

TYPES OF INVESTMENTS

The more common types of investments available in the financial marketplace are explained below.

Cash and fixed interest investments

Cash investments are the most common form of investment in Malaysia, covering products such as bank savings accounts and fixed deposits.

They provide easy access to your money when you need it, and there is no chance you could lose any capital – so they are very secure.

However, while they do offer security, they usually provide very little income and no capital growth. In actuality they can be quite risky in the long-term because inflation erodes the value of your investment.

For most investors, cash and fixed interest products are suitable for:

- use as a transaction account
- keeping cash on hand for short-term expenses and emergencies
- short-term savings where they cannot afford any risk to their capital

Shares

Shares (also known as equities or stocks) represent ownership in a company. When you buy a share, you become a part-owner in the company and become entitled to share in its future value and profits.

Shares in a company offer growth to investors in two key ways:

- As the overall value of the company increases, the value of the shares also increases
- You can earn dividends when the company chooses to pay part of its profits to shareholders as income payment

Shares have the potential to generate very high returns. However, they also have the potential to fall in value if the company's performance drops.

Shares are generally suitable for investors who: want to build a nest egg for medium and long-term financial goals. Have a longer investment time-frame. Are comfortable with some volatility in their investment value over the short-term, in exchange for higher returns in the long-term (in terms of dividend income and capital gain).

