FMDQ

The Young Investor

by FMDQ-Next

Financial Markets Education for the Next Generation


FMDQ
The Young Investor
by FMDQ-NeXt
FINANCIAL LITERACY

FMDQ-Next

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FMDQ

Introduction

Financial education plays a fundamental role in socio-economic growth and development in a nation, and is critical in achieving financial security. With a population of over 200 million, a large percentage of the Nigerian populace do not have the requisite skills to build a solid financial future. The younger generation are the most affected, especially with no financial education incorporated into the educational system. The importance of early intervention cannot be overemphasised, as it is pertinent in building the required skills, attitudes and perceptions early on, to aid the development of a financially astute and empowered generation.

In recognition of the fact that financial literacy could be a poverty alleviation tool that can aid the building of a more sustainable financial future for society and to also develop the required expertise to adequately scale up the Nigerian financial market to global standards, FMDQ Group - Africa's first vertically integrated financial market infrastructure group, strategically positioned to provide seamless execution, clearing and settlement of financial market transactions, as well as data and information services, across the debt capital, foreign exchange, derivatives and equity markets has included the next generation in its financial market education agenda, via its Flagship Corporate Responsibility Programme, FMDQ Next Generation Financial Markets Empowerment Programme (FMDQ-Next). This is a learning and development initiative aimed at promoting financial market awareness and literacy among students across all levels (primary, secondary, tertiary), as well as fresh graduates within the country.

The Programme is implemented via Teach-a-class Sessions – which involve fun, educational and interactive financial markets exercises and activities; Excursions and Tours – where participants are given the opportunity to visit FMDQ Group, as well as local and international financial markets institutions; Trading Simulation Exercises – where participants learn how to trade a variety of securities and instruments in the financial market through the management of a virtual portfolio in a simulated environment; Summer Camp Programmes - a highly engaging programme specifically for primary and secondary school students who learn about the financial market over the summer holidays.

The latest addition is the FMDQ-Next Financial Literacy Book, which aims to complement the repertoire of FMDQ-Next Initiatives, towards closing the financial literacy gap in society. The Book provides a simple, yet informative and entertaining approach to complex financial market concepts, personal finance and basic economics. Exercises and games are also featured at the end of every chapter to reinforce key learnings. We believe that the FMDQ-Next Financial Literacy Book will be a fun, educative and inspiring tool for every reader.

Wishing you a fun learning experience and a future with great financial possibilities!

Table of Contents

Money and **BANKS**

Have you ever wondered where all the money we spend comes from? How has it become so important for our survival? Will it last forever? The answers to these questions are more straight-forward than you may think. Let us explore the world of money, learn about its history and how it has evolved over time to become a valuable commodity today.

What is **MONEY?**

Most people get their money by earning it through work, commonly referred to as income. You could probably help out with some chores around the house to top up on your pocket money. When you go to the cinema, you may exchange money for movie tickets or ice cream. Regardless of what it is, something needs to be given out in exchange for you to obtain the items you desire.

Money is, therefore, anything that is generally acceptable and is used for the payment of goods and services. It derives its value by its various functions.

Evolution of **MONEY**

Today we use money in so many different forms - coins, notes, debit or credit cards - to purchase items in our countries and from other countries with a few clicks of the button. It was not always this simple. Let us go through some **"numismatics" – The study of currency and its history** - as we travel back in time.

Barter **SYSTEM**

The history of bartering dates back to 9000 BC, during early civilisation, when people's needs were limited. Bartering involved the exchange of goods and services between people. People did not use money as a medium of exchange, instead items such as cows, salt, rice, wheat, weapons, etc. were utilised in the "**barter exchange**". The Barter System was introduced by the Mesopotamian tribes and later adopted by the Phoenicians, who bartered goods to people who lived in very distant locations.
The first bartering was recorded in Egypt.

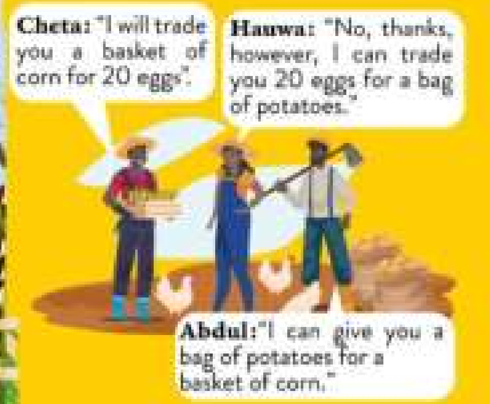
A look into how the **BARTER SYSTEM** *worked*

Cheta grows corn. He would like some eggs for his breakfast. He approaches Joseph to barter his corn for eggs.

Some problems with this method

The problem with this method is finding the person willing to trade their items for the same product you have, in the exact amounts. What if Joseph does not want a basket of corn but wants a bag of potatoes instead?

Cheta might have to take a less direct approach to get the eggs. He can trade his corn for Abdul's bag of potatoes, then trade the bag of potatoes for Hauwa's eggs.



This could end up being very complicated, trying to exchange different items for the one item/service you want! Over time, different societies and countries found a solution.

