

Budgeting, Savings & Investing

A Complete Guide for the Junior Investor



Budgeting, Savings & Investing Guide

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Foreword

About CFAL

CFAL is the leading provider of financial services in The Bahamas. Since our inception in 1997, our overriding objectives have been to provide innovative financial products, practical financial advice and exceptional service to our clients in the domestic market.

Complete spectrum of Financial Services:

- ♦ Pension Management Fund Administration
- ♦ Corporate Advisory & Management
- ♦ Brokerage & Trading Services
- ♦ Registrar & Transfer Agency
- ♦ Financial Planning
- ♦ Mergers & Acquisitions
- ♦ Risk Management
- ♦ Investment Research

At CFAL, we believe that savings and investing etiquette taught at an early age is one of our nation's greatest assets and is imperative to the future development and growth of The Bahamas. In testament to this belief we have prepared this guide to assist in this.

Budgeting For Success

Did you ever need money to purchase something you wanted like a new CD, a game-boy or an IPOD but you did not have the money and your parents would not give it to you? Or do you have dreams of buying a car or going to college? Having a savings plan and a budget can help you save for both short-term financial goals (like buying a car) and long-term financial goals (like saving for college).

When it comes to creating a budget however, many young persons think that it is a boring task and that only grown ups need them. This is not the case, a good budget can help you manage your money better and help you achieve your financial goals.

What is very important to remember is that creating a budget is simply not enough. In fact, having one is absolutely no benefit to you if you are not disciplined enough to stick to it. This is especially true if you are use to freely spending without a second thought. However, the long term benefits of better money management will certainly be worth any sacrifices made today.

What Is A Budget?

A personal budget is a financial plan which sets limits on the amount of money that is available to cover expenses over a given period. Most budgets are set on a monthly basis. A good budget will consider such things as: the amount of money you have coming in and what will have to go out, to pay for items you need like video games, clothes etc.

A budget helps you know how much money you have to spend and how much you need to save. You can save to buy something that costs more than your usual allowance. You may need to put money aside for weeks or months to buy that new pair of sneakers or that MP3 player you want. With a budget, you can keep track of the money you put aside for spending.

Creating A Budget

Step 1: Estimate Your Income

There are two important things that you need to know when preparing a budget: what comes

in and what goes out. Now that's seems a little too easy, but that's all a budget is-income and expenses.

Start by identifying where you get your money from – allowance, part-time jobs, extra chores, or gifts.

Step 2: Establish Categories

Select categories that fit your needs. Some people like just a few categories some use many. It really depends on how detailed you want your budget to be. For instance, you may sort a general item such as food into sub-groups such as snacks at school, meals with friends at the mall on the weekend. Other categories might include: transportation (bus fare, gas oil changes), entertainment (movies, DVD's) personal items (haircuts and jeans) The key is to organize expenses by what makes sense to you.

Step 3: Establish Spending Amounts

Review the income and expenses that you gathered. Put the expenses into the categories you have set so that you can see where you've been spending. Total them and compare them to your income. How have you been doing? If you're spending too much, see where you can cut some costs.

Try to be flexible in your budgeting. Budgeting every last penny you earn may not be the best course because there may be times when unplanned expenses may arise. Be sure to budget some savings, even if all you can save is \$5 or \$10 a month. It's great to get into the habit of paying yourself first. "Remember you are not too young to start budgeting for tithes."

Step 4: Track Your Income and Expenses

Whether it's daily or weekly, or just every few days, you need sit down and enter your expenses into your tracking system. If you put it off too long it will become too overwhelming and you'll give up.

Devoting just a few minutes a day is a lot better than three hours at the end of the month! Keeping track of your expenses will also help you to stay in line with your budget. You'll be more aware of your money and more careful not to spend what you don't have.

Step 5: Revisit The Budget Often

Review your budget from time to time. See what's working and what isn't. You can shift your monthly budget to reflect your spending pattern. However, remember that if you increase one category you need to decrease another.

One final thought ...

The purpose of your budget is to make your money do what you want it to. Discuss your savings plan with your parents. They may be able to give you some good advice and helpful suggestions.

Remember that budgets are not set in stone. You are in control, not your money. Make it a goal to live within your budget. You can do it!

