

A Beginner's Guide to Investment

Part 1: Why everyone should invest

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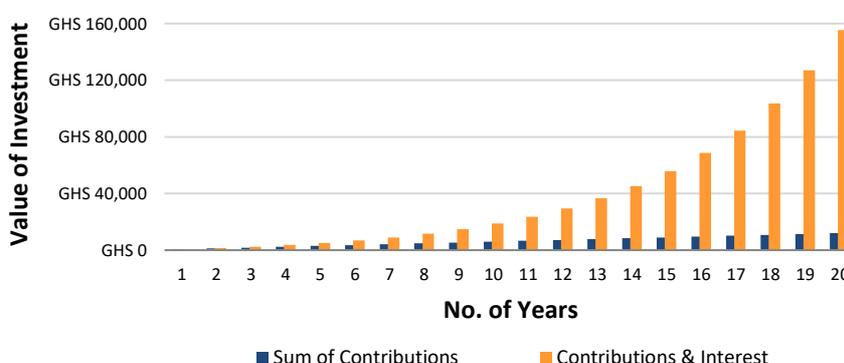
INSIGHTS

Making a choice on how to use your money effectively can be a daunting task. This challenge is however simplified when you narrow your options down to two – spending or saving. How much we spend is determined by the cost of our basic necessities (food, rent etc.) and our lifestyle choices (travel, airtime etc.). The other option, saving, is a challenge for most people.

When you save, you put some money aside, typically in a bank account to be spent later. Most savings accounts offer very low interest rates, so your money earns very little or no interest and can buy very little when you take it out. For instance, if GHS 100 can buy you six yards of cloth today, in a year that same GHS 100 may only buy you four yards of the same cloth. Therefore, it is important that any money you save grows quickly over time so that your savings can buy more in the future not less. This is what we refer to as investing. When you invest, you allow your money to work for you in financial markets. Just as you earn income as compensation for your work, your money also earns an income (interests, dividends, capital gains) when it is put to work in financial markets.

When you invest, you can increase the value of your money and increase your standard of living in the future. Not investing your money will expose you to the risk of having less money in the future while your cost of living continues to rise. Investments become particularly powerful when you stay committed to a plan for a long time. The power of compounding which has been described by some as the 8th wonder of the world, works real wonders when you save for the long term. For instance, if you were able to put away GH 50 every month for 5 years at a return rate of 20% per year, you would end up with GHS 5,172.71 at the end of the 5 years. After 10 years, you would have GHS 19,118.18 and after 20 years, a whopping GHS 158,073.97. This clearly illustrates why everyone should invest some of their money.

Value of Your GHS 50 Monthly Investment Over Time



Investments can be a sea of opportunities – there are a whole lot of investment vehicles to choose from, however, all investments always carry some risk. So how do you choose the right vehicle and the right strategy? In this series, we will walk you through the steps involved in identifying your needs and coming up with the right investment strategy to suit you.

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