

Staying Connected

For the Alumni of the ECCB's Savings and Investments Course

FINANCIAL FITNESS

In good or bad times, investors should resist the temptation to make quick decisions about their investmentsTaking the time to get more information is always a good idea.

Jean St-Gelais, CSA Chair and President and Chief Executive Officer of the Autorité des marchés financiers (Québec).

The ability to say “no” is a tremendous advantage for an investor.

Never invest in businesses you cannot understand.

It is not necessary to do extraordinary things to get extraordinary results.

Warren Buffet, billionaire and chairman of Berkshire Hathaway

You've got to be careful if you don't know where you're going, 'cause you might not get there.

Lawrence Peter “Yogi” Berra former Major League Baseball player and owner

A big part of financial freedom is having your heart and mind free from worry about the what-ifs of life.

Suze Orman
financial advisor and author



It's Neither Magic nor Rocket Science

Intelligent investing is about being patient, disciplined and eager to learn

To invest successfully over a lifetime does not require stratospheric IQ, unusual business insight, or inside information. What's needed is a sound intellectual framework for decisions and the ability to keep emotions from corroding that framework.”

Warren Buffett in the foreword to “The Intelligent Investor” by Benjamin Graham

There is no masters degree or PhD; and certainly no magic formula for making wise investment decisions and avoiding crippling financial mistakes. If there were, that magic formula would be the hottest selling product on the world market.

Being successful in our finances is not magic or rocket science, what it requires is:

- **A focused and disciplined approach to consistent savings and investing over the long-term.** Having the discipline to stick to a long-term financial plan is always a challenge for many of us. We start off with a lot of steam but burn out somewhere in the middle and stop contributing to our savings and investment plans. Not surprisingly though, when we get advice on how to get back on the path of financial success, we are quick to state, *I used*



to do that ..., but life keeps getting in the way”.

To be successful, we have to move out of the land of “used to” and cure ourselves of the “victim syndrome” that blames something for getting in the way of our success. We must focus instead on triumphing over whatever life throws at us by staying focused and disciplined to the financial goals we set for ourselves.

- **Informed as opposed to emotional thinking.** We must never make financial decisions on emotions or whims of fancy. We should ask ourselves, “*what events can bring about a loss in these investments?*” and “*how high is the probability that these adverse events can or will occur?*”. This will provide us with the proper perspective in which to assess


It's Neither Magic nor Rocket Science *Cont'd*

investment opportunities. When we focus on the potential losses as opposed to the gains, we are forced to analyse thoroughly what we are getting into.

- **Doing our homework before parting with our hard-earned money.** We ought to research each potential investment opportunity. A family member or friend's recommendation is not enough, no matter what their past experiences have been or how close we are with that friend or family member. And, even though a hundred thousand persons may have invested in a particular investment product, it does not mean that it is a must-have for you and me.

Investing intelligently is not about following the crowd or being fashionable. It is about determining what financial plan is right for each of us and then selecting investments that fit into our individual plans, considering our investment objectives, risk tolerance and our performance aspirations.

We must seek information from multiple sources and question information that refers to risk-free investments, guaranteed high returns, or

once in a lifetime opportunities. Anything that sounds out of the norm should cause us to pause. If mainstream investments are offering 4-5% per annum, and a similar investment is promising 3% per month (*this translates into 36% per annum*;) Mental red flags  should be raised, warning us that something may not be right.

Additionally, our research must not ignore the financial statements of the companies associated with the investments. These statements provide us with perspectives on the soundness and stability of the underlying investments. Remember, however, that past performances, prices, and events only serve as signposts, not guarantees to future performances. **We must never forecast the future by exclusively looking at the past.**

If financial statements are not published, that is a red flag. **Run..... don't walk.** If the company is unregulated or regulated by a body in which we have little or no confidence, **we should keep running.**

- **Optimal diversification and balanced allocation of our assets.** We must avoid putting the bulk of our investments in a single instrument, company or industry. In addition, it is also important that our investments are strategically allocated to support our investment objectives, risk tolerance and performance aspirations.

Be mindful that it is not about waiting until we get a large pool of assets to adopt these principles. Consider our present financial affairs. Are our savings concentrated in a single bank? Or strategically allocated across two or more banks? Do we have all our insurance concentrated with a single service provider, or spread across multiple service providers? Even if all you have is life insurance, there may be merit in having part of the coverage provided by one service provider and the other part by another.

