SAVER'S

ABC

Planning

Time horizon

Return

Risk

Diversification

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Conoscere, capire, sperimentare.

In general, planning is a functional tool for achieving an objective. Starting from the **analysis of needs**, thanks to planning it is possible to **determine the time necessary** to achieve the **pre-established objectives**, and possibly modify it by rescheduling the actions.

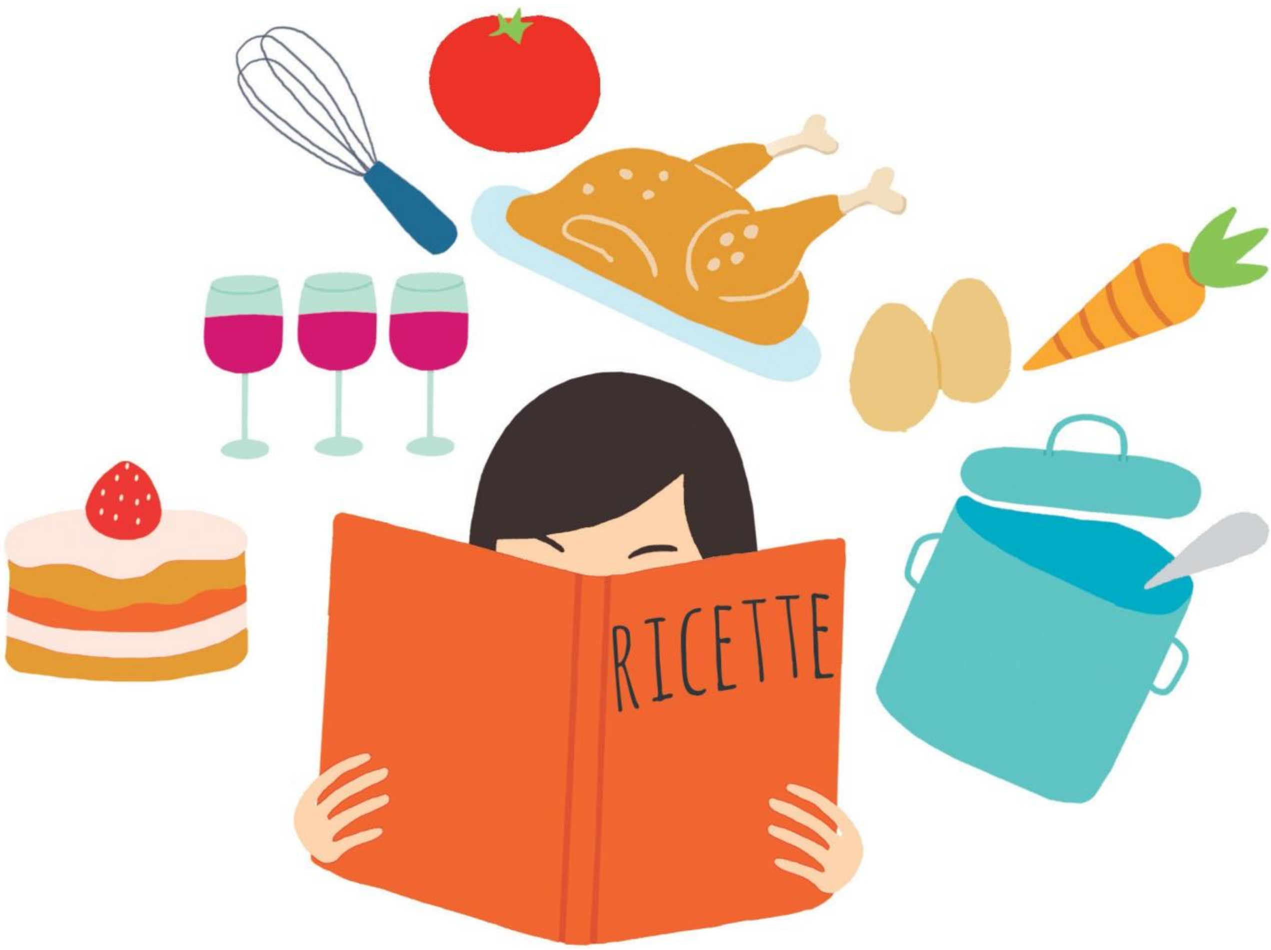
In the economic field, planning is a means of **orienting choices** in the most efficient way. In fact, depending on one's income and financial situation, reaching a goal may require changing consumption decisions and **establishing priorities** to get closer to the goal within the desired timeframe.

With regard to investments, planning means **examining and understanding your needs and expectations** and, based on these and your assets, selecting the most suitable instruments for achieving financial objectives, distinguishing between short, medium and long term.

In everyday life…

We plan every time we have to organize an event, for example when we have guests for dinner:

- we decide which dishes to cook;
- we evaluate how much to spend given the money at our disposal;
- we draw up a list of things to buy;
- we plan the time needed to prepare the dishes and the table.



