

INVESTMENT

1. HOW TO MAKE INVESTMENTS YOUR FRIEND

1) *Invest and let your money grow*

Investing is putting your money to use so as to allow it to grow. An investment can be in form of property such as livestock (cows, goats, pigs), land (rental apartments, buildings), business (market stalls, grocery shops, boda bodas) or shares and bonds from which you can earn profits.



What forms of Investments are available to you

There are different investment products to choose from and you need to educate yourself fully about them to enable you to determine and choose the one that best suits your situation and financial need. Available investment products to choose from include the following:

Business: These include business set up for production, processing and exportation. Some people have set up both big and small outlets for sale of goods and services. These can include retail and wholesale shops. Other people are involved in import and export business e.g. to South Sudan. Other forms of businesses that are prevalent include; saloons, boda, boda, schools, restaurants etc. Services businesses include financial institutions, insurance companies, hotels etc.

Farming; Uganda is basically an Agricultural economy and most investments are carried out in this sector. Opportunities are available for investment form production, processing and exportation. Investments can be done in poultry, piggery, fishing, tree planting and harvesting, crop production e.g. maize, matooke, animal keeping, fruit farming, processing and packaging. It's important to know that before you venture into any business, you need to first make a feasibility study and see whether it's profitable to operate it.

Real Assets; Investment in property or real estate or land is good business especially when the market is right. There are many real estate companies in Uganda involved in the purchase and sale of land and other assets e.g. houses. Its important to note that different estates and land command different prices. So before you invest make a good analysis of the value, environment, cost involved and the demand for the assets to be invested in.

Fixed Deposit or Certificate of Deposit: When you invest in a fixed deposit, you lend your money to the financial institution and benefit from the interest that accrues on the money. You can invest in a fixed deposit by paying money into an account set up for you by the relevant financial institution. After going through the relevant processes you will be given proof that you have invested in the form of a certificate of deposit. This gives you a fixed amount of interest which may be paid to you periodically over the life of the investment or cumulative at the end. It is an obligation of the financial institution to pay you the interest.

Stocks (Shares): A share is an instrument which represents part ownership of a company. When you invest in shares, you become a shareholder in the company and are entitled to dividends from the profits of the company. To buy shares in a company that is listed on the stock exchange, you must contact a stockbroker who will buy them on the stock exchange for you. If you invest in a share you receive dividends from the company. Dividends may not always be

paid by the company as they depend on the performance of the company and the other decisions of the Board of Directors. In Uganda, people have successfully invested in SACCOs through buying shares, in local companies and in informal organized groups. It has been one way of mobilizing capital for investment in our community.

Bonds; *A bond is an instrument used by the issuer to borrow money from the holder with the obligation to repay the principle and interest at future dates. When you invest in bonds, you lend your money to the issuer of the bond who may be a company or government. Bonds are usually issued by a credible entity such as a corporation, company, government or regional body to individuals or companies who are interested in lending money to them. The borrower (e.g. company or government) has to pay back the money which has been borrowed with a fixed rate of interest at a specific future date. Bonds can be bought and sold from a regulated stock exchange such as the Uganda Securities Exchange (USE). Their value can rise or fall over time.*

CMA is responsible for registering and supervising professional investment advisers and companies in Uganda. You can contact CMA on:

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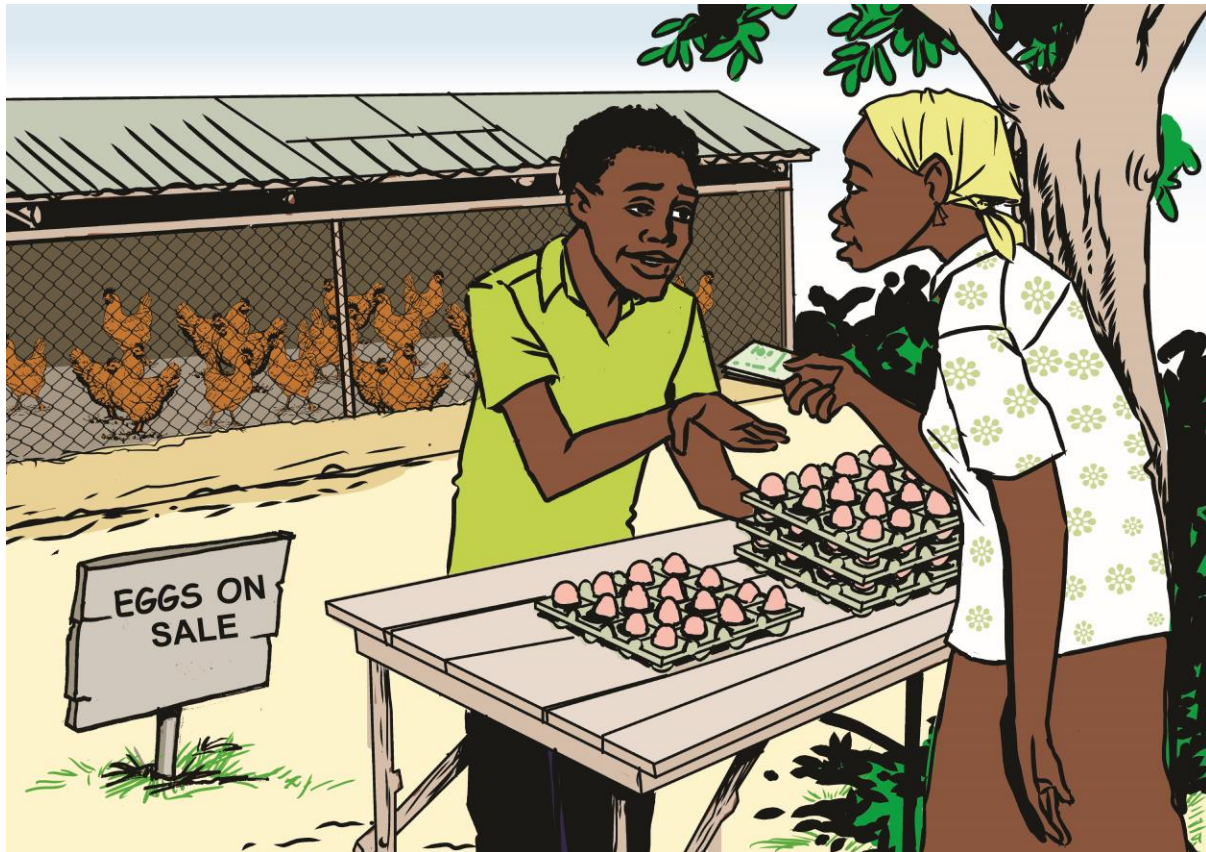
Fax:+256 414 342803

