to use credit wisely (more about this in Lesson 9).
4. Insuring you have adequate insurance (health, life, automobile, personal property) to cover emergencies (more about this in Lessons 15, 18, 19, and 21).

Any investment program must be determined by one's investment goals, or why we want to invest. Common goals might include providing for retirement, to increase wealth, to generate additional monthly income, or to increase your financial security.

Once you have completed an inventory of your financial position and have developed your investment goals you are ready to begin to develop your own personal investment strategy. At this point you should remember that risk and return and directly related; the higher the risk, the higher the potential return. The risk return relationship can be demonstrated by the table shown below:

Risk	Type of Investment	Potential Return
High	Derivatives, Speculative Stocks, Junk Bonds	High
Moderate	Growth Mutual Funds, Growth Stocks, Real Estate	Moderate
Low	High Quality Corporate Bonds, Blue Chip Stocks, Municipal Bonds, Money Market Accounts, Savings Bonds, CDs, Insured Savings Accounts	Low
Near Zero	Government Treasury Bills	Very Low

Your strategy should not only be a function of current market conditions, your goals, and your financial position; it should also consider your appetite for risk, your family responsibilities, and your age. For example, if you are under 25 years of age and just beginning your professional life your goals and situation may be best served by a moderate risk profile. If you are 25 to 40 years of age you may choose to assume more risk because you have achieved some level of financial success but you are still many years from retirement. As you approach your 50's you should begin to assume less risk and assume less risk as you near retirement.