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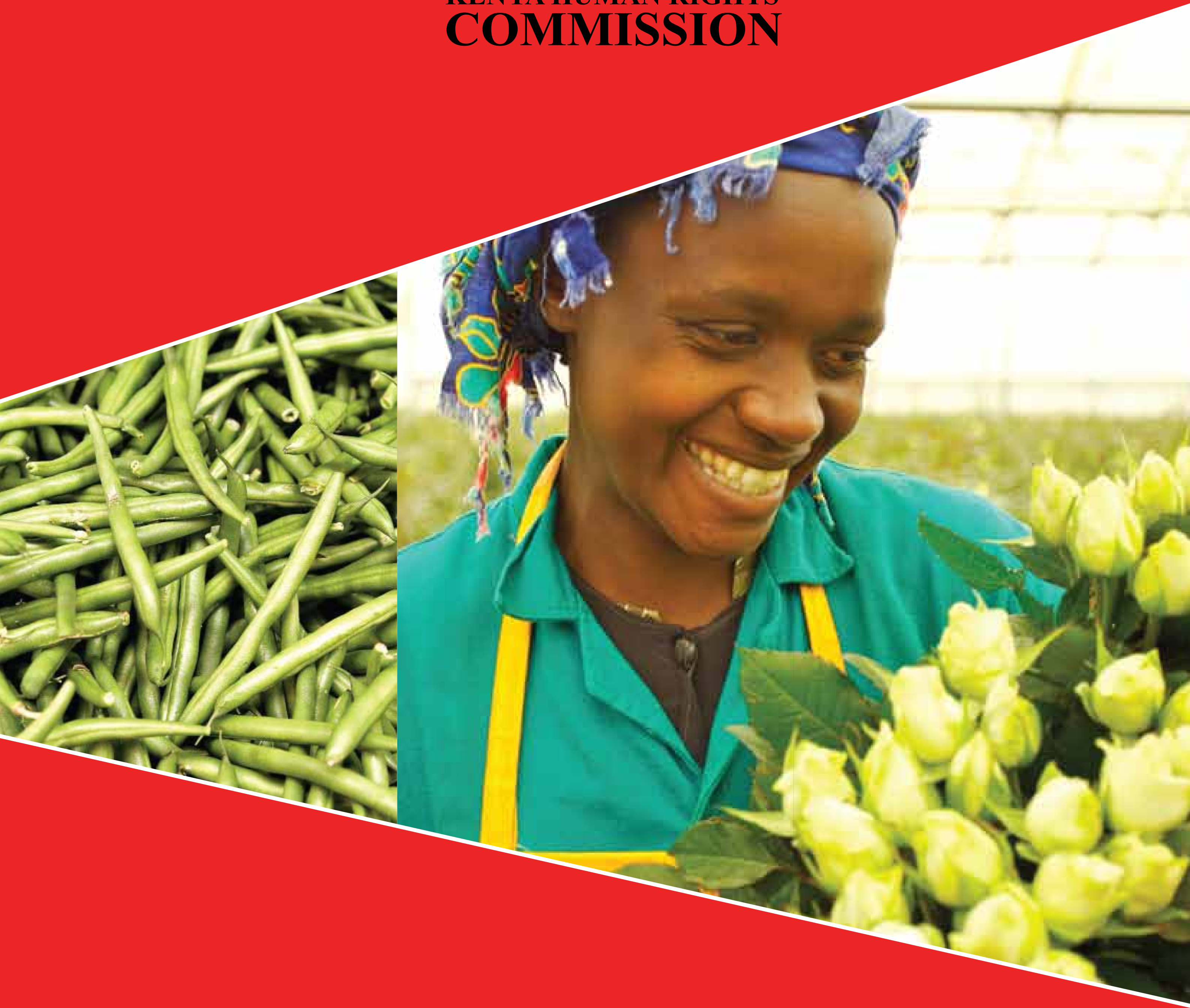

FINANCIAL MANAGEMENT

[A Tool for Personal Development for Workers at Finlays Horticulture Kenya]

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Foreword

This Training Manual is produced under the Kenya Horticulture Project (KHP) – a three-year project currently in implementation at the Kenya Human Rights Commission in partnership with Traidcraft Exchange. The project brings together a group of farmers in Meru producing green beans for the UK market, Finlays Horticulture Kenya, Marks and Spencer and workers engaged in packaging the produce at Finlays in the Mount Kenya Region. The KHP seeks to ensure a fairer sharing of risks and benefits across the supply chain towards promoting sustainable livelihoods for workers and farmers in the supply chain.

The Manual is intended to serve as a practical guide for workers towards effective management of their personal finances. It is hoped that with this tool, Finlays workers will gain the requisite tips for effective planning of finances, budgeting, investing and enhancing personal savings.

Acknowledgements

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We also wish to thank Lucy Njeri Gatuhi-currently the Finance & Administrative Manager at Methodist SACCO for her tireless efforts in compiling this Training Manual. The Manual also benefited from technical oversight offered by Audrey Wabwire (Communications Manager) and editing and proof reading by Mary Kambo (Programme Advisor-Labour Rights).

