



# Developing an Investment Plan for Life

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*Please pass on the training memo to anyone who will benefit.*

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# DEVELOPING AN INVESTMENT PLAN FOR LIFE

## What does it mean to invest? How do I start planning?

Investing is the purchase of assets with the goal of getting a profitable return. There are considerable benefits to be gained when investing, and the idea of making your money work hard for you is alluring. However, people often do not know how or where to start. Rather than being paralyzed into non-action, just get started!

The key is to invest to build wealth and gain financial independence. **It is imperative to understand the concept that investing is a process.** An investment should not be made blindly as if it is a gamble and you are simply hoping for some luck. A plan needs to be created carefully and strategically and then implemented.

When creating your investment strategy there are a few questions you first need to ask yourself :

- What are my investment goals?
- How long do I have to accomplish them?
- How much risk am I willing to take on to accomplish them?
- How often and how much will I add to my investments?

These are all questions you will need to answer in order to determine the best investment strategy for your goals.



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## Understanding the Types of Investment Options

There are several different types of investment options or securities (asset classes or asset types) one can choose to invest in. It is important to understand how each investment works as all investments involve some degree of risk. Therefore, all options are to be carefully analysed in order to decide which asset class is the right choice for your portfolio. Some of the most common investment options are; stocks, bonds and mutual funds.

### Stocks

- Stocks represent a share in a company; when you purchase shares in a company you become a part owner of a company. One share entitles you to one vote at shareholder meetings. When a company makes a profit and it decides to pay a portion of this to its shareholders this is referred to as a dividend payment, which is one way a profit can be made through the purchase of stocks.
- The other way to make money with stocks is to buy and hopefully they appreciate in value overtime.
- The principles of buying and selling stocks are to purchase shares at a lower price and sell at a higher price at a later date.
- If a stock is bought at a low cost that increases in value overtime, your shares increase in value as well.
- If you sell the shares after they have increased in value this is called a capital gain (profit).
- But be warned, stocks can also decrease in value overtime. You can both gain and lose money overtime. This is the risk and reward possibility of investing in stocks.



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## Bonds

- A bond is an investment where your funds are loaned to either a corporate entity or the government. The entity borrows the funds for a specified time, at a fixed interest rate. The profit made from bonds is the fixed interest rate.
- Bonds are very attractive to persons with a low risk tolerance as they are relatively safe. Bonds that are purchased from a stable government or corporate entity are practically guaranteed, but because there is very little risk associated with bonds the returns are usually low.
- Your chances of losing money with bonds is lower than with stocks BUT the possible gains from stocks are usually higher than with bonds.
- Often the higher the investment risk you are willing to take, the higher the possibility of the rewards.

## Mutual Funds

- Mutual Funds are a structured pool of assets in which the investors share the results of a specific portfolio. This is a way of investing money alongside other investors in order to benefit from the inherent advantages of working as part of a group. This type of investment is actively managed by an investment manager who makes the decisions for the portfolio.
- Mutual Funds are a great way to get instant diversification even when you have very little funds to invest. Every dollar invested in a mutual fund gets split across dozens or even hundreds of stocks, protecting your portfolio against catastrophic events that hit a given individual stock.



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## Life Insurance

- Life insurance should also be considered to add to the mix of your investment portfolio. Generally, there are two types of life insurance; term and permanent.
- Term life insurance provides coverage for a fixed period of time and is typically designed solely to protect your dependents in the event of your death.
- However, permanent life insurance stays in place for your entire life. While this type of policy offers a death benefit (similar to term) it also provides an investment component as well, which is the policy's cash value. This adds a liquidity characteristic to your insurance policy. You can use this cash component in a number of ways, for instance, you can borrow money against your policy or you can include it as part of your retirement nest egg and surrender the policy before you die to receive your accumulated savings.
- Another unique advantage of permanent life insurance is that the cash value will grow on a tax deferred basis, which means you will not be paying taxes on any gains while they accumulate.
- Another benefit of life insurance is that because you must pay each year into the policy to keep it active, it is a form of forced savings.

## Diversify Your Portfolio

Diversification is key when building your investment portfolio. A mix of asset types ensures that your entire portfolio does not suffer the impact of a decline in any one security. If one of your stocks crash, you may still make a profit from other stocks that are doing well or the stability from your bonds. If your investments are weighted across different asset types this will reduce your risk of huge losses.

