



DETERMINING TRUE GAINS ON YOUR INVESTMENT



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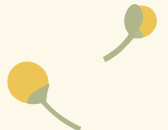
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What is An Investment

- An investment is an asset or item acquired with the goal of generating income or appreciation.
 - Appreciation refers to an increase in the value of an asset over time.
 - When an individual purchase a good as an investment, the intent is not to consume the good but rather to use it in the future to create wealth.
- An investment always concerns the outlay of some resource today—time, effort, money, or an asset—in hopes of a greater payoff in the future than what was originally put in.




Types of Investments

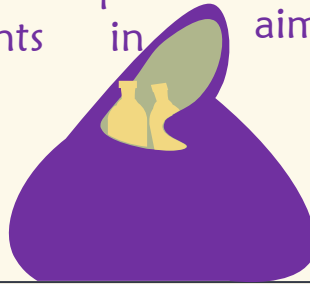


Many ways to classify, but looking at financial and economic investments. There are distinctions between financial and economic investments and the distinctions relate to the assets they invest in and their goals.

Assets: Financial investments look at assets such as stocks, bonds, mutual funds, exchange-traded funds (ETFs), and real estate. Economic investments have a narrower scope comprising of investments in machinery, land, and labour.



Goals: The prime goal of financial investments is to generate capital gains. Financial investments are commonly made with the intention of selling the asset again in the future. Economic investments are aimed at enhancing the production process.



FINANCIAL INVESTMENT vs ECONOMIC INVESTMENT

Basis	FINANCIAL INVESTMENT	ECONOMIC INVESTMENT
Meaning	Investing in new/old asset with the aim of earning in future.	Addition/replacement of capital stock necessary for producing goods.
Assets	Involves investment in both real & financial assets.	Involves investments in real assets only.
Objective	To make financial gains.	To improve productivity.
Example	Shares, bonds, new/old assets, etc.	New land, machinery, factory, etc.



Only financial investment will be taken into account for the purposes of this class; however, economic investments will be taken into account later in the future.



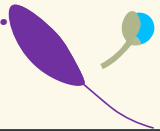
MAKE MONEY FROM MONEY



MAKE ME BETTER

What is Financial Investment

- Financial investment refers to putting aside a fixed amount of money and expecting some kind of gain out of it within a stipulated time frame.
- A financial investment is an asset that you put money into with the hope that it will grow or appreciate into a larger sum of money.
- The idea is that you can later sell it at a higher price or earn money on it while you own it.



Importance of Financial Investment



It prepares a safety net for the later years



It ensures you save for rainy days



It controls an individual's spending pattern



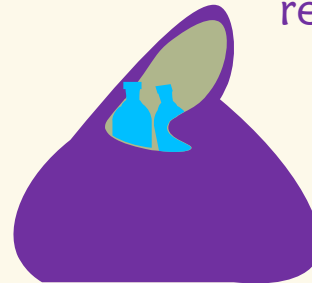
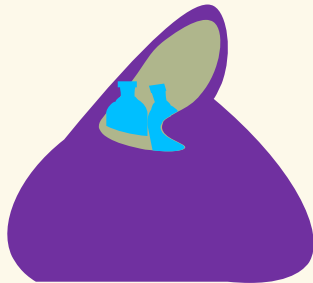
It guards against inflation



It allows for wealth creation



It is a form of saving for retirement



Important Concepts that you need to consider before Investing your Fund

Planning plays an essential role in financial investment

Don't just invest just for the sake of investing. Understand why you really need to invest money.

Explore all the investment plans available in the market

Go through the pros and cons of each plan in detail. Analyze the risk factors carefully before finalizing the plan.



Appoint a good financial planning manager who takes care of all your investment needs

He/She must understand your requirement, family income, stability etc to decide the best plan for you.

Avoid cash transactions

It is always advisable to issue an account payee cheque and transfer in favour of the company rather than giving cash to your advisor.

