

ARE YOU OLD ENOUGH TO INVEST?

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Ever heard the saying: live for the moment? Do you think it is possible to live for the moment all your life? Living for the moment today may well become the reason of many moments of disappointment occurring later wards. Growing up one never realizes when time takes the lead and at one point in life, you look back and say: how did I let this happen...The answer to that is simple...you were never concerned about it when you should have been.

There are many reasons why we don't do this supposedly simple task called 'planning'. An activity to set money aside so that it helps you meet your future needs and aspirations. First of all, you need to answer the question...Is investing for you? Whether you are married with children, a bachelor in college or starting off a new job or even a high school student, it is never too early to start investing. Infact investors who are young, into their first jobs with minimal domestic commitments have both time and money on their side.

There are many Investment Avenues available at the disposal of the investor that suits different types of Investment objectives. Mutual Funds have brought about a range of different solutions to meet the investors portfolio needs becoming extremely popular with Pakistani Investors as their positives far outweigh their negatives.

Each fund has a predetermined investment objective that tailors the fund's assets, regions of investments and investment strategies. At the fundamental level, there are three varieties of mutual funds:

- 1) Money market funds**
- 2) Fixed-income funds (bonds)**
- 3) Equity funds (stocks)**

All mutual funds are variations of these three asset classes. Mentioned below is a brief description of some of the mutual funds operating in Pakistan.

Money market Fund

The money market consists of short-term debt instruments, mostly Treasury bills. This is a safe place to park your money often with no sales load. Ideal for business like real estate and other banks that need a ready supply of cash. The beauty of money market funds is that they provide a high amount of liquidity (ability to cash out quickly) not found in CD's.

Income Funds

Ideal for conservative investors and retirees, the purpose of Income funds is to provide current income on a steady basis. When referring to mutual funds, the terms "fixed-income," "bond," and "income" are synonymous. These terms denote funds that invest primarily in government and corporate debt. While fund holdings may appreciate in value, the primary objective of these funds is to provide a steady cash flow to investors.

Equity Funds:

Funds that invest in stock are known as Equity Funds. Generally, the investment objective of this class of funds is long-term capital growth with some income. The primary objective of such funds is to seek long-term appreciation (growth of capital). The secondary objective is to make one's capital investment grow faster than the rate of inflation. Dividend income is considered an incidental objective of Equity funds.

Equity funds are best suited for investors interested primarily in seeing their principal grow and are therefore to be considered as long-term investments - held for at least three to five years. Jumping in and out of Equity funds tends to defeat their purpose.

Balanced Funds:

The objective of these funds is to provide a balanced mixture of safety, income and capital appreciation. The strategy of balanced funds is to invest in a combination of fixed income and equities. A typical balanced fund might have a weighting of 60% equity and 40% fixed income. The weighting might also be restricted to a specified maximum or minimum for each asset class.

A similar type of fund is known as an asset allocation fund. Objectives are similar to those of a balanced fund, but these kinds of funds typically do not have to hold a specified percentage of any asset class. The portfolio manager is therefore given freedom to switch the ratio of asset classes as the economy moves through the business cycle.

Islamic Funds

In case of Islamic Funds, the investment made in different instruments is to be in line with the Islamic Shariah Rules. The Fund is generally to be governed by an Islamic Shariah Board. And then there is a purification process that needs to be followed, as some of the money lying in reserve may gain interest, which is not desirable in case of Islamic investments.

Previously, the most convenient and heard of options was probably to invest in the National Saving Certificates or lock up your money in Bank Deposits which give a comparatively lower return. Investing in the stock market was an unheard of phenomenon for many Pakistanis.