Successful Savings Strategies

Many people experience financial difficulties when they get older because they never got the facts on saving and investing. The best time to learn about money is when you're young and

still in school.

If you want to be successful at reaching your financial goals, the first step is to set up a plan, maybe you'd like to:

- ♦ buy a game boy or DVD games;
- ♦ buy a car when you graduate from high school or college;

- ♦ have money set aside for special occasions or emergencies;
- ♦ buy a house someday; or
- ♦ live comfortably in retirement.

Make your own list and then think about which goals are the most important to you. Put your most important goals first.

Why do you want to save and invest for?	By when?
1)	
2)	
3)	
4)	
5)	

Once you decide what you're saving for—and when you'd like to have it—you can decide how you should save and invest.

There are two main ways to help you get the money you need:

- ♦ Make more money.
- ♦ Save more money.

Here are some ideas that can help you do both.

Making Money

Most young persons today get their money from an allowance. Not every young adult gets one, of course, and your parents' beliefs or financial circumstances might mean you get little or nothing. After conducting an informal survey we found out that the average allowance

for young persons is anywhere from \$20 to \$50 per week. If yours is a lot lower, perhaps try negotiating a raise.

Here are some more ways to get money:

From Your Family: Your parents might pay you for getting good grades in school, for reading a certain number of books, or for doing various jobs around the house. You might even earn some money from siblings, if you offer to do some of their chores.

Selling Things: If your closet or garage is full of stuff that you no longer need or want, consider selling them. (These might include toys, games, comics, and clothes). Ask your parents to hold a patio sale in your neighborhood. You might even offer to sell other people's "items", for a small fee or a percentage of the price.

A Job!: This is perhaps the most obvious way for you to earn money, consider getting a part-time or possibly full-time summer job.

Jobs For Teens And Pre-teens:

Believe it or not, there are many, many jobs you can find or create. You have more choices than just working at McDonald's or babysitting. Here are a couple ideas, a few of which might appeal to you.

Working For Your Parents: If mom or dad owns a business, they might be able to use your help. Even if they work for a company, they may be able to hook you up with a part-time job there. (Check with your parents' friends, too.)

Washing Cars: Why not get a couple of your friends together and start a small business. You can clean each other family and friends cars on the weekend. If you are good at it, the word will spread, you'll get more jobs and you will make more money.

Mowing Lawns and Cleaning Yards: These can all be part of the same job. Once your customers know you and the good work you do, they will retain your services.

Retail Stores: One advantage with these jobs is that you often get to enjoy employee discounts (which can be substantial, often 10-20% off) and commissions on items you sell.

Be Crafty: If you enjoy arts and crafts, you can make jewelry or other items and sell them.

Be Creative: If you can, bake cookies and or cakes, then try selling them at school or after church (make sure you get permission first).

Once You've Made Some Money, Save Some!

How much should you save? Well that will really depend on the goals that you have set for yourself. In any event, we recommend that you save at least 10% if this is too ambitious for you, try starting at 3% or 5%. The best way to develop good saving habits is to make saving a regular part of your life, along with spending.

Here's a few ways you can save:

Save Before Spending: Whenever some money gets into your hands, from a job or your allowance or whatever, take your savings out immediately, before spending any of the money. The beauty of this system is that once you've removed your savings, you're free to spend the rest.

Negotiate With Your Parents: This may or may not work for you, but it's worth a try. See if they'll "match" your savings, in order to encourage good saving habits. If they match your savings dollar-for-dollar, for example, that would mean that for every \$10 you put into savings, they'd put an additional \$10.

Think you need a lot of money before you start saving, not really...

Small Savings Add Up To Big Money

How much does a can of soda cost you? Would you believe \$490.00 or more?

If you buy a can of soda every day for \$1.00, that adds up to \$365.00 a year. If you saved that \$365.00 for just one year, and put it into a savings account or investment that earns 6% a year, it would grow to \$490.00 by the end of 5 years, and \$3,979.18 by the end of 40 years.

That's the power of "compounding." With compound interest, you earn interest on the money you save and on the interest that money earns. Over time, even a small amount saved can add up to big money.

If you are willing to watch what you spend and look for little ways to save on a regular basis, you can make money grow. You just did it with one can of soda.

If a small can of soda can make such a huge difference, start looking at how you could make your money grow if you decided to spend less on other things and save those extra dollars.

