

ARMENIAN STOCK EXCHANGE

ARMEX

FUTURE PLANS, SAVINGS AND INVESTMENTS

Essential Truths about Savings and Investing

Comprehensive Brochure for Wide Range of Readers

Capital Markets Development Project in the Republic of Armenia

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DEAR READER,

While money does not grow on trees, and moreover in drawers or under pillows, it may actually work and grow if we save and make proper investing.

All people seek for financial security and well being. However, only a small number of successful people receive inheritance or have a steady and sufficient source of income. No matter, you have an inheritance or steady income source it is useful for everyone to know how to build the future financial security and welfare. You do not need to be a genius for that. You just need to know that the best way to gain financial security is the proper savings and investing. All you have to do is to decide why and how to save and where to invest? It does not matter how much money you have. The important thing is the proper organization and starting.

Many people speak about savings and investing, but a few know the difference between the two. Basically, they are very similar. Saving is the unspent money or income. Saving is the part of the accumulated income that we try to keep with reliable means without concentrating on the expected profitability. Investment is the part of the saved amount through which we, undertaking certain risks, obtain products promising relatively high returns.

While reading this book you will gain certain idea about the savings and investing basics. You will learn that to receive additional returns, you need to save and invest part of your money effectively. You will see that the best way to grow your saved money is to put it in securities, which may secure the investor with a regular return, growth of the principal amount or both of them. You will reach an understanding which securities to put the saved amounts in and how to invest them, or how to check and select investment products and persons providing investment services so as not to become another victim of the fraud or errors.

No one can guarantee that our investments shall secure significant wealth for us. However, if you learn the basics of savings and investing we will be able to become a successful investor rather than a victim of fraud and enjoy the benefits of managing your money.

YOU CAN DO IT!

For many people the basic source for the financial security is appropriate savings and investing. Many of successful investors and riches and sponsors initially gained their investing knowledge from the similar brochures.

Starting even from modest investing many people in different countries reach financial security. Through savings and investing they succeed to buy houses, pay for their

children's education, secure financial safety when left unemployed as well as in other situations or enjoy comfortable retirement. If other countries with lower economic standards succeeded to accomplish this, why shouldn't it work for our country?

Moreover, apart from the additional returns, the savings and investing help businesses and the country economy to grow stronger. And that brings additional wealth to all of us.

WHAT IS STOPPING US?

- "I have plenty of time to think about investing later".
- "Who is gonna pay me back? Shouldn't I loose my money again?"
- "How to invest? I'm deep in debts. I can hardly make both ends meet".
- "Where to invest? I'm sick and tired of becoming a fool and loosing my money!"
- "I didn't get a single luma from investing vouchers, why should I invest money now?"
- "So, the money disappeared from the banks is not enough, and now comes joint stock companies, stocks, investments, dividends, brokers, exchanges, quotation, etc."

Although such and similar common attitude typically referring to savings and investing do bear a certain portion of the bitter truth, still these thoughts don't help to resolve the financial problems connected with your future. Imagine what you could accomplish if you had the below stated ideas running through your head instead:

- "To have money in the future I'll to start saving and setting my goals and planning from today".
- "I can start small and watch my initial savings and investing grow".
- "Even the longest road starts from the first step".
- "Loosing money or being fooled in the past doesn't mean that it should always be like that. I'll be more careful this time. After all many become rich through investing".

Thinking like this will probably stimulate you to initiate certain practical steps and first attempts to find out the basic reasons preventing you from saving and investing.

WHAT IS THE COST OF OUR DREAMS?

If you don't know where you are going, you may end up somewhere you don't want to be. To choose and monitor the right road you have to identify your goals, evaluate opportunities and plan the steps. This common principle works in the world of savings and investing as well. So, let us think a little bit why do people save and make investments? Or, "What is the cost" of our dreams and future plans. In particular, how much we need for:

- to pay for our or our children's education;
- to buy house, car or furniture;
- to marry children;
- for recreation;
- in case of unemployment, or for health care;
- to look after parents;
- for retirement, and etc.

If you don't think about all these issues earlier, you act like a well-known bird, just hiding your head in the sand. All of us know many stories about people who, being unable to solve "the unexpected" financial problems, found themselves deep in debt and had to sell their property at the cheapest price. These stories could have been fewer should the goals were identified and required financial sources evaluated earlier so as to accumulate them through savings and investing. Obviously this is less painful and more effective process than falling in debt. In choosing this road you will waste less money to solve your problems and to reach your goals. You will not throw money into the air, rather you will generate additional amounts.

The appropriate selection of investing plan based on your saving opportunities and satisfying your investment requirements among the various options as well as its planning and accomplishing or the answers to the questions "how much and how to save and invest" are directly connected with your personal opportunities, peculiarities of the investment goals, person's age, risk tolerance and other factors.