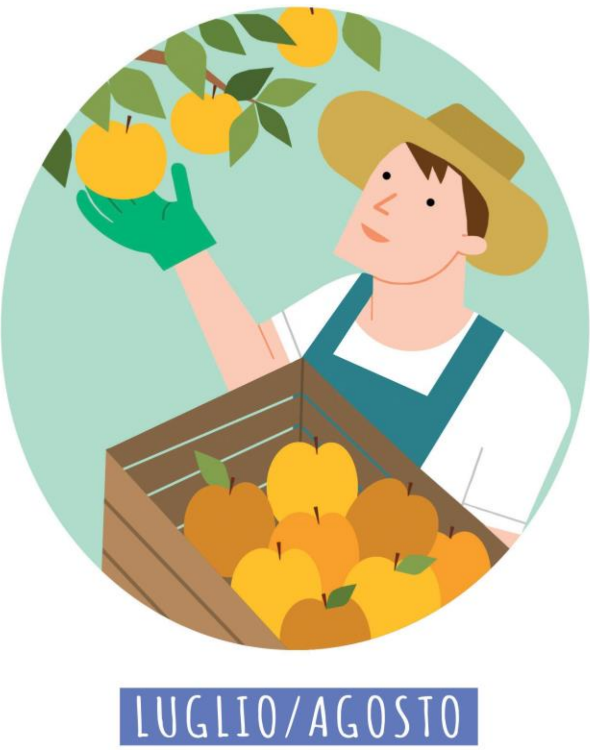
In finance, the time horizon represents the time during which you give up using your money to invest it and obtain a return in line with your objectives.

When it comes to investments, usually when we talk about **short term** we refer to a period of less than a year, while the **medium term** indicates a period of time between twelve and sixty months; a higher horizon, however, characterizes the **long term**. The distinction is important because it allows you to guide the choice of financial assets.

Short-term investment is normally oriented towards instruments that can be liquidated promptly and easily, and which also allow you to **deal with unforeseen needs**.
The components of the portfolio selected with a medium-term logic are also purchased with a view to **increasing capital**, and therefore must not (and in some cases cannot, not even by incurring a cost) be released immediately.
Long-term investments, which have the sole purpose of **asset growth**, allow a wider scope for maneuver and tend to offer more interesting returns.

In everyday life…

A seasonal job is the ideal solution for a young person who wants to find employment for a short period of time, without being tied down in the long term. A fixed-term job, or permanent one where possible, is instead a longer-term objective, because it should represent an activity that reflects our interests and our skills and in which, therefore, we can invest for our future.



The return on a financial asset constitutes the **premium** obtained for investing the money, and represents the **income** generated by a stock. **The premium varies in relation to the riskiness of the stock**: the riskier an investment is, the greater its return will be, and vice versa. By convention, it is expressed in percentage terms and on an annual basis, so as to allow comparison between different alternatives: thus, for example, a return of 3% per year indicates that a capital of 100 euros increases by 3 euros per year.

If we talk about stocks, the return is made up of two components. In the case of **shares**, it is necessary to add **the capital gain** (given by the change in price between the moment of purchase and the moment of sale) and any **dividend** (i.e. the share of profits redistributed by the company). In the case of bonds, however, **the capital gain and the coupon** (i.e. the interest rate paid semi-annually) are added).

In everyday life…

Anyone who buys a second home to rent out aims to obtain a return which is given by the rent collected monthly and, if they decide to resell, by the difference in price between the moment of purchase and the moment of sale.

When we decide to invest our money in any financial instrument, the risk we run is represented by the **uncertainty** of how much our investment will yield. Some factors could in fact influence the price of the chosen instruments; furthermore, in the case of shares, they could influence the payment of dividends and, in the case of bonds, the actual payment of the coupon.

The outcome of an investment, in fact, depends on the occurrence of a **series of circumstances that are not always predictable** which affect its return, making it increase or decrease or even making it negative. **The degree of variation in the returns** of a financial asset in a given period of time - also called **volatility** - provides a measure of its risk and is a numerical index calculated on a historical sample of data.

It is important to keep in mind **that risk is inherent in any financial activity**: there are no investments characterized by a positive return that are not risky - although riskiness must be understood in the sense of exposure to both losses and gains. Although not eliminated, **the risk can be mitigated** through diversification strategies.

In everyday life...

When we travel to countries where diseases that are uncommon to us are endemic (for example malaria, yellow fever, etc.), a typical risk is that of falling ill. It is a risk that we can reduce, even if not eliminate completely, not only by adopting normal hygiene precautions, for example washing our hands, but by following correct prophylaxis or, where possible, by getting vaccinated.