Tips From Teens On Saving

Lisa, 12: Don't carry any cash, if possible. You will only be tempted to spend it all.

Michelle, 14: Discipline is the key: Make a budget and stick to it. Avoid impulse purchases.

Simon, 18: Take only what you really need for spending, and put the rest of it somewhere that's difficult to get to, such as long-term CDs or money market accounts. Making it inconvenient to get to your money might help you avoid the urge to spend it all.

Ted, 17: Carry very little money at all times. You can't spend money if you don't have it. A candy bar would be nice, but without a dollar, you can't get it. Little things like that really add up quickly.

Barry, 16: Adopt the two-week rule: If you think you really want something, wait two weeks to get it. Waiting two weeks may allow

you to find the item cheaper somewhere else or not at all.

Mark, 15: Set a spending limit. Decide how much you will take out each week and make it last. Make it a little tight. And try to decrease it over time if you can. If you have money left at the end of the week, put it into your savings account.

Jessica, 14: Start with small amounts. When I first started saving to invest, I was saving \$1 to \$2 each day, so by the end of the month, I had \$30 to \$60, depending on what kind of month it was.

Terry, 18: Know yourself. No savings plan in the world, no matter how carefully thought out, will work if it goes against who you are. So look at yourself and your goals to determine what savings program will work best for you.

Understanding The Basics Of Investing

Once you have accumulated sufficient savings. Put it to work. Let your savings build greater wealth for you by investing, carefully and soundly. Talk with your parents, see what ideas they may have then decide what's best for you. It may take a while to get comfortable with the investment process that is learning about the different markets, rates, and terms, but in the end your hard work will pay off... literally!

If you don't know where you're going, you'll probably never get there. That's why it's important to establish financial goals before you even start to think about investing your money.

Establish your goals by following these 3 steps:

1. Look into your future.
2. Imagine the things you would like to purchase: a new outfit, an MP3 player, your first car, or start saving to help pay for college ...that sort of thing.
3. Write your goals down on a piece of paper, categorizing them by what age you want to accomplish them.

Never invest money without researching what you'll be investing in. Would you buy a CD without hearing any of the songs? No way! The same goes for investments. After all, this isn't just a CD -- this is your hard-earned cash.

Always remember that no investment is without risk, so before you invest, it is very important that you understand all of the benefits and risks associated with your particular investment.

The following provides a brief description of the more common types of investments and their advantages and disadvantages:

Cash

Cash is simply the paper currency and coins in circulation. Cash may be placed in a savings deposit or fixed deposit to earn a fixed interest rate. This is one of the safest forms of investing.

Bonds

A bond which is also referred to as fixed income securities are considered to be one of the safest forms of investing. When the company or entity offering the bond (usually referred to as the issuer) wants to raise money, they offer bonds and they are then contractually obligated to not

only pay back the principal amount borrowed, but also as a reward for lending your money, you will also receive interest payments, twice per year. In The Bahamas, the Government is the biggest issuer of Bonds.

The terms of the bond tell you when you'll get your money back, which is known as the bond's maturity date, and how much interest you'll receive, which is known as the coupon rate.

Let's say you buy a \$1,000 bond whose terms included a 5% coupon rate, payable yearly, with the bond due in five years. You will receive \$50 each year - paid twice a year for five years - and your original \$1,000 back at the end of those five years.

Unlike shares, bonds do not represent ownership in the business. Bonds issued by the government are usually less risky than those issued by corporations.

The advantages of Bonds include:

- ♦ Bonds can provide regularly scheduled income payments.
- ♦ Bonds are not high risk investment therefore you can preserve your money when you invest in them.

The disadvantages of Bonds include:

- ♦ Bonds are subject to default risk, that is, the company may fail to coupon interest payments and/or fail to repay the principal when the bond matures.

Stocks

A share of stock, also referred to as equity, is the smallest unit of ownership in a company. If you own a share of a company's stock, you are a

part owner of the company. There are generally two types of stocks, common shares, which is the basic form of ownership and preferred shares.

Common Shares

If you buy common stock, you share directly in the success or failure of the company. If the company increases in value or realizes a profit, your income from the stock may increase, or the share price may go up. Alternatively, if the company has a disappointing year, your investment in the company will probably be disappointing as well. If the company goes bankrupt, you could lose your entire investment.

