Investing for Beginners: Your Wealth Building Journey Starts Here

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1. **Why Investing Matters**

- **More Than Saving: Making Your Money Work for You**
  - **Beat Inflation:** The cost of living rises over time. If your money isn't growing, it's effectively losing purchasing power.
    - Average annual inflation in Hong Kong is 2.2%, meaning your 1000 HKD will lose ***20% 35%,*** and ***48%*** value in 10, 20, and 30 years, respectively.
  - **Achieve Long-Term Goals:** Whether it's retirement, a child's education, or buying a home, investing can help you reach goals that saving alone cannot.
    - Retirement is a huge challenge for Hong Kong residents due to life expectancy (Centre for Health Protection - Life expectancy at birth, 1971 - 2024) and pension system
  - **Build Wealth Over Time:** Harness the potential of financial markets to grow your capital.

2. Investing vs. Saving: Know the Difference

	Saving	Investing
Primary Goal	Capital preservation for short-term needs and emergencies.	Capital growth and beating inflation over the long term.
Time Horizon	Short-term (0-3 years)	Long-term (5+ years)
Risk Level	Very Low	Low to High (depends on the asset)
Potential Return	Low (interest)	Potentially Higher (capital gains, dividends)
Product Examples	Savings Accounts, Fixed Deposits, Money Market Funds.	Stocks (Shares), Bonds, Mutual Funds, ETFs.
Liquidity	High (easy and quick access to funds)	Variable (can be less immediate, especially for certain assets)
Best For	Emergency funds, down payments for near-future purchases, short-term goals.	Retirement, child's education, building long-term wealth.

3. Common Investment Types

- The Building Blocks of Your Portfolio

	What It Is	Risk Level	Potential Return	Best For
Stocks	A unit of ownership in a single company.	High	High	Investors seeking growth, comfortable with volatility.
Bonds	A loan to a company or government that pays interest.	Low to Medium	Low to Medium	Investors seeking stable income and lower risk.
Mutual Funds	A professionally managed "basket" of many stocks and/or bonds.	Medium	Medium	Investors wanting instant diversification and professional management.
ETFs	A basket of investments that trades like a stock on an exchange.	Low to High (varies by fund)	Low to High (varies by fund)	Cost-effective, flexible diversification for most investors.

4. **Understanding Investment Risk**

- **Risk and Reward: Two Sides of the Same Coin**
- All investments carry some level of risk, even the market itself (https://www.google.com/finance/quote/.IXIC:INDEXNASDAQ?window=MAX)
- **Key Idea:** Generally, the higher the potential return, the higher the risk. (OR there is no free lunch under the sun, too good to be true…)
- **Types of Risk:**
  - **Market Risk:** The value of your investments can go down.
  - **Inflation Risk:** Your returns may not outpace the rising cost of living.
  - **Interest risk, financial risk, geopolitical risk,** ….
- **The key:** understand and take **calculated risk** instead of avoiding risk.

5. The Magic of Compound Interest

- **Your Most Powerful Investment Tool: Time**
- **What is it?** Earning returns on your initial investment *and* on the returns you've already accumulated.
- **Example:** Investing $10,000 with a 5% annual return.
  - Year 1: $500 gain → $10,500
  - Year 2: 5% of $10,500 = $525 gain → $11,025
  - Demonstration: https://www.stashaway.hk/compound-interest-calculator
- **The Key:**
  - **Starting early** gives your money more time to grow exponentially.
  - **Being disciplined and patient** allows you to enjoy the full benefit

6. **Setting Your Investment Goals**

- **Start With Your "Why"**
- Define what you are investing for. This determines your strategy.
  - **Short-term (1-3 years):** e.g., Car, Holiday. (Lower risk approach).
  - **Medium-term (3-10 years):** e.g., House Deposit, Education. (Balanced risk).
  - **Long-term (10+ years):** e.g., Retirement. (Can consider higher growth potential).

7. **Creating Your Investment Plan**

- **Nothing happens without a plan**
- **1. Define Your Goals:** (From previous slide).
- **2. Know Your Timeframe:** When will you need the money?
- **3. Assess Your Risk Tolerance:** How comfortable are you with market fluctuations?
- **4. Decide How Much to Invest:** Start with what you can afford. Regular contributions can be very effective.

8. **Your Risk Appetite: Finding Your Fit**

- **What Kind of Investor Are You?**
- **Know your risk tolerance:** [Investment Risk Tolerance Assessment]
- Align risk profile with goals and comfort level.
  - **Cautious:** Prioritise capital preservation. Accept lower returns for greater stability.
  - **Balanced:** Seek a middle ground between growth and stability.
  - **Adventurous:** Focus on high growth potential and are comfortable with significant market ups and downs.
- **The Key:** *you shall be able to sleep comfortably at night with your investment portfolio*

9. **Diversification**

- **The Golden Rule of Investing - Don't Put All Your Eggs in One Basket**
- **What it is:** Spreading your money across different types of investments, industries, and geographic regions.
- **Why it works:** If one investment performs poorly, others in your portfolio may perform well, helping to balance things out.
- **The Easiest Way:**
  - *Rule of 100/120*: stock position equals 120 minus your age, i.e., holding 95% (=120-25) equity in your investment portfolio if you begin investing at age 25
  - Investing in funds (like ETFs https://www.aastocks.com/en/stocks/etf/default.aspx) gives you instant diversification.

10. **Getting Started: The Practical Steps**

- **Ready to Begin? Here's How.**

  1. **Do Your Research:** Understand what you're investing in.
  2. **Open an Investment Account:** Such as a brokerage account or an ISA (where applicable).
  3. **Choose Your Investments:** Select funds, shares, or bonds that match your plan.
  4. **Make Your Investment:** Execute your first trade or fund purchase.
  5. **Review Regularly:** Monitor your portfolio and adjust as your life or goals change.

11. **Key Takeaways**

- Start investing early to benefit from compounding. Time is your best friend.
- Develop forced saving habit and provide funds for investment
- Define your goals and understand your risk tolerance.
- Diversification is key to managing risk.
- Investing is a long-term journey, not a get-rich-quick scheme.
- Knowledge, knowledge, knowledge
- Start small, stay consistent, and focus on your long-term plan.

12. **Next Steps & Continued Learning**

- **1. Educate Yourself:** Continue learning through courses (CLC9002), reputable financial websites and books.
- **2. Assess Your Finances:** Review your budget and determine how much you can start investing.
- **3. Explore Platforms:** Research different brokerages or robo-advisors to find one that suits you.
- **4. Consider Professional Advice:** If unsure, consult a qualified financial advisor for personalised guidance.

Q&A

Thank you for listening!