Last but not least, the publication of this training guide would not have been possible without the generous financial support offered by Comic Relief.

Thank you all for making this possible!

INTRODUCTION

According to The National Financial Educators Council, Personal Finance can be defined as,

"Possessing the skills and knowledge on financial matters to confidently take effective action that best fulfills an individual's personal, family and global community goals." [SOURCE]

When planning personal finances, the individual would consider the suitability to his or her needs of a range of banking products, savings accounts, credit cards and consumer loans) or investment (stock market, bonds, mutual funds) and insurance (life insurance, health insurance, disability insurance) products or participation and monitoring of individual- or employer-sponsored retirement plans, social security benefits, and income tax management.

Personal finance revolves around the following major aspects in Financial Management; which are:

1. Planning
2. Budgeting
3. Savings
4. Investment.

1. PLANNING

1.1 Personal Financial Planning

The key component of personal finance is financial planning, which is a dynamic process that requires regular monitoring and reevaluation. In general, it involves five steps:

i. Assessment

A person's financial situation is assessed by compiling simplified versions of financial statements including balance sheets and income statements. A personal balance sheet lists the values of personal assets (e.g., car, house, clothes, stocks, bank account), along with personal liabilities (e.g., credit card debt, bank loan, mortgage). A personal income statement lists personal income and expenses.

ii. Goal setting

Having multiple goals is common, including a mix of short- and long-term goals. For example, a long-term goal would be to "retire at age 60 with a personal net worth of Kshs1,000,000," while a short-term goal would be to "save up for a new computer in the next month." Setting financial goals helps to direct financial planning. Goal setting is done with an objective to meet certain financial requirements.

iii. Planning

The financial plan details how to accomplish the goals. It could include, for example, reducing unnecessary expenses, increasing the employment income, or investing in the stock market.

iv. Execution

Execution of a financial plan often requires discipline and perseverance. Many people obtain assistance from professionals such as accountants, financial, investment advisers, and lawyers.

v. Monitoring and Evaluation

As time passes, the financial plan must be monitored for possible adjustments or reassessments.

Typical goals that most adults and young adults have are paying off credit card and/or student loan debt, investing for retirement, investing for college costs for children, paying medical expenses, and planning for passing on their property to their heirs (which is known as estate planning).

Estate planning involves planning for the disposition of one's assets after death. Typically, there is a tax due to the state or government at your death. More of your assets will be distributed to your heirs if these taxes are avoided. You can leave your assets to family, friends or charitable group.

1.2 Areas of Focus

The six key areas of personal financial planning, as suggested by the Financial Planning Standards Board, are:

i. Financial Position

This is concerned with understanding the personal resources available by examining net worth and household cash flow. Net worth is a person's balance sheet, calculated by adding up all assets under that person's control, minus all liabilities of the household, at one point in time. Household cash flow totals up all the expected sources of income within a year, minus all expected expenses within the same year. From this analysis, the financial planner can determine to what degree and in what time the personal goals can be accomplished.

i. Adequate Protection

This refers to the analysis of how to protect a household from unforeseen risks. These risks can be divided into liability, property, death, disability, health and long-term care. Some of these risks may be self-insurable, while most will require the purchase of an insurance contract. Determining how much insurance to get, at the most cost effective terms requires knowledge of the market for personal insurance. Business owners, professionals, athletes and entertainers require specialized insurance professionals to adequately protect themselves. Since insurance also enjoys some tax benefits, utilizing insurance investment products may be a critical piece of the overall investment planning.

ii. Tax Planning

Typically, the income tax is the single largest expense in a household. Managing taxes is not a question of if you will pay taxes, but when and how much. Government gives many incentives in the form of tax deductions and credits, which can be used to reduce the lifetime tax burden. Most modern governments use a progressive tax. Typically, as one's income grows, a higher marginal rate of tax must be paid. Understanding how to take advantage of the myriad tax breaks when planning one's personal finances can make a significant impact.

iii. Investment and Accumulation Goals

Planning how to accumulate enough money for large purchases and life events is what most people consider to be financial planning. Major reasons to accumulate assets include, purchasing a house or car, starting a business, paying for education expenses, and saving for retirement.

iv. Budgeting

Achieving these goals requires projecting what they will cost, and when you need to withdraw funds. A major risk to the household in achieving their accumulation goal is the rate of price increases over time, or inflation. In Kenya, the Ministry of Agriculture, Livestock and Fisheries helps farmers improve their business management skills to improve management productivity, increase profitability, and fulfil their long-term goals. It is accomplished through workshops, seminars, and individual on-farm consultations involving farm business management, strategic and tactical planning, record keeping, financial analysis, and computer applications for farm managers, educators, lenders, and others. Workshops and seminars are prepared and conducted at the request of, and in teamwork with Extension Educators, Specialists, and others. The program involves adaptive research on business planning techniques, crop and livestock enterprise analysis, farm machinery economics, risk management, crop insurance, computer use in agriculture, economics of alternative agricultural enterprises, and economics of sustainable agriculture methods.

v. Retirement Planning

Retirement planning is the process of understanding how much it costs to live at retirement and developing a plan to distribute assets to meet any income shortfall. Methods for retirement plan include taking advantage of government allowed structures to manage tax liability including: Individual Retirement Account structures, or employer sponsored retirement plans. This is done in conjunction with the Kenya Retirement Benefits Authority which helps individuals plan for retirement.

