South Pacific Stock Exchange

STOCK MARKET AWARENESS COLUMN

Message from Team SPSE:

So far we have introduced what shares are, what financial instruments you can invest in through the SPSE, how do you get started in share investments and how much does it cost to buy shares.

This follow-up article aims to give you further insights in share investing and will focus on why you should invest in shares, how is investment different from savings and the advantages of starting early and at a young age. We hope you find this article helpful and feel free to contact us if you require clarification/information!

Why Invest in Shares?

Everyone has financial goals whether it is buying a house or putting your child through university or having a stress-free retirement. It is apparent that in order to achieve your financial goals you have to start saving and investing now (that is if you haven't started doing so already!).

So why would you consider shares as an investment in order to achieve your financial goals?

Studies have proven, time and again, that shares are one of the best long-term investments in the financial market. They tend to outperform government bonds, corporate bonds, property and many other types of assets. Share prices can go down as well as up so buying shares is not without risk, but over the long-term, they can generate good returns.

You can also diversify your investment in the stock market by spreading your money across a range of investments instead of putting all your eggs in one basket! Moreover, shares are easy to follow as information on them can be easily obtained from licensed brokers, investment advisers or SPSE website.

Share investment in Fiji can be quite tax effective as the dividends from listed company shares are not subject to Dividend Withholding Tax for resident and non-resident investors. Moreover, the profit made on the sale of listed shares is exempt from Capital Gains Tax. A ready market also exists for you to sell your shares or buy more shares.

How is Investment different from Savings?

Saving involves simply setting money aside for future spending. It is usually put in a safe place, whether it is under your mattress or in a savings account at a commercial bank, which you can get access to easily. Savings typically are low risk for the return of the amount that one has set aside. But savings can also attract low interest rates. Sometimes the rates that one earns on savings can be less than the rate of inflation, demonstrating that there is a risk to simply saving money for a long-term goal.

Investing on the other hand involves using part of your savings to purchase something that will grow in value overtime as well as over earn you a regular return. Investing is associated with getting your money to make more money for you and is focused on wealth creation for your future financial goals.

When is the right time to start with your investments?

Many people who decide they need shares as part of their investment portfolio often hesitate when it comes to actually buying the shares; usually because they are not sure if it is the best time to buy or they feel they still have a lot to learn about the share market. How you approach the share market may depend on your investment horizon. When taking a long-term view, the best time to buy shares is not about timing the market but rather about time in the market.

For those investors who have a short term investment timeframe, timing the market does become important as short term volatility may present trading opportunities. You can learn about the share market by observing it and keeping an eye on how your shares perform under different market conditions. People often think they should put

off the idea of investing until they get certain other things out of the way – finish their degree, get the kids in a good school or pay off the mortgage. If this sounds like you, remember that no matter how small your investment portfolio is at the start, it could be growing while you do all that. Finding the sources of investment funds now will mean that your investment will be significantly larger in the future than if you waited to start.

Advantages of starting early and young

Young adults often face financial challenges due to burdensome student loans, relatively low-paying junior-level positions and a lack of budgeting experience. While people in their twenties know they are supposed to be saving for retirement, the golden years seem unimportant and a long way off compared to the consumer purchases that could be made now. For many young adults, it seems easier to put off any investing decisions until their financial situation becomes, at least theoretically, more stable. Twenty-something's, however, are actually in a prime position to enter the investing world, even with student-loans and low salaries.

- Time - while money may be tight, young adults have a time advantage. The longer money is put to work, the more wealth it can generate in the future.
- Ability to assume more risk – young people, with years of earning ahead of them, can afford to take on more risk in their investment activities. While individuals reaching retirement years may gravitate towards low-risk or risk-free investments, young adults can build more aggressive portfolios that are subject to more volatility and that stand to produce larger gains.
- Learn by doing - young adults are at an advantage because they have years to study the market, and to refine their investing strategies. With the increased risk that can be absorbed by younger investors, so too can they overcome investing mistakes, because they have the time needed to recover from losses.

Apart from the information provided in this column, SPSE has a number of user-friendly brochures, YouTube videos and publications that can be accessed via the following to provide you with information:

Office: Level 2, (FNPF) Provident Plaza 1. 33 Ellery Street, Suva

Email: info@spse.com.fj Website: www.spse.com.fj Phone: **3304 130/3313 764**

Disclaimer: This publication is for informational purposes only and nothing here should be construed as recommendation or an offer to buy or sell any stock. The SPSE does not guarantee performance of an investment or return of capital invested.