Fundamental messages in

# Financial Literacy

Investment

NATIONAL CENTRE FOR FINANCIAL EDUCATION

# Getting started with your investment

Investing can be complex and it often has risks. But with knowledge, you can choose the level of complexity and risk that you are comfortable with. You need to know at least three key factors about every investment: its return, risk and liquidity.

**Return is the profit that an investor makes on an investment.** It can come in two different forms: income or capital gain. Income is the money you receive while you own the investment and capital gain is the profit you make when you sell your investment at a higher price than you paid for it.

- **Risk means uncertainty.** You are not sure whether your investments will give high returns or you could also lose your money. Risk and return both go hand-in-hand which means that to get higher return on your investments you will be exposed to more risk. Before investing it is important to understand how much risk you can take. This is called risk tolerance. Be sure you understand your tolerance for risk and ensure that your investments match the same.
- **Liquidity is the ability to cash in or sell an investment quickly at or near the current market price.** It affects the value of an investment. Listed stocks and government bonds are liquid, because you can usually sell them easily. Your home or other property is not very liquid. It may take several months to sell real estate.

# Don’t put all your eggs in one basket

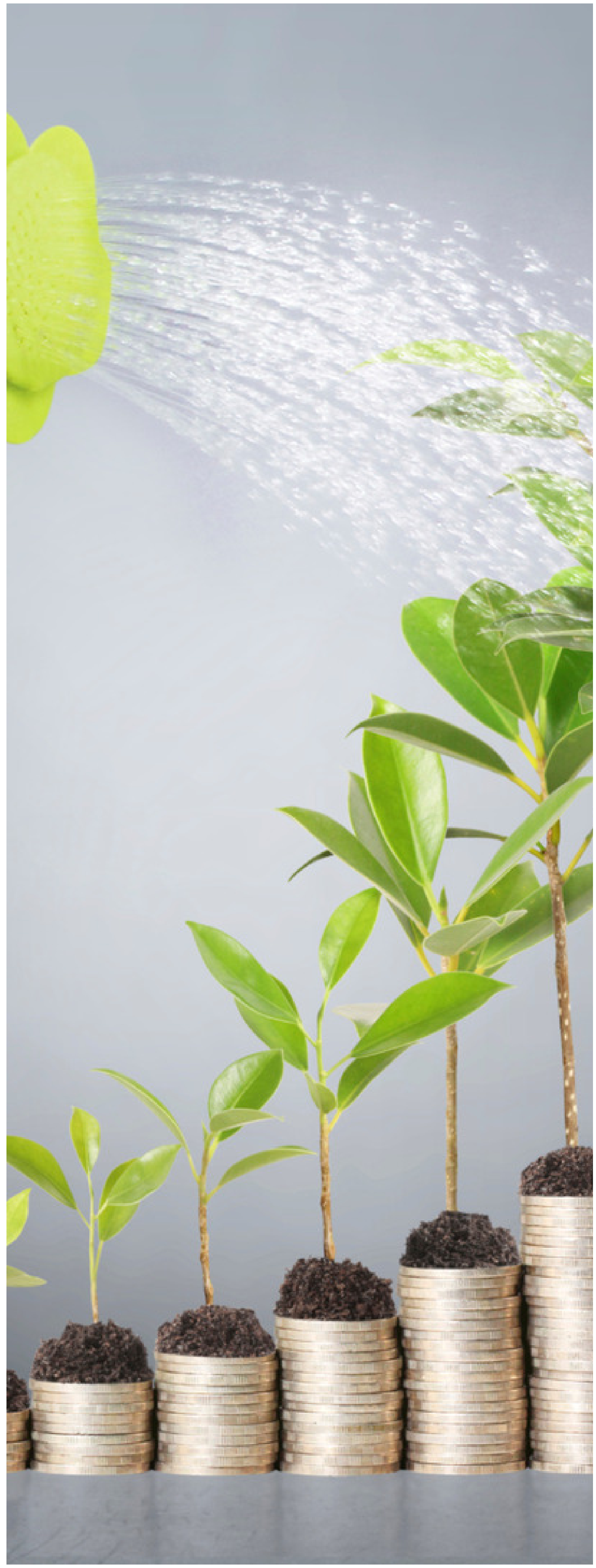
Invest in different products in order to spread the risk or earn from different investment opportunities: “Don’t put all your eggs in one basket” because if the basket breaks you could lose everything. It is a good idea to balance high and low risk investments or savings – this is like mixed cropping: if beans don’t germinate, then the maize could.

# There is no such thing as a free lunch in finance

Beware of investments that look too good to be true, as they will most likely end up in total loss. Don't get taken in by “get rich quick schemes” such as pyramid schemes (where you are promised payment if you introduce more members to a “business group”) – it might well be a scam and you could lose all your money.

# When you buy, think about selling

Some types of investments may be difficult to sell quickly – or difficult to sell at all. Before deciding whether to buy an investment, seek information on how easy or difficult it will be to sell it at a later time.



# Get professional advice on large investments

If you have large amounts to invest, seek advice from an investment expert. You could contact the Securities and Exchange Board of India (SEBI) for a list of licensed professional investment advisors, or talk to a colleague who has been successful in business for advice. Most financial institutions also have financial advisors you can consult. However, do not blindly trust any “expert”. He/she may be trying to sell his/her own products in order to receive a commission. Try to get various opinions and also trust your own informed judgment.

# Understand the fees you will pay

Companies and individuals which buy, sell or manage shares or bonds on your behalf will charge you fees. These will reduce the profits you will earn. Make sure you understand the fees you will pay before deciding whether to buy shares or bonds.

# Have a SMART goal

Having a Specific, Measureable, Attainable, Realistic and Time-bound (SMART) goal is the key to a financial breakthrough. Ensure that you keep an eye on your investments to see how they are performing. Do they still meet your goals?

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