- **Allowing for a margin of safety in our investments.** This principle was first popularised by scholar and financial analyst Benjamin Graham, widely recognised as the father of value investing. Like the other principles

Cont'd on page 3

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It's Neither Magic nor Rocket Science *Cont'd*

advanced, this is not rocket science. It is applicable to every aspect of our lives. Consider for example our vehicles. They are designed, taking into consideration this notion of a margin of safety. All drivers know that even when the gas meter says it is on empty there is a residual amount to keep the car powered for another five to ten miles so that it can get to the nearest gas station.

So how can we apply this same principle to investing? In his article, **7 Steps to Successful Investing**, investor and author, Joshua Kennon, advises that we should be conservative in our evaluations of future prospects. Becoming overly

optimistic can find us overpaying for assets or investing too much of our funds into a particular investment, only to be sorry later when our optimism is tempered by the stark reality of a downturn in the performance of the investment. In the words of Warren Buffet, *"It is optimism that is the enemy of the rational buyer"*.

The principle of margin of safety is based on the strategy of only buying investments when we think that the market price is significantly below the asset's intrinsic value. In the likely event therefore that we overestimated the asset's intrinsic value, we would still

have room for error without incurring huge losses, having purchased the asset way below what we perceived its intrinsic value to be. In local parlance we would say, allow ourselves some "wobble" room.

Joshua Kennon like Warren Buffet, also advises that we should only invest in businesses we understand. This would allow us to make reasonable assumptions about future performance.

Success in investing is not about being a financial rocket scientist, getting lucky or having a magic wand....it is the steadfast adherence to basic common sense principles over the long-term. *SLW*



BOOK EXCERPT "The Intelligent Investor" by Benjamin Graham

- A stock is not just a ticker symbol or an electronic blip; it is an ownership interest in an actual business, with an underlying value that does not depend on its share price.
- The market is a pendulum that forever swings between unsustainable optimism (which makes stocks too expensive) and unjustified pessimism (which makes them too cheap). The intelligent investor is a realist who sells to optimists and buys from pessimists.
- The future value of every investment is a function of its present price. The higher the price you pay, the lower your return will be.
- No matter how careful you are, the one risk no investor can ever eliminate is the risk of being wrong. Only by insisting on what Graham called the "margin of safety"—never overpaying, no matter how exciting an investment seems to be—can you minimize your odds of error.
- The secret to your financial success is inside yourself. If you become a critical thinker who takes no Wall Street "fact" on faith, and you invest with patient confidence, you can take steady advantage of even the worst bear markets. By developing your discipline and courage, you can refuse to let other people's mood swings govern your financial destiny. In the end, how your investments behave is much less important than how you behave.

Download a copy of "The Intelligent Investor" at <http://web3.streamhoster.com/idstaff/pdf/>

1



In keeping with its role to promote the safety and soundness of the ECCU financial system, **the Eastern Caribbean Central Bank** is working with member governments to expedite the operationalisation of an enhanced financial regulatory framework for the Eastern Caribbean Currency Union by promoting the establishment of Single Regulatory Units for each member country. A Regulatory Oversight Committee, which is another key component of this framework, was launched in April 2008.

The benefits to be accrued within this regulatory framework include the sharing of information and expertise, and enhancement of the ability to strategise and coordinate measures to prevent or stem a crisis.

On March 3, 2009, Grenada became the fifth ECCU member country to launch the public consultation on the **OECS Economic Union**.

2

Establishment of an economic union is regarded as the way forward to enable ECCU Member States to compete more beneficially in today's world of international trade and economic liberalisation, and thereby provide answers to the problems and challenges of vulnerability and equitable development.

To date, the public consultation process has been launched in Montserrat, the Commonwealth of Dominica, St Vincent and the Grenadines, Saint Lucia and Grenada.

3

Early in April, **The Eastern Caribbean Securities Exchange** will move from a single call auction to a continuous order matching trading methodology. This means that, instead of trades being executed at a single point at the end of each trading day, buy and sell orders will now be continuously matched throughout the trading day, and trades executed whenever there is a match.

This development promises to generate more interest in the markets and, it is anticipated, will assist in boosting trading activity. Trades will continue to be settled on T+1 or the day after the trade takes place. Broker-dealers have been preparing for this new trading methodology by undertaking simulation exercises leading up to the migration.

4

At its annual general meeting on 26 March 2009, the Board of Directors of the **St. Kitts Nevis Anguilla National Bank** received approval for a final cash dividend of 18.5% amounting to \$15 million for 2008. The shareholders also approved a share dividend distribution to existing shareholders of two shares for every three shares and an increase in the company's authorised share capital from 135 million to 270 million.

