HG MARKETS (PVT) LIMITED

Investment Basics

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INVESTMENT BASICS

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1. What is Investing?

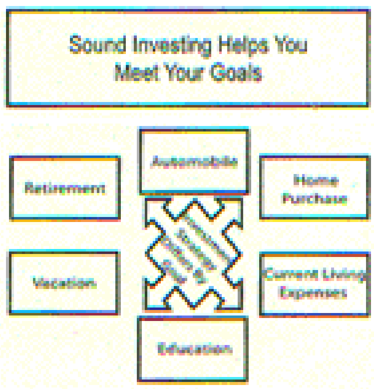
The term 'investing' refers to putting some amount of money in an avenue with the expectation of achieving certain financial gains. This may also be called profit on investing. This involve in-depth analysis of the security or instrument in which the money shall be invested, so that the principal invested amount could remain safe and the investor may become able to draw the invested amount any time after making an investment. On the other side, investing also contains a risk factor of losing the amount gained or sometimes the total invested amount.

2. Why Invest?

The main reason for investing is to attain higher returns on the initial amount invested. Investing is basically putting your money to work in order to help you achieve your personal goals. The main reasons for investing are to make your money grow or to preserve the assets you have accumulated. One may invest for a specific goal in life such as providing an education for children or to make provisions for an uncertain future.

2.1 Managing your Money

For most of us, money is a limited resource. Managing the budget wisely is a learning process, starting from an early stage. Not only do we need to cope with spending on things that are essential in life - like eating - but we also need to make choices every day over what we can afford or not. Daily budgeting in this context is useful; however, it is essential that planning for building a solid financial future also starts today.



2.1.1 Budgeting

A budget is simply an outline or a plan of your upcoming expenses, revenues and income. Budgeting allows an individual to set aside required funds for necessary expenses, such as house rent, food, clothing, savings, utilities and other bills, and for unexpected expenses that may arise, such as medical expenses. Furthermore, budgeting also helps in estimating monthly expenses based on bills and the cost of living from previous months. Maintaining a proper budget helps achieve financial goals through appropriate allocation of financial resources and in making monetary decisions in advance.

Some tips for better budgeting: To create a good budget and control expenses, an individual is required to understand how to allocate money towards different needs efficiently. The first step towards effective budgeting is to understand what your expenses are. Try this exercise: for two weeks, track and note down all that you're spending. These expenses should then be categorically broken down in to food, clothing, entertainment, rent, petrol/transportation etc. This activity will provide a clear idea about what your major expenses are and will provide a better understanding of the measures you can take to curtail these expenses.
Some useful tips include:

- Track and cut down unnecessary spending. Analyzing spending patterns will also help in tracking unnecessary spending, which if avoided, can actually offer huge savings.
- Differentiate "needs" from "wants".
- Know the difference! Always spend on what you need or must have ahead of what you want.
- Wants can wait! In order to save more, an individual should set spending limits.
- Avoid borrowing unnecessarily and ensure a prompt loan repayment schedule in order to maintain a good credit history.

The key to any successful budget is to leave sufficient room for savings. Through making a proper budget, one is likely to attain greater control on available financial resources. Budgeting makes it possible for every individual to plan and remain on the right track. Setting up a budget is the best way to achieve better savings and efficient use of money.

2.1.2 Savings

In financial terms 'savings' refer to a portion or part of money which is unspent or kept aside in anticipation of any future expenses or needs. Once the goals are outlined and the timelines within which you want to reach them, it would be essential to figure out the amount of financial resources that will be required to attain those goals. In addition to personal earnings, savings and investments are essential for increasing personal wealth.

