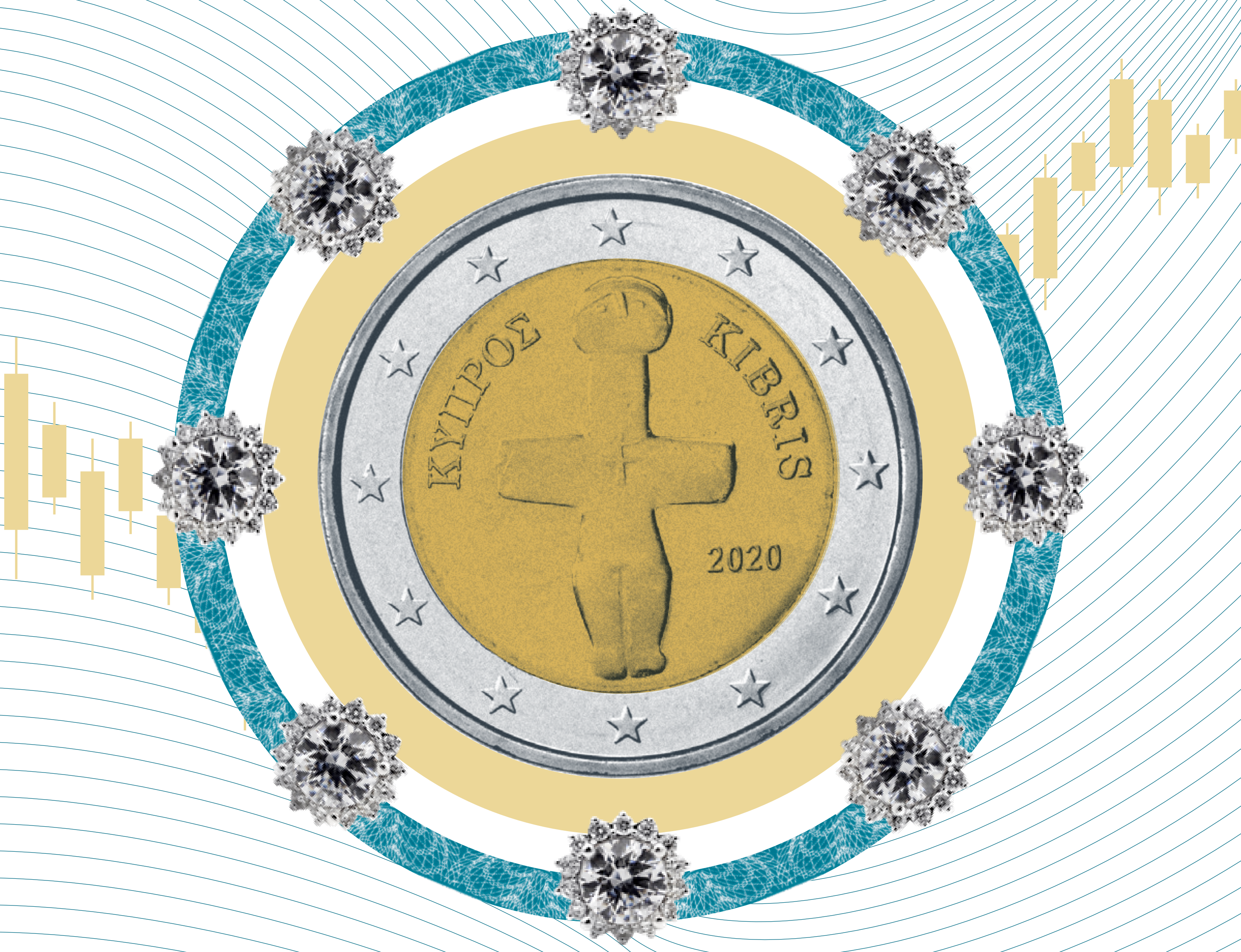
CyprusMail Personal Finance Guide

Manage your money



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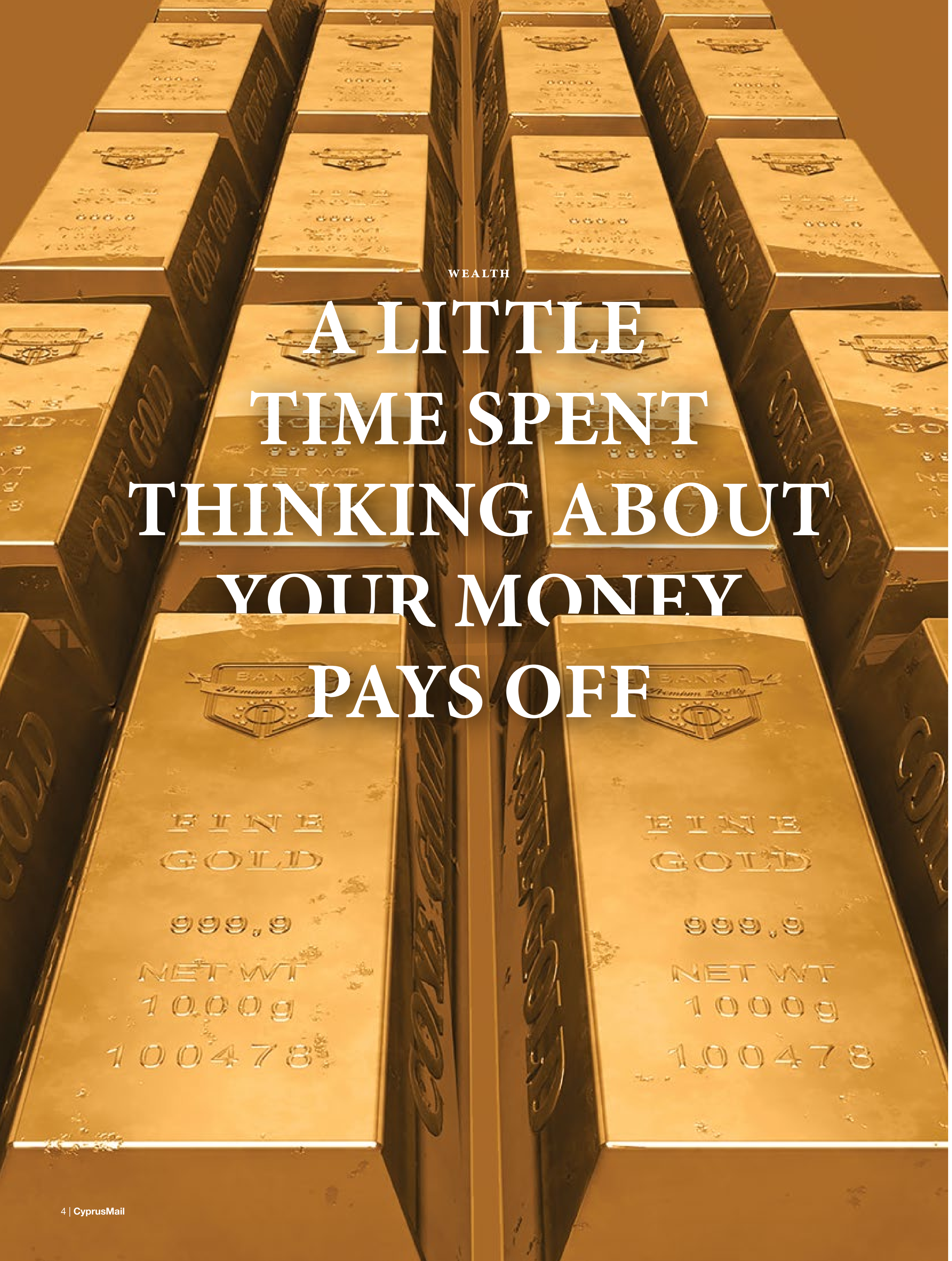

WEALTH

A LITTLE TIME SPENT THINKING ABOUT YOUR MONEY PAYS OFF

It is amazing to think that most of us spend most of our time earning money, but very little in taking care of what we earn. Yet **Andrew Rosenbaum** says it is possible to make your money work for you

Here in Cyprus, a large number of wage-earners simply leave their money in bank accounts. There is nothing wrong with that, but when interest rates are low, as they are now, your money isn't working for you.

According to a report from PwC from shortly before the pandemic, household investment in Cyprus is mainly on real estate, the renovation of homes and the purchase of new equipment, including machinery and transport equipment. The household investment rate, according to EuroStat, was 10.6 per cent in 2018 (latest available figure), just about average for the Euro area.

Many Cypriots simply can't be bothered to invest in products that provide a better return, others are afraid, because they do not understand how to manage risks.

But there is a vast universe of investment products to choose from, ranging from simply acquiring a gold bar to picking stocks to buying shares in a real estate investment trust.

There is nothing arcane, no rocket science involved in this kind of investment. And one needn't spend hours and hours in front of a computer to calculate returns.

Best of all, today there are thousands of online sites dedicated to individual investing of every type. You can trade stocks, foreign exchange, options, CFDs, futures, cryptocurrencies or whatever you prefer.

Much of this kind of investment can be made without consulting a professional advisor – although that is an excellent option. Individual investors can understand the risks involved and how to manage them.

The basis of personal finance, as it is in high finance, is all about risks. The greater the risk, the higher the 'risk premium,' as it's called.

Original diamond image: Sabrina Ringquist

*There is a simple way to manage concentration risk. **Don't put all your money into one investment.** Diversity is the key to successful investing at almost any level.*

WHAT IS PERSONAL FINANCE?

Personal finance involves managing your money, and that means planning your budget, controlling your spending, and generating income from investments made with disposable income.

Saving money remains the simplest and most basic way to generate income from the money you earn.

Every financial advisor will explain to you that, starting at age 18, and simply putting €50 every month into a high-interest savings account will make you a substantially wealthy person by the age of 50. Obviously, the amount saved varies depending on the interest rate, but here's an example: Save €1,000 every month for 30 years at 6 per cent interest, and you will have about a million euros at the end of it.

The trick is not to have to draw on those savings over the entire period. Not all of us can resist the temptation. The great advantage is that there is almost no risk, but remember that banks in Cyprus only insure savings of up to €100,000.

MONEY MARKET ACCOUNTS, GOLD AND PERMANENT LIFE INSURANCE

But it isn't necessary to wait 30 years for a return on your investment when you manage your personal finances.

A money market account with a bank or broker allows an individual saver to earn a higher rate of interest than in an ordinary savings account, at a lower level of risk.

The money market's main purpose is to allow financial institutions, governments and large companies to obtain short-term funding rapidly. But it can also be accessed by individuals.

Money market accounts are flexible, so that you can put money in and take it out as you like. But the interest rate you receive depends on the amount held on deposit.

Life insurance with an investment component is also a very low-risk investment. There are significant tax advantages to permanent life insurance policies, and return on investment can be significant.

As in all types of personal finance, it's not just about receiving a return, it's about whether the form of financing chosen will fit you and your family's needs. A 30-year fixed-deposit investment pays an extremely high rate of interest, but it's of no use to you if you are going to need access to those funds in a few months.

Similarly, a bar of gold just sits in your wall safe or bank vault, and it earns no interest. On the other hand, it's possible today to buy physical gold (i.e. gold bars), to place them with an online broker, and then convert whatever part of the gold you need to spend into ordinary currency, while saving the rest of it. Some brokers will even pay interest on your holding.

Fixed-deposit investments, which most Cyprus banks offer, pay a higher rate of return with relatively low risks. There are also government bonds available at a similar risk level.

Pension investment can be at any level of risk, as the investments made within the pension can be very conservative or very bold, and can be tailored to your individual risk appetite and needs.

UNDERSTANDING RISK IN PERSONAL FINANCE INVESTMENT

All of these types of personal finance investment are very low risk. The chances of losing your investment in any of these is very slight.

The greater the risk, the greater the premium, and so investments of a riskier type should be of interest to many investors. But it is critical to understand the types of risk involved in this kind of investment.

Let's start with a simple example. There is a kind of stock called 'penny stocks' which are traded in the US and the UK. As you can guess from the name, the price of a share of a penny stock is not high. In the UK, most of them are listed on AIM, and they have low levels of market cap (meaning the total value of shares issued).

So, let's suppose we find a company called The Better Mousetrap, listed on the London Stock Market's AIM section with a price at 30 pence and a total market cap of 100 million – this is a rather small amount for a listed stock. You read the information about the company, and you decide that the world is waiting to snap up these (humane) mousetraps. You purchase 100 shares for £30 pounds.

You have made an investment that has four different types of risk. First, it's possible that the company will never sell enough mousetraps, and then the share price will go down. That's called equity risk.

Then, suppose the stock price goes way up, as people can't get enough of these mousetraps. Now you try to sell your stock and take your profit. But you find that no one wants to buy your shares; when you put them up for sale on your online share trading platform, they just sit there.

This is called liquidity risk. When you make an investment, make sure that there is a very large group of potential buyers available.

There is also market risk. Suppose a famous stock market analyst announces that no one should invest in penny stocks anymore. This is a risk that affects the whole market for penny stocks (yes, this sort of thing happens). Any event external to the stock itself, but which affects the entire market – like a pandemic – is a market risk.

Sorry, there's one more type of risk to consider: Concentration risk. You put all your money into shares of the mousetrap maker. Now a computer programme is invented that replaces all mousetraps. The company you invested in goes broke, along with all other makers of animal traps.

There is a simple way to manage concentration risk. Don't put all your money into one investment. Diversity is the key to successful investing at almost any level.

There are a number of different kinds of risk to be aware of as well, but the conclusion to make is that you should never invest in anything unless you understand the types of risk to which you are exposed.

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Property Image: Pixasquare

*Careful investing will make property ownership very lucrative – **it's all in how you manage it.***

(Continued from page 7)

UNDERSTANDING INVESTMENTS WITH GREATER RISK AND RETURN

Penny stocks are a particularly risky form of investment, most experts would agree.

More mainstream stock market investing is far less risky, particularly if you spread your investment out over a number of companies from different sectors. The sectors that analysts prefer at the moment include healthcare, consumer staples and high-tech. Investing in companies that have a good long history is another way to limit risk – the so-called 'blue chip' stocks are usually a fairly safe play, although the rate of return may not be high as they tend to move up and down less than others.

Mutual funds are exchange-listed investments that take shares in a variety of stocks, based on the manager's specific strategy. This kind of diversification protects the individual investor from risks to a certain extent. But mutual funds often have high fees attached to investment, and everything depends on the strategy of the manager. Investors should look carefully at both of these factors before putting funds into a specific mutual fund.

