Overview of Investments: The Basics

A) What Is Investing?

- Investing is to grow one's money over time.
- The expectation of a positive return in the form of income or price appreciation
- Risk and return go hand-in-hand in investing; low risk generally means low expected returns, while higher returns are usually accompanied by higher risk.
- Investing, broadly, is putting money to work for a period of time in some sort of project or undertaking in order to generate positive returns (profits that exceed the amount of the initial investment).
- It is the act of allocating resources, usually capital (i.e., money), with the expectation of generating an income, profit, or gains.
- One can invest in many types of endeavors (either directly or indirectly) such as using money to start a business, or in assets such as purchasing real estate, animals, trees.. in hopes of generating rental income and/or reselling it later at a higher price.
- Investing differs from saving in that the money used is put to work, meaning that there is some implicit risk that the related project(s) may fail, resulting in a loss of money.
- Investing also differs from speculation in that with the latter, the money is not put to work per-se, but is betting on the short-term price fluctuations or gains
- The type of returns generated depends on the type of project or asset; real estate can produce both rent and capital gains; many stocks pay dividends; bonds tend to pay regular interest, life insurance, unit trusts.
- In investing, risk and return are two sides of the same coin; low risk generally means low expected returns, while higher returns are usually accompanied by higher risk.
- Investors can take the do-it-yourself approach or employ the services of a professional fund manager.
- Whether buying a security qualifies as investing or speculation depends on three factors—the amount of risk taken, the holding period, and the source of income & returns.

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B) How to Invest

i. Do-It-Yourself Investing

- The question of "how to invest" boils down to whether you are a Do-It-Yourself (DIY) kind of investor or would prefer to have your money managed by a professional. Many investors who prefer to manage their money themselves have accounts at discount or online brokerages because of their low commissions and the ease of executing trades on their platforms.
- DIY investing is sometimes called self-directed investing, and requires a fair amount of education, skill, time commitment, and the ability to control one's emotions. If these attributes do not describe you well, it may be smarter to let a professional help manage your investments.

ii. Professionally-Managed Investing

- Investors who prefer professional money management generally have wealth managers looking after their investments.
- Wealth managers usually charge their clients a percentage of assets under management (AUM) as their fees.
- While professional money management is more expensive than managing money by oneself, such investors don't mind paying for the convenience of delegating the research, investment decision-making, and trading to an expert.

Investing vs. Speculation

Whether buying a security qualifies as investing or speculation depends on three factors:

- The amount of risk taken on: Investing usually involves a lower amount of risk compared with speculation.
- The holding period of the investment: Investing typically involves a longer holding period, measured quite frequently in years; speculation involves much shorter holding periods.

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- Source of returns: Price appreciation may be a relatively less important part of returns from investing, while dividends or distributions may be a major part. In speculation, price appreciation is generally the main source of returns

Types of Investments

1. Stocks/Shares/Equities

A buyer of a company's stock becomes a fractional owner of that company. Owners of a company's stock are known as its shareholders and can participate in its growth and success through appreciation in the stock price and regular dividends paid out of the company's profits.

Facts about investing in stocks

- Partial ownership in a company
- Tenor – usually long term 5 years over
- Invest in companies listed on the stock exchange
- Look out for performance over a period of time
- Risky but can be rewarding
- If the company does well and becomes more valuable, your share of the company will also gain in value.
  - *Of course, the opposite is also true*

2. Treasury Bills and Bonds

Bonds are debt obligations of entities, such as governments, municipalities, and corporations. Buying a bond implies that you hold a share of an entity's debt and are entitled to receive periodic interest payments and the return of the bond's face value when it matures. Treasury bills and Bonds are a loan from you to a company or government.