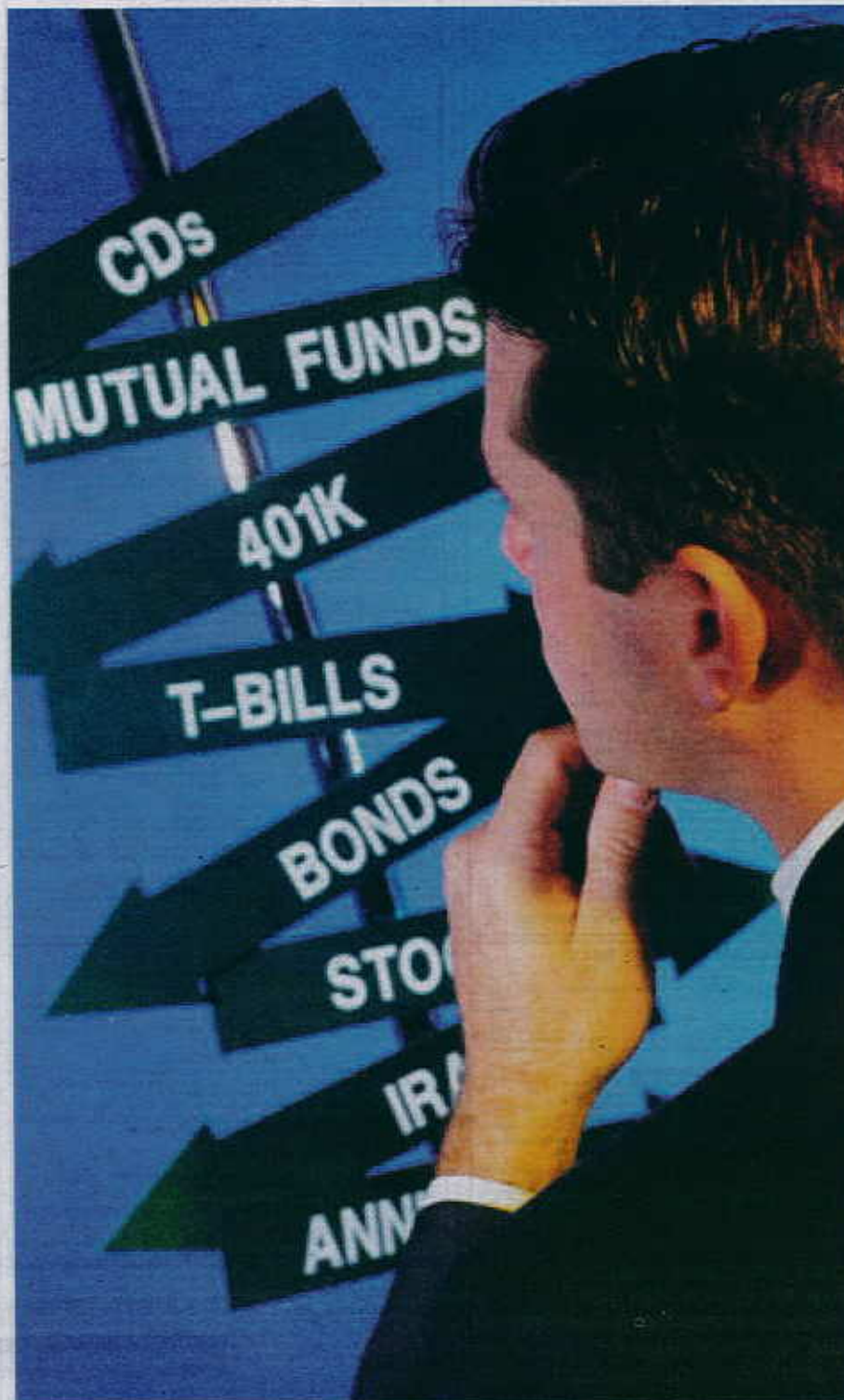
Unit trust funds

In a unit trust, money from hundreds of individual investors are pooled together to buy a large number of different assets. Professional fund managers decide what percentage of the fund should be invested in each asset class, and also which countries, industries and companies have the best prospects for good returns.

Each investor then receives 'units' in the fund, with each unit representing a mix of all the underlying assets such as shares, bonds and fixed deposits.

Unit trust funds are an ideal option for people who:

- are new to investing



- are happy to outsource the selection of investments to professional managers
- have a small initial amount to invest (with the option to make regular additional contributions)
- are seeking investment diversification to minimise risk

Property

Property is one asset class that most Malaysians are familiar with. Property investment offers value to investors in two ways:

- Properties increase in capital value over time as house and land prices rise.
- You can earn rental income from tenants.

Like shares, property prices go up and down and have periods of sustained high returns and sustained low returns, so property is generally only suitable as a long-term investment. One of the most important factors to consider when

buying property is its location.

Property is generally suitable for investors who:

- do not require 'emergency' access to their money.
- have a long-term investment time-frame.
- have the ability to meet mortgage repayments if interest rates rise or if the property is not being tenanted.

Other types of investments

- **Bonds:** When you buy a government or corporate bond, you are 'lending' your money for a certain period of time at a predetermined interest rate. In return, you receive a steady income stream through regular interest payments.

- **Real Estate Investment Trust (REIT):**

This is similar to a unit trust except that the investments are in property and real

estate. The profits from such investments are passed on to investors in the form of dividends.

Financial Scams

When investing your hard-earned money, be very careful of get-rich-quick schemes. Such schemes promise that you will get very high return with little risk. They also promise that little skill, time, or effort is needed to get the high return, and that you can obtain wealth by working at home.

These get-rich-quick schemes are frequently advertised in magazines and newspapers, while the truly illegal ones (scams) are often promoted on the Internet through spam and e-mail and offered via cold calls and smses.

Some of the features of these schemes are:

- Promise of high returns of 20-30% a month with little or no risk
- The offer is for a limited period only so you are asked to sign up immediately
- The scheme is in another country and you cannot check on its office or confirm its status from the website of any regulatory body
- You are asked to give confidential information such as your bank account number

What must you do when you come across an attractive offer to make you rich?

- The golden rule is do not be greedy and make instant decisions. Always check with friends, family, and professionals whether such investment opportunities are genuine or not
- Find out more about the offer before you decide to invest. Be suspicious with an investment that offers high return, low risk and free of investment costs, as it is unlikely that a business can provide all these
- Even if the investment offer is being introduced or recommended by someone you know very well or a family member, always be mindful of the intention behind the offer because no investment is easy and can make you lots of money quickly.
- An investment that is not legal is not the type of investment that you want to make. Such an investment is risky and you can be caught for investing illegally.

Summary

- In order to build wealth, start saving and investing NOW.
- You need to increase your assets in order to increase your net worth.
- Diversify your investments in order to spread your risks.
- The higher the return you get from an investment, the greater the risk.
- Be very careful of get-rich-quick schemes.

Article by Credit Counselling and Debt Management Agency