FAQ - Investment

1. What affects the value of money?

Money has a tendency to lose its value over time because the price of goods and services has an upward tendency. This is called inflation. Here are some factors that could eat away your money:

- Inflation - Inflation occurs when the price of goods and services rises.. When the price of goods and services level rise, each unit of currency buys fewer goods and services. Consequently, inflation will result in a reduction in the purchasing power per unit of money – a loss of real value in the medium of exchange and unit of account within the economy. That is why the money you earn today will be worth less 10 years from now.
- Fluctuation in the profit /hibah rate of deposit-i accounts - A drop in profit/hibah rate means a smaller profit/hibah may be given to your deposits, and if the profit/hibah rate is lower than the rate of inflation, your deposits lose value. But for some investments, such as equities and bonds, the value of your investment may rise because of the drop in profit/hibah rates of deposit-i accounts.
- International economic trends - What happens in other economies can affect the value of your money. Political circumstances, GDP growth, and stock-market indices in other countries can all have an impact on the buying power of your money.

2. What are the basic rules to investing?

Here are some simple guidelines to follow for making wise investments:

a. Set your objectives.
b. Do your homework before investing. It is risky to rely on pure luck when making an investment.
c. Ask yourself whether you want to invest or speculate.
d. For investment, make sure you have a cut-off point in mind to protect your bottom line.
e. In the case of speculation, don't make investment decisions out of panic when the market becomes volatile.
f. Invest as much as you can afford, but no more.
g. Don't leave money lying around in non-interest bearing accounts except as stand-by cash.
h. Make sure your investment portfolio gives you a big enough return to beat inflation.
i. Always use a reputable investment firm or financial institution.
j. Diversify. Invest internationally and spread your investments over a range of low, medium and high-risk products in order to hedge against losses.
k. Make sure you understand exactly what risks are involved with every investment you make.
l. If in doubt, seek professional advice.
m. Keep an eye on your investments. Take opportunities and shift products if it

is beneficial to do so.

3. When should I start planning for the future?

The sooner you start, the better. The example below shows the difference in accumulative savings between Mr Early and Mr Late, who started saving at different times.

Mr Early saves for 10 years and then stops. Mr Late starts 10 years later and saves for 20 years. But Mr Early still get 87% more than Mr Late (based upon an investment that gives 10% annual growth, not taking into account annual inflation).

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Year	Savings by Mr Early	Accumulation	Savings by Mr Late	Accumulation
1	1,000	1,100	0	0
2	1,000	2,130	0	0
3	1,000	3,641	0	0
4	1,000	5,105	0	0
5	1,000	6,716	0	0
6	1,000	8,487	0	0
7	1,000	10,436	0	0
8	1,000	12,579	0	0
9	1,000	14,937	0	0
10	1,000	17,531	0	0
11	0	19,284	1,000	1,100
12	0	21,213	1,000	2,130
13	0	23,334	1,000	3,641
14	0	25,667	1,000	5,105
15	0	28,234	1,000	6,716
16	0	31,058	1,000	8,487

17	0	34,163	1,000	10,436
18	0	37,580	1,000	12,579
19	0	41,338	1,000	14,937
20	0	45,471	1,000	17,531
21	0	50,018	1,000	19,284
22	0	55,020	1,000	23,523
23	0	60,522	1,000	26,975
24	0	66,575	1,000	30,772
25	0	73,232	1,000	34,950
26	0	80,555	1,000	39,545
27	0	88,611	1,000	44,599
28	0	97,472	1,000	50,159
29	0	107,219	1,000	56,275
30	0	117,941	1,000	63,002

4. What should I do before I start investing?

Know your current financial situation. Before you begin to think about investing your money, you should know how much you could spare for investment each month. Naturally, the more you can put aside now, the better it will be for your future. It's up to you to achieve a balance between your current lifestyle and your expectations.

Calculate your income and expenses taking into account the following:

- Home financing payments
- Personal tax
- Other financing payments
- Living expenses
- Emergency funds
- Car expenses
- Entertainment

- Holidays
- School fees
- Family commitments

Generally speaking, whatever spare cash you have after allowing for all your expenses is what you can afford to invest. You can commit a certain amount each month and look upon it as a monthly expense. As your income increases, you are encouraged to increase the amount you invest proportionately. By doing this, you'll be keeping up with inflation and your money will be working harder for you.

5. What should I do next when I know how much I can invest?

Once you know how much you can afford to invest, you can set your objectives - why you are investing and how you are planning to use your investments. Your objectives could incorporate one or any combination of the following:

- Retirement
- Protection for your family
- Education for your children
- Wealth accumulation

Divide your objectives also into long, medium and short-term goals. This will help you choose the type of investment you want to make. For example, if you plan to send your children to study abroad in three years' time and you need to save for their tuition fees and living expenses, you'll need a fairly low-risk investment. Think about when you will need the return as it also helps to determine the time horizon of your investment.

6. How do I determine my risk level?

Keeping your objectives in mind, determine how much risk you're prepared to take. Do you want to adopt a conservative, moderate or aggressive investment strategy? Ask yourself the following questions before you make your decision:

- Are you prepared to make long-term investments, which will allow you to take greater risks for higher returns?
- If you're going for short-term, high-risk investments, can you afford to lose some of the money you invest?
- If you're married with children, what level of risk can you take and still be certain of their future?
- If you want your money to be safe, will you be content with a moderate rate of return?
- If you opt for safe investments, will the returns be enough to cover inflation?

Everyone has different reasons for saving, and the purpose of your investment can affect how much risk you’re prepared to take with your money. If your investment is to pay for your children’s education, then you may be investing over a long period of time, and looking for a higher return, as a result you may be inclined to choose a higher-risk investment option.

Conversely, if you're investing to pay for an overseas trip, or a new car, you may be investing for a short period of time and want certainty about the outcome of your investment, and you may feel more comfortable with a lower risk investment option.

7. What type of financial products may generate profit / hibah?

You can choose from two main financial products with varying degrees of risk:

- Deposit-i
- Shariah Compliant Investments

Traditionally, deposit-i accounts are the safest place to put your money. They provide high liquidity - you can quickly and easily retrieve your money - but offer lower rates of profit/hibah. Investment products offer potentially higher returns but with greater risk.

8. What Shariah Compliant investment products are available in the market?

One thing to remember about investments is that the level of return is generally proportionate to the level of risk. Thus an investment offering potentially high returns will usually have a high-risk element. The products available in the market are:

- Securities/Stocks
- Sukuk
- Foreign currency
- Shariah Compliant Unit Trust Funds
- Structured Investment-i

9. What is Dollar Cost Averaging?

Dollar cost averaging is an investment strategy whereby the investor invests a fixed amount in a particular investment on a regular basis regardless of the price. More units are purchased when prices are low and fewer units are bought when prices are high. Eventually, the average cost per unit of the investment product will become smaller. Dollar cost averaging reduces the risk of investing a large amount in a single investment at a wrong time.

10. How can I keep track of my investments?

As a customer of HSBC Amanah, you may keep track of your investment portfolio via HSBC Amanah Personal Internet Banking under the Wealth Dashboard section.