Let us discuss a couple of important issues that many of us have to address. First, retirement or the unemployment problem. Only a few have sufficient sources to secure a comfortable retirement or survive when unemployed. Many of us have to save money throughout long years. Therefore, first let us determine your retirement plans: when and how much money you would like to have when you are retired. How much do you have to save and invest every month or year? What are your prospects connected with savings and investing? Which risks are you ready to undertake to receive maximum returns against your investments? A significant role in securing your comfortable retirement may play the correct answers to these and other related questions, identification of the retirement needs and preparation and accomplishment of the financial plan fitting your savings and investing goals. Without going into the details related to the preparation of the individual plans, let us demonstrate additional facts stating the importance of retirement planning: oHow much do you to save

- In general, the majority of people need 75% of their current annual income to attain their regular standard of living after they are retired.
- Greater part of the pensioners needs additional sources. In particular, in the USA social payments and pension fund covers only 40-50% of the income necessary for the comfortable life. The remaining 50-60% is supplemented through the pensioners' personal savings.
- The saved money is used after certain years during which life becomes more expensive due to the inflation.

Now let us discuss the issue of the tuition fee. Those who have faced the painful problem know how desperate it is when the child is "dismissed from the University" since the tuition fee is not paid, and there are no savings and no sponsor or lender. To prevent such situations, the education funds should be planned and generated earlier. However, while computing the required amount it should be taken into consideration that the money will be used after certain years, and probably within that time the education fee will grow and the money needs to be spread over tuition years, and etc. After the identification of these issues and calculation of the necessary amounts you may determine the savings and type of investing instruments to reach your goals.

As seen from the discussed examples, generally the accomplishment of our goals contains the following consecutive phases:

- Preparation of financial plan to accomplish the goals.
- Adoption of strategy appropriate to the savings and investing.
- Implementation and monitoring of the investment process.

When planning the future goals and financial needs should be grouped according to the priorities, sizes of the necessary amounts, terms and etc. Without the stated steps it is impossible to determine the savings and investing option that corresponds to each of your goals as well as your time frame for meeting each goal.

"YOUR NET WORTH"

You cannot start a journey without knowing where you're starting. The journey into the investment world is no different. Before you start you need to figure out how your goals fit your financial state and opportunities. To assess your financial opportunities you need to calculate your financial entries (incomes, receivables), outflows (expenses, obligations) for the certain period of time as well as their difference and saving opportunities.

One of the most accepted parameters to estimate the financial state is your net worth. To determine it you need to fill in what you own in the first column Table below. Those will be your assets or property. In the next column fill in what you owe or your debts. If your assets are larger than your liabilities, you have a "positive" net worth and you are "worth something". If your liabilities are larger than your assets, your net worth is "negative".

You don't need to be discouraged if the difference between your incomes and expenses or your net worth is negative. The good point is that at least you've become aware of it now. This is also a progress. Groping your way in the uncertainty will further deteriorate your situation.

Components to Determine Your Net Asset			
Your Assets		Your Liabilities	
Items	Current Price	Items	Current Price
<ul style="list-style-type: none"> • Cash • bank accounts • savings • insurance • receivables • house & other real estate • investments • personal property • others 		<ul style="list-style-type: none"> • mortgage • credit cards • bank credits • payables • liabilities • others 	
Total		Total	

It is recommended to update regularly the balance of your incomes and expenses and the net worth so as to track your progress or changes in respect of your goals and opportunities. If you have financial rehabilitation or investment plan you will be inspired to find out that you are moving forward according to your plan and soon will have a positive net worth.

PAY YOURSELF FIRST

It is not a secret that many people have fewer incomes as compared to their necessary expenses. Under such situations it is really problematic to find sources for saving and investing. So what you gonna do? You need to learn to "pay yourself first" rather than save every luma you used to spend on essential needs. For this purpose you have to add a column called "Payables to me" in your financial plan statement. In fact it should be the top line of your statement, i.e. you have to take care of yourself and pay yourself first.

And to do it, you have to start your Expenses list with additional Row called "Savings and Investing":

Financial Plan			
Your Incomes		Your Expenses	
Items	Amount	Items	Amount
<ul style="list-style-type: none"> • salary • pension, subsidy • bank saving interests • bond interests • incomes from private business • stock dividends • other incomes 		<ul style="list-style-type: none"> • <i>Savings</i> • <i>Investments</i> • house rent • heating and etc. • taxes • credit servicing • food • transportation costs • consumer goods • education • health care and recreation • other expenses 	
Total		Total	

Yes, what you pay to you is your savings and investments that should stand at the top of your list of expenses. So, let us adopt a useful habit of including the money envisaged for paying you or savings and investing at the top of the list. Many people in different countries secured the habit of savings and investing by following "always pay yourself and your family first" principle. To overcome the psychological problem of paying you first, many people allow their contractors, bank or spouse to regularly withdraw and transfer money to the saving or investment account. In doing so you can avoid spending all your income before paying yourself and probably you won't even notice the difference.

HIDDEN OPPORTUNITES

What should be done when in planning your expenses and incomes you become aware that nothing is left for saving or paying you first? You have to look for additional income source or cut back on your daily expenses and save the earned money rather than to get depressed and do nothing. *In fact the saved money is also earned money and income, and after all the saved money determines your wealth.* Therefore, let us put aside the issue of the additional income and try to find out your saving opportunities. In planning your expenses and watching them carefully you will be surprised at the variety of the

"hidden" opportunities. However, to spend less than your earnings and to save money you should be disciplined and make saving your every day habit as well as follow several useful advice that limit the expenses:

- Don't borrow on consumption and current expenses.
- Plan, put down and compare all your expenses with your plan.
- Eliminate from the budget such expenses that do not affect the quality of life.
- Try to avoid spending the saved money for other purposes.
- Buy goods on sale or cheap goods.
- Try to avoid buying new goods without good reasoning.
- Save and accumulate the spare change.
- Quit the bad expensive habits, and etc.