Being a common shareholder in a public company also entitles you to vote on members of the Board of Directors and other important matters of the company. The Board of Directors is responsible for ensuring that the company's management makes decisions that are in the best interests of the shareholders.

In The Bahamas, stocks are traded on the Bahamas International Securities Exchange (BISX). Stocks are a good form of investment as over the long-term, they provide a higher rate of return than many of the other traditional forms of investing.

Preferred Stock

Despite its name, preferred stock has fewer rights than common stock. In many instances, unlike common stock, preferred stock usually has no voting rights.

Additionally, even though preferred stocks reduce your risk — they also limit potential reward. The dividends paid on preferred stocks are fixed and guaranteed. You may even get some of your investment back if the company

goes bankrupt. However, if the company grows or realizes a profit, your dividends stay the same.

The advantages of stocks include:

- ♦ Stocks may provide significant return
- ♦ Income stocks can provide more stable returns
- ♦ Over the long-term, stocks have historically earn more money than other type of investment

Some disadvantages include:

- ♦ Stocks may provide less current income than other investments
- ♦ Some stocks are very volatility meaning that its price is constantly going up and down. And this volatility could have serious negative impacts over short-term investment horizons
- ♦ Past performance does not guarantee future results

What Is The Stock Market?

By definition, it is a market in which shares of companies stocks are bought and sold. When companies start growing they need to find investors willing to invest in the company. They need to raise money to keep buying machines and products and to expand their businesses. At the same time many investors want to find companies where they can invest their funds, so they can receive income from the growth of those companies, which usually cause a growth on their portfolio of invested funds. The place where all this activity is centralized is referred to as a stock market.

In The Bahamas, stocks are traded on The Bahamas International Securities Exchange

Limited (BISX). In May 2000, BISX successfully launched its domestic market for the listing and trading of local public companies. Currently, there are nineteen domestic public companies listed on BISX.

Buying And Selling Stocks

If you want to buy or sell a stock in the Bahamas you have to go through a broker. The broker then interacts with BISX to carry out your transactions. The two domestic brokerage houses are Colina Financial Advisors Limited and Fidelity Bank & Trust.

Mutual Funds

Mutual funds are a popular investment for many types of investors because they offer a convenient, cost-effective and easy way to invest in the financial markets. The idea behind a mutual fund is simple: Many people pool their money in a fund, which invests in various securities. The overall risk is reduced through diversification and active management by professional money managers.

Mutual funds may invest in practically anything, according to what is provided for in the fund documents. Equity mutual funds invest in the common shares of corporations. Bond or income funds invest in the bonds of governments and corporations. Mortgage funds invest in residential and commercial mortgages. Balanced funds invest in a mixture of bonds, stocks and money market instruments and alter the proportion of these investments according to the manager's view of these investments.

The benefits of Mutual Funds include:

- ♦ Professional management
- ♦ Diversification to offset losses

- ♦ Liquidity and convenience (easy to buy and sell)
- ♦ Relative low cost

Some disadvantages include:

- ♦ There is no guarantee of returns; stock and bond funds may lose value
- ♦ Investor may have to pay management and incentive fee, which will reduce their overall return.

Prospectus - the key to understanding a mutual fund

A mutual fund is required to send a prospectus to its investors and anyone who requests it. A prospectus is a legal document that details the fund's investment objective and policies. It also outlines the risks, expenses and fees associated with investing in the fund. It's important that people read a fund's prospectus very carefully before investing money in a mutual fund.

A final note ...

The world of investing does not have to be complex and confusing. In fact, it can be an exciting one full of challenges and rewards. Maybe the best way to look at investing is to consider it a lifelong pursuit. Whether you are a novice investor or new to the game, once you decide to spend a little time learning about the many possibilities of investing your dollars, you will be rewarded with greater returns and opportunities.

Understanding Financial Statements

Research is very important:

Before investing in a stock, bonds or any other type of investment, it is important to research the issuing company and understand how the

investment is likely to perform. A good place to start is the company's annual report.

Take a look at the income statements and balances sheet to value the current operations of the company. Also to get an idea of the company's future prospects take a look at the Chairman's statement and any other information regarding strategic plans and future projects of the company. Do not forget to pay attention to the footnotes because they often provide hints of potential problems.