Investing in options offers a completely different approach to investing, one that is somewhat less risky than 'plain-vanilla' equities. An option is a contract that allows an investor to buy or sell a financial instrument like a stock, bond, a fund share or others at a predetermined price over a certain period of time. Options are not for everybody. Online trading has made learning how to manage options much more accessible.

But real estate investment provides the same number of risk factors as the stock market. Buy a property, watch the economy slow down, and watch your property value plunge – that's market risk in real estate investing.

But developing a property also involves entitlement risk – the chance that government agencies with jurisdiction over a project won't issue the required approvals to allow the project to proceed and environmental risks like soil pollution – these are called idiosyncratic risks.

There are liquidity risks in real estate investment as well. Buy several buildings in a popular district, and then watch buyers decide they like another one better.

Real estate has a large number of complex ownership structures that are intended to reduce risks – the 'triple-net' lease is a good example. But there is no way to reduce risk entirely. Owning property is not a risk-free investment like gold.

With this said, careful investing will make property ownership very lucrative – it's all in how you manage it.

THE VALUE IN ALTERNATIVES

While we are all familiar with the traditional forms of investment – bonds, stocks, debt, real estate, pensions - it's important not to neglect the value in alternative investments like commodities, tangibles like funds, hedge funds, exchange-traded funds, and tangible assets like art, automobiles, jewellery, and similar items. Alternative investment funds specialise in every conceivable type of investing strategy, but not all are available to the individual investor. Those that are should be carefully examined for history of return on investment. When they are well managed, Alternative Investment Funds offer a very good opportunity to achieve good returns.

Photo: Alexunder Hess

Hedge funds can offer substantial value, if one can afford to invest. ***The investor can choose, today, among about 10,000 existing hedge funds.***

The great advantage of every type of alternative investment is that they tend to not correlate with the stock markets. Investment in a classic painting is most likely to provide at least a 10 per cent increase in value per year if the artist is prized by collectors. Fine wines provide a similar increase in value. Of course, it is always possible to earn more.

The investor should be aware that alternative investments are more complex than traditional investment vehicles. Some types of alternative investments can have high management fees attached (hedge funds are a good example).

Alternatives can be far more volatile than traditional investments. Liquidity is an important issue too: it's great to invest in a Ferrari, which will offer an almost sure return after 20 years – assuming there are enough ultra high net worth people who love Italian sports cars.

The world of alternative investing has grown rapidly over the past few years, and according to Strategy&, alternative investments will grow to a value $18.1 trillion worldwide by 2020. Part of the reason for this is that investment firms have made it easier for small retail investors to place their funds with mutual funds that are oriented toward alternatives.

WHAT ARE HEDGE FUNDS?

Most funds are heavily restricted in their ability to choose investments. The hedge fund was created to offer skilled fund managers greater freedom so that they can invest more aggressively and choose more widely.

This freedom makes access to hedge funds effectively limited to high net worth investors who can show that they can afford heavy losses and who can understand the complex strategies hedge funds managers undertake. Managers do, of course, earn high fees for success.

Hedge funds will invest in some stocks, and then sell other stocks short (meaning they expect the stocks to decline in price). They can borrow funds for investment, and make use of options and derivatives as they wish.

Hedge funds can offer substantial value, if one can afford to invest. It's not surprising that there are currently total assets under management (AUM) valued at more than $3.25 trillion according to the 2019 Preqin Global Hedge Fund Report. The investor can choose, today, among about 10,000 existing hedge funds.

Hedge funds have been part of some parlous financial disasters. But the ability for hedge fund managers to make use of such a wide variety of tools has led to some amazing long-term returns.

ARE YOU READY TO TRY TO MANAGE YOUR PERSONAL FINANCES?

With such a vast amount of value, do you still want to sit on the side-lines?

There is no guarantee that personal finance management will make you rich. On the other hand, it can make life much easier, and offer new opportunities to you and your family.

D. Zavos Group officially announces the completion of **THE ADDRESS BY THE SEA** project, which is yet another success of the Group, confirming once again its leading role in the field of construction industry and land development. Emerging from the pristine waters of the Limassol coastline, **THE ADDRESS BY THE SEA** is a spectacular construction offering wide-sweeping beach views.

The daunting 11-floor project is shielded with glass and marble, promising to captivate all eyes. D. Zavos Group has selected the leading brands and suppliers for the design, structure and execution of these ultra-modern apartments. The project has 33, two and three-bedroom units of high-end aesthetic appeal, with exceptional sea views, including two three-bedroom penthouses with private Jacuzzi and roof gardens!

Residents of **THE ADDRESS BY THE SEA** can enjoy a wealth of amenities perfectly aligned with luxurious living combined with cast-iron security, either while relaxing in the modern lounge area and the communal pool, or while using the fully-equipped fitness center, sauna and tennis court, as access to the facilities is being controlled at all times.

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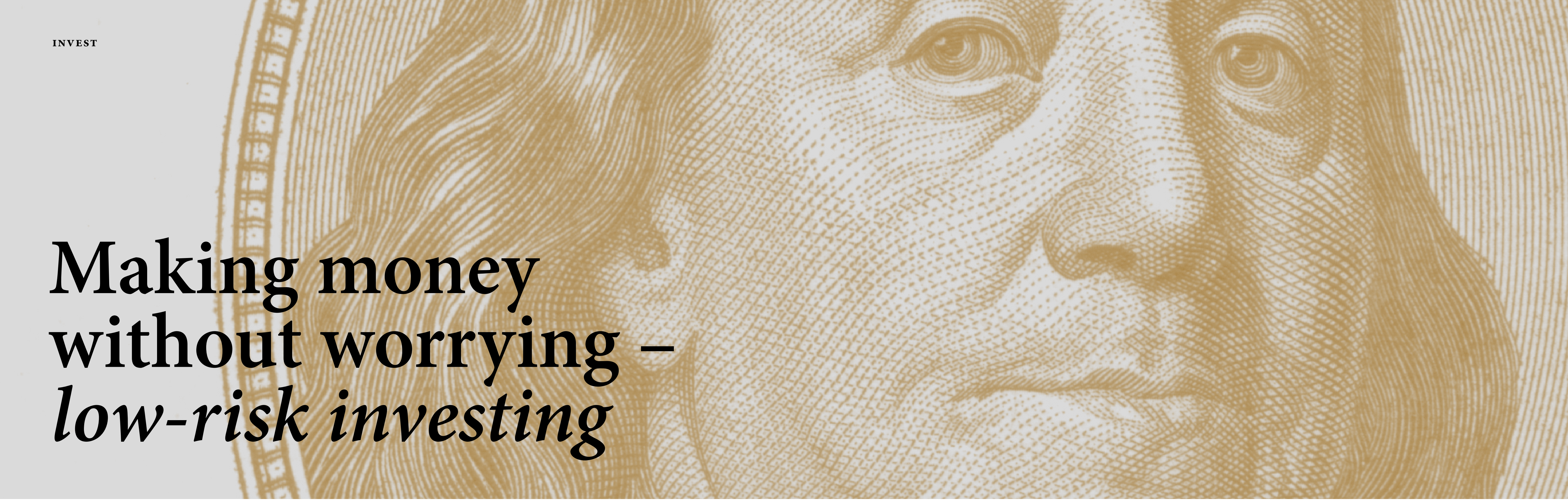


Making money without worrying – *low-risk investing*

We've all struggled to make it through the pandemic crisis, the lockdown and its economic fallout. Tough times, and they've taken their toll, in one way or another, on everyone in business in Cyprus today.

Many locals would like to improve their financial position, but they have enough worry just to keep their businesses going and making ends meet. And they're in no mood to have their cares increased with risky investments that need lots of attention.

For those of us who feel this way, there is low-risk investing. It offers a means to make a respectable return on savings, but with almost no risk of losing them.

No-risk investing is possible

Rather than just leaving money in a no-interest checking account, there are ways to earn a return with absolutely no risk. It's not really investing, but it serves the purpose.

The absolute surest way is to choose a high-interest savings account. These deposits are protected by the government up to €100,000, and by leaving money in deposit for a certain period of time, the return is earned.

Most of the banks in Cyprus offer accounts of this type. It's possible to shop around, and find the one that works best for you in terms of deposit time, rate and terms.

And earning cash for depositing your cash means that your investment doesn't lose value. For now, in a period of low inflation, earning a modest return on a cash deposit is solid value, with assured purchasing power.

Some banks in Cyprus offer customised fixed-deposit accounts. You can decide the term of the deposit, the amount, and then the bank will offer you a high level of interest.

For a different approach to this kind of investment, there are multiple currency accounts. You can hedge the value of your euro savings by combining them with savings in dollars, yen, rubles or whatever currencies you choose (most banks offer a range of choice but not all currencies are available).

And some banks offer money market funds, which are intended to provide a high level of security for investments. Investing in money market funds offers easy access to your investment. They are designed to diversify types of investment, and this reduces risks. They invest in high quality instruments, and money market funds are managed within strict guidelines to ensure that investor goals are achieved.

Government of Cyprus bonds

Another no-risk investment is a Cyprus government bond. The finance ministry sells bonds – which offer investors interest over a period of years for financing the government's spending – to institutional investors via auctions. These bonds can't be accessed by individual investors.

But the government also offers a different type of bond to individual investors, and they offer special conditions that make them easy to access.

"The Republic of Cyprus issues monthly retail bond series. Government bonds for natural persons (retail bonds) are specially designed to meet the characteristics of natural persons as investors as regards performance, security and liquidity," the Cyprus Public Debt Management Office says.

This bond has a maturity of six years but with the possibility of early repayment with 90 days' notice anytime without penalty, using the Notice for Early Repayment. The interest rate has a step-up structure i.e. it increases depending on the time that the investor will keep it in possession.

Taxes and levies are charged on interest income, according to the legislation in force. The bonds are not admitted to trading in Cyprus.

Fixed Annuities

Fixed annuities are designed for conservative investors seeking a passive income that is (almost) completely safe from risk. There is also a variable annuity, but that involves investments with a much higher level of risk.

A fixed annuity is a contract between you and an insurance company. You provide funds for the annuity. The insurance company guarantees to preserve your principal and to pay you a regular interest payment. The interest rate is relatively low, as there is almost no risk, but you can rely on it for your lifetime.

Fixed annuities are great ways to assure your financial security. They're not cheap, however. There have been rare instances where the insurance company has gone broke, and payments stopped, but even if that happens, you are the first creditor to be reimbursed by bankruptcy proceedings. Obviously it is important to carefully evaluate the insurance firm that you contract with.

A fixed annuity provides a way to save money over the long-term, allowing interest to accumulate. They allow investors to put a virtually unlimited amount of money away and let it grow. They may also be subject to preferential tax treatment. Annuities may be protected from creditors, depending on the situation.

In return for their relative safety, fixed annuities also pay a low rate of interest, perhaps a bit higher than regular savings accounts. However, some fixed annuity carriers will also offer a higher initial rate, or 'teaser' rate, as a means of attracting investors.

There are also indexed annuities that are less speculative than variable-rate annuities but still a much higher level of risk than fixed-rate annuities.

Fixed annuities represent one of the strongest choices for long-term risk-free accumulation of passive income. But they require sizeable investments and are likely to be capital-intensive for all but the most affluent. They also mean that the money invested will never earn more than the agreed amount of interest. If inflation rises, that money won't go as far as it did when you contracted for it.

Low-risk investing – Short-term bonds

Investors who are willing to accept low levels of risk have a wide variety of choices, without accepting volatility.

Short-term bonds are a good example. These are bonds – a form of debt that pays interest on a monthly basis. Short-term bonds are usually offered in terms of one to four years.

These bonds can change in value as interest rates rise or fall – higher interest rates offer a better rate of return. But even when interest rates are low, short-term bonds, because they are converted back to cash within a relatively short time frame, can work well for the secure part of your portfolio.

Gilts

These fixed-interest securities are issued by the British government when it wants to raise money. Gilts are one of the oldest and surest investments in the world, but they do have a level of risk.

Since April 1998, gilts have been issued by the UK Debt Management Office on behalf of the Treasury. Gilts are generally considered to be very low-risk investments because it is thought to be highly unlikely that the British government will ever refuse to meet its obligations. In fact, that's why they are called "gilts" - gilt-edged security.

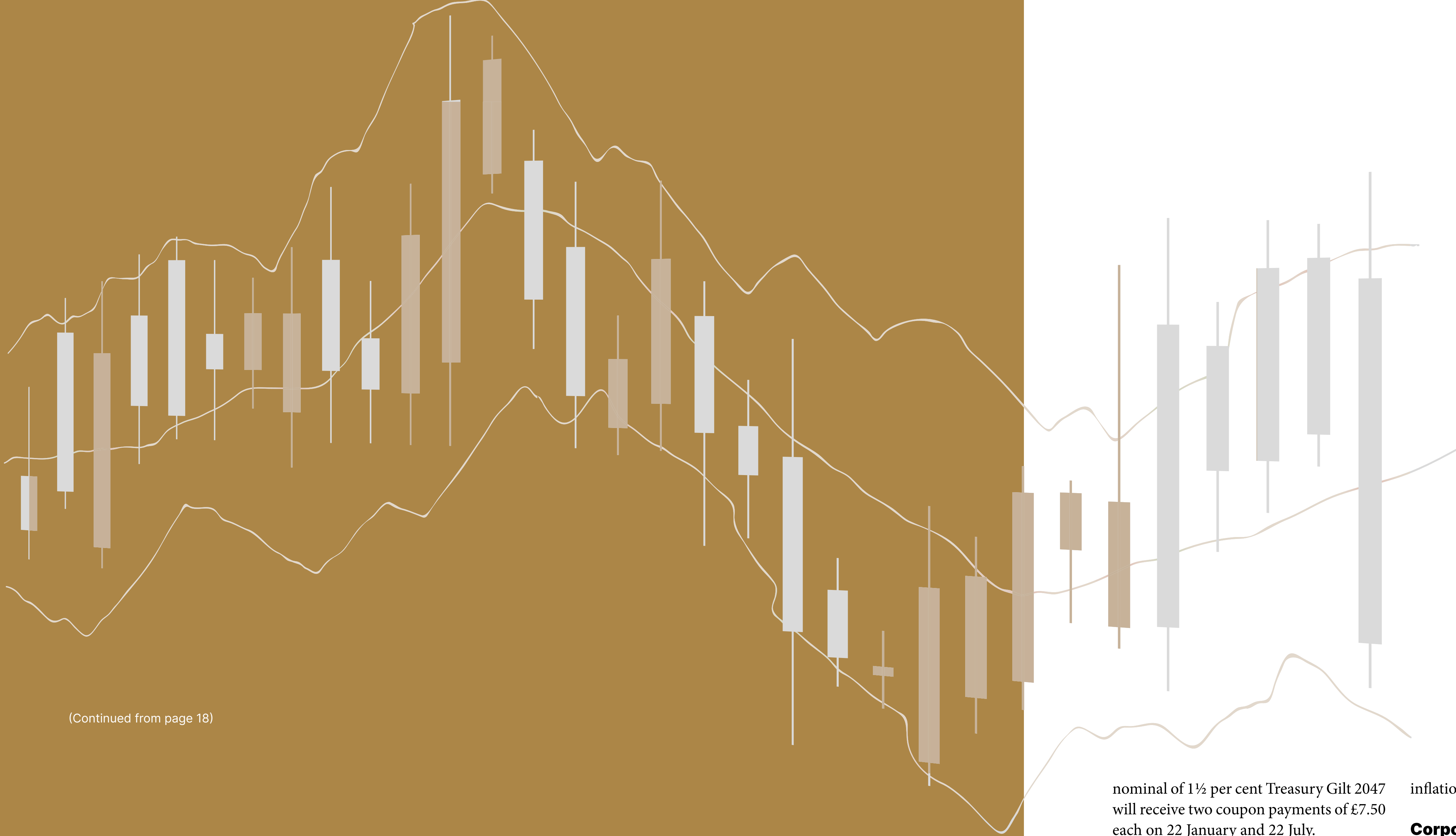
Conventional gilts are the simplest form of this kind of investment and constitute around 75 per cent of the gilt portfolio. These guarantee to pay the holder of the gilt a fixed cash payment (coupon) every six months until the maturity date, at which point the holder receives the final coupon payment along with all the money invested at the start. The prices of conventional gilts are quoted in terms of £100.