2. BUDGETING

A budget is a plan for your future income and expenditures that you can use as a guideline for spending and saving. Although many people already use a budget to plan their spending, the majority of people also routinely spend more than they can afford. The key to spending within your means is to know your expenses and to spend less than you earn. A good monthly budget can help ensure you pay your bills on time, have funds to cover unexpected emergencies, and reach your financial goals.

2.1 How to Budget

Most of the information you need is already at your fingertips. To create or rework your budget, follow the simple steps outlined below to get a clear picture of your monthly finances.

2.1.1 Total Your Income

To set a monthly budget, you first need to determine how much income you have. Using an extra worksheet, write a figure next to each relevant income source. Make sure you include all sources of income such as salaries, interest, pension and any other income–including a spouse's income if you're married.

If you get a salary, be sure to use your net salary rather than your gross pay. Taxes are usually taken out automatically, but if they're not, remember to include them as another expense. If you receive money from somewhere not listed, enter the source along with the amount under "other income."

2.1.2 Estimate Expenses

The best way to do this is to keep track of how much you spend for one month. Divide spending into fixed and flexible expenses. Fixed expenses are those that generally do not change from month to month, such as rent and insurance payments. Flexible expenses are those that do change from month to month, such as food or entertainment. If some of your expenses for one or more categories change significantly each month, take a three-month average for your total.

2.1.3 Find the Difference

Once you have totaled up your monthly income and your monthly expenses; subtract the expense total from the income total to get the difference. A positive number indicates that you're spending less than you earn, congratulations! A negative number indicates that your expenses are greater than your income. This means you will need to trim your expenses in order to begin living within your means. [GRAPHIC REQUIRED]

Well done you have created a budget! The next step is to track your budget over time to make sure you are sticking to it. If you find you are not able to follow your budget successfully, it may mean that your plan isn't flexible enough. It can take revisiting your budget a few times to find the balance that works for you.

Below is a sample monthly budget. A budget may be used to help you manage your money. It is an estimate of your income and expenses over a period of time. By creating and using a monthly budget, you can get a better idea of where you spend your money, to whom you owe money, and how much. It will help you focus on saving more, so you may reach your financial goals.

Sample Monthly Budget

Category	Monthly Budget Amount (Kshs)	Actual Budget (Kshs)	Difference (Kshs)
INCOME:			
Salary/Wages	16,000	18,000	(2,000)
Other Incomes	6,000	6,000	0,000
Income Subtotal	***22,000***	***24,000***	***(2,000)***
EXPENSES			
Rent	6,000	6,000	0.000
Utilities	1,100	1,500	(400)
Food/Groceries	6,500	6,500	0,000
Clothing	3,000	3,000	0,000
Entertainment	2,000	1,500	(500)
Miscellaneous/Other	1,000	1,500	(500)
Expenses Subtotal	*19,600*	*20,000*	*(400)*
Net income(Income-Expenses)	**2,400**	**4,000**	**(1,600)**

Note that in this budget, the actual income and expenses are higher than the budgeted amount. The person needs to be more accurate in preparing the budget. Also note that the amounts indicated in brackets are negative figures.

The Following are a few basic concepts that help to avoid several common pitfalls of budgeting.

2.1.4 Purpose

A budget should have a purpose or defined goal that is achieved within a certain time period of time. Knowing the source and amount of income and the amounts allocated to expense events are as important as when those cash flow events occur.

2.1.5 Simplicity

The more complicated the budgeting process is, the less likely a person is to keep up with it. The purpose of a personal budget is to identify where income and expenditure is present in the common household; it is not to identify each individual purchase ahead of time. How simplicity is defined with regards to the use of budgeting categories varies from family to family, but many small purchases can generally be lumped into one category (Car, Household items, etc.).

2.1.6 Flexibility

The budgeting process is designed to be flexible; the worker should have an expectation that a budget will change from month to month, and will require monthly review. Cost overruns in one category of a budget should in the next month be accounted for or prevented. For example, if a family spends Kshs1000 more than they planned on food in spite of their best efforts, next month's budget should reflect an approximate Kshs1000 increase and corresponding decrease in other parts of the budget.

"Busting the budget" is a common pitfall in personal budgeting; frequently busting the budget can cause workers to fall into pre-budgeting spending habits. Anticipating budget-busting events (and under spending in other categories), and modifying the budget accordingly, allows you a level of flexibility with your incomes and expenses.

