



Growing Your Money

(The fundamentals of investments)

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- The 5 basic principles of investment
- Types of investment asset
- 8 things to consider in investment
- The new alternative

What is investment?

In finance, an investment is a monetary asset purchased with the idea that the asset will provide income in the future or appreciate and be sold at a higher price.

Source:



What investment is not...

Putting money into something with an expectation of gain without thorough analysis, without security of principal, and without security of return is ***gambling***.

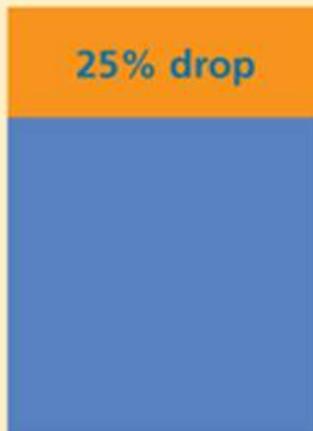
Putting money into something with an expectation of fast gain with thorough analysis, without security of principal, and without security of return is ***speculation***.

5 Basic Principles of Investment

- Diversify - do not put all your money in one type of investment

The Benefits of Diversification

Investment A



When you invest in only one company, a 25% drop in company stock equals a 25% loss in the value of your investment.

Investment B

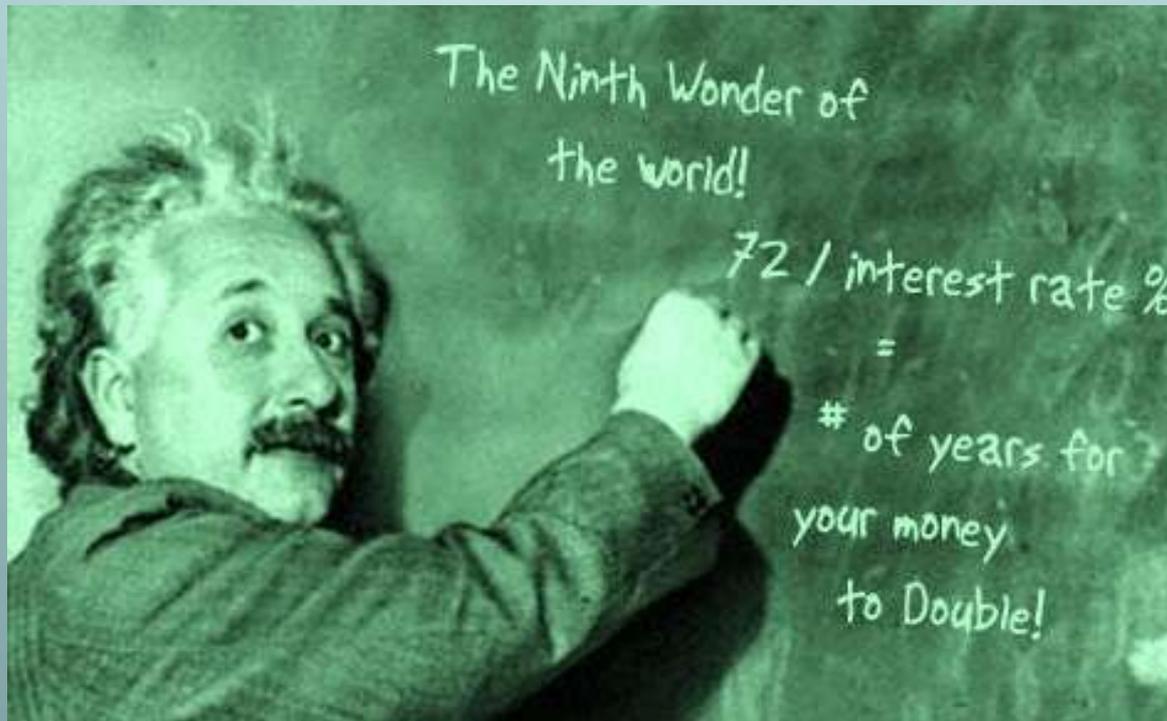


When you diversify by investing in a mutual fund, the same 25% drop in the company's stock may have only a minor impact on your overall investment.