Gilts offer something that is rare in government bonds – a choice of interest rates. A conventional gilt offers a specific interest rate (or coupon rate) and has a determined point of maturity (e.g. 1.5 per cent Treasury Gilt 2047). The coupon rate usually reflects the market interest rate at the time of the first issue of the gilt. What this means is that there is a wide range of coupon rates available in the market at any one time, all with different rates of interest depending on the time they were first issued. Pick the gilt with the interest rate and maturity date – there's no choice of coupon payment date, however - that fits your needs.

In the case of the 1½ per cent Treasury Gilt with a maturity date of 2047, the principal will be repaid to investors on 22 July 2047. In recent years the DMO has mostly issued conventional gilts around the five-, 10- and 30-year maturity areas. But there are also new 50-year, and 55-year maturity conventional gilts to be had.

Coupon payments are made in two equal semi-annual payments on fixed dates six months apart (these payments are rolled forward to the next business day if they fall on a non-business day). For example, an investor who holds £1,000

Gilts offer something that is rare in government bonds ***– a choice of interest rates.***



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***Investors in preferred stock should be aware of market risks**, meaning that a slow economy, or substantial changes in the way the company invested in operates could affect income.*

nominal of 1½ per cent Treasury Gilt 2047 will receive two coupon payments of £7.50 each on 22 January and 22 July.

Inflation, of course, can affect the value of your conventional gilt investment, as with any fixed-term investment. Because they are long-term investments, if inflation goes up from when you buy the bonds, the money you receive at maturity will be worth less in purchasing-power terms when you receive it.

The British government has addressed this issue with index-linked gilts, which form about 25 per cent of the portfolio of issuance. As with conventional gilts, the coupon on an index-linked gilt is the interest rate available at the time of issue. However, index-linked gilts differ from conventional gilts in that the semi-annual coupon payments and the principal are adjusted in line with the UK Retail Prices Index. This means that both the coupons and the principal paid on redemption of these gilts are adjusted to take account of inflation since the gilt was first issued.

Corporate bonds with high ratings

With gilts and Cyprus government bonds the level of risk is barely worth mentioning. This is not true of investment in corporate bonds, even those with high credit ratings. There is always a risk of default with corporate bonds – after all, any private company can go out of business if it is badly managed.

But the chances that a major corporate like BP, IBM, Barclays, or other famous old names might actually go insolvent are very, very small. What's more, we know that companies like these are too big to fail, and that governments get busy saving them if they run any risk of going bankrupt.

There is yet another reason why highly rated corporate bonds run little risk of default. Big companies operate by borrowing money all the time. There is a constant flow of leverage and repayment between them and the banks; this is why they all have a treasury filled with experts at managing these flows.

Were a company of this type to default on a bond, it would lose all that access to credit, and that would make managing it a very difficult thing indeed.

So, companies are very careful to pay their corporate bond obligations. And that makes them a low-risk investment.

As always, the higher the risk, the greater the premium: Corporate bonds offer better yields than government bonds. But you know the level of risk you assume when you buy a corporate bond. Corporate bonds are rated by the agencies Standard & Poor's, Moody's, and Fitch, and they examine the company, the bond itself and evaluate the chances of default. The most reliable (least risky) bonds are rated AAA, and with these bonds your level of risk is very low. Individual investors seeking low-risk investments should also consider AA- and A-rated bonds, but should not go below that rating level.

Preferred stock

Preferred stock is a somewhat extraordinary low-risk investment. It trades like a stock, but acts like a bond. This kind of stock can be sold off easily when you seek a different investment. There is very little liquidity risk as funds on an exchange are usually available. There is no penalty for the sale of preferred stock.

Most preferred issues are also graded by the same credit ratings agencies that evaluate bonds, and their default risk is evaluated in the same manner as for bonds. If the issuer of a preferred offering is very stable financially, then it will receive a higher rating, such as AA or A or AAA. Low-risk investors should not consider Preferred stock rated lower than this.

Preferred stocks have a stated rate of interest. They trade on exchanges, but do not fluctuate broadly in price. They pay a higher rate of interest than savings accounts or other no-risk investments, because they do not have the level of guarantees that bonds have (i.e. in case of insolvency, you are not the first-paid creditor).

Preferred stocks usually pay monthly or quarterly dividends. In some cases, these dividends are subject to preferred tax treatment.

Investors in Preferred stock should be aware of market risks, meaning that a slow economy, or substantial changes in the way the company invested in operates could affect income. Dividend payments may be reduced if the company is not performing well – this is up to the board of directors which votes dividends every quarter.

If you have Cumulative Preferred stock, however, you accumulate any dividends that the issuing company cannot pay due to financial problems. When the company is able to catch up on its obligations, then all past due dividends must be paid to Preferred stock shareholders.

A different type of Preferred stock is called Participating Preferred. This allows shareholders to receive larger dividends if the company is doing well financially, but may mean smaller ones if the company is performing poorly.

There is also Convertible Preferred stock which can be converted into a certain number of shares of common stock – the kind most investors hold. These investors have voting rights, so if you're not satisfied with the way the company is being run, you can make yourself heard.

Preferred shareholders can also count on getting their money back from the issuer before common stockholders if the company is liquidated.

Low-risk investing means earning some money without much worry

It is clear that there are limits to what you can expect with low-risk investment. But the lack of worry for and attention to your savings may be more worthwhile to you than the prospect of a higher return.

We all have a risk appetite. You have to decide what yours is.

Investing for higher returns

Some investors seek a higher level of return and accept a greater amount of risk in order to achieve it. For investors with this kind of risk appetite, there are a number of effective, but challenging offers.

All of these types of investment require much more of the investor's time and attention – unless one has enough capital to work with a professional broker or advisor.

Preferred types of investment for higher returns include stocks, bonds, cryptocurrencies and foreign exchange trading. All of these investments offer high returns to carefully managed strategies.

But, whichever one or more of these that you choose, the best strategy is not to invest more than you can afford to lose. Professional investors, who spend their entire lives doing nothing but analysing these markets, will tell you that there is a random element in all financial trading that no one can eliminate.

Consider this anecdote: "In 2010, a Russian circus monkey named Lusha picked an investment portfolio that outperformed 94 per cent of the country's investment funds to great acclaim. Given 30 blocks, each representing a different company, and asked "Where would you like to invest your money this year?", the chimp picked out eight blocks. An editor from a Russian finance magazine commented that Lusha bought successfully and her portfolio grew almost three times. He suggested that financial whizz-kids be sent to the circus instead of rewarded with large bonuses."

But there are ways to limit this randomness, to manage trading carefully, and to get a real return.

Europeans love to buy shares in companies listed on stock exchanges, ***because the basic concepts for this kind of investing are straightforward.***

TRADING STOCKS

Equities trading is not popular in Cyprus, perhaps because the national stock exchange has few listings and a very low trading volume.

But Europeans overall love to buy shares in companies listed on stock exchanges, because the basic concepts for this kind of investing are straightforward – as opposed to investing in options or futures, for example.

The Initial Public Offering (IPO) is where stock investing starts out. A company needs to raise capital. Working with an underwriter – an investment banker who manages the IPO - a prospectus is developed which determines how much of the company's shares will be sold, what kinds of stock will be offered, etc. Application is made to the stock exchange where the stock will be listed. Then the proposal is first shopped around to institutional investors to arouse interest.

A date is fixed, and on that day the stock is given a listing on the exchange, and begins trading. Many investors take a keen interest in IPOs, because if you get in early, the stock often rises sharply from its initial trading price and a good return is achieved.

Once the IPO debuts on the exchange, some investors watch carefully to see if the company has raised all the money it needed. This is often a good indication of how the stock will trade in the future.

Professional investors tend to look at stocks by 11 sectors:

- Energy – oil, gas, coal, and fuel companies
- Basic Materials – chemical, construction materials, packaging, metals, and paper companies
- Industrials – defence, machinery, aerospace, airlines, construction, and manufacturing companies
- Consumer Discretionary – retailers, apparel, restaurants, autos, hotels, media, and household products
- Consumer Staples – food, beverage, tobacco companies, household goods, personal products, and supermarkets
- Healthcare – pharmaceuticals, healthcare equipment, and healthcare services
- Financial – banks, insurance, and real estate companies
- Information Technology – internet, software, and semiconductor companies and other equipment manufacturers
- Communications – telecommunications and social media
- Utilities – electric, water, and gas companies
- Real Estate – companies that invest in, or manage property

If you read market analysis you'll often see references to sectors or groups of sectors.

For example, you will see references to a 'move into defensive stocks,' meaning that companies in basic necessities for living, like utilities, healthcare, consumer

Many investors prefer to pick companies that they believe in. There are a number of ways to analyse potential growth companies, ***invest while they are young, and then watch as the stock gains in value.***

staples, or energy are seeing an influx of investment, usually because the rest of the economy is not doing well. The theory is that people need basic necessities no matter how the economy is doing.

Many investors like to bet on specific sectors, or groups of sectors, because it's relatively easy to identify fundamentals like sector growth, investment in the sector, how the sector will fare within specific economic trends.

Investing in Exchange-Traded Funds (ETFs) offers easy access to a specific sector. These are funds that invest in a specific type of stock, say precious metals, or utilities, or in financial instruments.

Many investors, however, prefer to pick companies that they believe in. There are a number of ways to analyse potential growth companies, invest while they are young, and then watch as the stock gains in value. This is the famous Warren Buffett 'value' method of investing, and it requires a lot of patience.

But it works, if you pick well. A $1,000 investment in Apple on the day of its IPO on December 12, 1980, would be worth more than $425,000 today. However, a $1,000 investment in Microsoft on the day of its IPO on March 13, 1986, would be worth more than $1.7 million. This is possible because growth stocks tend to split as they gain in value, so buying a few shares at the outset means you'll have a lot more if the company grows like Apple and Microsoft.

But there are many other approaches to stock market investing, from pure technical analysis which looks at price movements, to complex correlations of economic events and trends, to day trading, in which you pick a stock in the morning that you think will go up, and you sell it when you think it's gone up as far as it can – usually within hours of the purchase.

Irrespective of the method you choose, you will find that research is the key to success on the stock market. It's an engrossing way to invest.

INVESTING IN BONDS

Investing in bonds can involve either holding them, or trading them or both.

A bond is a share in a larger debt. If a government, government agency, municipality or company seeks to raise money it issues bonds, each of which is denominated at a certain face value, and which pay interest (these are called coupons in the bond world).

Buy a government bond, like those of the Cyprus government, hold it for the full term, and you will collect both interest and the amount you invested. But the return will be relatively low compared with more risky investments.

Buy a corporate bond, hold it for the term, and if all goes well with the company, you'll get a higher rate of return and your principal back.

Many investors hold bonds of this type as part of a broader portfolio of stocks, alternatives and real estate investment – diversification of this type means that you don't 'put all your eggs in the same basket.'

Or you can buy a 'junk bond,' one with a high level of risk that the company won't be able to make payment. The return on this kind of bond is very high, and if you choose wisely, you can achieve it.

Bond trading, on the other hand, means buying and selling bonds after they are issued. Bonds are traded on an open exchange as well as through broker-dealers.

A bond's price and yield determine its value for trading. Obviously, a bond must have a price at which it can be bought and sold, and a bond's yield is the actual annual return an investor can expect if the bond is held to maturity. Yield is therefore based on the purchase price of the bond as well as the coupon.

Interest rates determine bond prices. As interest rates go up, bond prices go down, because money placed in deposit at interest earns more than the interest rate on the bond. On the other hand, bonds

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Global Corporate Banking & Markets Division

Your banking, Your investments, Our business.

Bank of Cyprus

The lesson of the global financial crisis, the post-crisis market environment and the speedy and frequent changes to regulatory frameworks have had a marked impact on the banking sector globally. In response to the new operating landscape, banks have been re-assessing and adjusting their business strategies and models to better position their places within the sector and be able to better serve their client base. Additionally, banks try hard to confront low profitability in a near-zero/negative interest rate environment and come up with new ideas of how careful and steady expansion can be achieved.

The banking sector in Cyprus has seen significant positive developments during the last seven years, with clear evidence of stabilisation and progress. International and local investors have shown considerable interest and currently hold sizeable shareholdings with board participation and are major holders of deeply subordinated instruments issued by local banks and have invested significant amounts to purchase non-performing exposures from local banks' balance sheets.