2.2 Benefits of Budgeting

i. Control over money

A budget is a way of being intentional about the way you spend and save your money. It is said that with budgeting, you control your money and not your money controls you. Budgeting saves you the stress of suddenly having to adjust to lack of funds because you did not initially plan how to spend them. It also helps you decide if you want to sacrifice short term spending like buying coffee every day in exchange for a long term benefit like building a house or buying a new car.

ii. Focus on Goals

You avoid spending unnecessarily on items and services that do not contribute to attaining your financial goals. If you are working with limited resources, budgeting makes it easier to make ends meet.

iii. Track your finances

With budgeting, you are clear on what money is coming in, how fast it goes out, and where it is going to. Budgeting saves you from wondering every end of the month where your money went. A budget enables you to know what you can afford, take advantage of buying and investing opportunities, and plan how to lower your debt. It also tells you what is important to you based on how you allocate your funds, how your money is working for you, and how far you are towards reaching your financial goals.

iv. Organize spending

By dividing your money into categories of expenditures and savings, a budget makes you aware which category of expenditure takes which portion of your money. That way, it is easy for you to make adjustments. A budget also serves as a reference for organizing your bills, receipts, and financial statements.

v. Enables you to save for expected and unexpected costs

Budgeting allows you to plan to set aside money for emergency costs.

vi. Enables you to communicate with your significant others about money

If you share your money with your spouse, family, or anyone, a budget can communicate how you use money as a group. This promotes teamwork on working for common financial goals and prevents conflict on how money is used. Creating a budget in tandem with your spouse will avoid conflicts and resolve personal differences on how your money is spent. Budgeting teaches family members spending, responsibility and accountability.

vii. Provides you with an early warning for potential problems

When you budget and take a big picture view, you will see potential money problems in advance, and be able to make adjustments before the problem appears.

viii. Helps you determine if you can take debt and how much

Taking debt is not necessarily a bad thing if the debt is necessary or you can afford to pay it. Budgeting shows you how much you can realistically borrow without being stressed or if taking the loan is worth it.

ix. Enables you to produce extra money

In budgeting, you get to identify and eliminate unnecessary spending like late fees, penalties and interests. These seemingly small saving can add up over time.

3. SAVING

Savings can help you achieve any financial goal. Whether it's a comfortable retirement, a down payment for a house, or a new car or paying college fees for your children, you can get there by setting money aside. And best of all, you can have what you want without getting bogged down in debt.

Yet if you're like most people, you don't save as much as you'd like to. Or you don't save at all. Most Kenyans spend more than they earn. Today's high cost of electricity, house rent and food prices may make saving seem less possible than ever.

But the time is now. And with a little forethought and effort, saving money is not only possible, it's easy!

3.1 Make Saving a Priority

You will be more likely to save money if you make it a priority. Sit down and figure out what you would like to save money for – retirement, a house, car, college, setting up a business –and how much it will cost. Then make your plan:

- Set a timeline for when you'd like to reach your goal.
- Set a schedule by dividing the total goal amount by the number of weeks, months or pay periods between now and your goal date.
- Be vigilant by treating your savings contribution just like any other must-pay expense, such as rent or groceries.

3.2 Find Money to Save

While it may seem difficult sometimes just to make ends meet, chances are you have extra money you did not even know about. Here are some ways to find it:

- Keep track of everything you spend for a week. You might be surprised what you are buying, and what you can do without.
- Make purchases with cash. This can help you stick to a budget and avoid impulse purchases. Simply decide ahead of time how much you want to spend and then set aside that amount in cash before you go shopping.
- Lower your bills. Many creditors will give borrowers a lower interest rate if they are asked. Also, conserving electricity and gas can make a big difference.
- Rank your non-essential expenses. Keep the ones you like the best and cut the items on the bottom of the list.
- Pack a lunch. Or cook more dinners at home. Eating out at restaurants can eat up a lot of money that could be saved.

3.3 Pay Yourself First

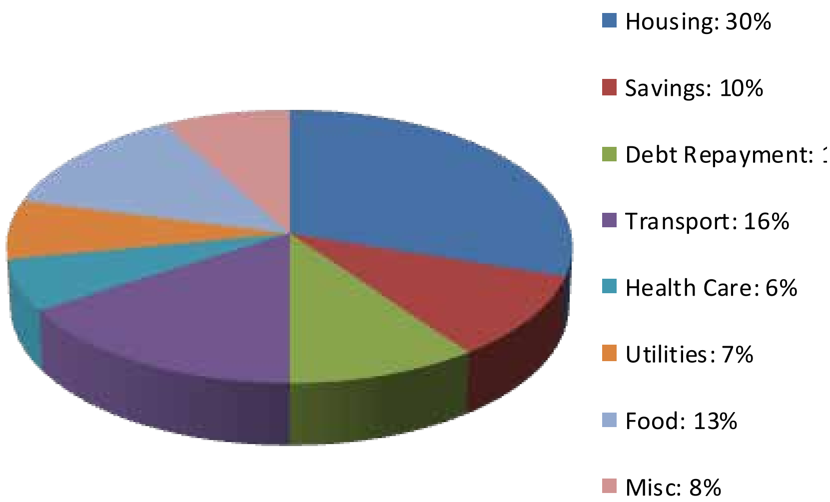
You are probably inclined to pay everyone else first – whether it is your landlord or your grocer or the electricity company. But it is vital to start paying yourself first by saving money. Once you have made a contribution to your financial longevity and well-being, then you can divide up your money to cover everything else. Do not worry. You will more than likely have plenty left over to cover everything you need.