This example illustrates the risks affecting a single issuer and does not take into account the possible performance of the mutual fund's other holdings, which may also decline in value. This is a hypothetical example only and does not reflect the actual portfolio of any particular investment.

5 Basic Principles of Investment

- Start early



“Compound interest is the ninth wonder of the world. He who understands it, earns it ... he who doesn't ... pays it.” – Albert Einstein

5 Basic Principles of Investment

- Start early

Year	Juan		Pedro	
	<i>Amount Invested</i>	<i>Value of Investment</i>	<i>Amount Invested</i>	<i>Value of Investment</i>
1	12,000.00	13,200.00	0.00	0.00
2	12,000.00	27,720.00	0.00	0.00
3	12,000.00	43,692.00	0.00	0.00
4	12,000.00	61,261.20	0.00	0.00
5	12,000.00	80,587.32	0.00	0.00
6	12,000.00	101,846.05	24,000.00	26,400.00
7	12,000.00	125,230.66	24,000.00	55,440.00
8	12,000.00	150,953.72	24,000.00	87,384.00
9	12,000.00	179,249.10	24,000.00	122,522.40
10	12,000.00	210,374.00	24,000.00	161,174.64

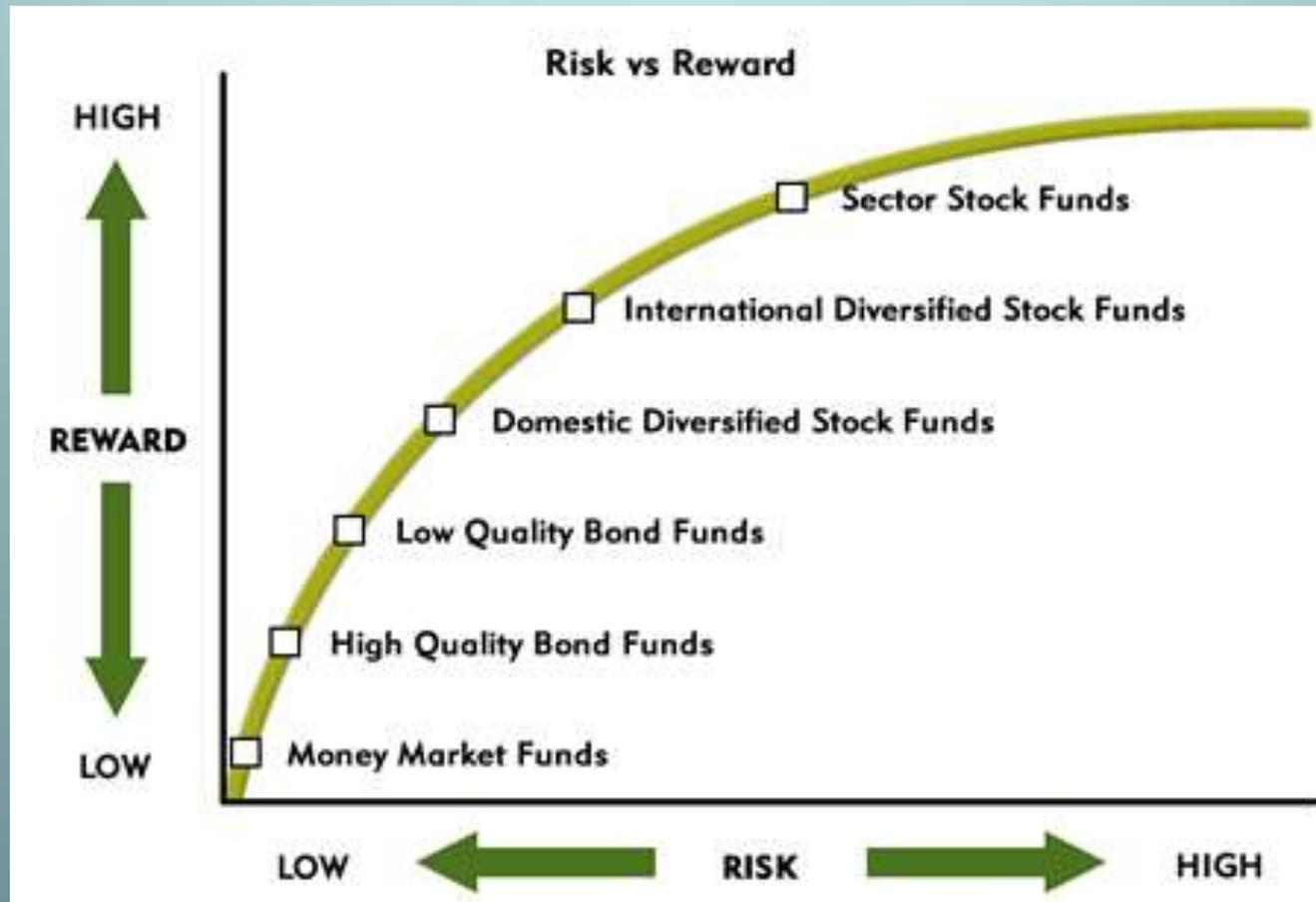
5 Basic Principles of Investment

- Start early

Year	Maria		Rosa	
	<i>Amount Invested</i>	<i>Value of Investment</i>	<i>Amount Invested</i>	<i>Value of Investment</i>
1	12,000.00	13,200.00	0.00	0.00
2	12,000.00	27,720.00	0.00	0.00
3	12,000.00	43,692.00	0.00	0.00
4	12,000.00	61,261.20	0.00	0.00
5	0.00	67,387.32	12,000.00	13,200.00
6	0.00	74,126.05	12,000.00	27,720.00
7	0.00	81,538.66	12,000.00	43,692.00
8	0.00	89,692.52	12,000.00	61,261.20
9	0.00	98,661.78	12,000.00	80,587.32
10	0.00	108,527.95	12,000.00	101,846.05

5 Basic Principles of Investment

- The higher the risk, the higher the potential for higher yield



5 Basic Principles of Investment

- Don't let market slump change your long-term investment plan
- Buy when the price is down and sell when the price is up



5 Types of investment assets

1. Fixed income securities
2. Shares
3. Unit investment trust funds (used to be called common trust funds – *passee*)
4. Mutual funds
5. Properties

1. Fixed Income Securities

A group of investments that offer a *fixed periodic interest returns (I.O.U.s/Promissory notes)* on the principal upon maturity issued by a company or the government