2) Get started with your investment plan.

It is always good to invest some of your money. Save and invest at the same time. To learn more, read widely and talk to financial institutions or investment companies or individuals who are already investing, or get further information from the Capital Markets Authority, Uganda Securities Exchange, Uganda Investment Authority, Private Sector Foundation Uganda or Enterprise Uganda.

3) Invest to employ yourself

You can invest your money in activities such as poultry farming, growing vegetables, running your own grocery shop or building apartments for rent. Smart investment can transform you into an employer and enable you to earn more income.



4) Use your own funds or your group's funds for investing

You can use parts of your personal savings to start an investment. Alternatively, you can pool resources as a group - this is common with friends and peers. A specified amount of money is collected from members at agreed intervals and later the members can do a joint investment. Individual members can also borrow (usually at a small fee) from the funds collected to start an individual investment.

5) *There is power in numbers*

Small savings in a small group with your like-minded friends may give you the financial breakthrough you desire. Individually, you may be emotionally attached to a product that does not meet your financial goals. Be ready to let go of it and settle for bigger and better financial ideas as a group.



6) *Every investment comes with a risk...*

There is a risk of losing money when your investments lose value, are stolen, mismanaged, destroyed or damaged. Use anything that goes wrong as a lesson learnt for the future. If you are investing through a bank or you use an investment advisor, find out from them how to best minimize risk of loss. Usually, the potential for higher profits carries with it a higher risk that you will lose some or all of your money. .

7) ...except for some

Some investments such as government securities, bonds and treasury bills usually have very little risks. Ask your financial institution about such investment possibilities.

8) Invest according to how much risk you are willing to take

Riskier investments may earn you higher profits, if they are successful – but there is a greater chance that you can lose some or all of your money. Think about your own attitude to risk: are you willing to try to get greater profits but run a greater risk of losing money? Or do you prefer to keep your money safe, even if this may mean earning lower profits?

9) Don't put all your eggs in one basket

Invest in different projects 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.



10) 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”) and gift circles – it might well be a scam and you could lose all your money.

11) Get professional advice on large investments

If you have large amounts to invest, seek advice from an investment expert. You could contact the Capital Markets Authority (CMA) 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 judgement.

12) 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.

13) 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.

14) 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 goal

2. RULES OF THUMB



- *Investments make a difference if they can generate higher future cash flows than today. You invest because you expect to earn **more cash** in future.*
- *Many people make **mistakes in investing** in assets and businesses that do not appreciate in value and deteriorate over time.*
- *Before investing your money, **calculate** what you expect to earn in future from the investment. **Compare** it with other investment alternatives.*
- ***Choose** the investment that has a possibility of giving you a higher return much faster.*
- *Money today is worth more than money tomorrow. **"Remember a bird in hand is worth more than two in the air"**.*
- ***Be careful** in making an investment; flexibility may not be there or may be very expensive to switch to another.*
- *If you are not sure of what to do, **consult experts**.*
- *There are also some **investment scams**. So it's important to get professional advice and think twice before making a decision to invest. Get professional advice on large investments.*

3. ARE YOU AN INVESTMENTS PRO?

QUIZ – ARE THE FOLLOWING STATEMENTS RIGHT OR WRONG?

1. **The value of shares does not change over time.**

Wrong – The price/value of a share depends both on the performance of the company concerned and on the general economic situation.

2. **Government securities generally have a very high risk of default.**

Wrong – government securities come with almost no risk of default and the interest is fixed.

3. **It is good to balance high and low risk investments or savings.**

Right – “don’t put all your eggs in one basket!”

4. **When buying an investment you don’t need to consider how easy it will be to sell it afterwards.**

Wrong – some types of investment 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.

4. BUILD YOUR OWN INVESTMENT PLAN

SELF ASSESSMENT TEST: Do I Know Enough About My Investment?

- 1) *How does the investment work? Do you understand the investment well enough to explain it to someone else?*
- 2) *What are your goals? Are you looking for **safety, income or growth** from this investment? Or both growth and income?*
- 3) *What are the **risks** of this investment? Are you comfortable taking these risks?*
- 4) *How much do you expect to **earn** on this investment? Is this realistic?*
- 5) *How long do you plan to invest? Is this a **short-, medium- or long-term** investment?*
- 6) *What are the **costs** to buy, hold and sell the investment? And will you pay taxes on the money you earn?*
- 7) *What **other investments** do you have already? How does this investment fit with your other investments? How will it change your asset mix?*