Carefully compile all the related documents and put it in a folder

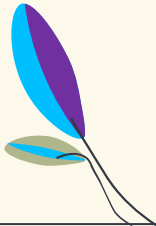
Keep it in a proper and safe place. Losing even a single document might land you in trouble later on.

Classes of Financial Investments



Lower Risk Investment

It consists of more stable investments with steadier returns because they carry lower risk levels. They are less likely to lose money and returns on the investment will be lower over the long term. The returns are in form of income.

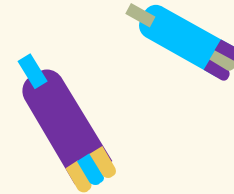


Moderate Risk Investment

It contains a combination of higher risk and lower risk assets.

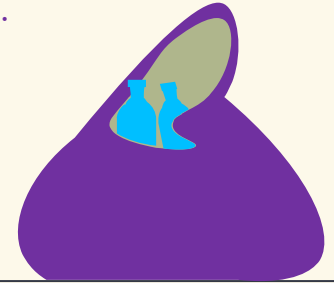


Risk

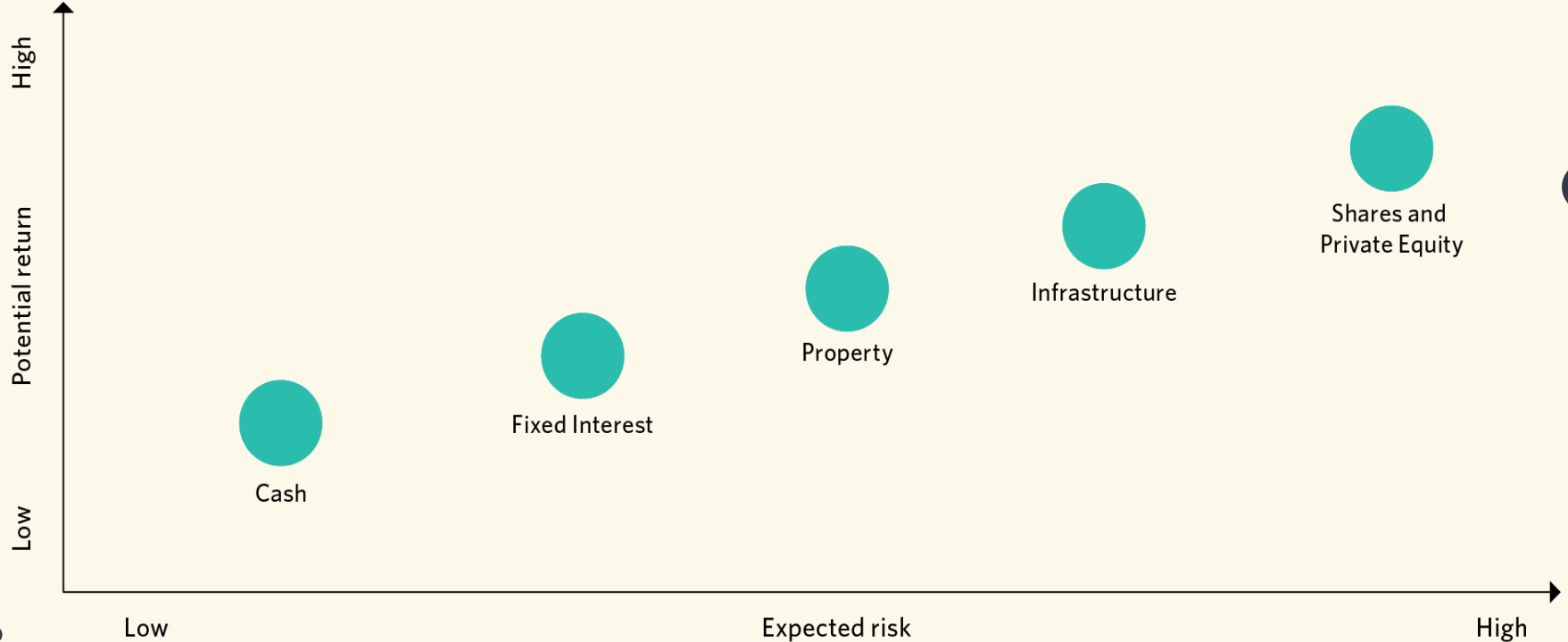


Higher Risk Investment

It has higher expected returns and the risk of losing money increases over the short term (It is highly volatility). It grows your investment over the long term.