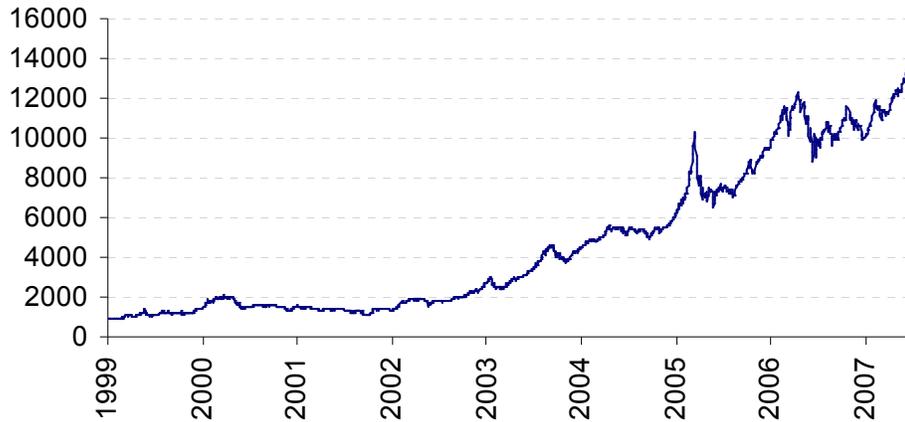
Most people in our country would not even know where to begin with if asked to invest their money in the stock market. It would be a hard enough task to explain what a share or a stock is let alone terms like futures, derivatives, Spreads and CFS.

Investing in the stock market still remains a debatable subject for many associating it with gambling. Tales are told of individuals, losing their life's wealth while investing in the stock market and then meeting their end in an inevitable heart attack.

Equity investing strategies can be categorized in 2 ways, speculative and long-term. Speculative investing can be described as investors gambling on the fluctuations of the daily stock price. But this is a very risky game, as sometimes investors have to settle their

position when the tide is not in their favor. Long-term investments can generate the best risk adjusted returns for you if you tread wisely. Below is a table that shows the progress of the KSE 100 over the last 15 years.

KSE-100 Index



**KSE 100 Index since 1999*

Investing in the stock market may seem like an easy process, all you have to do is open an account with a broker (firms who have a membership of the Karachi, Lahore or Islamabad Stock Exchange in possession of a trading terminal and are allowed to buy and sell on behalf of others). Some firms like IGI Finex Securities Limited even have account opening with as little as Rs. 25,000 offering a flat commission fee of 0.05% only. Next, you need to determine which stock to buy...that is a million dollar question...there is always a possibility for even the most experienced and established investors to make a judgment error here. Given that political and external factors are constant, indicators available for scrutiny are the company's financial strength, management, offering, industry, competitors and any major factors that might affect the performance of the company.

Next step, you open an account at the Central Depository Company (CDC). Then you put a bid for the shares you want through your broker. Once purchased, register those shares in your CDC account and monitor the share value and the performance of your company on a daily, weekly or monthly basis whichever is convenient. Occasionally you will also receive a dividend from your company if announced. You might also feel the need to sell the shares of your company in case it does not perform according to your expectations or for any other unexpected reason.

That's investing in the stock market...now the question at hand is, do you have the time, energy or the resources to the above mentioned tasks? Even so, then with what degree of certainty will you be able to invest especially when you have a job, a household to run and 2 children to look after. Also, the amount that you would be using to invest would have been earned with your life's sweat and blood and you would not want to take large risks. Where on earth will you find the proper knowledge, guidance, resources and the

time to invest and then manage your investment to produce a positive gain? Enter fund managers; experts in the field of both money-market and stock trading, who have learnt the ropes over time. These professional fund managers are hired by Asset Management Companies (AMCs) specializing in managing funds to give their investors the maximum return.

AMCs bring about lots of advantages that you would not be able to avail on your own. Who has time to learn about investment instruments and serious financial jargon? It was hard enough coping with education at school. The advantages AMCs bring are vast:

Professional Management - The primary advantage of funds theoretically is the professional management of your money. Investors purchase funds because they do not have the time or the expertise to manage their own portfolios. A mutual fund is a relatively inexpensive way for a small investor to get a full-time manager to make and monitor investments.