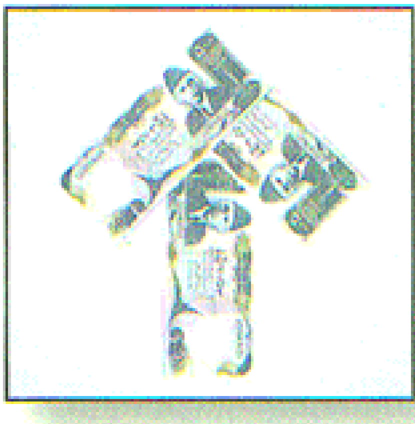
For desired financial goals, especially longer-term goals, an individual should aim to save at least 10% of his monthly income. While that is a good start, aiming to save 15% or 20% is even better. That means, for example, if you have a monthly salary of Rs. 40,000, you would save Rs. 4,000 a month or Rs. 48,000 a year. If that is more than you can afford right now, you can still make progress towards your goals by saving as much as you can, even if it is as little as Rs. 1,000 a month. What's most important is to begin saving as much as you can, as soon as you can. The basic objective of saving is to create a habit of curtailing the wants, and focusing on small, medium and huge savings for being better equipped to handle expected and unexpected expenses in the future.

2.1.3 Retirement Planning

One might think, why should I ponder about retirement now? I am young and fit, I can think about it later. This delay in planning can become financially costlier in the future. The sooner the planning for retirement begins, the more options one may have to follow, a course which suits them better. Everyone should be looking to the future and planning for the day that they will no longer want or be able to work to earn a livelihood. Planning about retirement is vital to ensure that a decent standard of living can be maintained without becoming a burden on anyone. Average life expectancy in Pakistan is around 65 years and many people are likely to retire well before that age. Hence, it is necessary for every individual to plan for the future accordingly.

As we go through the decision making and planning process, one needs to keep an eye on the desired goals and decide the best way to realize those goals. There are many retirement planning avenues in Pakistan which should be properly studied and evaluated according to budgeted amounts and future requirements. We all want to be comfortable as we get older. No longer can we entirely depend on employers to help us ensure financial stability as we age. Initiatives must be taken today to ensure a sound and prosperous tomorrow, through cautious and sensible planning today. Every person, regardless of their profession or background, must think about planning and savings for the future.

a. Inflation Protection



Inflation is the rise in price of goods and services during a certain period of time. Inflation risk may be one of the most significant factors that individuals and investors face in their lifetime. While facing this challenge, individual investors should prudently protect their investments against unexpected inflation risk, while also balancing the various risk factors that may impact a portfolio's expected return and the investor's income significantly.

While evaluating inflation risk, the following points must be kept in mind:

- Inflation may erode the purchasing power of savings
- Asset class diversification is important for any portfolio to cope with inflating prices of a certain asset
- Assets that are highly correlated with inflation are better at hedging immediate inflation risk
- Expected inflation is already accounted for in asset prices by market participants

b. Power of Compounding

"I am young and have enough time to accumulate my wealth at later age. As I don't have enough money to invest at this moment, I will make bigger investments later"

Many people postpone or wave off their investment decisions due to short-term market volatility or other reasons. No matter how young or old, one should start investing and saving today. Due to the power of compounding, starting earlier makes a huge difference in future returns.

Let us consider the following (assuming a 10% annual return): Who do you think would have more money in 40 years, person A who contributes a fixed amount every year for the first 8 years and then does nothing for 32 years, or person B who does nothing for the first 8 years and then contributes that same amount every year for the next 32 years? Consider the classic story taught in many basic economic courses:

Ali got a job at 18 and started investing Rs.4,000 each year into an investment avenue yielding 10% annual return. He stopped after eight years after investing a total of Rs.32,000. His sister, Anum, started a professional career at the age of 26, at which point she began contributing Rs.4,000 to the same Investment Avenue Ali invested in. Anum did this for 40 years from 26 to 65. She invested a total of Rs.160,000 and put her money into the same investment as her brother. Anum started investing the same year Ali stopped, and she saved for 40 years compared to just eight years for her brother.