The banking industry in Cyprus is facing a challenging environment whereby inflexible cost structures and compressed interest margins over and above the need to invest in technology and automation are forming an arduous cocktail of challenges that need to be addressed.

Taking into consideration all of the above and in an effort to differentiate itself by leveraging on its strong reputation and market segment, Bank of Cyprus has formed the Global Corporate Banking & Markets Division. Its main objective is to improve the servicing of its client

base within and beyond the traditional commercial banking space. Its vision is to be the bank of choice for its clients' business and personal matters by offering a one stop, holistic, comprehensive, tailored and unique set of products and ancillary services for them.

Consequently, International & Large Corporate, Shipping Finance, Project Finance & loan Syndication, Wealth management, investment banking and asset management and global market execution are now under one roof. This enables clientele extensive, specialised and scalable solutions, having always in mind their unique business or personal needs.

From simple to complex Structured Financial Products, Treasury & Global Markets Solutions, Forward Rate Agreements, Interest Rate Swaps, Lending (Locally or abroad), Asset Management or Private Banking Services, Credit or Debit Cards, this is your one stop shop, ensuring outstanding service.

As a successful private individual and business owner who operates in a zero or even a negative interest rate environment, you need a strategy for protecting your personal wealth for the future and for the next generation. You also need financing solutions that match your evolving and growing needs and utilise unparalleled experience and expertise across products, markets and sectors.

Investments revealed and reloaded
Everything starts with a simple conversation.

By listening to your concerns and being by your side in every step, the Bank of Cyprus can help you achieve your full potential. Your personal dedicated Private Banker can help you choose an investment strategy based on your preferences and appetite for risk. The bank's investment team will proactively monitor your investments making sure they continue to meet your changing needs.

To be able to do this, it has brought together the relevant specialists who understand the tailored needs of a successful individual by providing innovative and robust advice in a practical and commercial manner.

The Wealth & Markets professionals of Bank of Cyprus can offer a full spectrum of wealth investment services covering the local and all the major international markets. Private Banking, Institutional Sales & Trading, Global Capital Markets, Discretional Asset Management Services and Local & Global Trading Platforms.

To complement the above services, the bank offers a one-stop shop with all the necessary Ancillary services such as Investment Banking, Custody & Depository services and Fund Structuring & Licensing.

Bank of Cyprus removes the mystery and complexity of investments.

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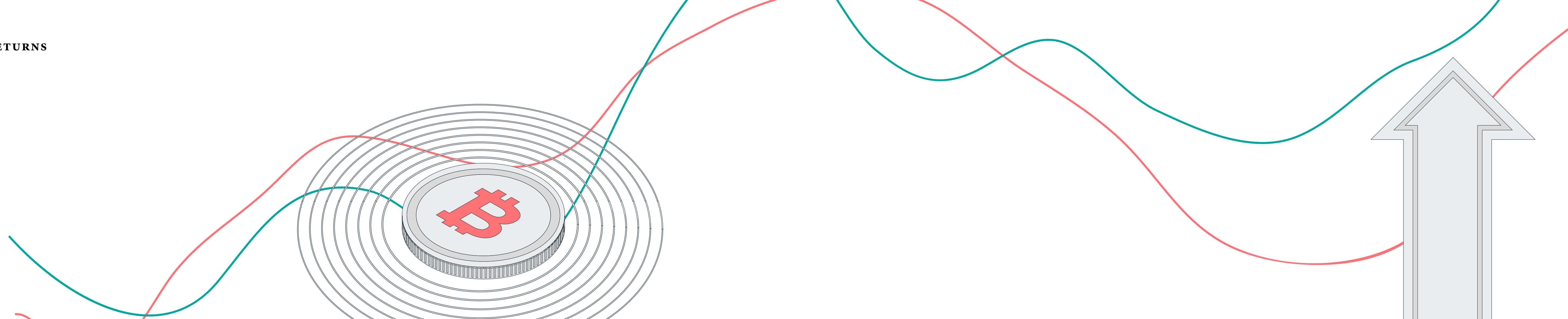
Bank of Cyprus



(Continued from page 26)

issued at times when interest rates were higher become more valuable.

Similarly, as interest rates go down, bond prices rise, because the interest earned on bonds is greater than what can be earned just by putting funds on deposit.

Bond trading is all about maximising yield, and there are ways to calculate this taking into account changing interest rates, and other factors.

There are also zero-coupon bonds, which pay no interest. They are purchased at a deep discount, and then held to maturity at which time the full face value is received.

Bond trading is complex, but it's not rocket science. Take the time to learn the fundamentals, and it can become a very lucrative form of investment.

THE BIZARRE AND WONDERFUL WORLD OF CRYPTOCURRENCIES

We move into an entirely different universe of investing, one that didn't exist before October 2008.

At that time, a person using the pseudonym Satoshi Nakamoto published a whitepaper that resolved a key issue in the use of digital assets.

Cryptographers had explored the idea of a digital asset used for payments for many years. The challenge they could not overcome is referred to as double spend.

If you have a euro issued by the central bank, you cannot spend that euro twice. When you spend it, the buyer takes the physical object away.

But if you have a digital currency, what's to prevent someone from making a digital copy and spending it again? Cryptographers struggled with this issue, until Nakamoto resolved it.

Nakamoto, in his 2008 whitepaper, created the blockchain. Each block on the chain is verified by a whole network of computers before it becomes spendable. Try to copy it, and the blockchain locks you out. The process of creating blocks with algorithms is called 'mining,' and has become a vast industry.

This unprecedented level of security offered by the blockchain has led to thousands of applications for it in finance and industry. But, for investors, it created a new kind of asset class. Regulators, including the European Commission, are in the process of integrating this new asset class into existing financial law, so that the proper controls will exist to make investment in it safe.

The first of these was bitcoin, also created by Nakamoto and the group that still controls the bitcoin galaxy.

Today, there are $117 billion invested in the original bitcoin; there are a gamut of other bitcoin-derived products as well. In 2017, the price of a single bitcoin reached over $20,000. Today, it is at $8,889. The supply of new bitcoins diminishes at specified periods, and will continue to diminish at specified intervals, until about the year 2140.

Many traders believe that investing now will mean earning a high return as the supply diminishes. Many also believe that bitcoin has become a safe-harbour investment. Many also find bitcoin extremely volatile and risky. You must make your own decision.

Like bitcoin, the major cryptocurrencies, created in the wake of bitcoin have all seen heavy investment. Ethereum is second to bitcoin in investment terms. It is famous for the creation of the 'smart contract,' which is automated computer actions in which human beings cannot interfere. There is also Litecoin, Binance coin, Ripple (XRP) at the top of the investment list.

An investor has to look carefully at the whitepaper associated with each of these altcoins, as they are known. You need to understand the specific development path of each one, and to review the history of its growth. What brought investment into the coin? Why is it slowing down, or speeding up? Understanding these factors is key to cryptocurrency investment.

Stablecoins offer another cryptocurrency investment alternative. These are pegged to values in dollars or euros, so that the coin value itself does not change. The market price of the coins does fluctuate, as investors see them as a key tool for use in finance in the future. The world's central banks are at work creating their own stable coins. Facebook is at work creating libra, its own stablecoin. This is a world that is evolving quickly, and investors should stay in close touch with developments.

Finally, there is DeFi, the new frontier in this kind of product. DeFi is short for decentralised finance, in which the blockchain is used in complex financial products. DeFi is attracting the attention of serious professional investors, and a lot of money is flowing into these projects. Anyone interested in cryptocurrency investment should explore DeFi.

THE CHALLENGE OF FOREIGN EXCHANGE TRADING

There are a lot of advantages to trading forex over trading stocks, but there are also considerable challenges.

One major advantage of the forex market is that it never crashes. Stock markets move in step with economic trends and sentiment. While the forex market is affected by economic events, it almost never drops beyond expected levels, at least in the major currencies.

Trading dollars for Japanese yen or for euros will keep you in fairly steady territory. If you go in for more exotic currencies, the risks become higher, but it is still unlikely that a country's currency will ever become valueless.

Another advantage of the forex market is that it is international, and it almost never stops (just from Friday night to Sunday morning). And there is ample liquidity for trading, certainly in the major currencies and almost always in exotic ones.

There are several major 'markets' for currencies, although they are joined in the international market, and this leads to another advantage. For the currency trader, the day starts out in Asia, where the market for the Japanese yen attracts the most interest. The action then moves to Europe, where the London market predominates. Then the US market takes over.

Traders rely on "orderly trading" in each market. While forex prices go up and down throughout the day, there is a clear pattern in them on each market. The London market, for example, is exceptional for orderly trading. Understanding the patterns of orderly trading offers real opportunities to make profitable trades.

Still one other advantage: Forex brokers generally don't charge commission. When you make a trade, a small percentage called the spread goes to the broker. If you buy dollars with British pounds at 0.85 pence per dollar, your trade won't be profitable until you reach 0.8611 for example, because the difference goes to the broker. Brokers compete on offering 'tight' spreads.

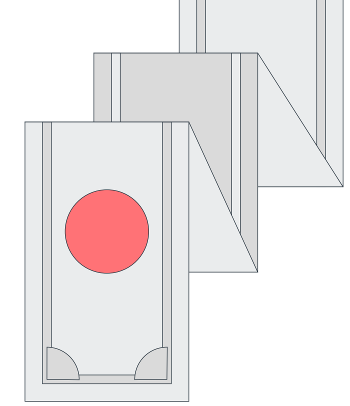
What makes forex trading so challenging? The matrix of factors that affect the value of individual currencies is very large. Forex trading is made with currency pairs, i.e. GBP/USD, and anything from changes in the US economy to Brexit blues to the perception that the euro is more stable than either one can cause the price of the pair to decline.

It is possible, in currency trading, to bet that a currency pair will lose value. But again, no one and nothing can predict exactly why that might not happen.

Banks and brokerages maintain huge trading rooms for currency investment, and they have algorithms that try to predict trends. But they still suffer losses at times.

With careful attention, with a solid trading strategy, and good management of the trading account, you can still win with forex – some of the time.

One trading strategy that has become very popular today is called 'scalping.' In this strategy, you hold a trade until the currency reaches just past the spread, and then you close the trade, making a very small profit. The idea is to make many such trades throughout the day, while limiting risk. It is an excellent strategy for investors with relatively small amounts to invest.



On the other hand, an experienced trader can perceive patterns in a currency that go on for days, even weeks. And that leads to much larger profit, if it works out.

There are many strategies for forex trading. Learning a strategy and taking the time to understand patterns in a specific currency pair, mean putting in a lot of effort. You may decide at the outset that you don't enjoy this kind of thing and give it up. But, stick with it, work hard, and you'll find it seriously lucrative.

FINDING THE RIGHT INVESTMENT THAT FITS YOUR NEEDS

While these popular investments have a relatively high level of risk there are more, of course, like options trading or investing in debt, which are lucrative but quite complex.

The trick is to find the one that you not only think will make money, but that you enjoy. Picking an investment that you enjoy pursuing will make it easier to put in the time you need to be successful.

What do private pensions offer?

The private pension in Cyprus is often conceived as a supplement to an existing state or work-related pension.

Every employee in Cyprus is entitled to pension benefits accrued in social security payments at age 65.

And many employers offer supplementary pension schemes provided as benefits through either private pension schemes (usually defined contribution schemes) or insurance pension schemes. Under such schemes there is usually an agreed deduction from the employee's salary and a contribution by the employer.

But many have lost confidence in the ability of these pensions to guarantee their retirement. As a result, there are private pension plans intended to fill that gap.

Research from Aon shows that the majority of Cypriots won't be able to get a decent enough pension after the mandatory retirement age of 65 based on social security contributions.

"This also shows that an average Cypriot employee with 10 years of contribution to Provident Funds and whose annual earnings are around €35,000 and savings of €33,000 will not be able to retire at 65 and continue to enjoy the same standard of living as when he/she was working," the research shows.

Employer plans with investment options

A number of Cyprus insurance companies offer designed plans for employers. These plans go beyond the usual options offered in defined contribution or defined benefit schemes. Every aspect of administration is managed by the insurance company.

Employers enrol their employees as plan members, and each employee has his/her own account. The employee manages the account via an online portal. Employees make monthly contributions to the pension, and they can invest these funds as they choose.

The investment potential gives employees a chance to maximise the return on their pensions, and to build a sum that will provide passive income when they are ready to retire.

Private Pensions

Those of us without access to a work-related pension, or for whom the work-related pension is insufficient, have a choice of personal private pension plans available in Cyprus.

But, if you have a workplace pension, and the social security pension in Cyprus, why would you need a private pension plan as well?

That really depends on the personal goals you have set for yourself. It is likely that the two pensions in which you have obligatory involvement will provide a relatively small sum with which to enjoy your retirement.

Many people, however, after working for 20 to 30 years, want more. They are even willing to sacrifice disposable income that they could have used in their younger years, so that they can live easily and comfortably in old age. A supplementary private pension enables these people to achieve that goal.

There is another consideration: What about inflation? For now, inflation is low, and will probably remain low in the medium term. But 20 years from now, inflation could be at any level. What you believe to be a comfortable sum for your retirement today might be worth far less in purchasing power terms in the years to come. A private pension will give you the security you need in this context.

How much money do you need to invest in a private pension plan?

There is an industry rule of thumb called the 70 per cent rule. According to this rule, you will need 70 per cent of your working income to maintain the lifestyle you want in retirement. So if you retire on a salary of €50,000 you would be looking at achieving an income of around €35,000.

This rule gives a basic idea of how much you will need, but to be more certain of your funding needs ahead of retirement, you should consult a financial advisor for a carefully accurate calculation.

It's important to consider the full offer in Cyprus of pension funds before choosing the one you will depend on. There are scores of personal pensions on the market and choosing between them can be confusing.

When shopping for the right private pension, find out how the fund invests its holdings. There are pension funds available in Cyprus that simply place pension funds in savings accounts. These used to provide a good return before 2013, but since then interest rates have been low, and the return on such investments is also minimal.

Another factor to consider is whether you can make lump sum investments in the private pension along with the obligatory monthly contributions. If you can pay money into your pension at any point in your life, and there's no upper limit on how much you can pay in, you will be able to maximise the payout when you retire.

You should also decide the extent to which you care to manage the funds in your private pension, assuming this option is offered. You may be a real hands-on manager, with a lot of investment know-how, or you may wish to have access to advice before making an investment choice. You should make certain that you can access the investments you want in the way you want before choosing a private pension.