Diversification - By owning shares in a mutual fund instead of owning individual stocks or bonds, your risk is spread out. The idea behind diversification is to invest in a large number of assets so that a loss in any particular investment is minimized by gains in others.

Economies of Scale - Because a mutual fund buys and sells large amounts of securities at a time, its transaction costs are lower than what an individual would pay for securities transactions.

Liquidity - Just like an individual stock, a mutual fund allows you to request that your shares be converted into cash at any time.

It is difficult to find the time, money, energy and the knowledge to invest. Child hood is consumed in recreation, learning and playing....School life – you don't want to be seen getting dropped off to school in your dad's old car, you see others going to expensive restaurants but you blame it all on the parents... College life – you want to make a difference, you want to make more than anyone else...you want to be independent.

Once you graduate, you find a job that gives you say Rs. 25,000 to start with. During the month, Rs. 3,000 of your salary is consumed for CNG, Rs. 3,000 for food, and another Rs. 4000 for your mobile, cigarettes, expensive dinner with friends and the odd birthday present. All in all you end up spending around Rs. 10,000 on yourself alone. Who has time for boring tasks like savings and investments when there are things like a sale at the Levis shop, the new Sony Ericsson phone and the latest movie release at the cinema? Once through with these, the remainder of your salary would not even suffice to pay the maids salary if you are not already in debt.

So how do you go to the next level, how do I get the car that makes people turn, how do I get the watch that I never want to take off? Stop drooling over the car your neighbor just bought and start 'planning' to get one yourself. Have you ever heard the word 'Saving' or

‘Investing’? Consider the following scenario. If you feel that your disposable income is insufficient and you already have too much on your plate, so does everyone else. Truth is, there will always be too much on your plate and it will be difficult to save no matter what your salary is. Saving at any point in time at any given salary is not an impossible task. It just takes a little getting used to.

Here is how you can make your fortunes turn:

If you start saving Rs. 1000 a month from today, you would have saved Rs. 5000 within 5 months which is enough to invest in a mutual fund. Let’s say you ‘Invest’ that money in an Equity Fund which gives an average annualized return of 18% and you continue to invest Rs. 12,000 every year to your fund. After 10 years, you would end up with close to Rs. 308,425/- and this money can easily account for the down payment of that car you have always wanted to buy.

** Historical data has shown that equity yields the highest return out of all the commodities: The KSE 100 Index increased from 1243.71 points in 1992 to 10040.50 at the end of 1996.*

The good news is that the future is still available and so are mutual funds and Pakistani Equity markets are doing better than ever. Start today. There are still a lot of things to plan for, think about your Childs education, marriage, seed capital for a business and your retirement age. Education that costs Rs. 600,000/- today may cost Rs. 3,284,140/- 15 years from now, assuming that the inflation rate for the duration is 12% per annum. Now that’s a handful isn’t it? However, if you have an investment plan in place, this target can be easily achieved. Now that you are aware of the sum required to ensure that your child can pursue a higher education, the next step is to make an investment to meet that objective.

Let us assume you invest some money in a well managed equity fund that yields a return of 15% over the next 15 years. This would entail investing around Rs. 4,913 every month which is quite manageable. If you don’t have any savings then create some, where you can live with Rs. 32,000 / month you can also with Rs. 27,000/- but do not delay implementing that investment plan because your time already started - Yesterday.

This brings us to the importance of having access to sound investment advice. A good investment advisor specializing in providing quality advice and prompt service would be equipped to help you build and manage your portfolio. The importance of such an advisor at a time where there are so many choices with changing interest rate scenarios cannot be overstated. IGI Investment Bank’s Fund Select is one such Investment Advisory service that can help you decide, which fund best suits your financial situation whether it is planning for your child’s education, buying a house or a car or preparation for retirement. They have a distribution partnership with over 19 AMCs, with over 42 funds making Fund Select a truly one-stop-shop-solution for all your investment needs. You might want to get in touch with them by logging on to www.igiinvestmentbank.com.pk or just dial toll free at 0800-234-34.

- Uzair Mohammad