Now let me explain the usefulness and efficiency of some of the above stated practical advice. First let us find out how much your daily whims may add up your expenses. You need to start from reducing such expenses and make them savings and investments.

How much do several cups of coffee or a pack of cigarette cost you? If you buy two cups of coffee or a pack of cigarette every day at 550 AMD (app. \$1), that adds up to 200.000 AMD (app. 365 USD). If you saved that 200.000 AMD and put it into a saving account that earns 12% a year, it would grow twice by the end of 6 years.

Thus, if you watch your expenses and look for little ways to save your current expenses you can make your money grow significantly. If one cup of coffee can make such a notable result, start looking for additional sources to reduce your expenses and make investments.

Let us discuss the habit of borrowing money to buy goods in the result of which you, notwithstanding, pay more for the same item.

For example, if you bought a TV at 100, 000 AMD and paid monthly balance an 18% accumulated interest rate, the cost of your TV would amount to over 139,000 AMD.

Now let us discuss planned or unplanned and impulsive purchases.

For example, usually when buying toys, fashion clothes and other first priority consumables you don't consider how much they would be worth after some years or how much the spent amounts could be increased if invested. Instead, if you invested the money put aside after you succeeded to avoid non-necessary purchases with an 12% annual interest rate, you could have doubled your money and expanded your purchasing chances. Therefore, you need to think before each purchase.

If you have an impulse to purchase something, try to postpone it for a day or two. Usually you won't be interested in purchasing that item any longer.

Summarizing the advice related to the expense reduction, one additional point: you have to be reasonable and flexible, and remember if you eat beans or rice every night for a month, then maybe you're saving too much or you're not in a position to pay yourself.

Now since you can save and avoid becoming a cheated depositor or lottery player, you need to understand how to grow money in the world of savings and investing, how to increase the efficiency of this process and what your chances are.

TIME VALUE OF MONEY

Is 100 AMD always worth 100 AMD? Or is \$1 always worth \$1? This is a very important and simple question. Of course, 100 AMD is not always worth 100 AMD. Sometimes 100 AMD is worth 91 and sometimes 109 AMD. How can it be? For example, would it be fair if you got 91 or 109 AMD against 100 AMD.

Yes, indeed, the value of money is continuously changing. The most important factors constantly impacting the time value of money are its "working" and inflation. If you've lent 100 AMD without interest rate, then you want it to be returned today, rather than in a year. Due to the inflation that decreases the purchasing power of money, in a year the 100 AMD worth will be less than it is today. All kind of monies undergo inflation with different speed and peculiarities, including AMD and USD. If the dollar annual inflation is 2%, it means that the prices, on average, will raise 2% in a year which means that the dollar purchasing power will be less by 2% over the next year and the cost of today's dollar will be equal to 98 cent. And what about our AMD? In general, the AMD inflation is higher, but nevertheless, the same peculiarities are observed in this case as well. If the AMD inflation for one year is 9%, it means that the prices will go up, on average, by 9%. Next year the AMD purchasing power will be 9% less and the cost of today's 100 AMD will be only 91 AMD. In our case the 7% difference between the dollar- dram inflation is the change (inflation) of the USD-AMD exchange rate.

And what if you receive your money back today? In case of receiving back \$1 and investing it at an annual 10%, you will have \$1.10 by the end of the year. Taking into account 2% of the dollar inflation, your annual net return will be 8 cent from \$1 or 8%. And what about AMD? In case of investing 100AMD at an annual 20% (which in fact is the rate of the ROA T-bills, bank deposits and etc.), next year you will have 120AMD. Considering the annual 9% inflation, the annual net return will be 11%. The cost of your current 100 AMD will equal to 111 AMD next year.

Let us wrap up the discussion concerning the inflation in reviewing the following sample case. The older of the two friends will retire in 5 years, and the younger in 10 years. Each of them has saved for the retirement and wants to keep at home 1,000 USD and 550,000 AMD respectively. How much will cost their 1,000 USD and 550,000 AMD at the time of their retirement if the dollar inflation, on average, is 2%, and AMD

– 10%? The older person at the time of retirement will find out that his saved 1,000 USD equals 904 USD (or its purchasing power is less as compared with 5 years earlier), and the younger person will see that his 550,000 AMD costs now 325,000 AMD. If the younger person will not draw certain conclusions and continues to keep the money at home, at the time he retires he'll find out that the purchasing power of his saved 1,000 USD is now 817 USD and 550,000 AMD – only 192,000 AMD.

Before moving forward, let's draw some practical conclusions referring to the inflation and time value of money.

- Saved amounts should not be kept at home or hidden at other place left without working.
- Money being kept without working is becoming less due to the inflation.
- The higher is the inflation or the longer is its duration, the more drastically your non working money is destroyed.
- Time and inflation cooperate with each other as main enemies against the non-working money.
- To avoid inflation and to grow money, the saved money should work.