You should make certain that investments in your pension make the level of risk you are comfortable with. At the start, most people can tolerate a somewhat higher level of risk, as they have time to recuperate losses. But closer to retirement, the risk level should be reduced considerably.

Part of the process of choosing your pension will be to choose the investment

Image: Caroline Hernandez

It's important to compare products from different providers. *Ask for the full documentation for each pension plan you are considering.*

profile you prefer – different pension funds have investment profiles with a variety of options.

Your chosen pension provider will offer you a range of funds to choose from. Each of these will have a different investment profile – that is, they'll invest your pension savings in a different range and mix of assets.

An investment profile brings together a group of investments with a similar level of risk. The money is invested in funds that are typically a mixture of stocks, bonds, alternatives and financial instruments from around the world.

Investment profiles are divided into three basic categories: Balanced investment profile, with a 'medium' level of risk, a cautious investment profile, with a low level of risk, and an adventurous investment profile with a high level of risk.

In general, when you start out with a new pension, you might be best off with the balanced level of risk. This gives you a chance to see how the pension operates, and to get it performing well.

There are two main stages in determining the right investment profile for your age and your personal needs. If, when first choosing the pension fund, you have more than 15 years before you are ready to retire, then growth is the main factor in achieving your goals. In this phase, contributions should be invested in mutual funds or similar investments which combine good return without excessive risk. The object is to maximise potential investment return, but not to a point at which there is real danger of substantial losses. A diversification strategy typically is the best method for these kind of investment choices.

There is, however, nothing to prevent you from choosing an investment profile with a higher level of risk, irrespective of your age. If you have ambitious goals to grow your capital, you have the ability to pursue them within the pension framework. In this context, it is prudent to consult a financial advisor to avoid any rash choices. The advisor will almost certainly propose a diversification strategy to hedge your risks as well.

The next phase, as you grow older, is sometimes referred to as the 'glidepath' phase. A 'glidepath' describes a mechanism by which investment profiles automatically move a member's pension pot into more secure investments as they get closer to their selected retirement age. In this phase, the investments are generally moved out of stocks and other speculative choices, into fixed income, bonds and other funds with a reliable rate of return.

For those who don't wish to be limited to the paradigm set by a given investment profile, it's possible to mix and match low and high risk investments yourself. Sometimes the level of growth within a particular profile isn't satisfactory for your objectives, but you do not want to take on too much risk. Your pension fund should offer a sufficient range of assets so that you can follow this kind of strategy. In this context, the funds will not be automatically switched into lower risk funds approaching retirement but can be moved between the investment funds only at the member's request.

Don't sign anything unless you are entirely certain it is the right choice.

What if the pension fund investor simply doesn't want to be troubled with managing investments at all? Many providers offer the option of a default fund which will choose a strategy for you. Should you choose this option, be certain that the default fund works in a manner to enable you to reach your goals for growth.

It's also important to compare products from different providers. Ask for the full documentation for each pension plan you are considering. Some pension plans will offer a short summary of all the important facts about the pension plan. There may be a payment at the start, special fees, administration fees, transfer charges, charges for managing the pension.

All that should be made clear at the outset. Also watch out for penalties if you miss a payment or take your pension early. Charges that are deducted from your fund will affect the amount of pension you get.

Another factor to consider is the level of contributions. One has a tendency to set the contributions high, with an eye to maximising return later. It's important to make sure you can afford the contributions. If you're on a tight budget or have irregular income, consider whether you'll have to commit to regular payments or if you can vary how much and when you pay.

If this seems like a lot to consider, understand that it is. Take all the time you need, and if in doubt about any aspect, take the time to understand it fully. Above all, don't sign anything unless you are entirely certain it is the right choice.

With that in mind, consulting a financial advisor is prudent when making a choice for a private pension. Make sure the advisor is regulated, well-recommended and isn't connected in any way to pension providers. The advisor should suggest investments to make within the pension scheme as well as in choosing the pension itself.

Even though a lot of thought must go into choosing a private pension that shouldn't deter you from choosing one if it corresponds to your goals.

Altamira Real Estate: Your strategic partner for Real Estate

Combining world-class customer service, a comprehensive property portfolio and Cyprus' largest sales network, the Company is the number one choice for real estate investors

About Altamira Real Estate

With a portfolio of over 5,000 properties and the largest real estate network on the island, Altamira Real Estate is the first choice for individuals, companies and developers looking to invest in high-yielding properties on the island.

Since its establishment in 2018, Altamira Real Estate has successfully completed over 2,500 property transactions, consolidating its position as a leading player in the country's real estate sector. Offering a comprehensive range of services and maintaining the biggest sales network in Cyprus, comprised of a specialised team of more than 85 people as well as an extensive network of business partners and associates across the island, the Company is uniquely positioned to guide any investor throughout the entire process of selecting, purchasing and developing a property.

Altamira Real Estate's rich portfolio includes commercial, residential and industrial properties, as well as an extensive range of agricultural properties. Following a successful global operating model with quick and flexible procedures, which ensure transparency at every stage, the Company has been firmly established as one of the most reliable organisations in the country. Indicative of its effective procedures is the fact that the Company carries out more than 120 sales transactions every month.

A specialised sales force, at your service

The Company's experienced and highly-trained real estate team, provides investors with personalised services relating to the selection, valuation and management of properties. Altamira Real Estate's team is comprised of specialised sales staff, experienced valuers and advisors, who are members of the Royal Institution of Chartered Surveyors (RICS) and the Technical Chamber of Cyprus (ETEK), as well as staff specialising in asset management.

The Company's dedicated sales team can be reached, free of charge, through Altamira Real Estate's call centre, 80008200, providing potential buyers with immediate access to specialised advice and helping them locate the property that best meets their needs and specifications. Customers can also tour properties throughout Cyprus, with the help of the Company's regional sales staff.

A true "One-stop-shop" experience

Based on its world-class business model, Altamira Real Estate provides a one-stop-shop experience to potential buyers and investors, as well as, access to a broad range of investment opportunities through its state-of-the-art online platform, www.altamirarealestate.com.cy.

Currently managing more than 1,500 buildings and over 700 rental contracts across Cyprus, the Company is the largest provider of property management services in the country, offering a compehensive range of solutions (Rental Management, Property Management, Real Estate Project Development and Portfolio Management).

Altamira Real Estate also undertakes the management of construction projects for clients who have invested in land or incomplete projects. The Company offers full-cycle project management, from the conception and design of the project, through to the necessary studies and permitting phase, the estimation of the project's cost and its execution.

Moreover, it also provides sales services for completed projects through its dedicated sales network, which is comprised of specialised sales and marketing teams, authorised property appraisers, consultants and external partners.

Cyprus' most advanced Real Estate platform

In 2019, Altamira Real Estate launched the biggest and most advanced real estate platform in Cyprus, improving its ability to manage a number of bigger portfolios. The multi-client, state-of-the-art platform offers the Company's entire range of services online, providing digital applications for Asset and Property Management, Rental Management, Expense Management, Valuation Management and Transaction Management.

Real Estate as a low-risk investment

Real Estate is widely considered as a low-risk investment, and not without reason. Property offers great potential for capital appreciation, since real estate prices tend to increase over time, while the housing market has always managed to bounce back after periods of crisis. Especially, at a time of low interest rates following the outbreak of the pandemic, real estate has become more attractive, turning into a safe haven for investors.

At the same time, in the emerging environment of zero/negative interest rates, depositors are better off investing in real estate, rather than keeping their money in the bank. Already, the real estate market is absorbing a significant percentage of excess liquidity, as it is considered as a low-risk investment, able to yield stable returns. What is more, given that demand for short-term and long-term rental properties in Cyprus remains stable, turning your investment into a rental can ensure a stable, passive income for life.

A wide range of income-generating properties

With a variety of income-producing properties in its portfolio, Altamira Real Estate offers competitive options for any type of investment. Opportunities range from agricultural properties - whose cultivation can ensure significant returns, while offering the potential for capital appreciation over the long-term (especially if we consider that no VAT is applicable on purchase) - to rental properties, since its portfolio offers a vast range of residential properties in areas with high demand for housing.

Moreover, the Company offers a large selection of commercial properties such as warehouses, shops and offices, many of which are currently occupied by tenants. These income-producing properties are located in the bustling centres of major cities or strategic locations with great potential for immediate and high returns.

Opportunities now up for sale:

Newly refurbished office on Makarios Avenue in Nicosia - PR30708

A spacious modern office on Makarios Avenue, in an excellent location, only 300 metres from the traffic lights of Lykavitos. The property is ideally located in the centre of the city, while simultaneously offering easy access to the highway. The office is located on the 5th floor of the building, enjoying great views over the city skyline. The internal area stands at approximately 427sqm. The office is currently rented on a long-term contract and has the potential to reach a yield of over 6%.

Indicative Price: €800,000

Spacious modern office, in an excellent location of Aglantzia - PR13368

Another income-producing property situated on Larnakos Avenue, one of the busiest streets of the capital. The office is located on the 2nd floor and has exclusive rights to 17 parking spaces. Its internal floor area covers approximately 424sqm, while the covered verandas cover an additional 57sqm. The office is currently rented and has the potential to reach a yield of over 7%.

Indicative Price: €560,000

ALTAMIRA

Large shop in an up-and-coming area of Lakatamia - PR14252

A large shop with mezzanine level in an excellent location on the Archbishop Makarios III Avenue in Lakatamia, opposite Kkolias Supermarket. Currently operating as a bookshop, the shop's ground floor covers an area of 324sqm with a mezzanine of 124sqm. It should be noted that it benefits from a large frontage offering high visibility along the main road. The shop is currently rented and has the potential to reach a yield of over 6.5%.

Indicative Price: €475,000

High-yielding warehouse complex in Ypsonas – PR13386

An industrial warehouse in Ypsonas, just 700m from the Nicosia-Limassol highway, offering easy access to the city of Limassol. It is comprised of 16 units warehouses, each with its own entrance and ramp. The ground floor covers an area of approximately 5,448sqm, while the mezzanine covers about 1,072sqm. The warehouse complex has the potential to reach a yield of over 8%.

Indicative Price: €3,500,000

Three-storey building next to University of Nicosia - PR32329

A three-storey building in an excellent location of Engomi, only 110 metres from the University of Nicosia, an area that ensures long-term returns. Built around 20 years ago, the building is very well maintained. The building covers a total area of approximately 600sqm, while the covered verandas cover about 132sqm. The building is currently being rented and has the potential to reach a yield of over 6%.

Indicative Price: €1,000,000

New listings every Tuesday

Every Tuesday, Altamira Real Estate issues new listings on their website **www.altamirarealestate.com.cy** for all buyer types and throughout Cyprus.

Real Estate: **substantial returns for less risk**

Cypriots generally look to real estate ahead of other investment choices. **But is real estate still the best investment?**

Image: Alexander Andrews

Statistics show that in the short-term real estate may not be the best investment. In the long-term, however, returns are better and the level of risk is lower.

A comparison of returns from stocks with those of real estate makes this clear. Financial analysts at the Motley Fool did the maths and found that stocks tend to increase in value more quickly than real estate. Over long periods of time, an S&P 500 index fund has historically produced total returns in the 9-10 per cent range. Meanwhile, real estate prices tend to outpace inflation, but not by much, generating a return of about 2 per cent per year on individual properties.

"In other words, the stock market has generated returns at more than four times the rate of real estate appreciation. If you've ever heard someone tell you that 'your home isn't an investment', this is probably why," the analysts commented.

But that's not the whole picture, as the analysis shows. Real estate investors generally use leverage to purchase property. "This dramatically increases returns: Suppose you buy a €500,000 asset by investing €100,000 of your own money and borrowing the other €400,000. If the value of this asset increases by 3 per cent, you'll have a return of €15,000, or 15 per cent of your initial $100,000 investment," the analysts noted.

This isn't an exact reckoning, because there are fees to pay in purchasing real estate, there is maintenance, and there is interest on loans. Nonetheless, buying property with leverage offers the chance for substantial returns, with less risk than investing in the stock market.

And there are other advantages that real estate enjoys. You can buy property and rent it out to enjoy regular passive income and tax advantages.

Renting a home may be cheaper than buying, but rent paid to a landlord brings in no return at all. ***Paying a mortgage, on the other hand, is a very able form of saving money.***

All these advantages add up; this is why, over a 20-year period, the analysis shows a 213 per cent return for stocks, but a 619 per cent return for real estate.

To make a short-term profit on real estate, there is a technique called flipping. Buy a broken-down old ruin, fix it up, and sell it for the value of a new home – this is a classic approach to more rapid real estate profit. But this involves vast investment in time and labour, so it's really just for professionals.

Owning your own home

This is usually the first real estate investment for many people, and it's a good one, but it's not as safe as houses.

So long as the economy remains strong, the value of your home is likely to rise. But, in bad times, your home will probably decline in value unless it is located in a zone of great demand. Buying in a major city doesn't help; in bad times, even the most desirable city apartments have lost value.

There are, however, many good economic reasons to buy your home that have nothing to do with return on investment. Renting a home may be cheaper, but rent paid to a landlord brings in no return at all. Paying a mortgage, on the other hand, is a very able form of saving money. Eventually you will sell the house or apartment, and you will get back what you put in and a bit more.

What is a real estate portfolio?

Investing in property, on the other hand, involves building a portfolio of properties that provide substantial return. This means diversifying your investment into different types of property.

Growing a diverse portfolio is the surest means of managing risks. But diversification should also be a means to achieving your investment goals. Investing in rental properties with an eye to passive income is completely different from investing, say, in commercial real estate and selling it when it gains in value.

The key to any real estate portfolio success is the exit strategy: Planning the exit strategy for each property you buy is as critical to your portfolio's future as your business plan is. Formulating a real estate investment strategy will help you decide how much to pay for a property and how long you should keep it.

At the start of any real estate portfolio investment the business plan will determine: 1) What kind of properties you are looking for; 2) How you expect them to perform and over what period; 3) How you will protect and maintain the properties while you own them; 4) What kind of return you expect when you exit.

Buy-to-let means putting in a lot of thought

Investing in properties to let is usually the first step for those building a real estate portfolio. The strategy in this type of investment is based on yield, which means the amount of profit possible based on the highest possible rents and the best management of costs.

Choosing where you buy your first rental property is the start. Buying in a 'good' neighbourhood seems obvious, but prices in such areas can be high. Also, there are always spots in otherwise good neighbourhoods that are far less desirable. Bear in mind the distance to schools, supermarkets and shops, possibly time to get to the beach as important factors in making your choice. Being near a major highway is another aspect to consider.

