

Tips to guide prudent investment in listed shares



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make investments in shares.

To achieve that you need to construct your personal balance sheet and seek answers to some important questions to see where you stand.

Under normal circumstances, only once you have paid off all your obligations and paid for all your important expenses and you still have income (savings) left-over should you consider investing in shares. Therefore, first thing you need to consider, is to settle your expenses and pay outstanding high interest debts.

This is not a rule but it is a prudent advice because if you have debts that cost you say 20 per cent in interest per annum and if you are to use that money for investing in shares, your shares investment returns should be growing at more than 20 percent per annum so that, at some stage you can sell the share to repay the debts and still remain with some profits. If that will be the case then you are doing very well, but this is often difficult to achieve and thus it is advisable or rather recommendable for you to take a simple approach, which says invest your savings, do not borrow or get into debts trying to make investments in shares – because the moment you do that, that will be speculation.

I know some retail/private individual investors who in some cases take the approach of borrowing for the purpose of investing in shares

during Initial Public Offering (IPOs); where they borrow from banks with the speculative motives that after the IPO and share have been listed in the stock market for trading, then immediately prices will go up and they will be able to liquidate their investment positions, pay the debt and retain some profits. In some few cases they are successful and, in many cases, they are not.

Having achieved the act of careful analysis of where is your financial position, you then need to have a closer look at your attitude towards risk.

This will help you see where you would like to be in the future.

So, what kind of things do you need to look into? Here are some points you need to consider: (i) Age

YOU NEED TO DETERMINE WHETHER YOU HAVE THE SPARE/SURPLUS CASH TO MAKE INVESTMENTS IN SHARES

and the time remaining for you to continue working before retirement – as well as how much time do you have to achieve your goals? (ii) Occupation and employment status – do you have job security and a reliable income, or are you self-employed or a pensioner?; (iii) Standard of living – what are your ongoing requirements for an enjoyable standard of living, including personal belongings, holidays and



luxury (entertainment) items? Are you comfortable now? Are you able to budget?; (iv) Family and dependents – do you wish to provide for your children and dependents' education or for other needs?; (v) Need for financial independence – do you have a strong need for financial independence and don't wish to rely on a pension upon retirement?; (vi) Personal control – how much control do you like to have in managing your financial situation?; (vii) Insurance – do you have adequate insurance against risks to your property, possessions, income and wellbeing?

I suggest you speak to a financial or investment advisor to assess this if you do not have the objectivity or knowledge to do so.

Funding your share investment: If you're going to invest money in shares, the first thing you need is money. In the paragraphs above I've proposed that you consider investing in shares if you have surplus

income/savings. However, you may also note that for some many investors, reallocating their investments does the trick.

Reallocating simply means selling some investments or other assets and reinvesting that money into shares. It boils down to deciding what investment or asset you should sell.

Generally, you want to consider those investments and assets that give you a low return on your money. Re-allocation is only part of the answer; your cash flow is the other part. Your cash flow refers to what money is coming in (income) and what money is being spent (outflows). The result is either a positive cash flow or a negative cash flow, depending on your cash management skills. Maintaining positive cash flow helps to increase your net worth.

Lastly, it is important that you set the right expectations and learn what to expect from the share (stock) market, learn to evaluate and analyze businesses that you intend to invest into.

Most of this information and data can be obtained from the companies' published financial statements; also company news and releases might assist.

Historical precedents and information related into it are also things to consider, as it is history tends to repeat itself in the share market.

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