Investing Basics

Savings is a method of accumulation of wealth through purchasing of other assets with an intention of making more income from them. The most well-known types of investment opportunities are in shares, share index, treasury bills, property and mutual funds. Different investments also have different levels of risks and returns, whereby stocks are normally riskier but if they return good profits; Bonds, on the other hand, are normally more secure but offer little profits. Thus, there is a need for understanding the associated risk of each type of investment to be able to develop a portfolio that supports you with your financial objectives while respecting your tolerance level to risks.

When considering investments, objective setting is often one of the first things to be accomplished. Are you so interested in the quest for long term growth, and or income or both? Your goals will act as the blueprint that will help you choose the number of investments that you wish to make. For instance, if you are saving for retirement maybe twenty years in advance, a person may not mind investing in growth stocks that will yield higher returns and yet be considerate in the near future. While on the other end of the spectrum, if you are almost close to retirement and emergencies are inevitable then it is better to invest in conservative investments such as bonds and high-dividend-paying stocks. It’s crucial, therefore, to have a proper understanding of your investment time horizon and investment strategies.

The idea of diversification goes to the very basis of investing, and it plays the role of risk management. Diversification is a strategy of dividing your money among several investments as opposed to investment where all your capital is allocated to one asset or a particular investment. This is because the more you spread across various forms of assets, industries, and locations the higher the likelihood of doing better in terms of returns volatility. Portfolio should also be checked and adjusted at certain periods as it is crucial to have a portfolio that is well aligned to the investor's objectives in the prevailing market conditions and the course of the investment. It has often been described that investing is a marathon and not a sprint so therefore it requires a lot of patience, discipline and most importantly learning.