Choosing tenants is another skill you must learn. It's not enough to have a tenant with a good job and income. A tenant has to be treated like a partner in business, and if the tenant will assume that role, this is the right one for you.

Residential properties call for heart not head

If you are investing in residential properties with an eye to resale, then you must develop a keen eye for the aspects of houses that attract affluent purchasers.

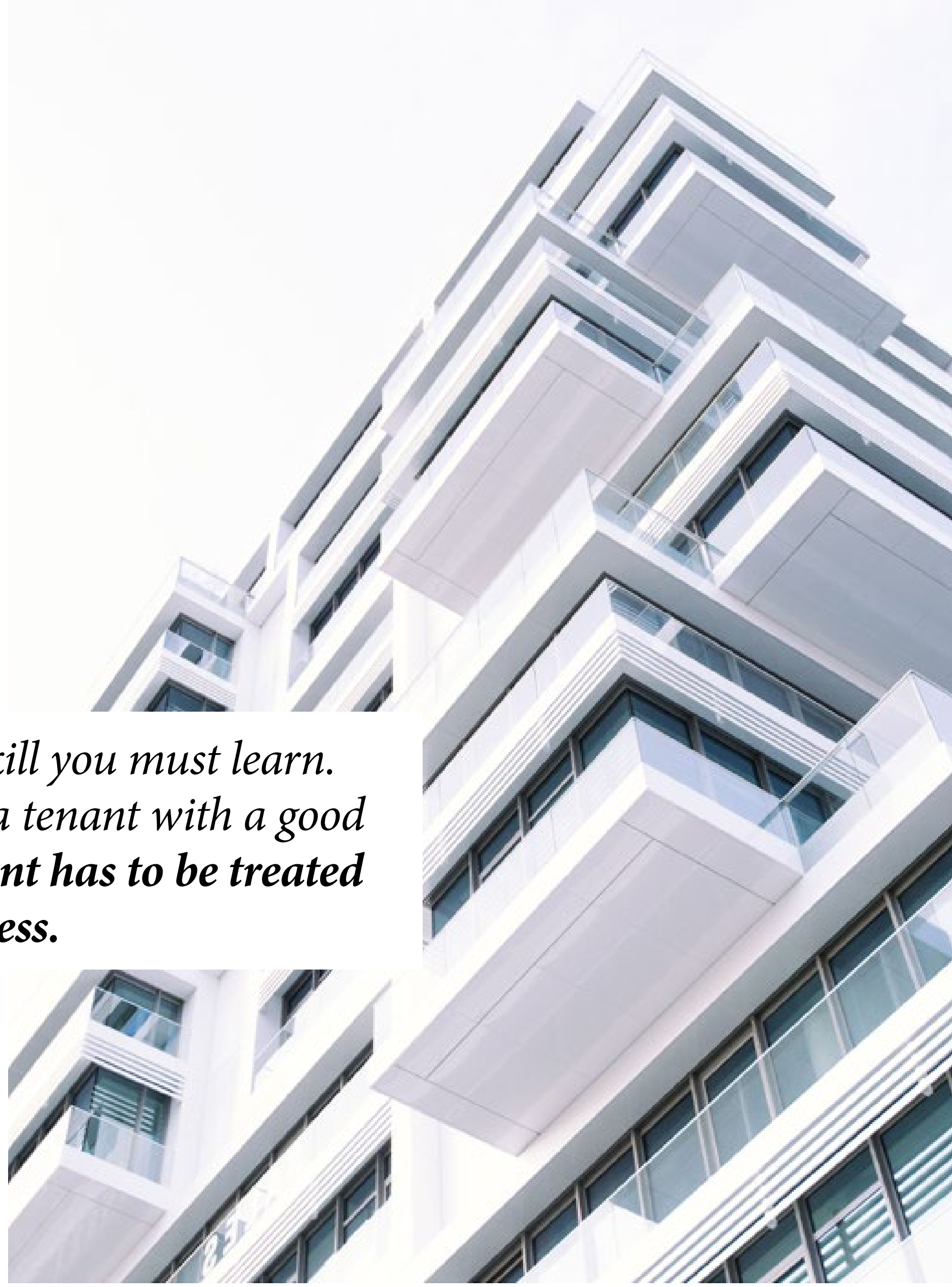
The logic behind this is simple: owner-occupiers make up 70 per cent of the market so it is pointless to think only about professional investors when you make your choices. Aim for the largest area of demand, and think about the needs of these buyers.

For this market, properties need to have character and charm, and be located in areas with high status, good amenity and great liveability to deliver really good capital growth. People buy these properties with their hearts, and not with their heads, so a successful investor must learn to think like these buyers.

Multi-family properties have become the hottest item in residential real estate, but managing these requires a lot of attention. Those who have a long-term investment horizon will find that typically, multi-family real estate appreciates over time and is more resilient to economic downturns. For those who don't want to live in an apartment building, but must rent housing, multi-family offers some of the advantages of living in your own home.

Commercial real estate offers alternative

Commercial properties are often thought of as the 'next step' in the diversification of a real estate portfolio. These properties include office buildings, retail space, industrial buildings, warehouses, data centres, etc.



Choosing tenants is a skill you must learn. It's not enough to have a tenant with a good job and income. ***A tenant has to be treated like a partner in business.***

This is a more expensive market than residential, and succeeding in it requires a good understanding of the factors that lead to increased yield. Although it is more expensive, proper management will lead to higher margins of profit. Commercial properties generally have an annual return off the purchase price between 6 per cent and 12 per cent, depending on the location, and this is a much higher range than typically exists for single family home properties (1 per cent to 4 per cent at best).

Raw Land is an emerging strategy

Investing in undeveloped land is an emerging strategy among today's best real estate investors. Investors who purchase raw land can divide the plot for resale, lease it to renters, develop new construction, and even hold on to it while it appreciates. The appeal of raw land to the professional real estate investor is that it offers a new exit strategy, one that is entirely different from the other elements in the portfolio, and thus provides a further means of diversifying the portfolio.

Real Estate Investment Trusts enable investing for smaller amounts

Real Estate Investment Trusts offer a means for investors to reap the benefits of real estate investing without actually buying any property. These trusts refer to companies that purchase income-generating real estate and pay dividends to investors in the company. This is a great opportunity for investors who do not have large amounts of capital to gain exposure to real estate. There are REITs that specialise in every area of investment, so if you are a believer in commercial real estate in southern Europe, you will find the REIT that does just that.

Real estate investment rewards those who work at it

There is no area of real estate investment that is easy. And investors must learn to wait long periods for rewards in most cases. It is certainly one that repays the time put into it, and it is a great way to build future income. •

Alternatives for financing business

BY *Andrew Anastasiou*

With traditional and institutional banks under regulatory pressure to screen loan candidates stringently, many individuals and start-up businesses are having a difficult time raising the funds they need to operate or start a new venture.

For example, an individual wishing to start a new business could until recently go to the bank with his or her idea and pitch for a loan. Now, with most banks shutting their doors to unsecured or start-up loans, entrepreneurs are finding themselves in a Catch-22 position whereby they know they can make money, but they need money to be able to make it.

The same goes for businesses that are already in the start-up phase, but need a cash injection to go to the next step.

There are now fintech solutions that try to fill this gap. Fintech is an industry encompassing any kind of technology in financial services - from businesses to consumers. Fintech companies often seek out niche markets in which traditional banking is stymied, and fill them with innovative technology solutions.

Peer2Peer (P2P) lending is this kind of solution. P2P is filling this business lending gap across Europe, and just starting up in Cyprus. It enables these businesses to obtain loans directly from other individuals, cutting out the financial institution as the middleman. Websites that facilitate P2P lending have greatly increased its adoption as an alternative method of financing.

With this solution, entrepreneurs and individuals can finance their projects via direct investment from other entrepreneurs or business owners. The businesses seeking loans make a pitch on a crowdfunding platform or directly to angel investors, and the funding is either provided by multiple smaller investors or a larger investor who can invest personal funds.

The option of personal financing doesn't just stop there, however. Due to the demand for personal financing, the fintech industry has grown exponentially with regard to supporting the need for such financing requirements. Fintech solutions now even offer loans for property purchases or for acquiring immovable assets.

There are platforms such as Smergers where business owners connect with investors and advisors to franchise or sell their companies. Entrepreneurs and investment seekers can place requirements for the kind of companies they wish to fund, and interested parties can find matches for their needs.

Personal finance can be used on a more personal level, though. Banks are often unable to fulfil the needs of mortgage seekers, and these borrowers now have options provided by fintech. The possibilities of getting loans from individuals via secure platforms is at an all-time high.

Banks are often unable to fulfil the needs of mortgage seekers, and these borrowers now have options provided by fintech. ***The possibilities of getting loans from individuals via secure platforms is at an all-time high.***

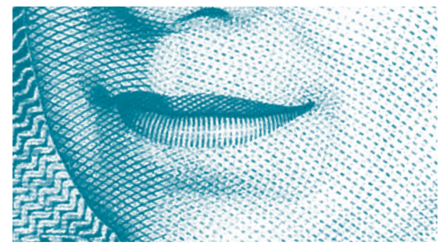
Fintech also provides innovative approaches to mortgage finance. For example, The Lucas Project is a digital platform that facilitates home ownership through a renting-with-an-option-to-buy model. It works as follows: Lucas will buy a property from a real estate fund and will make it available to a pre-vetted tenant, who will contribute as little as five per cent towards the purchase price of the property.

Once the rental contract is finalised, the tenant makes rental payments to Lucas, a portion of which goes towards the renter-cum-owner's purchase of the house, if the renter ultimately decides to buy. After three years, the buyer decides if they want to execute the purchase option, extend the term, or request the return of the five per cent initially put in.

All of this isn't to say that traditional banks aren't still the best place to go for financing options, but the Fintech industry has certainly taken up the challenge of filling in the gaps for these requirements. P2P platforms like Lending Hub offer easy to navigate solutions for loans and funding, while other platforms such as EstateGuru focus more on protecting the investor with a zero loss policy due to the loans being protected in some format. Ultimately, it seems that the rise in Fintech is being driven by a rise in the need for entrepreneurs and individuals to navigate away from traditional banking services, and source new ways of funding their projects. ●

Original illustrations: pikisupersar / pch vector

WEALTH MANAGEMENT IS ABOUT **MORE THAN MONEY**



For high net worth individuals (HNWI) and families choosing the right wealth manager is one of the most important decisions they will make in their lives.

Of course, for many HNWI, who have from €100,000 in assets to those with more than €100 million, there is no choice to make, because the wealth manager is inherited. Wealthy families often stay with the wealth manager chosen by their great grandfathers, and that firm has become an integrated part of their lives.

For those who have not inherited their wealth manager, it's important to understand that the advisor will become much more than just someone who handles finances. A dedicated wealth manager must be involved in key family decisions, like inheritance, choice of residence, pensions, budgets – they are part of the process of making essential decisions for the future of the family.

So choosing the firm that will play this role takes getting to know the managers you will work with very well. You should be certain they have an understanding of your goals and needs, and also a sense of what your family is all about.

"Counsel, guidance, a critical friend, someone to help with strategy, project-manage stuff, suggest some solutions if that's what's needed — that's what I call wealth management," says one such advisor.

You need someone who won't be afraid to say to you: "You're making a mistake. Don't do this."

Trust is absolutely essential. Get to know a prospective wealth manager, and only choose him/her if you feel he/she is trustworthy. It will become significant, as decisions have to be made that affect you and your family's lives.

But personality is not the only factor. In choosing a potential wealth manager, you should ask about the history of the individual who will be handling your affairs — how long they have worked there, what they did before, and what happens if they leave.

You should also ask how much experience they have in dealing with clients similar to you, what advanced-level professional qualifications they have passed, and how they access specialist expertise — from outside firms if necessary — in areas such as tax.

Most of all, ask to understand exactly how you are being charged, and what for. Lack of transparency in charging the client is the surest indication that you do not want to work with this firm.

"Nearly half of wealth management clients do not trust that they are being charged fairly. They struggle to understand how much they pay, and are concerned about hidden costs," warns EY.

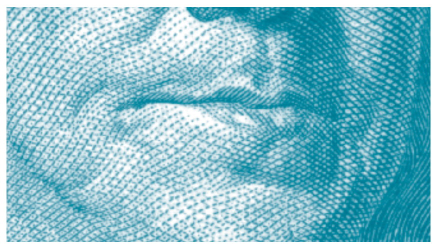
"Because of this, many are searching for simplified price structures. To tackle this issue, wealth managers must recalibrate their pricing models, offer greater transparency and do a better job of communicating their value to clients."

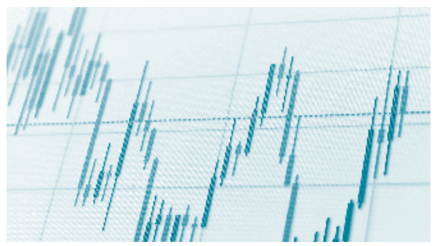
Skillful portfolio management

Obviously, one key factor in choosing a wealth manager is to evaluate their record in managing portfolios.

Most wealth managers will show you a model portfolio, and how it has performed over the past decade or longer.

The wealth manager should also provide a wealth of choices for types of investment. ***There should be much more than just stocks and bonds.***





This is an important demonstration, but past success does not guarantee the same results in the future.

It's the method that matters. Many wealth managers will simply use a standard financial investing software package, put your money into blue chip stocks, a few AAA-rated bonds, and hope for the best.

For this service, you are likely to be paying €30,000 to €50,000 per year, and that means you deserve much more. Many financial advisers are simply there to hold your hand, and tell you that everything will be all right. This makes you feel better, and you don't have to worry about your financial affairs. Whether you are pleased with the disposal income it affords you is another question.

Here is what you should be getting:

- An investment philosophy and process that systematically exploits market inefficiencies in a way that is consistent with the manager's strengths and weaknesses
- The temperament to remain rational and stick to the process when under tremendous psychological pressure
- A structure that has an alignment of interests with the client, which usually means the manager has to be willing to make less money than they could if they just followed industry norms
- A passion for more than just money, but for achievement of better results than you expect and assuring your goals

You may feel that you are not able to evaluate the worth of different investment philosophies, but you do not need to understand the technical part of it.