Fixed Income Securities

- Types of Fixed Income Securities
 - i. Money market instruments
 - ii. Government bonds
 - iii. Corporate bonds

Fixed Income Securities

- i. Money market instruments – short term, low default risk, lowest returns
 - Bank accounts, SDAs
 - Interest income is subject to 20% tax
 - Treasury bills
 - bank commission fee of 1/8 of 1% (0.00125%)
 - Interest income is subject to 20% tax
 - Maturity is 1 year or less
 - Commercial papers
 - Higher yield vs. T-Bills
 - The company uses its reputation as collateral
 - Maturity is 1-30 years

Fixed Income Securities

ii. Government bonds – financial instruments used by the government to borrow money from the public.

– Key features

- Safest
- The lowest yields among FIS of the same maturity period

Fixed Income Securities

iii. Corporate bonds – similar to government bonds

– Types

- Debenture stocks – no asset collaterals; backed only by the creditworthiness of the issuer, not as secured as government bonds
- Secured a.k.a. Loan stocks – backed by a collateral by the issuer. In case of default, investors have the right to liquidate the collateral pledged. The term and interest are fixed.
- Convertible stocks – can be converted to ordinary shares of a company (e.g., part ownership of the company)

2. Shares

Shares are different from stocks, as shareholders are part owner of the company.

– A company can be private or publicly listed.

– Types of shares

- Ordinary shares – dividends are not guaranteed and the company can choose the amount it wants to distribute.
- Preferred shares – shareholders are guaranteed a certain amount of dividend payment.

3. Unit Investment Trust Fund

4. Mutual Fund

- Both are open-ended investment
- Both are collective investment schemes
- Earns from
 - appreciation in the value of assets owned by the fund (bonds and/or stocks)
 - dividends and interest
- Mutual funds are shares (NAVPS) and offered to the public by investment companies
- UITFs are units of investments (NAVPU) and offered by banks
- The formula to compute these prices is Net Asset Value, or the market prices of assets less liabilities, divided by total outstanding units or shares of the fund.