Financial Investment Risk and Return Characteristics



Lower Risk Investment



Types of Lower Risk Investment



Cash

- Cash investments include money in bank deposits or in short-term money market securities. The investment returns largely come from interest paid on the amount invested,
- Cash investment includes short-term government bonds, Treasury bills, and commercial papers.
- The major risk of cash investment is that the issuer may not be able to pay the debt at maturity.

Fixed Interest

- These investments make fixed payments (income) on a principal investment, with the principal returned at a specific future date.
- Fixed-interest investments include securities such as bonds, certificates of deposits and debentures. The most common fixed-income investments are bonds.
- Investments in fixed income securities are subject to various risks, including changes in interest rates, credit quality, market valuations, liquidity, early redemption, corporate events, and other factors.

Higher Risk Investment



Types of Higher Risk Investment



Shares



- A share is a unit of a company that defines the interest of a shareholder in the company measured to the equivalent to a sum of money.
- It represents a portion of a company's share capital and confers certain rights and liabilities on the shareholder.
- The risks that are associated with share include capital loss, volatility risk, market risk, sector specific risk, stock specific risk, timing risk and exchange rate risk.

Infrastructure and Private Equity

- It comprises of physical assets and related operations that provide businesses and society with essential services.
- They are diversified across a range of sectors, including transportation, utilities, natural resources.
- Investments within these sectors are further diversified by selecting assets in different geographic locations and investing at various stages through a particular asset's life cycle—for example, construction, growth and mature.

How to Determine True Gains on your Investment



Sample Returns/Gains on Financial Investment

Stocks price for 5 years on 5 selected banks will be use as sample. This is only use for illustration and not for any investment recommendation.

Company	Share Price _{begining}	Share Price _{ending}	Returns	
			5 Years Returns	1 Year Returns (Simple average)
Access Bank	5.81	9.3	60.07%	12.01%
First Bank	3.4	11.4	235.29%	47.06%
GTBank	24	26	8.33%	1.67%
UBA	4.45	8.05	80.9%	16.18%
Zenith Bank	14.4	25.15	74.65%	14.93%

The Share Price at the beginning was January, 2017 and the Share Price at the ending was December 2021

Calculating True Gains of your Investments in Stock

- Using Share Price
- Using Share Price + Dividends
- Using Share Price + Dividends Reinvested (DRIP)
- Using share Price + DRIP – Fees/Costs

Using Share Price



$$r = \frac{\text{Share Price}_{\text{ending}} - \text{Share Price}_{\text{beginning}}}{\text{Share Price}_{\text{beginning}}} = \frac{11.4 - 3.4}{3.4} = 235.29\% \text{ for 5 years,}$$