The wealth manager should be able to make you understand how his/her strategy differs from the traditional strategy described above, and why. The manager should be able to explain clearly what is special about the approach to be taken, why it is expected to provide a better return, and why it is right for your risk appetite and goals.

You should expect a detailed and complex individual strategy. This will start with determining your investment objectives: What assets and cash does the investor already have, and what would the investor like to achieve in the process of growing them? Some HNWI want to live well, others want more money within a few years, while others have a long-term vision or goals for their families involving education, housing, etc.

The plan made by the wealth manager should show how these goals will be achieved, and how much risk the investor must expect to face to attain them. Some investors have no fear of risk and want growth above all, others prefer to feel safe and see slower growth. Inflation risk and interest risk are among the types of risk to be considered.

The wealth manager should also provide a wealth of choices for types of investment. There should be much more than just stocks and bonds, with selections from alternatives, possibly hedge funds, REITs, ETFs, etc.

On the other hand, there are always stories about investors whose advisers opted for an arcane financial instrument which they were certain would grow wealth at fantastic rates. This instrument wound up losing a fortune instead. Your adviser may have had perfectly good faith in choosing that instrument, and you cannot expect him/her to always succeed – no one in finance can ever promise that.

At the same time, if you find your adviser is choosing investments that you've never heard of don't be afraid to ask for an explanation. This may avoid unpleasant surprises.

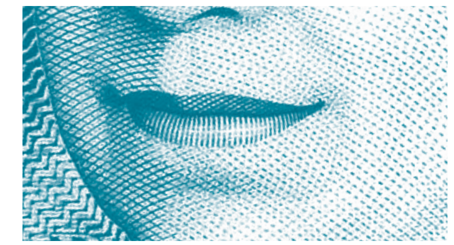
Tax issues should also play an important role in the strategy. Pensions, for example, offer many different ways to reduce taxes, along with maximising investment return. If the manager works with a tax lawyer, you should understand just how effective the tax advice is.

Technology should play a role

Your advisor should also make copious use of technology. You should be provided with online access to your account, and the advisor should demonstrate some of the high-tech applications that are being used to help grow your wealth.

Managing and receiving financial advice now involves using digital and voice-enabled technology.

"Clients are turning to these channels not just for basic transactional activities but to manage wealth and receive financial advice," says EY. "At the same time, first-generation digital technologies are getting pushed aside. Despite this trend, many clients do not want to lose the personal touch entirely. Firms must focus on creating an omni-channel, 'digital plus human' client experience to deliver education, advice and administration anytime, anywhere, anyway. Technology can also be harnessed to improve advisor efficiency and regulatory compliance."



You should be provided with online access to your account, and your adviser should demonstrate some of the high-tech applications that are being used to help grow your wealth.

Stay in close touch with your wealth manager

You read about people who 'go off travelling' and leave all their money in the hands of their advisors.

That you should trust a wealth manager is essential. But that you should monitor his/her work regularly is also a definite requirement.

About the only certainty when it comes to the financial markets is that they will change, and so will your financial situation. Through market gains and losses, a portfolio can become unbalanced and it may be important to make adjustments to your allocation.

But just as the markets may change, you and your family will also change. Your needs and values will evolve, and the plans made with the advisor years ago may no longer fit your needs.

Keep in close touch, and let the advisor help you adapt to these changes in financial terms. This will make your relationship with the manager one that lasts many years. •

Private banking is the ultimate in personalised service

Original image: Alev Takil

With private banking, the ultra-high net worth (UHNWI) client enters a world of personalised service that goes well beyond wealth management.

The European tradition of private banking is a great one, and its values of trusted wealth management along with concierge service for the client's family are rooted in the 19th century.

Need a reservation at a famous restaurant, where most people wait two months for a table? Your private banker will arrange it with a phone call.

Does a friend of your son need a cheque cashed? Just ring the private banker. Are you travelling and need some extra cash? The private banker will arrange it (HSBC Private Banking's Jade service is a good example of how this works).

And, in terms of managing your finances, the private bank will have not just a personal private banker, but a whole group of experts at your disposal.

The private banker and dedicated staff will perform complex tasks on behalf of their client – like arranging significant mortgages to setting up recurring payments, to helping with purchases like fine art and fine wines.

And in terms of money management, the private banker will offer investment strategies, financial planning, portfolio management, personal financing delegation, retirement planning and succession planning.

*Perhaps you'd like to set up a charitable trust for your family to manage? **The private banker will arrange that for you in any jurisdiction you choose.***

With $30 trillion in wealth to be transferred to women and millennials in the coming decade, private banks must ensure that they are able to meet the unique requirements of these individuals to future-proof their businesses. This has meant adoption of the best technology available.

Traditional private banking at this level is only for the very wealthy. Some private banks today will take clients €500,000 in wealth, but the majority of institutions typically insist on a benchmark figure of at least €1 million in assets. But being wealthy isn't sufficient; the top private banks accept clients only with the best recommendations.

ACCESS TO SPECIAL DEALS IN HIGH FINANCE

Private banks can grow your wealth by giving you access to special deals, which are accessible only to certain types of qualified investors. In most cases, this involves acquiring stakes in private companies, IPOs (access ahead of listing), private equity, major investment projects or real estate investments that at least two investors can join.

These are exclusive 'off-market deals.' Private bankers have access because of the large amounts of assets under management that they command, along with their high level of expertise.

These kind of deals can be quite large in size. The private equity industry, normally not accessible to the retail investor, offers massive takeovers for participation. Suppose several private equity firms have joined forces to form a consortium to take over a company. Private banking clients have the unique opportunity to participate in these very large investments which have a very high rate of return, and offer specific tax advantages.

There are also exclusive real estate deals. Most of these are investments in projects such as marinas, or luxury apartment complexes. Your private banker will work directly with the principal investors, and their expertise leads to profit.

Some private banks even offer access to venture capital deals, which are never accessible to the retail investor. Venture capital funds grow companies with potential, and then exit after five years with a substantial return. Getting a share of that is a rare financial opportunity.

Such is the scope of private banking that often all the participants in these exclusive deals have an account at the same bank, and so arrangements among investors are easy to make.

Private banks are strict about money laundering regulations, so account holders will have already passed careful examination. As a result, you can do business with other account holders without concern. The participants may not know each other, may live in different parts of the world, but they are happy to do business with anyone their private banker recommends.

Private banks can also offer you access to hedge funds. These are alternative investment vehicles with maximum flexibility since they can perform investment strategies that encompass various asset classes, such as bonds, equities, commodities, derivatives, real estate, art collections

and classic car collections. Long and short positions, derivatives and leverage instruments are the staple of hedge fund performance, and this kind of investing isn't accessible to most – your private bank will make it available to you.

Your private banker will help you with personal projects as well. Perhaps you'd like to set up a charitable trust for your family to manage? The private banker will arrange that for you in any jurisdiction you choose, and according to the terms you prefer.

Are you a champion of impact investing? Your private banker will set up a specialised investment strategy. Do you have social goals that you wish to support? Would you like to provide funds for a certain type of medical research? A private bank can set up investment vehicles for you, or arrange structures for philanthropy.

Private banks also have high levels of expertise in what are called 'trophy assets:' Are you a collector of rare coins? Expensive cars? Watches, jewellery, objets d'art? Your private bank will often have on-board expertise in these areas, or they will be able to put you in touch with the best experts for whatever trophy assets you are interested in.

A LIFETIME APPROACH TO YOUR FINANCES

Private banking differs from wealth management in the sense that it is a partnership with the client's family and fortune for the long-term. These relationships often last generations, as the private banker arranges the transfer of wealth from parents to children.

As a result, a private banker is not just interested in growing your investments, although obviously that will be part of the picture.

The private banker will review the client's holdings, and work closely with the client for every aspect of wealth-related services. Some clients prefer to receive advice, and then decide for themselves how funds are invested. In this case, the private banker will ensure that they receive the best possible advice.

Some clients will simply ask private banks to add their funds to their overall assets under management. There are significant management fees in this case, along with commissions on certain types of dealing. But the advantages of management by the private bank's top experts usually makes the overall return worthwhile.

FROM TRADITION TO CUTTING-EDGE TECHNOLOGY

Private banking is of course not set off from the rest of the financial world, and the traditional private banks are equipped today with cutting-edge technology. Clients would expect no less.

According to a 2018 Accenture report, more than half of HNWI clients over the age of 40 declared they would leave their private bank if an integrated and seamless channel is not provided. Clients are seeking hybrid advice and multiple solutions to communicate with their bank. Ultimately, by introducing increased process automation and client self-service channels, private banking has adopted this kind of technology.

Many private banks now offer their own mobile app, without which Millennials might simply refuse to work with them. The apps offer many automated services, but, most importantly, enable the client to message with the private banker at any time.

Private bankers have begun making use of powerful models driven by artificial intelligence which may be used to predict major events in a client's life, such as retirement or planning for succession. Meanwhile, the use of data analytics tools can be used to better identify and mitigate risk.

Experts forecast that artificial intelligence, advanced analytics, and automation will have the greatest impact on the private banking industry over the next few years.

Experts forecast that artificial intelligence, advanced analytics, and automation will have the greatest impact on the private banking industry over the next few years.

BUILDING THE PRIVATE BANKING RELATIONSHIP

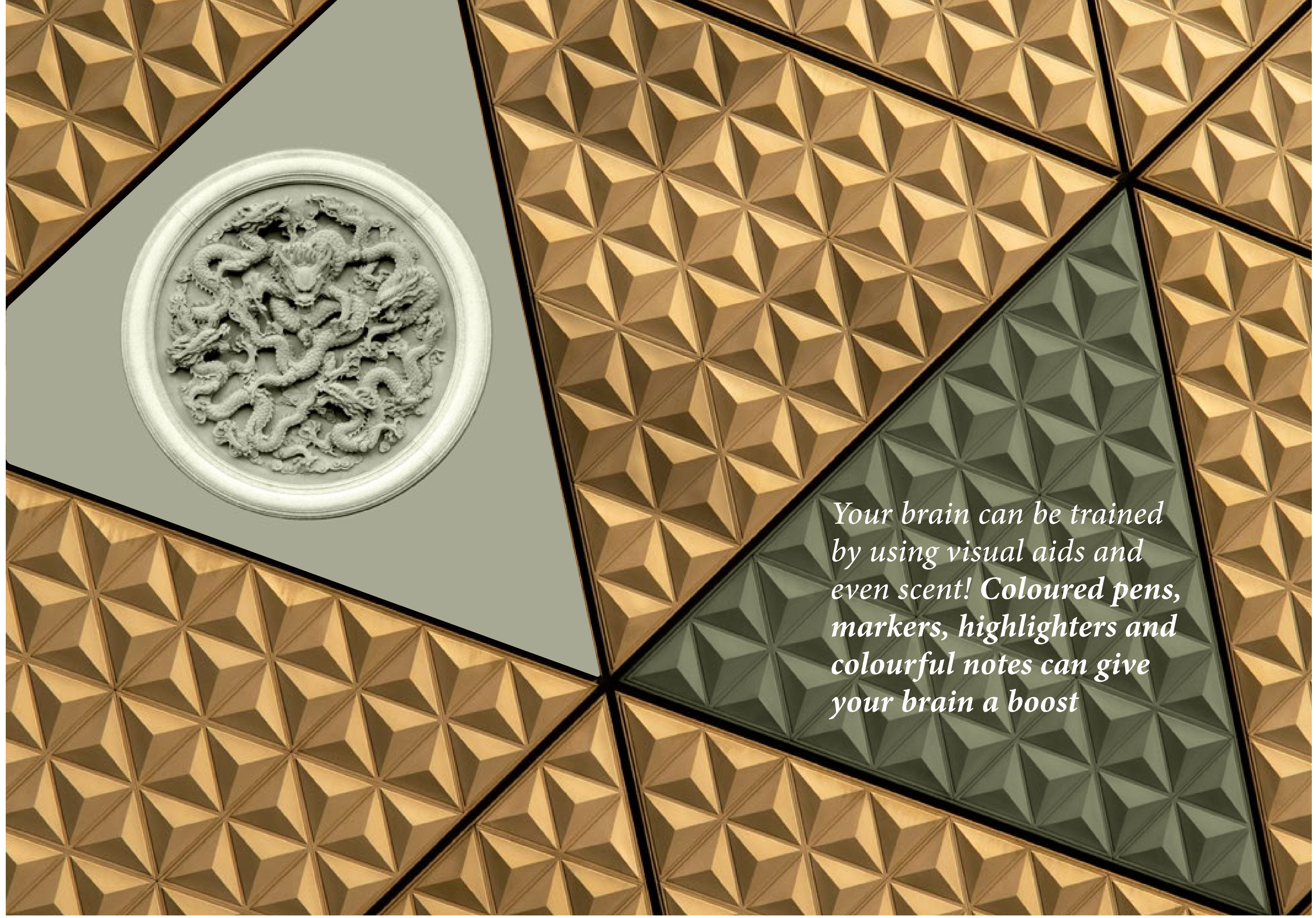
Private banking helps to bring clients a wide range of opportunities that are unavailable to the retail investor under most circumstances. The level of personalisation offered helps UHNWIs to dynamically manage their money in a fast-paced and highly digitised banking landscape.

But it's clear that private banking is all about people and relationships.

Some UNHWI clients may not be comfortable with this kind of close rapport with a banker. It's also important to make sure that the person you forge a relationship with stays with the bank. If not, clients lose out on the most critical aspect of private banking.

The client should devote a great deal of time to meeting with a private banker and the staff. You should see if the fit is good. If it feels right for you, and if you are prepared to build a long-term relationship involving much of your personal affairs beyond finance, then private banking will provide you with great value. ●

High Net Worth Investing is all about diversification



High Net Worth Individuals (HNWI) are classified as having $3 million or more in investable assets. With these substantial sums of money, HNWI need to diversify to ensure that some parts of their portfolio will grow, as some losses in some parts of their portfolios are inevitable.

The question is: How to diversify? Asset allocation strategies are the subject of fraught debate among financial experts. What strategies are HNWI currently using most, and how might that change?

Who are the HNWI?

According to the Cap Gemini World Wealth Report 2020, most of the world's High Net Worth Individuals (HNWI) are to be found in the US, Europe and Japan. Wealth creation is fastest in Asia today, and the number of HNWI is growing most rapidly there. The Middle East has great wealth, but it is in the hands of a relatively small number of people, according to the report (the Middle East boasts a relatively large population of Ultra High Net Worth Individuals).