MIRACLE OF COMPOUNDING

The general parameters of money effectiveness are its return, profit and its interests (income and profitability /profit rate, interest/ respectively), irrespective how it works or depending on types of investment instruments. Let us clarify these parameters with the following example: let us assume that 1,000 AMD invested in the securities reaches 1,200 AMD in the result of "one-year work". In this case the total income is 1,200 AMD, and the profit 200 AMD.

Every one knows this and each of us desire to gain the highest possible returns when making short-term investments. However, only a few of us, depending on a number of objective and subjective reasons, make long-term investments. One of the basic reasons is that many of us have heard but do not have an idea about compounding and what miracles it can make with the long-term investments. Many assume that when they invest 1,000 AMD in securities securing 18% per year for 10 year period, then their annual profit will be 180 AMD, and in 10 years will total to 1,800 AMD. Sharing such thoughts they avoid long-term investing hoping to find more profitable short-term investing chances.

To finish with this wrong conception, it is time to explain the miracle of complex, compounding, additional or cumulative interests. "Compounding is mankind's greatest invention because it allows for the reliable, systematic accumulation of wealth", said Albert Einstein. In fact, the essence of this miracle is very simple and may be explained in the following way: the return generated at the end of each investment period (in

particular at the end of the month or year) together with the principal money brings additional returns in the next phase.

If you invest 100 AMD with an annual 10%, at the end of the first year the amount will be 110 AMD. By the end of the second year you will have 121 AMD instead of 120 AMD. This 1 AMD is the compounding or the return on the interest.

Many will say this we know, this is "our interest on interest". Yes, indeed, this is the well known, but not used interest on interest.

If used in the previous sample case, 1,000 AMD invested at the annual 18% would be 5,234 AMD in 10 years instead of 2,800. It means that the average annual profitability would be 42.3% and not 18%. In 20 years the invested money instead of 4,600 (1,000 + 20x180) or 9,468 (1,000 +2x4, 234) would be 27,393 AMD, and the average annual profitability would amount to the unbelievable 264 %.

As seen from the sample when your money grows and in case of investing the time becomes your partner and your money begins to mushroom with years. If you extend your investment terms or increase the rates your returns will grow progressively. The below Table demonstrates the growth of each invested 100 AMD given the different interest rates and years.

Duration of Investment	Total returns gained in case of different rate investments (AMD)			
	5%	10%	15%	20%
Years				
5	128	161	201	249
10	163	259	405	619
15	208	418	814	1,541
20	265	673	1,637	3,834
25	339	1,083	3,292	9,540
35	552	2,810	13,318	59,067
45	899	7,298	53,877	365,726
55	1,147	11,739	108,366	910,044

Now you won't get surprised if you learn that someone has doubled his/her money due to the investing in 6 or 12 years. In addition to compounding you should know also "the Rule of 72". It shows how long it takes to double your money given the different interests. You simply need to divide 72 on the annual profitability of your investment.

For example, in case of 6% interest rate the amount will be doubled during 12 years, and in case of 12% it will be doubled in 6 years.

We can bring endless samples of compounding. However, the important conclusion is as follows: *make reasonable savings and long-term investments as early as possible.*

The compounding is especially effective when without spending the invested money, you add them on the regular basis throughout the years.

Let us return to the sample case of 1,000 AMD invested at an annual 18% for 10 years period. If following the first investing, you added up 1,000 AMD each year at the same rate, your total investment would be only 10,000 AMD, and your total amount would reach 27,755AMD. Should you continue and invest 20,000 AMD within 20 years, your amount will become 173,000 AMD.

So, actually you could see the accomplishment of your dreams and future plans following the most common and simple principles: patience, long-term investing and compounding.

COST OF STARTING LATE

Postponing your investing career is second serious mistake next to not investing at all. As seen from the above samples and based on your experience the later you start investing for a specific purpose, the more costly it becomes. It is possible that you would spend several times much money to fill in for the missing years.

For example, 25-years old Andranik wants to have 5 million AMD when he is retired at the age of 60. To reach his goal he needs to invest 1,310 AMD every month at an annual 10% for 35 years, investing in total half a million AMD. If he starts investing from the age of 35, the necessary monthly payments will be 3,740AMD and the total invested amount will exceed one million. If he starts investing after 40 his monthly investments will increase five times reaching 6,530 AMD, and the total invested amount will exceed one and half a million AMD.

Another example: If parents save 100 AMD each day starting from the date of their child's birthday and invest the amount in the 12% securities, then when the child becomes 18, it will have one and half a million AMD. If parents invest with an annual 33%, the money will total to 10 million AMD. Given our reality it seems sufficient to secure comfortable retirement.

If you still haven't made up your mind should you invest or not, let us bring another example that explicitly shows the cost of starting late.

Sample case: Hasmik and Lilit are 15. Hasmik's parents start to save 50,000 AMD per year after their daughter reaches 15. To do so they simply drink one cup of coffee less. They invest the saved money in the compounding for 10 years through buying government bonds with 20% return. Lilit's parents and Lilit herself do not save or invest till she's 40. Starting from 40, feeling the breath of old age, Lilit saves and invests approximately half a million AMD per year for 26 years. Since Hasmik invested half a million AMD during her youth during 10 years, she had more than half a million dollars when she became 65. While Lilit, working hard and investing in total more than 13 million AMD for 26 years has twice as less as Hasmik. No one of them lives at the old peoples' home; however, Hasmik's investments grow twice as much as Lilit's within 50 years, although she's made far less efforts for that.