In fact, most banks make this easier. You can have them automatically transfer funds from your salary account to your savings account, money market, mutual fund and other accounts. You might also check with your employer. Companies will often deduct savings from paychecks if requested to do so.

3.4 Plan to Save

Taking into consideration your monthly expenses and earnings, create a savings category within your budget and try to make it at least 10-15 percent of your net income. If your expenses won't let you save that much, it might be time to cut back. Look for non-essentials that you can spend less on—for example: entertainment and dining out—before thinking about saving money on essentials such as school fees or owning a house.

Recommended Expenditure Breakdown Chart



3.5 Set Goals

Setting savings goals makes it much easier to get started. Begin by deciding how long it will take to reach each goal. Some short-term goals (which can usually take 1-3 years) include:

- Starting an emergency fund to cover 6 months to a year of living expenses (in case of job loss or other emergencies)
- Saving money for furniture
- Saving to start a business

Long-term savings goals are often several years or even decades away and can include:

- Saving for retirement

- Putting money away for your child's college education
- Saving for a down payment on a house or to remodel your current home

Different people have different priorities when it comes to saving money, so it makes sense to decide which savings goals are most important to you. Part of this process is deciding how long you can wait to save up for a goal and how much you want to put away each month to help you reach it. As you do this for all your goals, order them by priority and set money aside accordingly in your monthly budget. Remember that setting priorities means making choices. If you want to focus on saving for retirement, some other goals might have to take a back seat while you make sure you are hitting your top targets.

3.6 Strategies

- A regular savings account - which is easily accessible
- A high-yield savings account - which often has a higher interest rate than a standard savings account
- A bank money market savings account - which has a variable interest rate that could increase as your savings grow
- A CD (certificate of deposit) - which locks in your money at a specific interest rate for a specific period of time

3.6.1 Long-term Goals

It is important to consider securities like stocks and mutual funds. These investment products are available through investment accounts with a broker-dealer. Remember that securities, such as stocks and mutual funds, are not insured, they are not deposits or other obligations of a bank and are not guaranteed by a bank, and are subject to investment risks including the possible loss of principal invested.

3.6.2 Automatic Transfers

Automatic transfers to your savings account can make saving money much easier. By moving money out of your salary account, you'll be less likely to spend money you wanted to use for savings. There are many options for setting up transfers. You choose how often you want to transfer money and which accounts you want to use for the transfers. You can even split your direct deposit between your salary and savings accounts to contribute to your savings with each pay check. Thinking of saving as a regular expense is a great way to keep on target with your savings goals.

3.6.3 Monitor Progress

Check your progress every month. Not only will this help you stick to your personal savings plan, but it also helps you identify and fix problems. Resisting the urge to buy is an effective way to save money. Many times we are tempted to buy certain items that we want but don't really need. In such cases, giving yourself 48 hours as a cooling off period will tell you whether you really need to buy or not.

4. INVESTMENTS

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. You may be looking to grow something over the next one year (saving up for a car) or over the next thirty years (saving for retirement). How you accomplish these two tasks is different. How much time you have on your side is often a key thing to consider when making a financial investment. The more time you have the more risk you can usually take. The more risk you take, the more potential for making more money! It is important to note that there is also an economic definition of financial investments that deals with how businesses invest in products, equipment, factories, employees, and inventories. This lesson will focus on the finance definition of financial investment. Let's look at a few key terms worth knowing when it comes to financial investments.

Have you ever heard someone talking about stocks, bonds, or mutual funds and were a little confused? Does the mention of investments or financial topics seem overwhelming? Understanding some basic information about financial investments can be a great first step in learning how to invest, knowing your path to retirement, or maximizing the rate of return on your money.

4.2 Start Early

Anyone can start investing at any time, be they eighty years old or only eight. However, there are several reasons why it is a good idea to start investing at an early age. If you are a young person yourself or the parent of a young person, read on to learn why it is better to invest sooner rather than later.

The simple fact is that if you start saving early, you will likely be able to save more. There's no secret tip or strategy as to why: you just have more time to put money away. If you hope to have half a million shillings by the time you are forty, you're much more likely to reach that goal if you have been adding to your investment for 20 years versus 5 years.