More specifically, the top five countries for HNWI population are the US, Japan, Germany, France, and China.

How do HNWI invest?

The most popular investment vehicle for HNWIs, by far, is equities. The Silent Generation, and Baby Boomers have a marked preference for investing in stocks, and they tend to hold them through thick and thin – which is the strategy most experts advise.

Millennials, on the other hand, tend to pull out of the stock market when times get tough. As the pandemic crisis increased in intensity, they piled up cash and precious metals – this was one of the drivers of the rapid rise in the price of gold this year.

But investment is important to HNWI under the age of 40, according to the report. About two-thirds of HNWI plan to live entirely from investment income, and 80 per cent of these favour impact or sustainable investing to achieve their goals.

These HNWI say they expect companies to make a profit but also take responsibility for their impact on the environment and society. A growing number are basing investment decisions on environmental, social and governance (ESG) track records, according to a Bank of America survey.

It's encouraging to learn that 84 per cent of HNWI consider giving back to those less fortunate. Only one in three is very satisfied that they are doing enough to help others. On a scale of one to 100, they feel they are doing just 56 per cent, on average, of what they want to in terms of giving back, the survey shows.

Strategy for HNWI Investment

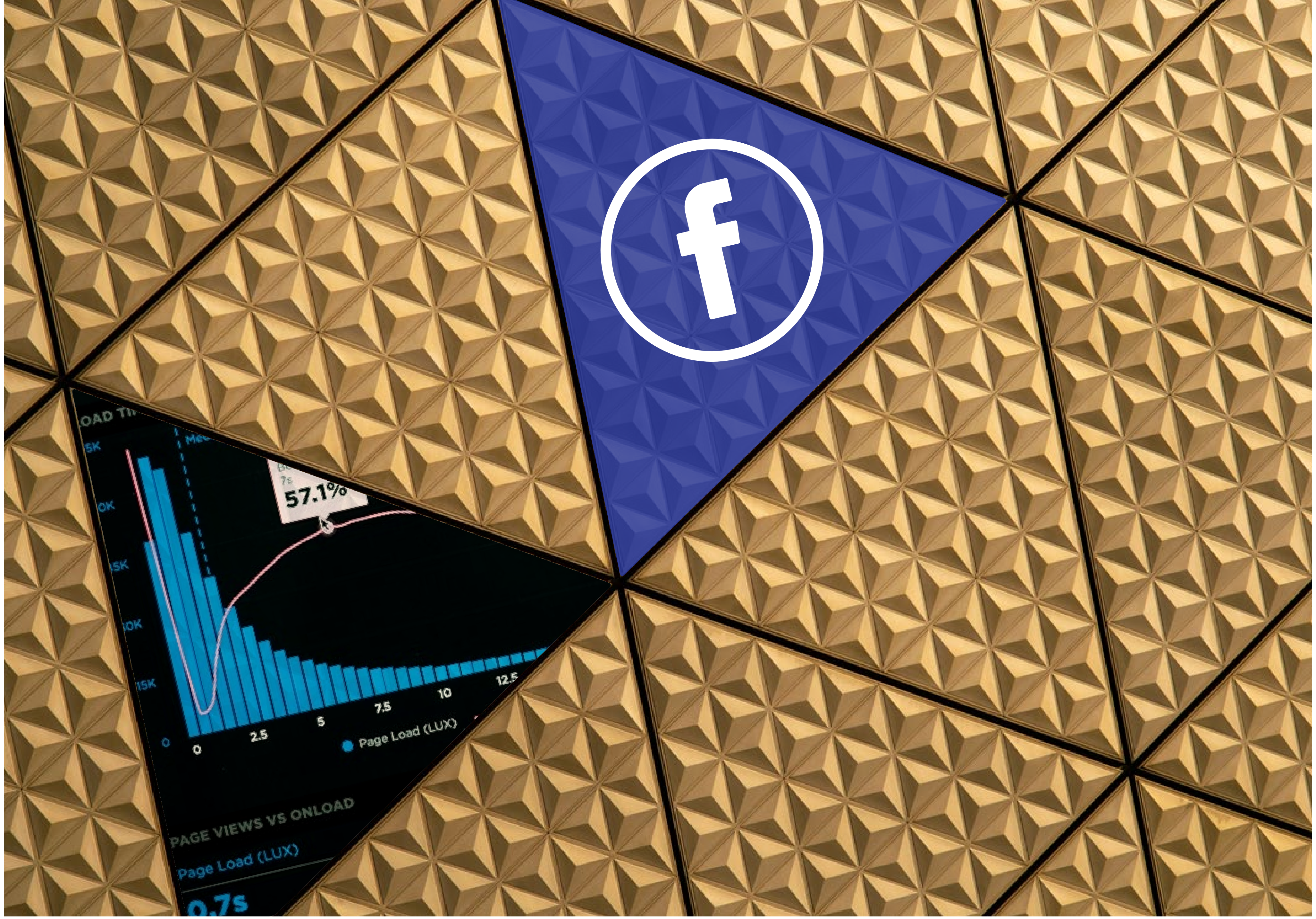
In terms of strategy, most HNWIs, regardless of age, want access to information. They make their investment decisions, often with the help of an advisor, but they like to take a hands-on approach. For now, they invest using the most classic diversification strategies, but this is changing as advisors apply the 80-20 rule: Only 20 per cent of any portfolio provides significant returns. HNWIs are trying to maximise that part of their portfolios, and advisors are working hard to focus on it.

According to the survey, the average asset allocation for respondents with over $3 million in investable assets is 55 per cent stocks, 21 per cent bonds, 15 per cent cash, 6 per cent alternatives, and 4 per cent other.

This is a classic diversification strategy, but the results aren't satisfying most HNWI investors, according to the survey. Overall, 48 per cent of all HNWI investors own or are interested in owning real assets, which have underlying value and potential to also generate income.

Of those who own real assets, residential investment real estate (63 per cent) and commercial property (44 per cent) are most frequently cited, followed by oil and gas properties (29 per cent), farmland (24 per cent) and timberland (21 per cent).

Millennials still seem to have far too



much cash at 21 per cent. Because many millennials are risk-averse, many are also sitting on cash, according to a Bankrate.com report. This could be one of the costliest investing mistakes in history because it's one of the worst ways to earn any returns. A UBS report found that the typical millennial keeps more than half of their assets in cash, but the trend is changing, and that cash is gradually being moved into investments with better returns.

According to the report, a quarter of millennials use or hold cryptocurrency, and 31 per cent are interested in doing so; three-fourths believe that technological innovations, like blockchain, make the global financial system more secure. Some are buying cryptocurrency to save for retirement, according to Bitcoinist.

On the other hand, the Silent Generation, the demographic cohort following the Greatest Generation and preceding the Baby Boomers has the most aggressive stock allocation of them all.

In 2017, stocks did impressively well. This led to a shift to equities by a majority of HNWI investors – well beyond their usual quota – in 2018, and that continued in 2019. But when times got tough in the early months of 2020, HNWIs in the Silent Generation just kept their money in stocks regardless of the very volatile performance of the markets.

HNWIs at ages 73+ have a 61 per cent allocation towards stocks; 73+ year-olds have seen it all, yet they are still undeterred. This is very insightful because it seems experience has taught them that staying the course long-term is the way to go despite the stock market being at close to record highs today. To them, long-term investing has been proven correct.

Millennial HNWIs didn't follow this trend, and either kept too much in cash, or spent money on alternatives like expensive cars, art, luxury goods, etc. In the past decade it was usually good practice to invest in high-value alternatives, and super-charged returns were possible. But this process is unwinding as investors become risk-averse in the wake of the pandemic. Today, advisors are leading HNWIs to become increasingly focused on income, asset management and development opportunities.

This has led to increasing HNWI investment in private equity. Wealth managers and private bankers around the world saw their clients' allocation towards private equity increase by 20 per cent in 2019, with the trend continuing in 2020.

When investing in private equity, one of the key drivers for HNWI's choices in the sector is a strong, honest and visionary management team which can build the confidence of investors for a safe and secure environment. Investors are also more likely to invest in assets which provide trust and security on their investments rather than being attracted towards the market share and brand value.

Another new area for HNWI investment that is seeing growth is private placements. As growing companies often seek funds from a select group of investors, private placement often offers higher returns than most fixed-income instruments. Managers of this kind of investment are becoming more skilled at reaching HNWIs than they have in the past.

Private placement class investments also include private stock issues, or private offerings. While generally offered primarily to institutional investors such as large banks, mutual funds, insurance companies, and pension funds, these investments are also offered to qualified HNWIs. They offer investors the opportunity to get in on the ground floor of an enterprise with the potential for substantial returns.

For example, in 2011 the investment bank Goldman Sachs offered private shares in Facebook, the social networking site, at its Initial Public Offering. The private placement was offered with a $2 million minimum and a 4 per cent placement fee along with 5 per cent of gains. As Facebook stock prices climbed, these investors profited well.

What does the future hold for HNWI investment?

In general, HNWI investment is becoming more active, in the sense that the individuals are less willing to just hand over their funds to an advisor and take whatever return he/she provided.

For example, nearly 30 per cent of HNWI clients' offspring abandon their parents' investment firm after receiving inheritance, according to the Cap Gemini report.

There has been a loss of trust in advisors during the pandemic, according to a report by the Economist Intelligence Unit. Too much uncertainty has led HNWIs to accept less return in exchange for security. The very wealthy expect that returns will fall in a downturn, but in the recent crisis investments were unpredictable, and in some cases behaved exactly the opposite to the way they were intended.

Desire for better returns will gradually encourage them to return to more complex investments, but these will need to be fully transparent to counter entrenched conservatism. Wealth experts believe it is inevitable that the very wealthy will return to more complex products, but for the near future the loss of trust means it will be more difficult to tempt them. ●

What's your money personality type?

BY *Vicky Shaw*

All of us have habits – and this applies to how we manage our money too. Whether our relationship with money is something we've picked up from our parents, or it's been shaped more by our experiences in adulthood, attitudes to saving and spending differ.

TopCashback.co.uk has highlighted five different financial personality types…

Spenders

If you're a spender, not only will parting with your cash come easily, you will get deep satisfaction out of doing so.

You won't be too bothered about bargains or sales, but get excitement from having the latest gadget, car or clothes. It may not be just yourself you splash out on either – spenders can be generous with their money when buying for others.

If you're a spender:
Stop: Always looking for what's next. Appreciate what you already have.
Keep: Being generous with friends, family and charities.
Start: Spend a little time setting yourself a budget. Put money aside regularly so you can still make purchases while setting aside a nest egg for the future.

Savers

Savers search high and low for a good deal and haggle their way to the best price possible. Anything deemed a risky investment won't interest you, instead you prefer to watch your money build up.

If you're a saver:
Stop: Sacrificing too much fun for the sake of a few pennies. Consider what your time is worth, not just the eventual saving.
Keep: Being savvy, searching for the best deals and making savings.
Start: Loosening up a bit. Small treats now and then may give you a boost, and there are ways to keep the costs down.

Investors

Like to keep on top of financial situations and make their money work hard. They try to make careful and considered decisions. Investors think and plan for the future and could be happy to take risks if it will eventually pay off.

If you're an investor:
Stop: Saving just 'for the future'. Set goals for the short, middle and long term so your investments can be aligned to these.
Keep: Educating yourself and treating money as an asset.
Start: Becoming aware of your behavioural bias that may be influencing your investment decisions – whether you're a risk-taker or more risk-averse.

Debtors

Often spend more than they have, borrow money they may not be able to repay, or be broke way before the end of the month.

Making savings or investments does not come naturally, or perhaps circumstances are difficult.

If you're a debtor:
Stop: Spending beyond your means.
Keep: Knowing that it's OK to borrow money, but only if you think you can pay it back comfortably, without making your situation worse. Get help from a debt charity if you need to.
Start: A plan to repay your debts. Contact your lender as soon as you realise you are struggling. Set a monthly budget. Cancel subscriptions you don't use or could do without.

If you're an ostrich, stop avoiding the truth. ***Financial problems will get worse if ignored.***

Ostriches

Maybe you don't think about money or material objects much. But some ostriches bury their heads in the sand to avoid difficult financial decisions.

If you're an ostrich:
Stop: Avoiding the truth. Financial problems will get worse if ignored.
Keep: The attitude that money is not the be-all-and-end-all, but not if it's an excuse for not having a grip on your financial situation.
Start: Getting to know your finances – what you owe, what you can afford to repay, and what you can save each month.

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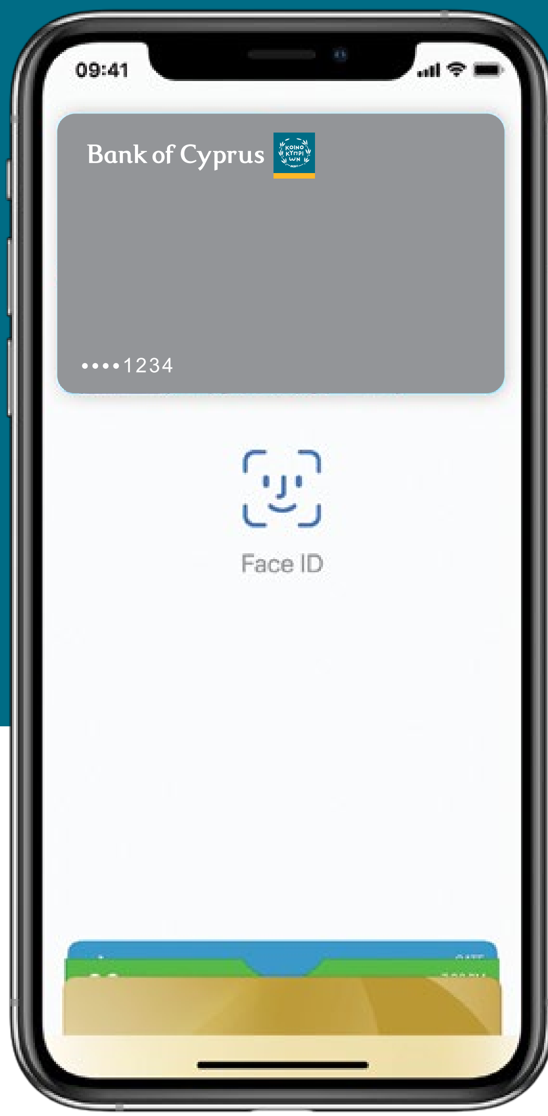

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