LOSSES AND FACTUAL RETURNS

The average annual profitability of investments at the securities international markets was not less than 10-12% for many years. Therefore, if a person doubles his money within 12 years, in fact his return is twice as less as market average. One of the investment secrets lays here. So, the question is how to invest so as your return exceeds the market average.

In addition to looking for investment opportunities promising high returns than market average, what other circumstances should be considered when investing?

Suppose your investments in a company's securities gives you 30% return. You need to identify how much is your factual return. One of the most significant factors that we are inclined to ignore, are the taxes from our expected returns. Before investing you should know how your returns from different securities are taxed. For example, in case of 20% income tax the actual return from securities producing 30% return is 24%. If you put the money in any government bond that is not taxable and secures 24% return, your actual return will be the same. In this case the important thing is how much you have at the end.

As mentioned earlier the other factor affecting the factual returns is the inflation. In this particular case if your return is 24% after taxation and the inflation decreases the purchasing power of your money by 6%, then your factual return is 18%.

To make a reasonable investment decision and to calculate the factual returns first, you need to know the average annual rates of the different investment products as well as peculiarities of the investment taxation and inflation indices.

GAMBLING OR INVESTING?

At hearing or recalling that someone won lottery jackpot or at casino or other lucky chances, we think why should we put money in slow-and-steady investment products. After all they promise only double-digit returns throughout the years. With compounding, including in the securities markets, you have to wait patiently for years for your riches to accumulate. And what if you want your riches and immediately?

When you sit back with your head full of such thoughts you attempt to ignore that guessing, gambling and speculating in general do not secure long-term and constant luck. We try to ignore that our friends and we lost our savings in suspicious deals or our fights to get the lottery rewards or money.

It is worth recalling our savings lost in the fabricated "banks". We attacked suspicious institutions neglecting serious and reliable banks. We were standing in long lines and looking for ways to hand over our money earned by sweat of our brow to some mysterious wizards. Why? Just because they were promising higher returns compared to the regularly operating bank rates. So we never cared to find out anything about so called bank or investment fund that were promising golden rain. We never asked who were the founders, what industry they were involved in, did they have the respective license, how much was their income or what were the legal sources of their income, did they have any problems with the authorities or their clients?

And why didn't we care? Because we don't like slow-and-steady investing, we don't like to wait for our returns to grow little by little; we don't like to stand for our legal rights, and etc. We don't like all of the stated since we like to score a goal only and don't want to see that many of the various "games" solely make immediate promises and seldom fulfill them.

So, now many of us play all types of bingo, sort of forgetting that once we were cheated depositors, although we do understand *that each luma spent on gambling is the luma that won't work for the long-term and bring additional returns.*

Now let us compare the alternative options to work our saved money, rather than remain with the sad memories. First, let us see what are the odds of winning the lottery jackpot? The highest chance, depending on certain circumstances may be 1 in 1,000, 10,000, 100,000 or 1,000,000. And only a few know what part of the accumulated money is allocated for the winning. Now let us sit down and just calculate how much we spent on various bingos, lottery and other "miracles". And how much additional money could we have had should we saved and invested properly at least at a monthly 2-2.5%. Opposite to gambling, the properly made investments, patience and consistent activity as a rule secure the implementation of our goals over a certain period of time.

In fact you can gamble in the securities market as well, and sometimes, with astonishing success, to win riches or loose all your investing. The unknown securities, just like

lotteries and bingos, are risky. Investing in the securities about which you know nothing, including the market prices or issuers, you are gambling in fact.

Say you overhear that a company called "Hrashq Hayk" will "go through roof in the next few months". If you immediately buy the securities of that company, you've just gambled. Did you know anything about that company? Did you hear anything about its competitors? Did you try to find out how much was its proceeds last year or quarter? Did you check the price volatility in the securities market? And finally, do you know what is a security or securities market? What are the differences between stock and bond? Why do they earn money for us? Before investing you need to clarify the answers to these and a number of similar issues. Otherwise, when you buy any security issued by such a "great" company, you become an ordinary gambler. When in such cases you face failure, you shouldn't get mad that you've lost the money you invested.

The patient, consistent and long-term investments in the securities market can secure your future wealth. Just to become ascertained of it, let us consider some statistical data regarding the profitability of the most common investment products. Since the securities market of our country is underdeveloped and the historical experience is rather limited, we will represent the statistics of other countries, in particular that of the USA.

Investing in short-term bonds (in particular, the USA treasury bonds and the securities issued by the investment funds that make investments in the short-term bonds) secured approximately 4.2% average annual return during the last century. As compared with the standards of the current profitability of our country, it does not seem too high. However, in the 1960s of the last century the inflation was negligible in the USA, and the annual 4.2% return was acceptable for many people. For the same period, the long-term US government bonds secured only 4.2% annual return, and this, in fact, is not a high index. During the last century the best times for the bonds were the 1980s when the average annual return was 13.81%, and the worst years the 1950s, when bonds annual loss was 3.75%. In general, had you invested \$1 in long-term bonds in 1900, you would have about 50 times more.

