



Reaping the most out of your capital market investments

With the good performance registered by the capital market and the high returns being offered as compared to the money market, many individuals have directed their investments to the capital market. However, investing in the capital market is one thing and earning higher returns is another thing. The manner in which one invests determines the returns.

Risk

The high return on the capital market is an indicator of the risk associated with capital market investments. An investor has to take into consideration the liquidity risk and business risk associated with each counter before investing. If investment decisions are not well calculated one could end up losing a good part of the gains even the initial amount invested when share prices decline.

Investor tendencies

Most investors have all their funds locked up in one counter or one sector/industry. This exposes the investors to greater risk since their returns are fully dependant on the success of that counter or sector/industry, such that any decline in share price implies a loss to the investors.

In addition, most local investors also get overly excited with initial public offer (IPOs) to the extent that they are willing to sell other shares held simply to acquire new shares during an IPO. This is not to say that IPOs do not yield high returns, in fact IPOs yield very high returns when they have been oversubscribed by a good amount hence allowing investors to make profits. However, for investors seeking long term investments it is risky to invest all the funds in an IPO. This is because though share prices increase soon after the IPO future improvements will depend on the performance of the company and in other instances, such as MPICO and REAL insurance, share prices may actually decline.

Solution to the problem

Diversification of portfolios is the best option in the minimization of risks. A diversified portfolio ensures that losses made on other counters are offset by gains made on other counters. The diversification in question is the one that entails investing in different sectors thereby ensuring that there is no correlation between factors affecting performance of counters in different sectors. In developed countries investors diversify even beyond the capital market as well as their local stock exchange. Limited expertise/understanding or limited time are not sound excuses due to the availability of institutions that specialize in managing investment portfolios. CDH Asset Management for one is an expert in portfolio management and will help ensure that you build a portfolio that balances risk and return. They do not promise to become a rich person, though.

CDH Stockbrokers also takes up an advisory role and will assist you in making well informed decisions that will help you yield the most from your capital market investments.

MARKET STATISTICS

Treasury Bill Yields

Week ended 10th October 2008

Table with 3 columns: Tenor days, Previous %, Current %

RBM Bill Yields

Week ending 17th October 2008

Table with 3 columns: Tenor days, Previous %, Current %

CDH Investment Rates

Value date: 3rd September 2008

Table with 2 columns: Tenor/Period, Rate %

Inflation Rates

Aug. 08 Sept. 08

Table with 2 columns: Category, Rate

Middle Exchange Rates

13.09.08 17.09.08

Table with 3 columns: Currency, Previous, Current

Stock Exchange

Week ended 17th October 2008

Table with 3 columns: Index, Previous Points, Current Points

Unknown: "A good investor is not afraid to build first hand knowledge and not too proud to seek the advice of an investment professional". Consult CDH: Diversity in Financial Solutions