In addition, there is a wide variety of information available from outside sources — the financial media, earnings reports, corporate Web sites, — that can give you a broader perspective on a particular company, industry groups, and the overall economy.

What are Financial Statements?

Financial statements are an important tool in company analysis as they provide invaluable information to all users. Management requires a flow of information to make informed, intelligent decisions affecting the success or failure of its operations. Investors need statements to analyze investments, banks require financial statements to decide whether or not to loan money, and many companies need statements to ascertain the risk involved in doing business with their customers and suppliers.

The ability to understand and analyze these statements effectively is important for anyone who is considering investing in a company's stock or bonds, as it can reveal a great deal about a company's financial health.

There are two primary financial statements: the Balance Sheet and the Income Statement. The ability to understand and analyze these statements effectively is important, as it can reveal a great deal about a company's financial health.

The Balance Sheet

The balance sheet is one of the most important financial statements of a company. Normally, prepared on a quarterly, biannual or annual basis, this document provides a "snapshot" of a company's financial standing at a specific point in time. Analyzing how the balance sheet changes over time can reveal important information about the company's business trends.

At any given time a company's assets must always equal the sum of liabilities and shareholders' equity. Therefore, the following equation must hold true:

$$\text{Assets} = \text{Liabilities} + \text{Shareholders' Equity}$$

Key Components

All Balance Sheets are categorized into the following sections:

Assets: These represent the company's use of funds. The company uses cash or other funds provided by the creditor/investor to acquire assets. Assets include all the things of value that are owned or due to the business.

Liabilities: These represent a company's obligations to creditors who have provided cash or its equivalent to the company. As a source of funds, they enable the company to continue

in business or expand operations. If creditors and investors are unhappy and distrustful, the company's chances of survival are limited.

Shareholders' Equity: This is the amount owners invested in the company's stock plus or minus the company's earnings or losses since inception. Sometimes companies distribute earnings, instead of retaining them. These distributions are called dividends, being the degree of nervousness and the timeframe in

which they expect repayment.

To help you better understand how a Balance Sheet is set up and how to calculate the various components we have provided a basic sample balance sheet of a fictitious company Junkanoo Enterprises Limited. The most important lesson to learn in viewing this example is that the basic balance sheet equation holds true.

$$\text{Assets} = \text{Liabilities} + \text{Shareholders' Equity}$$

JUNKANOO ENTERPRISES LTD. BALANCE SHEET As at December 31, 2005

(in thousands)

ASSETS	2004	2005
Current Assets:		
Cash	\$ 15,000	\$ 25,000
Accounts Receivable	40,000	55,000
Inventory	60,000	75,000
Total Current Assets	115,000	155,000
Equipment	190,000	225,000
Furniture & Fixtures	47,000	65,000
TOTAL ASSETS	\$ 352,000	\$ 445,000

LIABILITIES & SHAREHOLDERS' EQUITY	2004	2005
Current Liabilities:		
Accounts Payable	\$ 58,000	\$ 70,000
Notes Payable	85,000	95,000
Total Current Liabilities	143,000	165,000
Mortgages	100,000	125,000
Equipment Loan	97,000	135,000
TOTAL LIABILITIES	\$ 340,000	\$ 425,000
Shareholders' Equity:		
Common Shares	10,000	10,000
Retained Earnings	2,000	10,000
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	\$ 352,000	\$ 445,000

The balance sheet gives a snapshot of the assets, liabilities and equity for a given day. In our example December 31. Often a balance sheet shows information for two successive periods. Why? It gives the investor a better perspective of the company's operations by showing areas of growth and or decline.

In reality, both creditors and owners are "investors" in the company with the primary difference being the timeframe in which they expect repayment.

The Income Statement

This statement, also referred to as the Earnings Statement or Profit and Loss Statement matches the revenues earned from selling goods and services, or from other activities, against all costs and expenditures incurred in the operation of the company. The difference is the net income (or loss) for the year.

A company with little or no income has little or no money to pass on to its investors in the form of dividends. If a company continues to record losses for a sustained period it could go bankrupt. In such a case, both bond and stock investors could lose some or all of their investment. On the other hand, a company that realizes large profits will have more money to pass on to its investors.