As the saying goes "never put all your eggs in one basket", this is most certainly applicable to investing.



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## **Inflation: A Critical Factor to Consider**

- Inflation is a crucial economic factor to consider when planning and managing investments. When inflation increases -- the prices of goods and services rise as well. If your investment is not rising at a higher rate than inflation then you are not really making any return on your investment, making it pointless.
- Generally, a company's revenue and earnings should increase at the same pace of inflation. Therefore, if your portfolio consists of various stocks, inflation should not be a big problem. However, if it consists of bonds, inflation is surely a factor to be considered.
- Fortunately, there are Treasury Inflation-Protected securities (TIPS). TIPS are a special type of Treasury Note or bond in which the principal and coupon payments are tied to the consumer price index and increase to compensate for any inflation.

## **Make Your Money Work Hard For YOU**

- Investing is essentially making your money work hard for you, but you must first understand what your investment goals are then create an investment strategy and portfolio that suits your specific needs.
- There is no one investment strategy that is best for everyone, as everyone's objectives and risk tolerance are different. It is imperative to adequately research any security before investing your funds.
- For help in creating your investment portfolio speak with a licensed financial advisor.
- **The bottom line is, however, do not keep delaying. Just get started. The earlier you start investing the better you will do over the long term. The biggest danger is delay.**



# RESOURCES

To speak with a licensed financial advisor at NCB Capital Markets, contact 888-493-2584

## Beginner's Guide to Stocks

- [http://www.jamaicaobserver.com/all-woman/beginner-s-guide-to-stocks\\_163165?profile=1440](http://www.jamaicaobserver.com/all-woman/beginner-s-guide-to-stocks_163165?profile=1440)

## A quick guide to investing on the Jamaica Stock Exchange

- [http://www.jamaicaobserver.com/sunday-finance/a-quick-guide-to-investing-on-the-jamaica-stock-exchange\\_170961](http://www.jamaicaobserver.com/sunday-finance/a-quick-guide-to-investing-on-the-jamaica-stock-exchange_170961)

## Beginner-Intermediate-Advanced Investors Guide

- [http://www.jamaicaobserver.com/sunday-finance/money-moves-beginner-intermediate-and-advanced\\_160243?profile=1056](http://www.jamaicaobserver.com/sunday-finance/money-moves-beginner-intermediate-and-advanced_160243?profile=1056)

## Personal Finance Tips You Can Use Now

- [http://www.jamaicaobserver.com/style/personal-finance-tips-you-can-use-now\\_202331?profile=1327&template=MobileArticle](http://www.jamaicaobserver.com/style/personal-finance-tips-you-can-use-now_202331?profile=1327&template=MobileArticle)

## What is Investing? How can you start?

- <https://www.forbes.com/advisor/investing/what-is-investing/>

## Investing 101: Investing Basics For Beginners

- <https://www.wealthsimple.com/en-ca/learn/investing-basics>

## What is a balanced portfolio?

- <https://centsai.com/must-reads/wtf-is/a-balanced-portfolio/>



# RESOURCES

## 7 Ways To Protect Yourself Against Inflation

- <https://purefinancial.com/learning-center/blog/protect-against-inflation/>

## Is Life Insurance a Smart Investment? The pros and cons of investing in permanent life insurance

- <https://www.investopedia.com/articles/active-trading/120814/life-insurance-smart-investment.asp>

## Real Estate Investing for Beginner - How to Invest in Real Estate Now to Reap the Benefits Later

- <https://www.thebalance.com/real-estate-investing-101-357985>

## Khan Academy: Understanding Stocks & Bonds

- [https://www.youtube.com/playlist?list=PLSr23fYH\\_1txOysJkGp4ktHdptRKMmnN](https://www.youtube.com/playlist?list=PLSr23fYH_1txOysJkGp4ktHdptRKMmnN)

## Investing Basics: Mutual Funds

- <https://www.youtube.com/watch?v=ngfKXvfzC74>

## How to Diversify Your Portfolio

- <https://www.youtube.com/watch?v=eWbRAf2ZvKc>

## Top 7 Beginner Investing Mistakes

- <https://www.youtube.com/watch?v=zkNueyFs8zQ>

## Warren Buffet: How to Invest for Beginners

- [https://www.youtube.com/watch?v=yRr0\\_gJ-3ml&t=332s](https://www.youtube.com/watch?v=yRr0_gJ-3ml&t=332s)