1 year return (simple average) = 47.06%

Using Share Price + Dividends



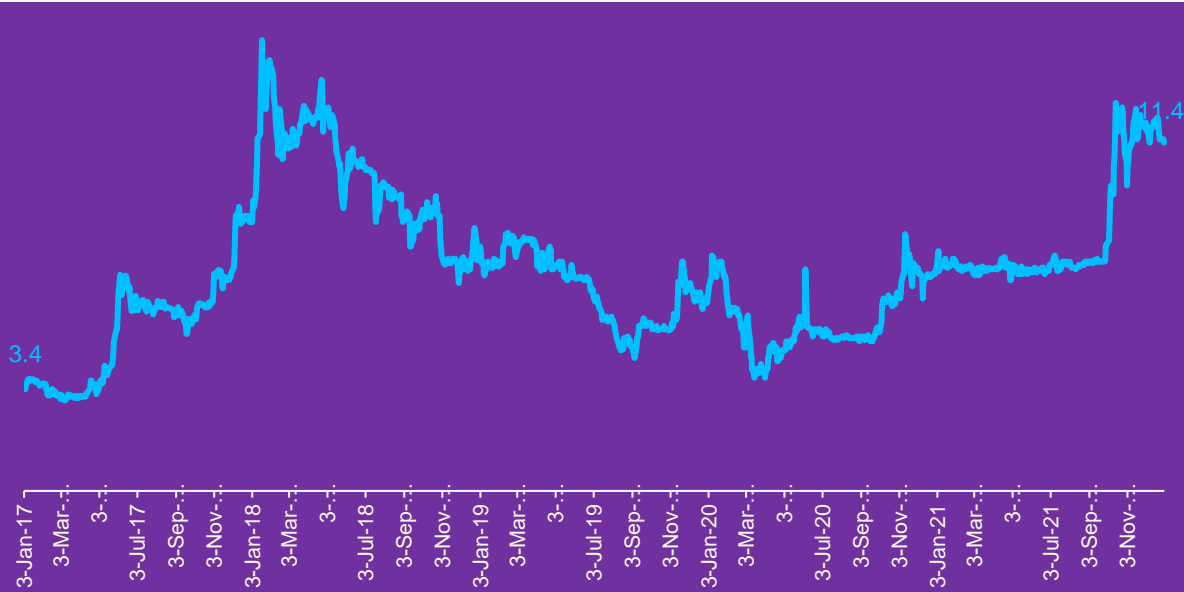
Year	Dividends (₹/K)
2017	0.25
2018	0.26
2019	0.38
2020	0.45
2021	0.35
Total	1.69

$$r = \frac{\text{Share Price Change} + \text{Dividends}}{\text{Share Price}_{\text{beginning}}} = \frac{8 + 1.69}{3.4} = 285\% \text{ for 5 years,}$$

1 year return (simple average) = 57.00%



Using Share Price + Dividends Reinvested (DRIP)



In calculating returns on reinvested dividends, we look at the investment on an overall value (as opposed to a per-share) basis.

	Share Price	No of Share Purchased	Value
Beginning	3.4	1,000	3,400
Ending	11.4	1,235	14,079

$$r = \frac{\text{Final Value} - \text{Starting Value}}{\text{Starting Value}} = \frac{14,079 - 3,400}{3,400} = 314.09\% \text{ for 5 years,}$$

$$1 \text{ year return (simple average)} = 62.82\%$$





Using Share Price + DRIP – Fees/Costs



Fees and other costs can eat away at your profits or add to your losses. Make sure you factor them in when you're considering selling any stocks.

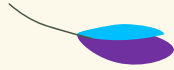
Service to hold may include some management fee, incentive plans, cost of communication etc.

$r = \text{Share Price} + \text{DRIP} - \text{Fees/Cost} = 294.09\%$ for 5 years,
1 year return (simple average) = 58.82%





Summary



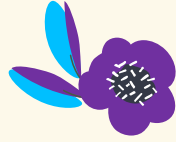
- Is not enough to just calculate returns based on price changes (capital gain).
- It is important that dividend payments are recognized.
- Returns can be higher if the dividends are reinvested.
- But an investor should not forget to net out all the necessary costs before determining his/her true gains

	Returns	
	5 Years Returns	1 Year Returns (Simple average)
Using Share Price	235.29%	47.06%
Using Share Price + Dividends	285.00%	57.00%
Using Share Price + Dividends Reinvested (DRIP)	314.09%	62.82%
Using Share Price + DRIP – Fees/Costs	294.09%	58.82%



“In conclusion, it is too risky not to take risks.

Take risk: If you win, you are happy; if you lose, you will be wise.”



Thank You

