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THE BASIC CONCEPTS OF INVESTMENT AND ITS IMPORTANCE

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ABSTRACT:

The article reveals the essence of investment processes as the most important factor in the development of the economic system, presents a methodology for assessing the effectiveness of investments, as well as possible directions for their encouragement, and offers recommendations for improving investment efficiency.

Investing is essential to good money management because it ensures both present and future financial security. Not only do you end up with more money in the bank, but you also end up with another income stream. Investing is the only way to achieve both growing wealth and passive income.

KEY WORDS: investment efficiency, investment activity, investment potential, investment policy, money management, investment vehicles, compound interest, foreign stocks, foreign currency, foreign real estate.

INTRODUCTION:

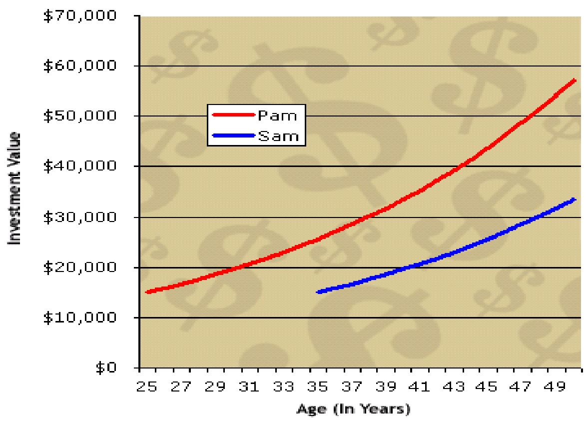
Have you ever wondered how the rich got their wealth and then kept it growing? Do you dream of retiring early (or of being able to retire at all)? Do you know that you should invest, but don't know where to start? If you answered "yes" to any of the above questions, then this article is for you. This article will cover the practice of investing from the ground up. The world of finance can be extremely intimidating, but we firmly believe that the stock market and greater financial world won't seem so complicated once you learn some of the lingo and major concepts. We should emphasize, however, that investing isn't a get-rich-quick scheme. Taking control of your personal finances will take work, and, of course, there will be a learning curve. But the rewards will far outweigh the required effort. Contrary to popular belief, you don't have to allow banks, bosses or investment professionals to push your money in directions that you don't understand. After all, no one is in a better position than you are to know what is best for you and your money. Investing means putting your money to work for you. Essentially, it's a different way to think about how to make money. Growing up, most of us were taught that you can earn an income only by getting a job and working. And that's exactly what most of us do. There's one big problem with this: if you want more money, you have to work more hours. However, there is a limit to how many hours a day we can work, not to mention the fact that having a bunch of money is no fun if we don't have the leisure time to enjoy it .

There are many different ways you can go about making an investment. This includes putting money into stocks, bonds, mutual funds, or real estate (among many other things), or starting your own business. Sometimes people refer to these options as "investment vehicles," which is just another way of saying "a way to invest." Each of these vehicles has advantages and disadvantages, which we'll discuss in a later section of this tutorial. The point is that it doesn't matter which method you choose for investing your money, the goal is always to put your money to work so it earns you an additional profit. Even though this is a simple idea, it's the most important concept for you to understand. Investing is not gambling. Gambling is putting money at risk by betting on an uncertain outcome with the hope that you might win money. Part of the confusion between investing and gambling, however, may come from the way some people use investment vehicles. For example, it could be argued that buying a stock based on a "hot tip" you heard at the water cooler is essentially the same as placing a bet at a casino. True investing doesn't happen without some action on your part. A "real" investor does not simply throw his money at any random investment; he performs thorough analysis and commits capital only when there is a reasonable expectation of profit. Yes, there is still risk, and there are no guarantees, but investing is more than simply hoping Lady Luck is on your side.

Albert Einstein called compound interest "the greatest mathematical discovery of all time". We think this is true partly because, unlike the trigonometry or calculus you studied back in high school, compounding can be applied to everyday life. The wonder of compounding (sometimes called "compound interest") transforms your working money into a state-of-the-art, highly powerful income-generating tool. Compounding is the process of generating earnings on an asset's reinvested earnings. To work, it requires two things: the re-investment of earnings and time. The more time you give your investments, the more you are able to accelerate the income potential of your original investment, which takes the pressure off you.

