



ISASA

Independent Schools Association of Southern Africa

BACK TO BASICS PRINCIPLES OF UNDERSTANDING

INVESTMENT Lessons

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As a member of the Fund you are an investor. It is important to understand and make sense of the principles of investment to guide you when making financial decisions that will help grow your money.

TYPES OF INVESTMENT

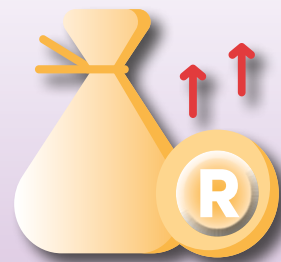


Increase your wealth by investing. If you invest in cash it earns interest. If you invest in bonds you earn interest and if you invest in equities (owning a small portion of a company) you earn dividends and growth in the value of the company.

Lesson: Grow your wealth by investing



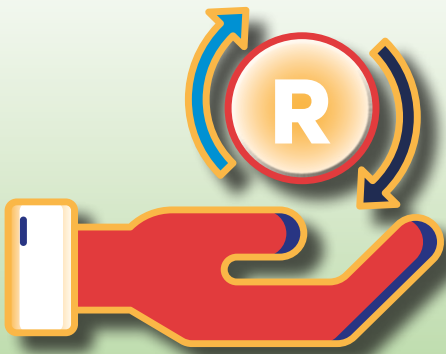
MAKING A PROFIT BY INVESTING IN EQUITIES



Many investors will not retire with enough money. Become an owner of your favourite trusted brands (Vodacom) by investing in equities. This means that you are buying a small portion of your favourite company. When that company makes a profit. You make a profit.

Lesson: By investing in equities (owning a small part of a company) when your trusted brands make a profit you make a profit and your wealth grows.

RETURN ON INVESTMENT



Return on investment is the profit that you make from investing which contributes towards the growth of your wealth.

Lesson: The higher the return the more your investment grows.

INFLATION REDUCES YOUR REAL RETURN ON INVESTMENT



Your money loses value over time because of inflation. The price of goods increase over time because of inflation and therefore your money loses value over time.

Lesson: When you look at how your investment is doing you should look at the real returns. Real returns = returns – inflation. What can your return (money) afford to buy you now.

THE POWER OF COMPOUND INTEREST



Interest is what you earn when you save your money.

Lesson: Make your money work for you. Your money can grow by earning interest. Compounding interest is the interest earned on interest. Start saving as soon as you can, leave it for as long as you can, and let compounding do the work for you.

WHAT IS YOUR RISK PROFILE?



Some investments are considered to be riskier than others. (Equities are thought to be riskier than cash). you could make a big profit and grow your wealth over the long term or you could lose some of your investment over the short term.

Lesson: Know your risk profile and choose the investment that is best suited for you.



DON'T PUT ALL YOUR EGGS IN ONE BASKET



Put your money in different types of investments. This will help you earn the best rewards while reducing your risks. This is called diversification.

Lesson: By investing in a variety of investments types, you could earn the best rewards while reducing risks.

For more information, please contact an accredited financial advisor. To find a financial advisor you can go to the Financial Planning Institute at www.fpi.co.za or call Old Mutual's toll free number 0860 388 873.