



## **What is an Investment?**

Individuals may generally consider saving as an option when making their financial plans and may even utilise the method of “putting money under the mattress”. However, no growth is possible via this saving method and a loss in the value of the saving may result due to inflation, as the purchasing power of money can decrease over time. For instance, what you were able to purchase with a dollar five years ago will not be what you may be able to purchase with that dollar now. A prudent alternative would therefore be to invest your income and earnings to meet future demands and inflationary prices.

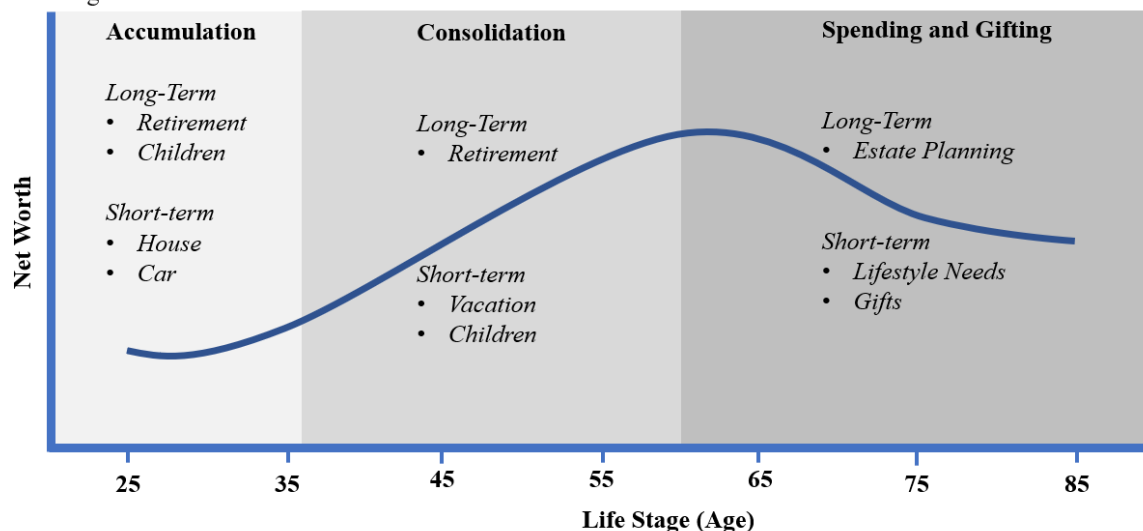
This week’s article will provide some insights into investing and highlight the investment options available in the securities market of Trinidad and Tobago.

An investment is the commitment of money, for a period of time, in order to derive future payments that will compensate the investor based on factors such as the time the money is committed for, the expected rate of inflation during the time period and the uncertainty of future payments.

Investors can take the form of an individual, a corporation, a government, a pension plan, a mutual fund etc. All investors have a similar objective: to earn a return on their investment. Overall the higher the risk, the higher the expected return and vice versa.

Financial plans and investment needs are quite different among investors. Investment needs tend to change over the life cycle of an individual. How a person invests should be related to their age, financial status, future plans, risk appetite and overall needs. Diagram 1 displays the typical net worth of an individual over a lifetime.

Diagram 1 – Net worth over an Individual Investor’s lifetime



Source: *Analysis of Investments and Management of Portfolios* - Riley Brown

Based on Diagram 1, the Accumulation stage includes individuals in their early adult life. These individuals are attempting to accumulate money to satisfy current needs, such as purchasing a house and a car, while preparing for future needs involving retirement and child care expenses. The Consolidation stage includes individuals who are midpoint in their careers. Generally, these individuals are beginning to pay off mortgages and outstanding/large debts, therefore, excess money is available for investment. The prime focus of these individuals may be on family vacations and supporting their children’s tertiary education, as well as, planning for retirement. The Spending and Gifting stage occurs when individuals retire, therefore living expenses are now covered by prior investments, savings and pension plans. The type of investments utilised at each stage is quite different and it is suggested that investors consult with an Investment Adviser or a Broker-Dealer who is registered with the Trinidad and Tobago Securities and Exchange Commission (“TTSEC”) to obtain suitable advice. Refer to the link <https://www.ttsec.org.tt/easi/registered-companies-individuals-and-securities/>.

The investment options in the securities market of Trinidad and Tobago include Collective Investment Schemes/Mutual Funds, Equities and Bonds.

### Collective Investments Schemes/Mutual Funds

Collective Investment Schemes (“CISs”), commonly known as mutual funds, are investment vehicles which allow the pooling of investor resources to create a more diversified range of investment options (investment portfolio) and take advantage of the benefits of large-scale investment opportunities. Investors effectively own portions of the overall pool through units/shares, which are proportional to their contributions. The mutual fund manager utilises the pool of money to invest in securities which are in line with the fund’s investment strategy,

as stated in the fund's prospectus<sup>1</sup>. Investors can earn returns through interest distributions or capital appreciation<sup>2</sup> depending on the fund's performance.

As at 31<sup>st</sup> January, 2021 the mutual fund industry in Trinidad and Tobago has 69 funds collectively managing approximately TTD \$59.5 Billion in assets. .

### **Equities/Shares**

Equities/shares represent **ownership** interest in a corporation mainly in the form of ordinary/common stocks or preferred stocks. Members of the public can purchase shares from companies listed on the Trinidad and Tobago Stock Exchange ("Stock Exchange").

- **Ordinary or Common Stock** - A common stock is a security representing a unit of ownership in a company. It gives the stockholder (shareholder) the right to vote at the company's Annual General Meetings (AGMs) and a proportionate claim on any dividends declared, after dividend payments are made to preferred shareholders. As "part owners" of the company, common shareholders assume the risk (up to the value of their shareholding) and returns associated with a business as well as vote to elect the Board of Directors of the company.
- **Preferred Stock** - Preferred stockholders enjoy priority over the common stockholders with respect to the payment of dividends and the distribution of assets in the event of dissolution of the company. Preferred stockholders generally do not have a right to vote at the company's Annual General Meetings.

As at January 2021, the total market capitalisation (first tier, second tier, exchange traded funds and small and medium enterprise market) of the Stock Exchange was approximately TTD \$136Mn.

### **Bonds**

A bond is debt investment in which an investor loans money to an entity (corporate or governmental) for a defined period of time at an agreed interest rate. Bonds are traditionally used by companies and governments to finance a variety of projects and activities. As at June 2020, there were 38 TTD denominated Government bonds in issue with a nominal value of TTD\$29,975Mn. Individuals interested in investing in bonds should contact a Broker-Dealer registered with the Commission.

The TTSEC fosters the development of the securities industry and welcomes participation in the capital market. We encourage members of the public who are interested in investing in securities, to visit our investor education website [www.investucatett.com](http://www.investucatett.com) to get more information on the investing life stages and to take our free online course in investing.

Persons can also go to our website <https://www.ttsec.org.tt/registration/> for a list of registered companies, professionals and securities.

For more information, please visit our corporate website, [www.ttsec.org.tt](http://www.ttsec.org.tt).

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<sup>1</sup> A prospectus is a formal document that provides details about an investment offering to the public.

<sup>2</sup> Capital appreciation is a rise in an investment's market price.

You may also visit our Investor Education website at [www.investucatett.com](http://www.investucatett.com) or connect with us via any of our social media handles:



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