Starting Early**.** Consider two individuals, we'll name them Pam and Sam. Both Pam and Sam are the same age. When Pam was 25 she invested $15,000 at an interest rate of 5.5%. For simplicity, let's assume the interest rate was compounded annually. By the time Pam reaches 50, she will have $57,200.89 ($15,000 x [1.055^25]) in her bank account. Pam's friend, Sam, did not start investing until he reached age 35. At that time, he invested $15,000 at the same interest rate of 5.5% compounded annually. By the time Sam reaches age 50, he will have $33,487.15 ($15,000 x [1.055^15]) in his bank account. What happened? Both Pam and Sam are 50 years old, but Pam has $23,713.74 ($57,200.89 - $33,487.15) more in her savings account than Sam, even though he invested the same amount of money! By giving her investment more time to grow, Pam earned a total of $42,200.89 in interest and Sam earned only $18,487.15. For now, we will have to ask you to trust that these calculations are correct. In this article we concentrate on the results of compounding rather than the mathematics behind it.

During 2018, it made sense to focus on three specific investment classes. By spreading your assets across multiple markets, you can increase your chance of yielding high dividends while decreasing the risk related to tying your assets to a single factor.



1. Foreign Stocks. “The U.S. stock market faces a host of headwinds — such as coming interest rate hikes from the Federal Reserve, a strong dollar and full valuations, to name a few — that could limit gains in 2018,” writes Adam Shell of USA TODAY. “Those domestic obstacles bolster the case for putting more cash to work in foreign stock markets, such as Europe and Japan where central bankers are more market-friendly and valuations are less prices. ”It could be particularly profitable to keep an eye on international stock ETFs this year. The

10 referenced in this article look especially promising moving forward.

2. Foreign Currency. Generally speaking, foreign exchange markets are the place where short-term and momentum-based investors put their money. However, it looks like there may be some solid plays for savvy, long-term investors in 2018. With many of the world's central banks holding real interest rates negative and printing large volumes of money, the U.S. dollar, as well as currencies in developed countries such as Japan and select European countries, may not be as safe as they once were. Forward-looking investors will pay attention to the New Zealand dollar, Singapore dollar, Hong Kong dollar, and Chinese Yuan in 2018. Each represents a relatively safe play for storing assets, though investors shouldn't expect huge returns.

3. Foreign Real Estate. Finally, it's always smart to keep an eye on international real estate markets, which can deliver high returns under the appropriate circumstances. In fact, one real estate investor calls this the "golden age for the purchase of real estate overseas." That same investor, Kathleen Peddicord, suggests looking at five specific markets in 2018. They are Medellin, Colombia, Algarve, Portugal, Ambergris Caye, Belize, Panama, and Argentina. "Right now, U.S. dollar-holders have a big advantage in much of the world, from euro-land to Colombia and beyond," Peddicord writes. The only question is, will the average investor take on what's perceived to be an uncomfortable risk? We will advise you to broaden your investment horizons. There's nothing wrong with domestic investments. In fact, as the economy strengthens and markets improve, it will be wise to invest heavily in American stocks, real estate, and financial markets. However, it's also imperative – for the sake of diversification – that you consider foreign investments in 2018. Alternative Investments: options, futures, FOREX, gold, real estate, etc. So, you now know about the two basic securities: equity and debt, better known as stocks and bonds. While many (if not most) investments fall into one of these two categories, there are numerous alternative vehicles, which represent the most complicated types of securities and investing strategies. The good news is that you probably don't need to worry about alternative investments at the start of your investing career. They are generally high-risk/high-reward securities that are much more speculative than plain old stocks and bonds. Yes, there is the opportunity for big profits, but they require some specialized knowledge. So if you don't know what you are doing, you could get yourself into a lot of trouble. Experts and professionals generally agree that new investors should focus on building a financial foundation before speculating. Foreign direct investment is distinguished from portfolio foreign investment, a passive investment in the securities of another country such as public stocks and bonds, by the element of "control". According to the Financial Times, "Standard definitions of control use the internationally agreed 10 percent threshold of voting shares, but this is a grey area as often a smaller block of shares will give control in widely held companies. Moreover, control of technology, management, even crucial inputs can confer de facto control." The origin of the investment does not impact the definition as an FDI: the investment may be made either "inorganically" by buying a company in the target country or "organically" by expanding operations of an existing business in that country. Greater competition from new companies can lead to productivity gains and greater efficiency in the host country and it has been suggested that the application of a foreign entity's policies to a domestic subsidiary may improve corporate governance standards. Furthermore, foreign investment can result in

the transfer of soft skills through training and job creation, the availability of more advanced technology for the domestic market and access to research and development resources.

As a conclusion, we can say that we have given you the obvious examples of that it is better to invest in either type of investments and give your money the opportunity to rise rather than to keep it under your pillow hoping it will not loose its value or rots completely. Even if you loose your money by investing it you gain some experience that you can't get from any other sources and in future you will not repeat your mistakes. So, it means even if you loose your money, you will have invest these loss in your education.

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