Because the income statement shows how

much a company earned or lost during the year, many analysts, investors and potential investors consider it the most important report available.

Key Areas

While the balance sheet is like a snapshot of a company's financial structure at a specific point in time, the income statement is more like a motion picture showing the firm's operating activities for an entire year.

The income statement shows two main categories of information for each year covered:

- ♦ the revenue from products and services sold
- ♦ the expenses or costs of doing business

Without stating the obvious, the expenses are deducted from the revenue and what remains is the net income or loss.

To help you better understand how an income statement works and is set up, we have provided the following basic income statement of the fictitious company, "Junkanoo Enterprises Limited" (JEL) for the fiscal period ended - December 31, 2003 and 2004. It is important to note that income statements differ by how much information they provide and the style in which they provide the information.

**JUNKANOO ENTERPRISES LTD.
INCOME STATEMENT FOR THE FISCAL YEARS
Ending December 31, 2004 and December 31, 2005**

	2004	2005
Sales	\$ 25,000	\$ 35,000
Less: Cost Of Goods Sold	9,000	11,000
Gross Profit	16,000	24,000
Less: Operating Expenses		
Advertising	1,000	3,000
Salaries	4,000	6,000
Utilities	1,500	3,000
Income From Operations	9,500	12,000
Plus: Other Income	-	1,000
Less: Other Expenses	300	1,000
NET INCOME	\$ 9,200	\$ 12,000

Now, as confusing as those numbers might seem at first you will become comfortable with them very quickly once we explain what all this financial jargon really means. Let us start by looking at the first term that was calculated - Gross Profit.

Gross Profit

One of the basic rules in business is that, "It takes money to make money." Gross profit is the difference between all the revenue the company earns from the sales of its products and the cost of what it took to produce them. Typically, producing goods for sale is the greatest cost of generating sales.

How is this number calculated?

Sales - Cost of Goods Sold = Gross Profit on

Sales
Simple, yes, but let's be sure we know what the terms sales and costs of goods sold means to the accountants.

Sales or Revenues

A company's primary revenue source usually appears first on the income statement. Companies earn sales in one or more of the following ways:

- ♦ by selling products or services, or both
- ♦ by leasing and renting equipment or property to others
- ♦ by receiving interest from loans to other companies or individuals
- ♦ by earning income on investments

Some companies have only one source of

revenue; others have several. For example, JEL reports revenue from selling supplies such as crepe paper, bells, whistles glitter etc., to Junkanoo groups. A year-to-year comparison of net sales indicates whether sales are increasing or decreasing.

Cost of Goods Sold is what the company spent to make the things it sold. It includes the money the company spent to buy the raw materials needed to produce its products and the money it spent on manufacturing its products and labor costs.

When you subtract all the money the company spent in the production of its goods and services (Cost of Goods Sold) from the money made from selling them (Sales), you have calculated their Gross Profit. Gross profit on sales is important because it reveals the profitability of a company's core business.

Operating Income represents a company's revenue from its core operations minus its cost of goods sold and its general operating expenses. Operating income does not include interest expenses or other financing costs.

An easy way to calculate Operating Income is as follows:

Operating Income = Gross profit - General Operating Expenses

General Operating Expenses are normal expenses incurred in the day-to-day operation of running a business. Typical items in this category include sales or marketing expenses, salaries, and utilities.

Other Income generally refers to income generated outside the normal scope of a

company's typical operations. In the case of JEL, providing Junkanoo entertainment for parties and other events.

Net Income (or loss) is the proverbial "bottom line". It is the amount remaining after a company deducts all costs and expenses from sales. When revenue exceeds costs and expenses, the bottom line shows a profit. When costs and expenses exceed revenue, the bottom line shows a loss. Growth in net income usually signals that a company is doing well. Just a reminder, however, many companies report net losses rather than net earnings, especially in the early years of operations.

To recap

Without question, financial statements provide a good starting point in judging a company's financial strength. However, these numbers by themselves should not be used to make decisions about investing in a company. One of the reasons is that on numbers can be manipulated. While public companies are required by law to produce an annual report and audited statements, management by their accounting choices can manipulate the numbers that can mislead results...

What is very important to remember is that no one financial statement tells the complete story? But combined, they provide very powerful information for investors. And information is the investor's best tool when it comes to investing wisely.

