EXPERTS' QUOTE

"An investment operation is one which, upon thorough analysis promises safety of principal and an adequate return. Operations not meeting these requirements are speculative."
- Graham and David Dodd

NSE at a glance (For week ended December 15th)

Index:	36,325.86	-13.27%
Cap:	N7.97trn	-13.37%
Volume:	1.09 billion	+10.43%
Value:	N7.19bn	-14.8%

Was investing in stocks in 2008 a mistake?

For most investors, the year 2008 would go down as one of the worst years in their investing experience. Indeed, since inception in 1984, the Nigerian Stock Exchange (NSE) All Share Index (ASI) recorded the highest level of loss in 2008. From 57,990.20 points at which it closed in December 2007, the ASI has shed 48.4% as at December 10, 2008, to declined to 29,925.24 points.

Similarly, the market capitalization has reduced by 35.7% from N10.3 trillion as December 31, 2007 to N6.619 trillion as at December 10, 2008. The decline in both indices particularly the ASI reflects the average loss suffered collectively by investors this year.

Having lost so much from their investment, many of those who ventured into stock investing for the first time this year may be wondering whether their decision wasn't a very big mistake. At least, even if they had kept their money in the bank during this period, they would have received about 3.0% interest rather than have their principal largely eroded as has been the case in the stock market.

In just a few months, many investors have seen their portfolio eroded at a rate that was once thought was only possible in years instead of weeks or months.

Was your investment decision this year really a mistake?

First, it must be noted that deciding to start investing in stocks will never be a financial mistake. However, some wrong steps could have been taken, especially if you are a new investor.

If you are one of those thinking you made a mistake by investing in stocks this year try to reconsider the steps you took before concluding.

Did you have an investment Plan?

Before any major investment action takes place it is necessary to have a good plan on paper before executing it. Some questions that should form part of your plan include:

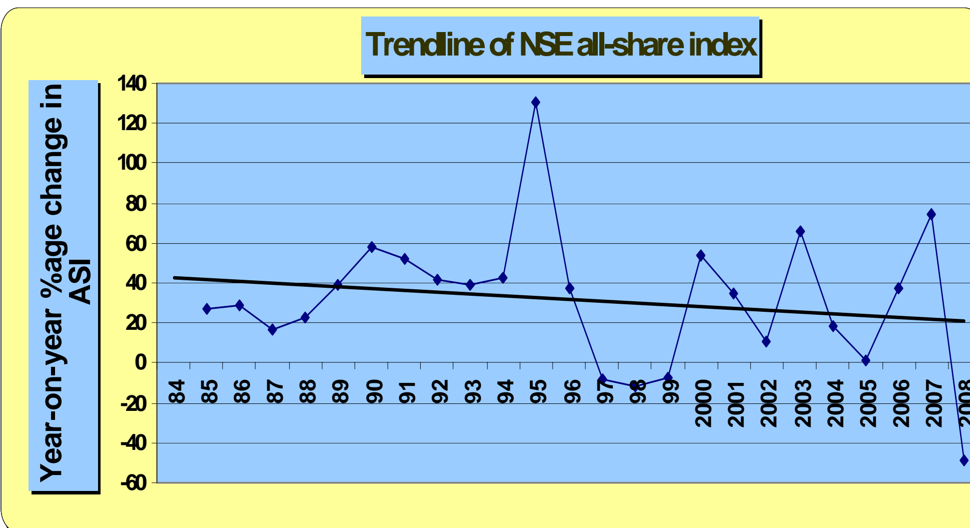
What are your investment goals? Everyone wants to be wealthy. Your financial goals will determine how wealthy you become. In designing your financial goals you have to decide how much money that you want to make per month, per year, for every year, and so on. You can make goals that deal with investments (how much do you want to make out of your investments) etc.

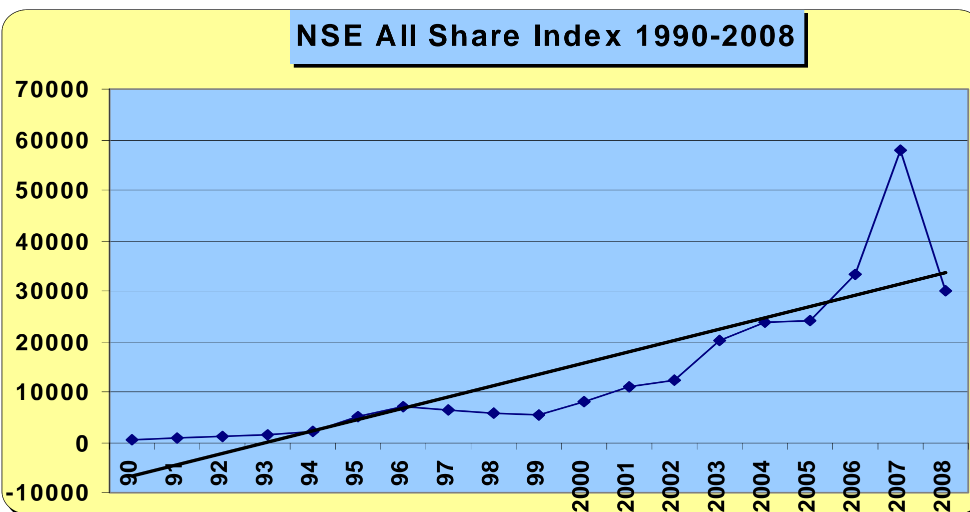
What is your time horizon - Is it long term or short term?