It also gives you a cushion if you stop contributing to your investments at some point. For example, if you begin investing at age 15 (with your parents' guidance) but then find at age 25 that you can't continue to make the annual contribution due to employment difficulties (not an unusual scenario) you have the cushion of ten previous years of investment to help you stay on track.

But even as you identify areas to save in, remember inflation is real and you therefore need to cushion your savings/investments.

4.3 Inflation Protection

Inflation poses various threats, some of which you might have experienced. Inflation is manifested when prices are raised therefore one's basic income buys you less – or, in short, your money becomes worth less than it was worth before. To get a better idea, imagine a loaf of bread now costs Kshs 50. If you have Kshs 70, you can buy the bread and have some change left over. If inflation occurs and the price of bread is raised to Kshs 80 a loaf, your 50 shillings is no longer a sufficient amount of money to purchase the bread at all. Overall, its value is reduced.

This can be a scary thing, particularly when you have a lot of money invested. Imagine waking up and finding out the one million shillings you have invested is now worth only 500,000 shillings. Luckily, there are ways to get some kind of "inflation protect," that is, something that shores up your investments a little. This way, you don't have to worry they will be worth less.

Make investments in items that people simply have to buy, instead of in items and programs they may want. For example, people may spend a lot of money on new clothes and all the latest technology gadgets, but when the economy slips they reduce spending and focus on the essentials: items like food and medicine. Get at least some stock in these items which will need to be purchased, and you will be less subjected to the wild whims of the market.

The Kenya Central Bank issues bonds which will not decrease in value, even if the economy takes a stumble and the inflation rates rise. They are protected, as is indicated by the name, so The Treasury has basically promised to make up the difference so that the inflation rate does not affect them. These kinds of bonds are easy to find. You can use an investment company or simply visit the Kenya Central Bank and purchase them directly from the government.

4.4 Diversification

You will probably hear this a thousand times once you start reading about investment, but diversification is the best protection from anything, period. Do not keep all your investments in the same spot because if anything happens to it, you have lost everything. Diversify. If you are worried about inflation rates affecting your investment in Kenya, look elsewhere. Spread out your investments widely, and the chances that you will wake up and find them all reduced in value or gone are slim.

Because there is little you can do to stop inflation from occurring, it is a scary possibility. You never really know when it will strike, particularly when the economy is already turbulent. But there are ways to shore up your investments and get some measure of protection from inflation. You just have to know where to look.

4.4.1 Importance of Diversification

Do not put all your eggs in one basket. This creates a good visual that can help you understand why it's it is important to diversify your assets. If all your eggs are in one basket and you are walking down the street, it is easy to trip and drop the basket. When the basket falls, the eggs break and (since they were all in the same place) you are left with nothing. The same is true of your assets. If you keep everything in a single place or asset-type, you are more liable to lose what you have. If all your investments are in real estate for example, imagine what would happen when you woke up and found that your land had been devalued (as sometimes happens, depending on location).Or, if everything you own is in the stock market, imagine waking up to find it has crashed – and everything you invested simply does not exist.

While these may sound like unlikely horror stories, the unfortunate fact is that they have all happened, at one point or another, to someone (or many people). This is why conventional thinking suggests diversifying your assets. It is based on the following logic: any one of those possibilities could happen. Real estate value could drop. The stock market could crash. But, the chances of all that happening at the same time are very, very low. So if you have investments in all three areas mentioned (or others not mentioned), you are not likely to lose everything. Your eggs are protected.

Diversification is also important to a lesser degree. That is, the world does not have to be ending in order for you to reap the benefits of diversifying. If you diversify your assets, you can have some risky assets that could yield potentially high returns, and you can have some boring but very safe investments. This way, you can gamble and try to increase your wealth without throwing all your chips on the table. In a sense, you get the best of both worlds – acting as both a daring and risk-adverse investor.

If you have not diversified your assets, now is always the best time to start. Speak to your adviser if you have one and begin the process of diversifying your investments. (i.e. try to build a more balanced stock portfolio). But do bear in mind that this will not give you complete protection and you should not behave as though it does. You should always make your investments wisely, using care, thought and patience. Diversifying just helps you breathe better, knowing that if you do trip up not all of your eggs will break.

4.5 How to Invest

So you have heard great things about investing. Your neighbours down the street became overnight millionaires! Your cousins are set to retire early with their investment returns! The stock market is going up, whatever that means! You have finally decided that you want in on the rewards of investing. That is a good place to start, but if you are completely inexperienced it does beg the question: what can I invest in? Chances are some things you already know (even if you don't know you know them) while other options may surprise you. Here's a brief rundown of some options you can choose to invest in:

You can choose to invest your money in tangible things. One popular option is real estate. You can buy up property; as time passes, the value of that property will fluctuate. If things are going well, you can choose to then sell the property for a higher value than you paid. This kind of return does not happen overnight and it can be dangerous. If the property value goes down (which can happen due to anything from a natural disaster to the wrong people living in the neighbourhood), you may lose money. Still, there is always the option of holding on to your investment until the value goes up.