The Annual Report

The best place to learn about company earnings is the company's annual report. All public companies are required by law to provide

its shareholders with information about its operations.

The information in an annual report shows the company's financial situation. It is extremely useful to investors because it allows them to use their own judgment on how well the company is doing and forecast its future earnings and dividends. For an investor, this information is critical for making investment decisions.

The following information is presented in most financial reports, note that the order in which these are presented varies.

General Company Information

Information about the company in general, its history, products and line of business; an extensive report on each section of operations in the company as well as a summary of the previous year

Financial Highlights

Probably the most often-read section of any annual report, these highlights give a quick summary of a company's performance. The numbers appear in a short table, usually accompanied by supporting graphs.

Corporate Message

Some analysts, business executives, and stockholders consider this message an advertisement for the company; others find it useful. However, it almost always reflects how a company sees itself, or how it would like others to see it. Here, the company can explain itself to stockholders, using photographs, illustrations and text. This message may cover the company's lines of business, markets, mission, management philosophy, corporate culture, and strategic direction. You may want

to look at how accurate this message has been in the past to give you an idea how much you can trust it.

The Auditor's Report

If you had a large sum of money invested in a company, wouldn't you feel better if there was someone outside of its management keeping an eye on things? This is the purpose behind the auditor's report. The job of the auditor is to express an opinion on whether the financial statements are reasonably accurate and provide adequate disclosure. The auditor examines the company's accounting and internal control systems, confirms assets and liabilities, and generally tries to be confident that there are no material errors in the financial statements. Reading the auditor's report is important.

Financial Information

This section includes the balance sheet and the income statement. The income statement describes income and expenses and gives the net profit or loss for the year. The balance sheet describes assets and liabilities and compares them to the previous year. In this section, important information may be revealed in the footnotes. They may discuss current or pending lawsuits or government regulations that have an impact on company operations.

Notes to Financial Statements

The majority of investors and analyst read the balance sheet and the income statement. But for whatever reason, the footnote is ignored. What sets informed investors apart is digging deeper and looking for information that others typically would not bother with. No matter how boring it might be, read the fine print, it'll make you a better investor.

The footnotes will inform you about the nature of the company's business, when its fiscal year starts and ends, how inventory costs are determined, and any other significant accounting policies that the company feels you should be aware of. This is especially important if a company has changed accounting policies. You have to be very careful as the company may be manipulating accounting information to make the company appear better than it really is.

Letters To Stockholders

This letter may be from the Chairperson of the Board of Directors, the Chief Executive Officer or both. It can provide an analysis and a play-by-play review of the year's events including any problems, issues, and successes the company has experienced during the period. It usually reflects the business philosophy and management style of the company's executives, and often it lays out the company's direction for the next year.

Selected Financial Data

This information summarizes a company's financial condition and performance over five years or longer. Data for making comparisons over time may include revenue (sales), gross profit, net earning (income), earnings per share, dividends per share, financial ratios such as return on equity, number of shares outstanding and the market price per share.

To recap

Without question, financial statements provide a good starting point in judging a company's financial strength. However, these numbers by themselves should not be used to make decisions about investing in a company. One of the reasons is that on numbers can

be manipulated. While public companies are required by law to produce an annual report and audited statements, management by their accounting choices can manipulate the numbers that can mislead results.

What is very important to remember is that no one financial statement tells the complete story. But combined, they provide very powerful information for investors. And information is the investor's best tool when it comes to investing wisely.

Achieving Financial Security

The key to financial security is to have a "financial plan." That means you should set financial goals and start saving or investing to reach those goals. While that may sound hard, it doesn't have to be. You'll first need to figure out where you're starting from – for example, how much do you owe, how much money have you saved already, how much money will get from your job or your parents. Next, you should set goals. Do you want a car? A computer? New clothes? Once you know what you want, when you want it, and how much it costs, you can figure out how much you need to save each week or month or year.

Remember, you are never too young to start getting your finances in order. The sooner you start saving, you will have more funds to invest toward your goals. If necessary, speak to your parents or a guidance counselor at school. Education is the key. Take the time to read any financial books or magazines whenever you can.

Doing so will ensure that in the future not only will you achieve financial security but more

importantly, you will become "Master of your finances and not slaves to your debt".

Brokerage
Corporate Advisory
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