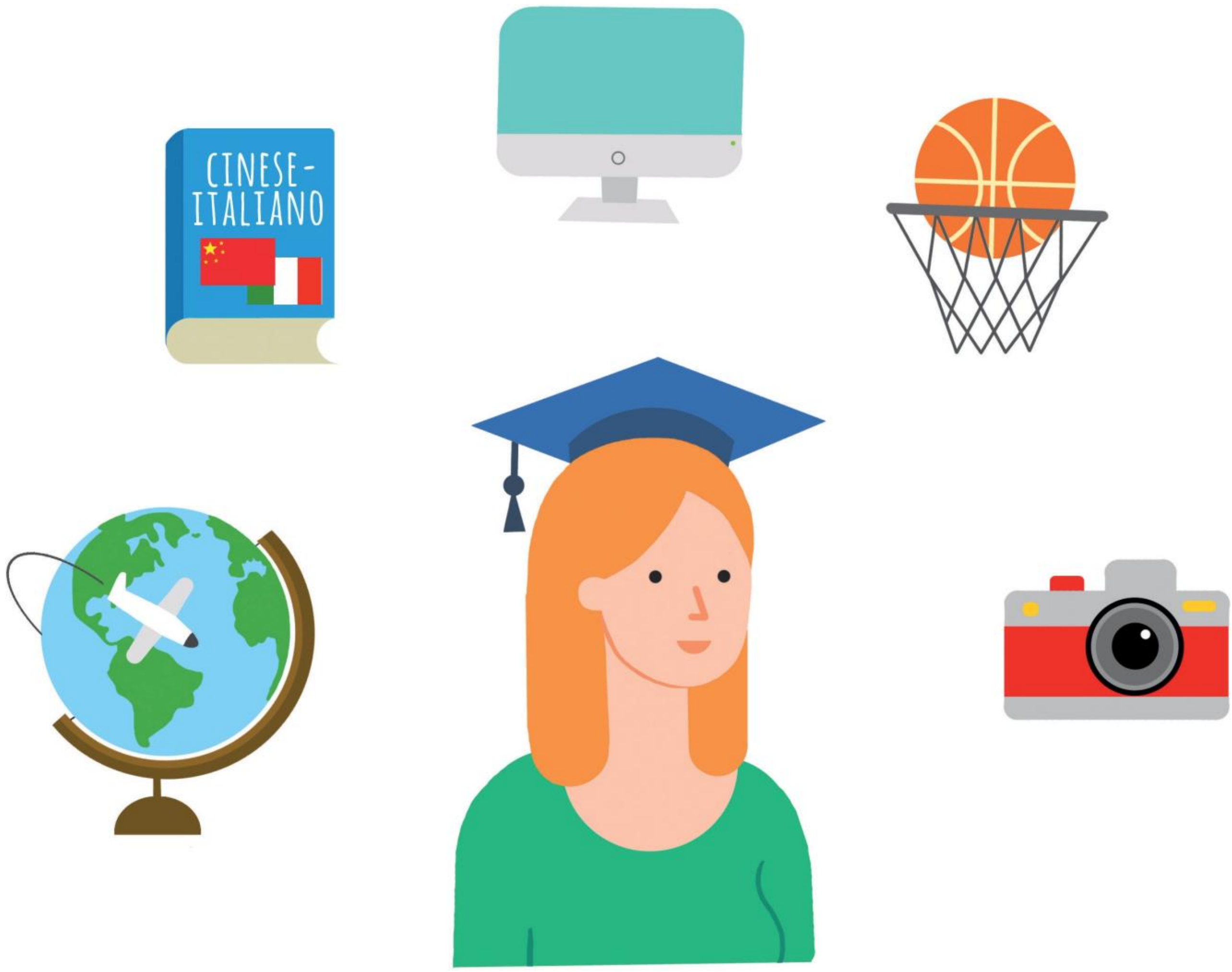
Diversification is a method of portfolio management - the set of investments - which involves the purchase of a wide range of financial assets whose performance is not correlated, i.e. whose returns do not move in the same direction.

The objective of diversification is to **reduce the risk** of the investment while maintaining its return unchanged. The selection of a heterogeneous set of financial assets implies that they are not all affected in the same way by any unfavorable or favorable circumstances.

Heterogeneity is ensured through the combination of financial instruments different in **type, maturity, sector, geographical area, currency**, etc. To achieve effective diversification, it is therefore necessary to identify **products characterized by independent trends**, even better if with opposite signs, in such a way that the variations in the relative prices (up or down) can offset each other.

In everyday life…

Cultivating various interests and studying different subjects is a typical example of diversification: nowadays, integrating the knowledge acquired during the course of studies with skills and experience in numerous fields, especially if different one from the other, helps to increase the chances of finding a job and to progress in your career.



In the end...

This brochure provides a concise explanation of five concepts underlying savings and investment choices, selected on the occasion of the first World Investor Week (WIW) organized by the International Organization of Securities Commissions (IOSCO). The language is deliberately not very complicated, and the examples related to everyday life facilitate understanding.

Even if we know the meaning of these principles, very often, moving from theory to practice, we forget to apply them. Knowing, in fact, is not enough: we need to make the right decisions at the right time, and this depends on how much we know but also, and above all, on our habits. This publication represents a small guide to consult to overcome the most common obstacles and start a journey in the right direction.

Giovanna Paladino
Director and Curator of the Museum of Saving

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