The St. Kitts Nevis Anguilla National Bank is one of fourteen public companies listed on the ECSE.

IN
THE
HEADLINES

Global crisis and lessons for the region (EXCERPT)



Lawyer Oral Martin

Addressing the graduates of the 1st Cohort
ECCB Savings and Investments Course, Nevis
28 February 2009

.....**S**o what are the lessons to be learnt from this global financial crisis and its causes. The fact is that such lessons are still emerging and I would venture to identify a few that may be relevant to us.

I think the first lesson to be learnt is that we must not follow blindly the way the United States and other countries choose to conduct their affairs. We must properly study their way of doing things and conduct our own objective assessment as to whether or not it makes sense to us. Their models are not necessarily the best nor do they always apply to us.

We need not be overly enthusiastic about adopting the free market principles that guided the development of the financial sector in the United States. While the U.S

has had the most advanced financial markets, the underlying philosophy has been -that markets always worked because they are rational and self-regulating. There is little need for government intervention. We have now seen the consequences of market failure. There may be need to return to what some call “managed capitalism” whereby government seeks to establish robust precautionary measures to ensure the safety and soundness of the financial sector without abandoning basic market principles.

Our regulators and policymakers must continue to pursue prudent and appropriate supervisory and regulatory practices. There is no need for overregulation, but basic standards must be maintained by financial institutions.

While government and quasi government institutions have a central role to play with respect to policy formulation, regulation and supervision of financial institutions, central governments ought to remain cautious about influencing lending and other banking decisions. While it is important from a social development standpoint to encourage home ownership, basic banking principles must be followed and

minimum lending and borrowing criteria established and maintained. The clear lesson to be learned is that where there is a system-wide failure, the market cannot resolve it by itself.

Borrowers in the region must understand that they should not borrow beyond their means of repayment no matter how attractive a loan may seem initially.

Our banks and financial institutions must continue to practice financial prudence and not engage in over-lending. The importance of liquidity must not be forgotten. It is not enough to hold a mortgage over a property especially if you may have problems selling it when the time comes to foreclose. It may have value but you need to have cash to meet your short-term needs until you are able to sell the security.

All of us must understand the need for some form of *risk analysis* and develop some level of skill in doing so. A lot of it is common sense. This has to do with, for example, the chances of a borrower being able to repay a loan or the bank being able to realize its security relatively quickly.

Global crisis and lessons for the region (EXCERPT) Cont'd

We need not rush to develop sophisticated securities and so called *derivatives*. They can be very risky and not many people understand how they work. The idea of *financial innovation* may be stimulating, but sophisticated instruments often lend themselves to manipulation and fraud.

We have been provided a lesson in how a banking crisis may be resolved, although it is too early to draw firm conclusions. The solutions might include the temporary purchase of sub-standard loans from banks, prompt sale of insolvent institutions and restoring faith in institutions and the market for credit by maintaining liquidity. Our OECS governments do not currently have the cash to

provide bailouts in times of financial crisis. They need to pay more attention to liquidity problems in the public sector itself.

There is need for a new focus on credit unions, especially those that are leaning towards commercial bank practices instead of strict co-operative principles. They serve a particular purpose for low income groups that need to be protected.

In the final analysis, it is the return of confidence in the financial system that would eventually resolve the global crisis. This can be achieved through government action and through the investment activity of major investors who are regarded as business leaders. It is also in our collective interest as

individuals, government officials and private enterprises to ensure that our financial system develops a certain resilience to financial crises such as the current one by, among other things, investing wisely, by ensuring that financial products sold in our region or in metropolitan countries are safe, to check that operators in the financial market are not engaging in *financial casinos* and to guard against the purchase of toxic financial products.

I feel certain that this was one of the aims, whether stated or not, of the course in which you have been engaged and I once again congratulate those of you who have successfully completed it.

Lawyer Oral Martin is also a Board Member of the Bank of Nevis and former Director of Economic Planning, Nevis Island Administration.

Oh what a night, what a night! What a glorious night.....GRADUATION NIGHT, OLD MANOR HOTEL, NEVIS

Graduate and Dr Telbert Glasgow
Resident Tutor
UWI Open Campus St. Kitts and Nevis



Mr Joseph Wiltshire
P.S. Ministry of Education
Nevis Island Administration

