Chapter 7: Invest and Grow Rich

S1: In this video, we'll learn about the ways to invest and grow rich.

S2: Investing is one of the most popular ways to create wealth. The rich know that by taking on a certain degree of risk, they can put their current assets to work hard for them to generate both short and long term income.

S3: Diversification of portfolio is an important component to help you reach your financial goals while minimizing your risk. Keep in mind, the risk of your investment can never reduce to zero no matter how much diversification you do.

S4: Without further ado, let’s talk about the range of different investment. There are four main types of investments:

1. Cash

2. Fixed interest

3. Shares

4. Property

S5: Defensive investments

As opposed to growing value over time, defensive investment focuses on generating regular income. This would be the ideal type of portfolio for individuals with low risk tolerance scores. For this type of portfolio, the preservation of capital is its primary objective.

S6: Cash and fixed interest are the two most common types of defensive investment.

S7: 1. Cash investments include:

- High interest savings accounts

2. Fixed interest investments include:

- Term deposits
- Government bonds
- Corporate bonds

S8: Cash investments are short-term obligations that provides stable, regular income through interest payments. It is the least risky type of investment and generally offer a lower return compared to other types of investments.

S9: Term Deposit

A term deposit is a cash investment held at a financial institution which allows you to lock away an amount of money at a fixed interest rate for a nominated time period. These type of financial products are sold by credit unions, banks and thrift institutions.

S10: The pre-determined period usually ranges from 1 month to 5 years and the return on investment is guaranteed – this means you'll know exactly what your investment is worth at the end of the term.

It is well suited for investors who prefer capital security and a set return as opposed to the fluctuations. For this type of investment, the money can only be withdrawn at the end of the period or earlier with a penalty attached.

S11: Government bonds

A government bond is a debt security issued by a government to support government spending. When a government issues a bond, it is basically accepting a loan. In return for that money, the Government provides you with a bond and promises to repay the value of the bond when it matures.

S12: The Government also promises to pay a specified rate of interest on the money you have invested. Treasury inflation-protected securities (TIPS), Treasury bonds and savings bonds are some of the Federal government bonds included in the United States.

S13: Keep in mind, before investing in government bonds, investors need to assess several risks associated with the country, such as:

1. Political Risk
2. Interest Rate Risk
3. Country Risk
4. Inflation Risk

S14: Corporate Bonds

A corporate bond is a debt security with maturity of at least one year. It is issued by a corporation to raise financing for a variety of reasons such as:

1. M&A

2. Ongoing operations

3. Expansion of business

S15: In comparison to government bonds, corporate bonds offer a higher yields because there is a higher risk of a company defaulting than a government. Due to the risk that the investor must take on, this type of investment can also be the most rewarding fixed-income investments.

S16: The credit quality of the company is very important: the higher the quality, the lower the interest rate the investor receives. Therefore, investors of corporate bonds must know how to assess credit risks and its potential payoffs.

S17: Growth investments

It's an investment style and investment strategy that focuses on the growth of an investor's capital. It's in contrast with the strategy of value investing.

Therefore, growth investors typically invest in companies that have substantial potential for capital appreciation. This type of investment may deliver higher returns than defensive instruments because their prices can rise and fall significantly. However, these type of funds generally represent a greater risk as compared to value funds.

S18: The two aims of growth investments are to increase in value over time and to potentially pay out income.

S19: The two main types of growth investments are shares and property.

S20:

1) Shares:

- Shares are one of the most common type of growth investment. The capital of a company is divided into shares. Each share represents a unit of ownership of a company. Shares are sold to the public to raise capital for the company

S21: Studies have proven that shares are one of the best long-term investments in the financial market place. Shares tend to outperform property, government bonds, corporate bonds and other types of assets.

The objective to invest in shares is to generate wealth through the growth of potential share price, by buying low and selling high and also via income paid as dividends.

However, shares do carry risk just like any other investments. Hence, investors need to do sufficient research before investing in any particular stocks.

S22: As for investors who don't have the time to watch the market everyday, you can still make money by looking for dividends if the company performs well. It is similar to saving account's interest. Equally, your share price could decrease in value and dividends paid if the company performs poorly.

S23:

2) Property investments include:

- Residential property such as multi-family apartments or townhouses
- Commercial property such as office blocks or buildings
- Retail premises such as shops
- Hotel rooms or hotels
- Industrial property such as heavy manufacturing buildings and industrial parks

S24: Property investment is also another common type of growth investment. Similar to shares, it is purchased at a low price and make money over the medium to long term by selling a shop or house when the value of it increases.

S25: One of the main advantages is that you have control over most parts of your investment. You have the power to decide:

- If the purchase price, rental and potential for capital growth are acceptable.
- How much cash you're going to put into your property investment, if any.
- How you'll structure your mortgage(s).

S26:

- How you're going to improve the value of your investment property to achieve the rental return you want.
- How you're going to maintain the property and whether you'll repair it yourself (if you can) or get someone else to do it.

S27: However, prices are not guaranteed to rise and unlike other investments, property can be more difficult to sell quickly. Hence, it won't be suitable for investors who needs access to their money easily.

So there you have it, the basic knowledge about investments to help you gain an edge above the rest who had no idea what investments are. With this knowledge, you now have a better understanding on how it works and how to make it work hard for you to have more and more money.

S28: But investing is not a one-time practice, it's a skill that has to be practiced consistently in order to achieve mastery. So keep learning about investment on a daily basis. I can promise you this, be a MASTER in investment, and you will never ever go broke again.