3. Unit Investment Trust Fund

4. Mutual Fund

– In terms of regulation:

- As for UITFs, the Bangko Sentral ng Pilipinas (BSP) regulates them since these are bank products.
- mutual funds are governed by Republic Act No. 2629 (RA 2629), also known as the "Investment Company Act" and are regulated by the Securities and Exchange Commission (SEC).

3. Unit Investment Trust Fund

4. Mutual Fund

– Types:

1. **Equity or Stock Funds** - shares of publicly-listed corporations. The fund objective is capital appreciation or long-term capital growth.
2. **Bond Funds** - fixed-income securities issued by the government or large corporations. Examples are bonds, Treasury bills, and Treasury notes. The fund objective is to provide income that is consistent with preservation of capital and liquidity.
3. **Balanced Funds** - a mixture of equities and fixed-income securities.
4. **Money Market Funds** - money market funds provide the least amount of risk. Its goal is to provide current income by investing in short-term securities with portfolio duration of one year or less. These may include short-term government securities, special deposit arrangements, and time deposits, among others.

5. Properties/Real Estate

These are investments on the following:

- Agricultural property
- Domestic property
- Commercial/Industrial property

The price of properties depends on the following:

- Location
- The quality/quantity of the crops in the land
- The value of the buildings in the land

6. Other investments

- Precious metals (gold, silver, platinum, etc.)
- Works of art (paintings, artifacts, jewelry, electric guitars)
- Rare items (watch: Pawn Stars at History Channel)
- Fine wines (Burgundy and Bordeaux)



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Things to consider in investment

1. Investment objectives
2. Life cycle stages
3. Funds availability/accessibility
4. Level of risk tolerance
5. Investment horizon
6. Taxation treatment
7. Performance of investment
8. Diversification

Investment objectives

- Provide a comfortable standard of living
- Improve financial situation
- Provide income in retirement
- Provide funds for rearing and educating children
- Provide a fund for paying necessary cost and taxes when a person dies

The Life Stages

	Characteristics
Pre-Family	<ul style="list-style-type: none">- Early 20s- Single breadwinner- Increasing income- Moderate Financial Commitment
Young Family	<ul style="list-style-type: none">- 30's to early 40's- Married- Moderate income- High financial commitment
Growing Family	<ul style="list-style-type: none">- 40's to early 50's- Highest financial income- Highest financial commitment
Empty Nester	<ul style="list-style-type: none">- 50's to early 60's- Moderate income- Moderate financial commitment
Retired	<ul style="list-style-type: none">- 60's and above- Low income- Low financial commitment



The Life Stages - considerations

- Education planning for the children
 - High school
 - College
- Payment for loans and mortgages
 - Housing
 - Car
- Protection/income continuation
 - Critical illness/impaired health
 - Death and/or disability
- Savings and retirement



Funds availability/accessibility

- More funds = more investment choices
- How soon do you want your investment back

Level of risk tolerance

- The higher the risk, the higher the potential for higher yield
- May be affected by the following:
 - Age
 - Investment objectives
 - Financial conditions
 - Personality

Investment horizon

- Investment horizon can range from a few days (*more of speculative rather than investment*) to several years
- A match between investment horizon and the maturity of an investment asset is important

Taxation treatment

- Different types of investment enjoy (or suffer) a wide range of tax treatment
- Consider different tax treatment on different type of investment before making a decision where to invest

Performance of the investment

- It depends on the following:
 - Economic factors
 - The competencies and the capability of the management team
- Also consider the following:
 - Past performance
 - Life cycle of the investment

Diversification

- Diversification is the process of investing across different asset classes and across different market environment
 - Spreading the risk into several categories without sacrificing returns
 - Stocks
 - Bonds
 - Money market instruments
 - Investing in other countries

The New Alternative

Variable Universal Life Insurance (often shortened to VUL)

- a type of life insurance that builds a cash value.
- In a VUL, the cash value can be invested in a wide variety of separate accounts (funds) separate similar to mutual funds, and the choice of which of the available separate accounts to use is entirely up to the contract owner.

For inquiry

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