You hear about stocks all the time! It's on the news: the market is soaring! The market crashed. That should give you some idea of the volatility of this option. A stock is basically a piece of ownership in a company or particular commodity e.g. shares of a local company. You buy into a company and if it makes profits, you benefit financially. If it goes into debt, you owe its creditors. You make money on the stock market by investing in companies you think will have high profits, but it involves a fair amount of assumptions and guess work; still, this is the best way to get high returns.

The word "investment" has become muddled with overuse. Referring to a stock or a bond as an investment is still in regular use, but now people make "investments" in their education, their cars and even their flat screen TVs. In this Manual, we will look at the three basic types of investments as well as some of the things that are definitely not investments - no matter what the commercial says.

4.6 The Three Types of Investment

The Oxford Dictionary defines Investment as something that is purchased with money that is expected to produce income or profit. Investments can be broken into three basic groups: ownership, lending and cash equivalents.

i. Ownership Investments

Ownership investments are what comes to mind for most people when the word "investment" is batted around. Ownership investments are the most volatile and profitable class of investment. The following are examples of ownership investments:

ii. Stocks

Stocks are literally certificates that say you own a portion of a company. When you buy one of these investments, you have a right to a portion of a company's value or a right to carry out a certain action (as in a futures contract).

Your expectation of profit is realized (or not) by how the market values the asset you own the rights to. If you own shares in a company and the company posts a record profit, other investors are going to want buy that company's shares too. Their demand for shares drives up the price, increasing your profit if you choose to sell the shares.

iii. Business

The money put into starting and running a business is an investment. Entrepreneurship is one of the hardest investments to make because it requires more than just money. Consequently, it is also an ownership investment with extremely large potential returns. By creating a product or service and selling it to people who want it, entrepreneurs can make huge personal fortunes. Bill Gates, founder of Microsoft and one of the world's richest men, is a prime example.

iv. Real Estate

Houses, apartments or other dwellings that you buy to rent out or repair and resell are investments. The house you live in, however, is a different matter because it is filling a basic need. The house you live in fills your need for shelter and, although it may appreciate over time, it should not be purchased with an expectation of profit.

v. Savings Account

Even if you have nothing but a regular savings account, you can call yourself an investor. You are essentially lending money to the bank, which it will dole out in the form of loans.

vi. Cash Equivalents

These are investments that are "as good as cash," which means they are easy to convert back into cash.

vii. Habit-Forming

Many people would like to invest but never quite get around to it. Why? This is because they are not in the habit of setting aside the money (however small an amount it may be). It seems like more a challenge to put away even a few thousand shillings a year. But, if you have been steadily putting away money annually since before you really made your own money, it becomes second-nature and you don't question your annual contribution. This helps you avoid the temptation of giving up your investment dreams in order to have more disposal income right away. You're already geared to view things in the long run.

The earlier you start, the earlier you will be able to sit back and enjoy the money you have set aside. For example, if you start when you are forty, you will likely be putting away funds until the retirement age of 60. But, if you have been investing since you were young, you may have enough to take an early retirement, leaving the workplace as young as 40 to 50 years old.

5. Conclusion

One thing to remember when investing young is that you have time and the long term results are what matter. Do not sacrifice the long-term because you think there could be big returns in the short term, or you could risk losing everything. Also, make sure you consult a reliable financial advisor, since a young person with money may be an attractive target for less scrupulous individuals. If you are under 18 years old, you should definitely consult with your parents. Still, it pays off to start investing young, so be careful, but don't be discouraged.

i. Get the Right Information on Investing

Sometimes it seems like it would be easier to count the stars than figure out how to properly invest. The information out there can be overwhelming and, particularly given the way information is distributed across the internet, just plain wrong! Still, don't throw up your arms and give up just yet – it is possible to get the right information on investing, you just have to know where and how to look.

There is a plethora of information about investing available online. Much of it is good, solid information. The only problem is that it is buried in a ton of useless information which could easily lead you astray. The key is to get your advice from a trustworthy website or blog. Be wary of websites that could be after your money or credit card information, especially if they promise you huge, immediate returns. The fact is that the investments do not make people instant millions very often. When it does happen (which is rarely), it is more a matter of luck than the utilization of any particular secret. Instead, look for websites offering tips and tricks at no price and those that are created for the consumer-good. If they are a business, make sure you look up their rating at the Kenya Business Licensing Portal so you know they are credible advisors.

Many economists, financial advisors and other leading experts also have blogs through which they disseminate tips. Consider reading some to gain some insight.

ii. Books and Journals

Yes, books and journals (those old-fashioned things) can help you get the right information on investing. You can either peruse your local bookshop for books about investing or to save even more money, take a trip down to your local library. Either way, make sure to check out the author's credentials before you start to follow their information.