By age 65, whose investment account do you think was worth more?
Assuming both Ali and Anum earned a 10% annual return, Anum accumulated Rs.1,327,778. But Ali had Rs.1,552,739 i.e. Rs.224,961 more than his sister!

Ali	Anum
8 Investments (Rs4,000/yr) - Ages 18-25	40 Investments (Rs4,000/yr) - Ages 26-65
Ultimate value at age 65: Rs.1,552,739	Ultimate Value at age 65: Rs.1,327,778

Ali's account grows to a higher value because he started saving earlier!
+Rs.224, 961

Ali stopped investing at age 26 having invested only Rs.32,000 compared to Anum's Rs.160,000, but Ali's money earned interest for eight years longer than his sisters. It wasn't the money that made him successful, it was the time value of money. Ali didn't put off investing when he first launched his career. By investing sooner than Anum, his account grew larger. Delay in making investments can therefore cost dearly later on.

3. Forms of Investment

An average investor today faces a wide array of investment avenues. It may be difficult to make investment decisions without adequate information and proper understanding about these investment choices. Investments can take various forms, some of the options that may be presented include for example; Real Estate, Business Enterprises, Precious Metals and Stones, Financial Investments etc. The focus here will be on financial investments.

3.1 Financial Investments

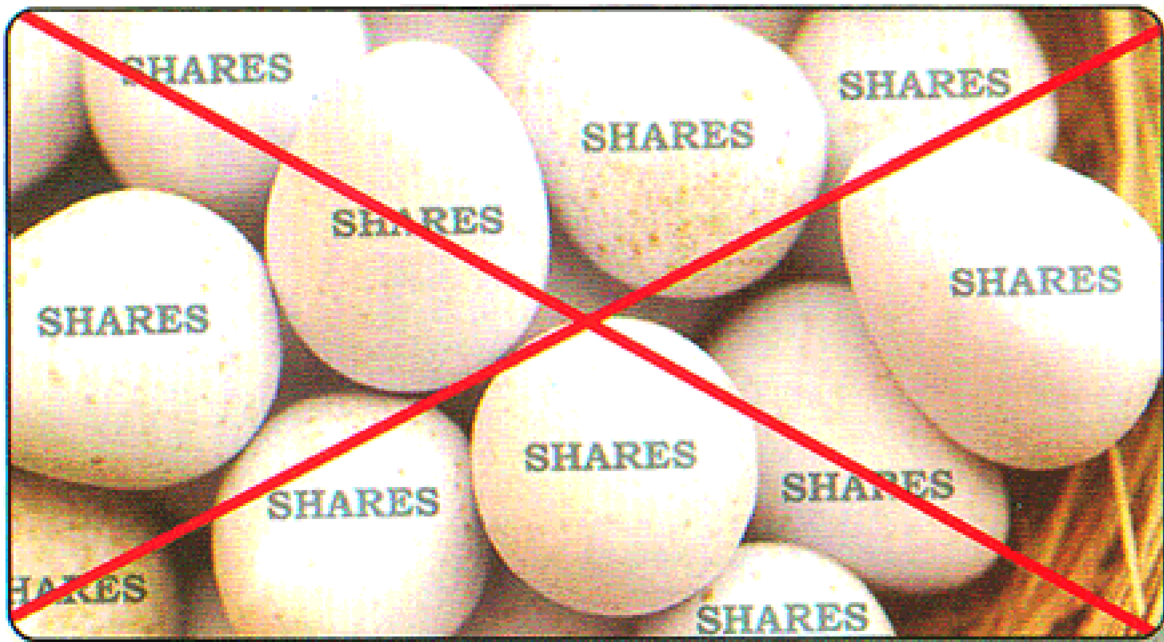
Financial investments are generally referred to as an entitlement of receiving money (or streams of money). Financial investments themselves may be divided into two broad categories :-

The First category is Direct Investments which includes Bank Deposits and or National Saving Schemes, where a fixed return on investments may be earned. Depositing money in a bank ensures relatively low default risk and higher liquidity; however the returns are generally lower than other forms of investments. Government securities are said to be the least risky as the government is the safest borrower, however, the returns are also lower than other riskier investments such as Corporate Bonds or Equities.