What is your risk tolerance? When it comes to stock investing, risk counts as much as reward. Stocks generally have provided long-term gains, but the financial markets are still prone to slip-ups, corrections or even meltdowns. Past performance, as any astute investor can tell you, is no guarantee of future returns, and salvaging a ravaged portfolio is a lot harder than protecting one.

How did you select your stocks?

Selecting stocks for long-term investment should not be done on random selection or from sentiments but based on strong fundamentals such as healthy financial performance indicated by such ratios as Earnings per Share (EPS) and Price-Earnings Ratio (P/E Ratio). A high P/E suggests that investors are expecting higher earnings growth in the future compared to companies with a lower P/E. Dividend per share, dividend yield, return on assets (ROA) as well as return on investment (ROI) among others also indicate the strength or weakness of a company's





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fundamentals. Unless you are vast with company analysis, it is better to allow professional fund managers to advise you on these.

Other factors to consider before making long term investment include:

Strong management

Managing directors and chief executive officers come and go, but superior companies always seem to find strong management teams, people with the insight needed to make the right moves today and the vision to make plans for tomorrow.

Clear business philosophy

High-quality companies know their core mission, their customers and their industry. They then incorporate all these factors into a clear business philosophy - one that can stand the tests of time.

Competitive products and services

The best companies know how to keep their products and services competitive, no matter what obstacles emerge over time - increased costs of raw materials, changing consumer tastes, etc.

If you invested in stocks after full consideration of the issues above, then it was a very wise decision you made.

Indecision is always the worst mistake that one can make. If you did not decide to begin investing during the good times, there would be no way that you would have started after the downturn set in. As a result, you may never have started investing.

All you need now is the determination to stick to your long-term investment plans.

Sticking with a long-term asset allocation plan can be challenging during a bear market, but also very rewarding when the markets rebound. The financial world changes continually and stock markets go through never-ending ups and downs, bull and bear cycles.

Many people who have lost a lot of money as a result of the current market crisis are looking for quick fixes. Other people are eyeing the opportunities as a result of the sharp falls on equity markets.

Instead, you should plan for the long term. Ignore short-term "market noise" and stick to your investment plan, even in the face of severe volatility. This way you will definitely be rewarded.

Difference between saving and investing

On the face of it saving and investing are the same thing. They are both things that we do with our spare money. But deeper thought suggests that there is a difference between them. Saving is almost an unconscious act where we put money into deposit accounts, or even an old jam jar on the mantelpiece, so that we have something for that proverbial rainy day. It is a way of giving our ordinary life a bit of security so that we don't find ourselves strapped for cash at some point. Investing is more of a conscious decision. It is about making plans for the future so that we know we can cope with expensive events like retirement or weddings.

When you save money your capital is secure. You are guaranteed to get back the sum you put in, plus interest. When you invest you have no such guarantee. Your capital is at risk. In return for this you expect to get more back than you put in, plus a little income on the side as well. So when you consider any investment you need to ask yourself two basic questions. How much more can I expect, and with how much probability?

But before you invest...

You need to be prepared. First of all, you need to get out of debt. The reason is quite simple. It is unlikely you will make more from your investments than you will need to pay for your debts. So pay off your debts first. We can safely say it is the best investment you will ever make.

Secondly, you need to have cash put aside for the aforementioned rainy day. How much cash is appropriate will depend on your circumstances. If you have dependents or if you are uncertain about your job prospects then you might want to put some more aside. One rule of thumb is that you should have enough cash set aside for at least three months' living expenses.

Last of all you need to be prepared to invest your money for a minimum of five years and preferably a lot longer. Although you can expect to get more by investing than saving, the value of your capital will fluctuate all the time. If you need to get it out in hurry then you may not get a good price. If you want to use your money to put down a deposit on a house or buy a new car then investing is not the best way to do it. If you need a guaranteed amount of money within less than five years a high interest savings account is the most sensible option.

Savings can is deferred consumption; while Investments relate to deferred income…

The end game for any savings… is to deploy it towards investments by making it work for you; and not the bank.

Different ways of Investment

- Shares
- Bonds
- Property/Real Estate
- Mutual Funds
- Own Business

• **Benefits of Investing**

– High growth potential/High risk
– Long term, say 5 years

• Which investment is right for me?

– attitude to risk, how much access to your money you want to have, the length of time you want to invest over etc.

– Short-term investment in the hope of making big gains quickly is risky. You should be thinking in terms of an investment period of at least five years. And the longer you leave your investment, the more likely you are to see a return, but the downside is that you may not get back what you invested.