

# PRACTICAL SAVINGS ADVICE

You need to make sure your savings or investments are compatible with your general financial position, including your outgoings, commitments, earnings, existing savings and future prospects.

**K**nowing where you stand financially will ensure that any proposed savings or investment plan is suitable and help to identify whether or not the plan should incorporate certain additional benefits.

Tax isn't something you may think about too often in the UAE but you should be aware that some savings and investment options will not be suitable for expatriates of certain countries, who are likely to return to their home country in the future and receive the benefits in that country. Conversely, certain types of savings and investments can be arranged that avoid taxation, exchange control and other problems when you do return to your own country.

## LIQUIDITY

Liquidity is measured by the ability to convert an investment into cash within a relatively short period of time with a minimum capital loss on the transaction. In many cases lack of immediate liquidity may be justified if there are opportunities for gain. An investment in a longer-term savings plan may provide both sufficient return and other 'fringe' benefits, such as tax advantages and other



## Prosperity

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additional benefits etc., to more than compensate for decreased liquidity. If you are likely to require access to your money in the short term, then long-term savings or investment plans should be avoided because early encashment may result in a penalty.

## YOUR LIKES AND DISLIKES

You may not like particular types of savings or investment plans or may not wish to put money into certain types of company, certain investment sectors, certain countries etc., on, for example, religious and or ethical grounds. On the other hand, there may be other types of savings or investment plans for which you have a particular preference. Whatever your investment preferences, make sure you make your provider or advisor aware from outset, this will avoid wasting time and the possibility of saving into an unacceptable fund.

## HOW TO INVEST

In accumulating wealth investors are faced with a range of 'real' and 'financial' alternatives. A financial asset represents a claim on an asset that is usually documented by some form of legal representation. An example would be a share, stock or bond. A real asset is an actual tangible asset that may be seen, held or collected. An example would be real estate, gold or artworks.

Investment funds obviously fall into the category of financial assets and permit the investor access to equities and creditor claims such as bonds. In equity funds, the resources of many investors are pooled together and the individual thereby enjoys benefits of economies of scale such as diversification and professional management.

## UNIT-LINKED POLICIES

Monies paid in by holders of unit-linked policies are held in a number of separate funds, called investment funds and invested in appropriate

securities, according to the fund investment profile and risk, as decided by the investment fund managers. Each of the investment funds is divided into units of equal value. As more money is paid into a fund, more units of equal value are created; as money is taken out of a fund, the number of units is decreased.

Two prices are quoted for units. The units are usually purchased at the higher price which is called the offer price, and are sold at the lower price, called the bid price. The difference between the unit prices, usually around seven per cent is called the bid/offer spread. The unit-linked policyholder does not actually own the units; these are just a convenient method of keeping track of each separate policy's progress.

Most product providers allocate regular payments at 100 per cent and any encashment would be made at the bid price. Do check with your advisor for details on the product recommended.

Any income received from investments is automatically reinvested in the fund and will be reflected in unit prices. As the value of the investments held by a fund increases, so unit prices will increase. On the other hand, if the value of the investments held by a fund falls, then the unit prices will fall.

### LEVEL OF RISK

The level of investment risk is determined by the fund selection made by the policyholder and will vary. The holders of unit-linked policies effectively have a direct stake in the investment performance of the fund or funds to which the policy is linked.

Fund management is about managing money, making money work. Managing money effectively equates to success in our business. Funds are monitored regularly to ensure they perform to expectations; taking necessary action to make improvements if the performance drops.

Some providers offer a service to savers who do not want to be hands on when it comes to their investment choice, taking away the worry of following your investment on a regular basis and having to decide if to switch or not. Your investment is automatically moved in to lower risk funds the nearer your savings plan is to its maturity date.

### ONGOING SERVICE

In today's hi-tech world, investment information is available at the touch of your smart phone. The problem is that there can be so much information you cannot see the wood for the trees. I would suggest that you take advice from a professional and regulated advisor. If you meet an advisor who completes a comprehensive 'fact find' with you, this will help you know you are dealing with a professional. This fact find will be a record of your requirements and will enable the advisor to research the correct product and funds that match your personal profile.

Once the advisor knows your risk profile and the term of your savings plan he can access a sophisticated Investment service through the product provider that can narrow down the fund choice to suit your profile.

Of course you should review your plan on a regular basis with your advisor to make sure you are up to date with your product and also for your advisor to check to make sure his records are also

up to date. As our personal circumstances change in life so do our needs and aims. Therefore, it is important that your advisor is up to date with that information so that you are making the most out of your savings opportunity.

### AVOIDING PENALTIES

To ensure that you get the maximum benefit from your savings product, ensure you run the plan through to its maturity. Be aware of any early encashment or withdrawal penalties and the financial effects of reducing your premium before maturity. Check to see if there is a minimum payment period where your savings plan has no encashment value. This is quite normal and fairly standard but you should know your financial commitment period should you need to manage your personal finances once the plan is in place. The information you require should be available through a professional regulated advisor. Your product provider's website should also have this data or contact details for further information.

Andy Cole  
[www.prosperity.ae](http://www.prosperity.ae)



## TYPES OF INVESTMENT FUNDS

### GUARANTEED ACCUMULATION FUNDS

These are managed funds investing in low risk, high quality government and corporate securities. All contributions to a guaranteed accumulation fund normally have a minimum guaranteed rate of investment return, valid for periods of up to 10 years at a time.

### MONEY MARKET FUNDS

These funds are invested in international interest-earning securities denominated in the currency of the fund and carry little downside risk if the plan currency is the same as the investment currency. Such funds are suitable to consolidate gains made towards the end of a policy, prior to maturity.

### MANAGED FUNDS

These funds invest in a mixture of equities, cash and bonds. Each set of funds is denominated in a range of currencies and managed separately to capitalise on investment returns in their own currency whilst maintaining their particular risk profile.

### BOND FUNDS

Available from a variety of fund managers, these funds invest in a range of both Government and corporate fixed interest securities. Funds on offer include international and regional funds as well as single country and emerging market funds and are available in a variety of currencies and risk profiles.

### EQUITY FUNDS

There is a wide range of actively managed equity funds, including global funds, single country and emerging market funds and sector-themed funds such as technology, health, property and commodities. The overall aim of these funds is capital growth and they are available in a variety of currencies and risk profiles.

Any investment in equities has a degree of volatility associated with it. The range of offshore equity funds offered gives you the saver a wide choice to determine the level of volatility you are comfortable with. During periods of market decline, you can expect your investment to be exposed to the same difficulties the financial markets experience. Longer term, you can be confident that the returns on equity investment will be strong.