Stocks secure higher return as compared to bonds. In the USA the average return of securities in the last century was 9.8%, however, in 1999s it declined to 0.17%. In the 1950s the average annual return was 18.23%, in the 1980s – 16.64% and in the 1990s – 17.3%. To be short, had you put \$1 into stocks in 1900, you would have approximately 10,000 USD today.

What are the investment opportunities in the Armenian financial markets? The Table below contains the statistical data of the last 5 years (1996-2001), according to which the AMD-USD inflation was 34% or in average 7% per year. It is worth mentioning that the inflation was respectively 19, 2, 7 and 4% according to the years. The factual average annual return of the ROA short-term T-bills exceeds 45% and 25% in the US dollar sense in 1996-1999 and 2000 respectively. Currently the average market return alters around 20%. The average return of the commercial bank deposits exceeds 20% in the US dollar sense, and if calculated in AMD, it reaches approximately 30%.

General Figures of the ROA Financial Market										
Figures	1996	1997	1998	1999	2000	2001				
						I	II	III	IV	V
T-bill returns	45	54	45	54	26	26	22	24	25	22
Credit interest rates	61/49	53/49	49/44	37/36	29	24	29	25	33	33
Deposit rates	38/29	33/25	30/25	26/23	20	19	18	18	20	21
AMD/USD exchange rate	414	492	502	534	555	553	553	546	548	552

MONEY INCREASE AND INTERESTS

Probably everyone knows that basically there are two ways to make money:

- *You work for money or "to earn money"*. In this case someone pays you to work for him or you have your own business and you work for yourself.
- *Your money works for you*. You save your money and invest.

Savings and investing, in their turn, can make money for us in one of the two ways:

- You lend the invested money so as to earn additional money or "interest". These are the relations between you and any company or the state when you buy their issued bonds. When you buy stocks of a company that pay dividends on the regular basis, then you will regularly receive your part of the company's profit.
- You buy something with your invested money hoping that its value will increase over time. When you need cash, you sell it hoping that someone else will pay more for it. The same thing happens when you buy stocks of any company and become the owner of that company in accord with the proportion of your stocks. When company works with profit, its capital and interest of investors in its stocks increase. If you and other shareholders decide not to receive dividends from the company, it doesn't mean that your money failed to earn money for you. In this case the market price of the stocks will increase and by selling your stocks at the higher price than you initially paid the "increased value" of your money or capital gain will be returned.

Very often the money invested in securities may bring both "interests" and increase in their value. In particular, your invested money works in this way when you receive dividends from your obtained stocks and then sell it at a higher price.

RISK AND RETURNS

As has been mentioned savings is the part of money that you allocate at the safest and liquid investment products or purchase such goods that you may sell any time and have your money back. Usually such opportunity is provided by bank deposits, bank accounts, certificates of deposit, short-term T-bills and etc. As a rule, when working money is secured and has high liquidity, i.e. may be transferred into cash without significant losses, its return is not high. Most of smart investors, limiting their expectations connected with the returns, put enough money in savings products so as to have their cash immediately without notable losses.

However, speaking about investment security we should not forget about their actual profitability. In particular, is it safe to invest your principal money in one saving instrument, which return sometimes may be lower than inflation? For example, if you save 100 AMD to buy bread and after some years you take off from your savings account that 100 AMD and its interests you find out that you can buy only half the bread.

For the above stated reason even those who prefer security, do not ignore risky investments providing higher returns. As we learn in studying the compounding, the advantages of the risky investments (when the returns are accumulated and bring additional returns) as compared to savings become more explicit in case of long-term investments. In general, when you invest you have a greater chance or risk to lose the principal amount or its part; on the other hand, compared with savings you also have the opportunity to earn more money.

Many people protect their money or returns against investment risks by spreading or diversifying their money in various investment products. In doing so you hope that returns from other investments will make up for the losses you've suffered. Once you've saved your money for investing, consider carefully all your options and think which investments and combinations fit best your investment goals, return expectations and risk tolerance.

While no one can recommend you any particular investment product, you should know that a vast array of investment products exists, including stocks, corporate and government bonds, certificates of deposits, bank accounts and etc. Even if the diversification of investments cannot guarantee that your investments won't suffer if the market drops, it may help to balance the possible risks and returns in various investment products.

In general, when investing, including in securities, you should remember that the higher is the expected return, the higher is the risk or chance to lose. To understand the real world of investments it is necessary to identify and know the main types of risks, in particular:

- ***Inflation risk*** is conditioned by the chance of losing of purchasing power of our investments and savings.

- **Credit risk** is conditioned by the default of the issuer to accomplish its obligations and to return the borrowed money to investors.
- **Interest risk** is conditioned by the chance of losing the market value of your investments if interest rates go up.
- **Liquidity risk** is conditioned by the limitation of converting your investments back to cash at the market price without significant time losses.
- **Market risk** is conditioned by the market volatility of bonds due to the company's performance or political and economic conditions.
- **Securities market systemic risks** are conditioned by violations regarding information and disclosure, non-complete price formation mechanisms, delays in accomplishing their liabilities.