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Treasury Bills

- Short term bill of exchange -Issued in fixed tenors -91 days, 182 days, 364 days
- No coupon interest is paid during life cycle of the bills
- Interest received is subjected to 20% With Holding Tax

Treasury Bonds

- Issued in tenors – 2,3,5,10, 15, 20 years
- Have periodic payments called coupons besides the maturity rate
- Coupon is paid twice a year (every 182 days)
- Coupon rates and interest rates are fixed for a duration of bond investment
- Bonds usually issued at par
- Interest received is subjected to 20% Withholding Tax

Offshore Options

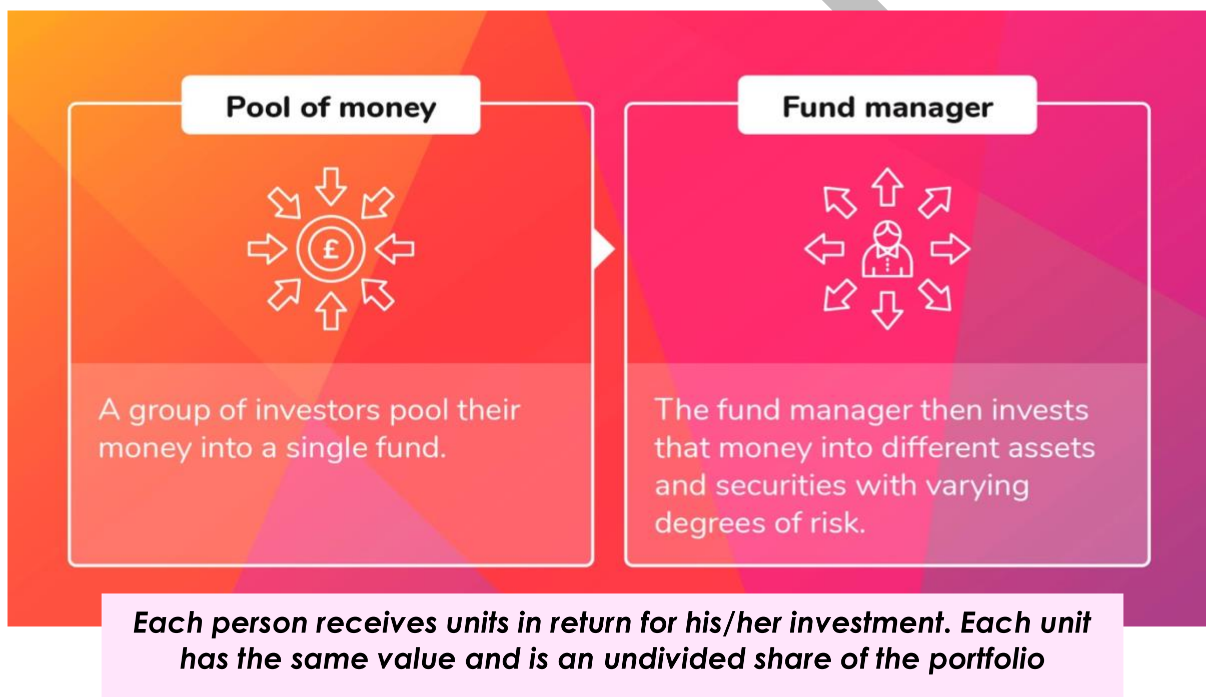
Euro Bonds

What is a Euro Bond?	A bond which is denominated in a currency other than the domestic currency of the issuing country. In Africa the majority of issuance is in USD, there is over USD 100Bn in issuance, with over 60 Sovereign Bonds issued by 20 nations. Eurobond investments have provided superior returns and are very liquid
Why invest in African Eurobonds?	-Liquidity: A deep liquid market -Diversification: across the continent -Enhanced Returns -Hedging(Ability to swap USD returns into UGX at attractive levels using Credit linked deposits -No tax and No fees on the transaction
Who can invest and minimum amount ?	-Commercial banks, Insurance companies, Private companies, Government agencies, Pension funds, offshore investors -Minimum amount of investment is USD 200,000
Requirements	-Stanbic Account Holder -Completed and signed Documents(Product Suitability, GTCs, Client service contract , Resolution to conduct treasury business -No tax and No fees on the transaction