It can be hard to locate the right information on investing, especially initially. You may feel overwhelmed, as though it is impossible to separate the good from the bad, the right from the wrong. But by slowing down and taking the time to investigate the source of your information, you can find exactly what you need. Just remember, there is no rush!

iii. Other Investments

Your education is called an investment and many times, it does help you earn a higher income. A case could be made for you "selling" your education like a small business service in return for income like an ownership investment.

The reason it is not technically an investment is a practical one. For the sake of clarity, we need to avoid the craziness of having everything being classified as an investment. We would be "investing" every time we bought an item that could potentially make us more productive, such as investing in a cup of coffee to wake you up. It is the attempt to stretch the meaning of investment to purchases, rather than education, which has obscured the meaning.

Consumer purchases such as- beds, cars, TVs and anything that naturally depreciates with use and time - are not investments. You do not invest in a good night's sleep by buying a foam pillow, or invest in entertainment by buying an mp3 player.

There are only three types of investments: ownership, lending and cash equivalents. There is no fourth category of consumer purchases. Admittedly, it's a clever piece of advertising that removes some of the guilt from impulse purchasing; you're not spending money frivolously, you're investing! The decisive test is whether there is a potential to turn a profit. The important word is "potential" because not every legitimate investment makes money. Making money through investing requires researching and evaluating different investments, not simply knowing what is and is not an investment. That said, being able to see the difference between an investment and a purchase is an essential first step.

Get Out of Debt – Start Making Money

Want to get out of debt, get a mortgage and save for retirement?

Eric Tyson's Keys to Personal Financial Success

- Take charge of your finances. Procrastinating is detrimental to your long-term financial health. Don't wait for a crisis or major life event to get your act together. Read this book and start implementing a plan now!

- Don't buy consumer items (cars, clothing, vacations, and so on) that lose value over time on credit. Use debt only to make investments in things that gain value, such as real estate, a business, or an education.

- Use credit cards only for convenience, not for carrying debt. If you have a tendency to run up credit card debt, then get rid of your cards and use only cash, cheques, and debit cards.

- Live within your means and don't try to keep up with your co-workers, neighbours, and peers. Many who engage in conspicuous consumption are borrowing against their future; some end up bankrupt.

- Save and invest at least 5 to 10 percent of your income. Preferably, invest through a retirement savings account to reduce your taxes and ensure your future financial independence.

- Understand and use your employee benefits. If you are self-employed, find the best investment and insurance options available to you and use them.

- Research before purchase. Never purchase a financial product or service on the basis of an advertisement or salesperson's persuasion.

- Avoid financial products that carry high commissions and expenses. Companies that sell their products through aggressive sales techniques generally have the worst financial products and the highest commissions.

- Don't purchase any financial product that you do not understand. Ask questions and compare what you're being offered to the best sources recommended in this book.

- Avoid making emotionally based financial decisions. For example, investors who panic and sell their stock holdings after a major market correction miss a buying opportunity. Be especially careful in making important financial decisions after a major life change, such as a divorce, job loss, or death in your family.

- Make investing decisions based upon your needs and the long-term fundamentals of what you are buying. Ignore the predictive advice offered by financial investors; nobody has a working crystal ball. Do not make knee-jerk decisions based on news headlines. Own your home. In the long run, owning is more cost-effective than renting, unless you have a terrific rent-control deal. But do not buy until you can stay put for a number of years.

- Purchase broad insurance coverage to protect against financial catastrophes. Eliminate insurance for small potential losses. If you are married, make time to discuss joint goals, issues, and concerns. Be accepting of your partner's money personality; learn to compromise and manage as a team.

- Prepare for life changes. The better you are at living within your means and anticipating life changes, the better off you will be financially and emotionally.

- Read publications that have high quality standards and that aren't afraid to take a stand and recommend what is in your best interests. Prioritize your financial goals and start working toward them. Be patient. Focus on your accomplishments and learn from your past mistakes.

- Hire yourself first. You are the best financial person that you can hire. If you need help making a major decision, consult people you trust and those who have experience in financial matters and decision-making. Invest in yourself and others. Invest in your education, your health, and your relationships with family and friends. Having a lot of money isn't worth much if you don't have your health and people with whom to share your life. Give your time and money to causes that make our society and world a better place to live in.

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Annex I

Budget Template

Category	Monthly Budget Amount (Kshs)	Actual Budget (Kshs)	Difference (Kshs)
INCOME:			
Salary/Wages			
Other Incomes			
Income Subtotal			
EXPENSES			
Rent			
Utilities			
Food/Groceries			
Clothing			
Entertainment			
Miscellaneous/Other			
Expenses Subtotal			
Net income(Income-Expenses)			

Saving Plan Template

Keep this chart in a place you look at every month so that you can track your savings progress

MONTH	AMOUNT SAVED	TOTAL DEPOSIT	AMOUNT WITHDRAWN	AMOUNT BALANCE
January				
February				
March				
April				
May				
June				
July				
August				
September				
October				
November				
December				
Total				

Notes

Notes

Pamoja Tutetee Haki

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