In short, it is necessary to have a clear idea concerning the risks associated with investing and different types of securities in order to assess our readiness and opportunities of sustaining the risks and try to balance them with the expected returns.

Trying to find out which are the best investments, you will see that there doesn't exist a certain single answer to it. The answer depends on future plans and investment goals, current need of the cash, investment opportunities, investment timing, investment knowledge, access to information, and etc. of each investor. Finally, the answer depends on whether you will be able to sleep at night if you purchase a risky security where you could lose your principal.

STOCKS AND BONDS

You already know that the basic investment instruments of the securities market are stocks and bonds. When purchasing them you become an owner of the company having issued the respective security. In making investment in securities, given your investment goals and opportunities, usually you need to select one or a certain combination of investment instruments. Avoiding to include professional formulations and without going into details we'll clarify the basic investment peculiarities of stocks and bonds.

Let's say you believe that a beer producing company may be a good investment. Your friends enjoy the beer produced by that company. Moreover, they tell you that the beer is winning different awards at the international fairs on a regular basis, and the company is planning to expand the export. Now when you have investment interests, you need to gain some additional information about the status of the company, which may be done either by yourself or by applying for a professional assistance. An investment professional studies all documents related to the company and provides its conclusion to you. After studying the respective document you become assured that it is a reliable company and will operate for many years.

The company has issued both stocks and bonds. The maturity period of company's bonds is 3 (three) years, and this is the time when the company is going to pay your initial

investment. The company envisages to pay 16% annual return, the payment of which will be twice in a year at 8%. The company doesn't have the liability to pay back the stocks and return your initial investment. In buying stocks you undertake additional risk since when the company's financial state aggravates or market price drops, you may possibly lose a portion or all of your invested money. But you may also see the stock increase in value that would exceed the bond expected returns. In purchasing stock you become one of the owners of the company, and if the company makes profit, you'll only make more money.

You wrestle with the decision. You think that the company will be able to accomplish its liabilities connected with bonds since it has been operating for several years and doesn't seem to go bankrupt. Therefore, if you buy bonds, you will get your money back plus additional 16% annual return. On the other hand, you know that the value of the company's stocks increases by 14-17% per year at the exchange, and as a rule, the company pays 6-7% dividend from its profits to the shareholders. If the company continues like that, then if you purchase stocks your annual return will reach 24% from 16%.

Only time will tell which was the right choice. If you buy stocks you have to watch the company's performance and stock price in the market. You may keep the stocks as long as company sells its beer successfully and the stock price remains high. In purchasing bonds you are more confident and you won't need to keep a close eye on the company or its stocks. But in this case your return may be less. Maybe you need to buy both of them? Before making any decision let us summarize the peculiarities of stocks and bonds:

- ***In case of bonds*** you lend money for a certain period of time and at a certain rate. The company undertakes the liability to repay the invested money as well as interests envisaged by the bond issuance conditions. In case of bankruptcy or liquidation the company will pay first to the bond owners before accomplishing its other liabilities.
- ***In case of stocks*** you become a co-owner of the company and you have a right to participate in its management. If the company makes profit, then after paying its liabilities you will receive dividends as well. If the company operates well, the stock price may also increase in the securities market. You may get higher returns as compared to bonds. But, if the company has losses, is bankrupted or liquidated, the risk of losing a portion or all of your investment becomes higher.

However, you still have time to make a decision and think whether you should buy some stocks of its competitor company. What is holding you back from learning about securities issued by companies successfully operating in other industries?

Of course, the appropriate selection of companies or industries relevant to your investing goals is as important as the proper selection of the investment instruments. In making your choice between the securities issued by different companies you should be aware that when you investing you either make money, or lose all your amounts.

You may make money in purchasing securities of the company if:

- The company performs better than its competitors.
- Other investors also recognize it as a good company. Therefore, when time comes to sell your stocks, others want to buy them.
- The company makes profits and is able to pay interest for the bonds and dividends on the stocks. The managers of the company are honest, hardworking and talented.
- The company's securities always enjoy the high demand of investors, and the market price never drops in a strange or unexpected way.
- The company follows the principles of the corporate governance and discloses information about its performance on the regular basis.

You can lose money if you purchase securities of the company if:

- The competitors of the company are better than it is.
- The consumers do not want to buy the company's products.
- The managers do not run the company effectively, they are not honest, spend more, the expenses exceed the incomes.
- The potential investors are reluctant to purchase the company's securities at the offered price.
- The managers of the company disclose false information referring to the company's operations claiming about non-existing profits and contracts, and even make up fake numbers concerning the financial results.
- Brokers are engaged in manipulating price of the company's securities, in the result of which the price doesn't reflect the true value. After they pump up the price, the brokers dump the stock, the price falls and investors lose their money.
- For other reasons which compel to sell the company's securities when the market is down.