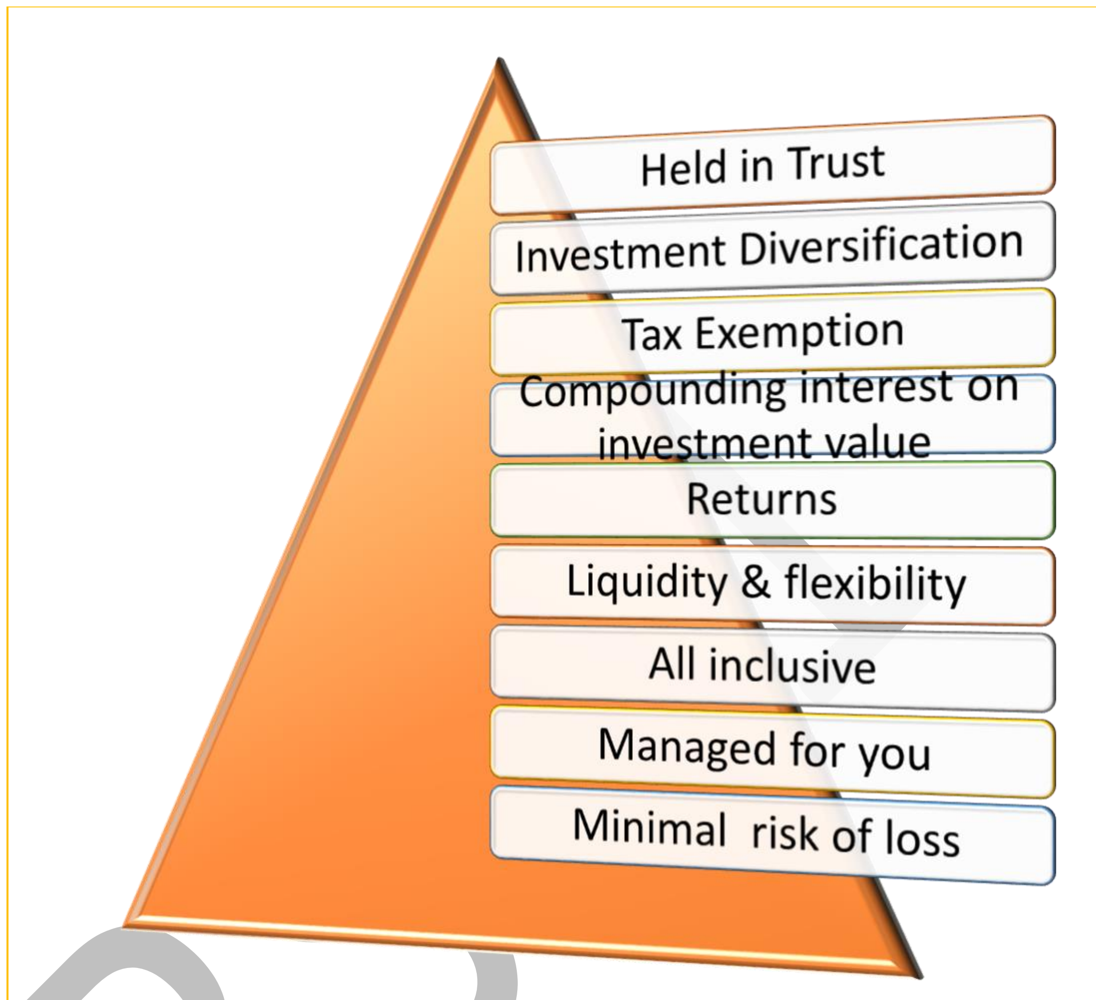
3. **Unit trusts/ Mutual Trust Funds**

Funds are pooled instruments managed by investment managers that enable investors to invest in stocks, bonds, preferred shares, commodities, etc. Two of the most common types of funds are mutual funds and exchange-traded funds or ETFs. Mutual funds do not trade on an exchange and are valued at the end of the trading day; ETFs trade on stock exchanges and, like stocks, are valued constantly throughout the trading day.

- A type of mutual fund where money from many investors (called "unit holders") is managed by a fund manager to achieve a specific return.
- This fund manager then creates a portfolio of investments and assets.



Benefits of Investing in unit trusts



End of Unit Activity: Open an SCD account and try buying Stocks/Bonds/Treasury bills or units (open a unit trust account)