The Second category is Market-Based Investments which are often referred to as securities which are listed and traded on various exchanges. Examples include shares/stocks of companies (generally known as equities), Bonds / TFCs issued by companies, etc. To invest in TFCs, it is advisable to be aware of the credit rating of different Bond issuing entities and invest for the long term. It is worth noting that while securities may be in the form of certificates, they are now increasingly in paperless (electronic) form, and are tracked by a custodian such as the Central Depository Company (CDC).

3.2 Diversification

In order to minimize risk, it is recommended to diversify investments across various investment instruments i.e. buying a basket of investment products rather than putting all available money in a single instrument. Let us refer to an example, if an individual is investing in equities and commodities, he might consider buying a basket of stocks comprising of different sectors and companies rather than investing in only a single sector or company. In this way, any loss incurred on some investments can be compensated by gains made on others, thereby minimizing company-specific sector risk. The same can potentially be achieved by investing in open-end mutual funds managed under various unit trust schemes. While investing in mutual funds an investor must check the rating of the fund and/or instrument. Investments in fixed income may require consideration of credit ratings, tenures etc. Given the diversity of investment avenues and the rapid changes that take place in investment opportunities, professional advice from either a fund manager, investment advisor or a broker is highly recommended before choosing a suitable investment option.



Annexure: Contact Key Institutes

Organization	Detail
Securities and Exchange Commission Pakistan(SECP)	Securities and Exchange Commission of Pakistan, NIC Building, Jinnah Avenue, Blue Area Islamabad. Ph.: 051-9207091-94 www.secp.gov.pk Email: enquiries@secp.gov.pk , investor.education@secp.gov.pk
Karachi Stock Exchange (KSE)	Karachi Stock Exchange (Guarantee) Limited, Stock Exchange Building, Stock Exchange Road, Karachi-74000, Pakistan. Ph: (92-21) 32437703 www.kse.com.pk Email: info@kse.com.pk
Lahore Stock Exchange (LSE)	Lahore Stock Exchange Building, 19, Khayaban-e-Aiwan-e-Iqbal, P.O. Box: 1315, Lahore - 54000, Pakistan Ph: (92-42) 3636 8000 www.lse.com.pk Email: info@lse.com.pk
Islamabad Stock Exchange (ISE)	Islamabad Stock Exchange ISE Towers, 55-B, Jinnah Avenue, Islamabad, Pakistan Ph: (92-51) 111-473-473 www.ise.com.pk Email: info@ise.com.pk
National Clearing Company of Pakistan Limited (NCCPL)	National Clearing Company of Pakistan Limited 8th Floor, Karachi Stock Exchange Building, Stock Exchange Road, Karachi - 74000, Pakistan Tel: (92-21) 32460811-19 www.nccpl.com.pk Email: info@nccpl.com.pk
Pakistan Mercantile Exchange (PMEX)	Pakistan Mercantile Exchange 9th Floor, PRC Towers, 32-A, Lalazar Drive M.T.Khan Road, Karachi, Pakistan. UAN: +92-21-111-623-623, 99210650-61 Support: (021)35644991-5, 03008213324, 03218756623
Central Depository Company(CDC)	CDC House, 99-B, Block 'B', S.M.C.H.S., Main Shahra-e-Faisal, Karachi - 74400. Tel: 0800-CDCPL (23275) info@cdcpak.com Tel: (92-21) 111-111-500 www.cdcpakistan.com
Mutual Fund Association of Pakistan(MUFAP)	Mutual Funds Association of Pakistan, 207-209, 2nd Floor, Kassam Court Block 5 Block - 5, Clifton. Karachi Pakistan Office: (92-21) 35293136-38 www.mufap.com.pk Email: info@mufap.com.pk

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