To understand all these issues and to make a choice between securities of various companies you need to study the information disclosed for public and to compare the attractiveness and effectiveness of separate areas and operations of companies. In any case before investing in securities it is necessary to determine which investments suit your financial opportunities, investing goals and risk resistance. It is also necessary to consult with the ROA Securities Commission, Armenian Stock Exchange or other professional associations (broker/dealer companies, securities trust managers, respective staff and etc.) rendering security trading related services and to clarify:

- Are the securities registered with the ROA Securities Commission or stock exchange?
- Which qualitative level these securities are traded on the stock exchange?
- Were there any investor complaints in the past?
- Do the company have problems with its customers, investors, ROA SC or exchange and other persons?
- Do we possess all disclosed information concerning the securities and issuers?

- Does the person engaged in the security trading have the respective professional qualification? Is he authorized by an exchange member broker/dealer company that is licensed by the ROA SC?
- Did the broker/dealer company or person engaged in the security trading have problems with the SC, exchange or investors, etc?

In general, before initiating any practical investing steps many people will seek to consult with professional advice and support. In particular, how and in which securities investing should be made? How to watch information disclosure and analyze the data? What data are important while making purchase/sell decision? When and at what price to purchase/sell security? How to select the servicing broker company, make purchase/sell orders and monitor their effective execution? How to watch issuers' operations or participate in their management, and etc.? Only a few major shareholders can afford to hire the respective professionals that are engaged in the aforementioned issues. Many people don't have sufficient investment funds for the diversification or formation and management of investment portfolio.

To solve these issues in some countries small investors consolidate their sources within the common investment frames and act as one investor. In many countries collective investment funds (investment companies, mutual funds, and trust management funds) propose their services to execute collective investment goals. They collect investors' funds by trading the securities issued through their money and allocate it in the securities of other issuers.

We don't have many investment funds in our country and still we cannot enjoy the advantages of the collective funds. However, parallel to the securities market development, the investment funds will be instituted and gain their appropriate place among the institutions rendering financial services to investors. And now after you've identified your investment goals and made investments in securities with the help of comprehensive brochures issued by the ROA Securities Commission and Armenian Stock Exchange or getting advice from reliable persons, you may select the respective broker/dealer company and undertake your first investing steps.

OUR BASIC MISTAKES

Before undertaking practical investing steps let us wrap up and focus our attention on the common mistakes many new investors make:

- **Doing nothing** – There is no guarantee that the market will go up the first day or month or even year that you invest in it. But there is one guarantee: doing nothing at all won't secure your comfortable life after the retirement, won't solve the problem of the education fee, etc.
- **Starting late** – Postponing your investing is second only to not investing at all on the list of investment sins. The earlier you start the longer your invested money works. If you're already past 20 you must start right now.
- **Investing before paying down your debts** – If you have money in the savings account and simultaneously pay your debts, you need to check once more which interest is higher considering also the taxes and inflation. To balance debts, the actual investing returns after the taxes should exceed the debt and inflation interest rates. If it is not possible, then you should pay your debts before investing.
- **Investing for short-term** – Short-term investments should be made only in case when you're actually going to need the entire amount in the short time. Invest the money that you won't need at least for three years in securities of the reliable and stable operating companies. If you'll need your cash in the coming year you better make short-term investing or put your money in savings instruments, such as T-bills or bank term deposits.
- **Safety** - If you are young, most of your investing money should be in securities. You have enough time to cope with market volatility and reap positive rewards of long-term investing. When you are young you shouldn't avoid obtaining securities. When you are old, you try to avoid risks and desire to have mainly bonds; however, securities always make up a large portion of the investment portfolio of investors.
- **"Playing with fire"** – People look for different types of investments. Therefore, if you've already decided to invest, you need to prepare your trail investment portfolio. To diversify your investments in a proper way probably you'll need professional advice. In any case you shouldn't put all your money in one basket. It may disappoint you any time.
- **Gambling or investing** – If you don't want to try your fortune and use opportunities to gain immediate high returns in the securities market you should clarify whether you've learned everything about the company, its securities, current situation in the securities market and the broker/dealer company servicing you.
- **Attractiveness of frauds** – You have to be cautious when promised immediate profits, access to the internal information as well as compels and instructions to invest in a particular product and execute particular transaction. All these are signs identifying the fraud that very often are presented with the high returns attractive allurements.

- **Decisions and Advice** – Your servicing broker must advise you taking into account your investing goals, opportunities and risk resistance. In any case you are the one to make investing decisions since no one bears responsibility for your investment risks.
- **Viewing collectibles or lottery tickets as investments** – Don't make a final and ever-lasting decision that jewelry, old furniture, expensive cars and collections will secure your future comfortable life. Could you use them as long-term investments, the securities markets and securities wouldn't exist.
- **Market trading** – The best way to make investments are diversified long-term investments. If you are engaged in the securities on-going trading without the respective professional knowledge and skills, you may be saddled with commission fees. You won't gain the advantages that enjoy other long-term investors making less effort.

SUMMARY

You've shown enough patience and made your first steps in the world of investing. You've witnessed the miracle of compounding and you understand that debts, not investing, inflation, gambling, and investing defaults may ruin your dreams and future plans. You also gain general understanding about savings and investing, basic investing products, returns, risks and their balance. Now you are able to identify your personal investing goals and opportunities and enter into the securities market to select broker/dealer organization rendering services to you and to initiate your first practical steps. Just remember that you yourself will build your future comfortable life, and correct and accurate steps are key to success.