Metallic MONEY

Over time, as human civilisation progressed, the barter system transitioned into metallic money coin, which was made of precious metals, such as silver and gold. The value of the metal was measured by weight, at this time they were not precisely coins yet, because they had no fixed shape. By 640 BC, Electrum, an alloy of gold and silver, was used to make coins in Lydia (modern-day Turkey). Lydia was one of the first countries to adopt metals to pay for goods or services, because similar to cowries, it was easier to carry and move about when compared to animals or food items.

Paper MONEY

Coins were later also found to be inconvenient and dangerous to carry around, leading to the development of paper money, marking a significant milestone in the development of money. This form of money originated from the receipts or certificates issued by goldsmiths to individuals who deposited precious metals such as gold and silver for safekeeping. These certificates could then be issued to another person when the original owner purchased goods or services. The first use of paper money occurred in China more than 1,000 years ago.

Marco Polo, a venetian merchant, travelled from Venice to China along the Silk Route between 1271 - 1295, only to discover that the Chinese had already started using paper money. Europe, at that time was still using gold and silver.

Plastic MONEY

Frank McNamara

Plastic money started with the creation of the **'Diner Club Card'** by Frank McNamara when he forgot his wallet and asked the diner owner if he could sign an agreement to pay later. This birthed the beginning of the credit payment. The Diner Club Card enabled the owner to pay for goods and services at various locations at a later date. This novel idea became the first real model of the multipurpose charge card. Years later, banks also adopted this method and linked it to cardholders' accounts. Credit and debit cards have since been used for various transactions worldwide, solving the problem of carrying bulk paper money from one place to the other.

Virtual MONEY

With technology developments, the newest kid on the block is virtual money. It is a type of currency only available in electronic or digital form, used only on the internet through software such as digital wallets. It does not have any form of physical representation, compared with paper or plastic money that can be held in your hand; neither is it regulated by an apex bank.

The most famous virtual currencies are Bitcoins, a form of cryptocurrency.

Functions of MONEY?

The Medium of Exchange

In today's world, money is widely accepted as a means of payment. It is used to get us the things we want and need. For example, when we go to a supermarket, we pick up different items and pay for them using money. If you want an iPhone, you pay the seller the required amount of money for the iPhone. Same goes for services, when you go to a hair salon for a hair cut, in exchange for the hair cut you pay with money.

Store of Value

It is what makes it possible to save money today for something you need or want tomorrow. For example, you may want to buy a pair of trainers, which cost about ₦10,000 today, however, you only have ₦2,000 saved. You could decide to earn some extra money by tutoring, until you have the full amount to buy the trainers. Hopefully, the price remains at ₦10,000. Money, however, is not unique to being a store of value, other assets such as gold, land, art, are perhaps even better stores of value, as money can depreciate with inflation.

Unit of Account

Various goods and services are priced or valued based on the amount of money attached to them. This allows us to compare the prices of various goods and services, allowing both seller and buyer to decide on the best prices and quantities that work for both parties. For example, if you bake some cupcakes and tell your friends you will sell them at ₦100 each, ₦100 is the value you have placed on your cupcake and if your friends are happy to pay ₦100 per cup cake, both parties will be happy.

Characteristics of MONEY

Have you ever wondered about the unique features of money? There are six main characteristics of money which we will be referring to as
P.A.D.D.L.F

1. PORTABILITY

Money can be easily carried from one point to another, used in exchange for goods and services. Imagine if we still had to move cows, sheep, or eggs from one place in Lagos to a store in London to buy an iPad!

2. ACCEPTABILITY

All types of the same denomination of money must maintain the same features, such as its weight, size, colour, regardless of its location. The seller of goods/service must be willing to accept the money as a suitable medium for his/her goods or service. For example, you cannot go to a café in France and pay for a baguette in cash using Naira, as the Euro is the acceptable medium of exchange.

3. DURABILITY

Money possesses the ability to be used multiple times however, it must be handled carefully to avoid rapid wear and tear. Tomatoes can severly reduce in value, as they are perishable, while ₦1,000 notes are fairly durable and can be easily replaced if they become old or worn

4. DIVISIBILITY

Money can be easily divided into small amounts and can be used to purchase different products with different values. It makes having denominations possible.

5. FUNGIBLE

Chickens come in different sizes and weights, with each of them having a different value. ₦200 bills are all the same size, shape and value; they are constant and equal, making their value for future use reliable.

Countries and **CURRENCIES**

There are currently about 180 currencies in the world, with each country having its own unique currency known as **"legal tender"**, which is the acceptable medium of exchange in that country. If you travel from Nigeria to the United Kingdom, you will need to change your local currency from Naira to Pounds Sterling.

The most common currencies in the world are the United States (US) Dollar, European Euro, British Pound Sterling and the Japanese Yen. The "Dollar" is utilised in several countries, but they all do not have the same value, hence they are named differently. Some examples include Canadian Dollar, Hong Kong Dollar, Australian Dollar, Singapore Dollar, amongst others.

The Euro is one of the world's most powerful currencies, used by 175 million Europeans in 19 countries: Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia and Spain. The list will continue to grow as other countries in Europe officially adopt the Euro as their currency.

What is a **BANK?**

The word '**Bank**' originated from the Italian word '**Banco**' which means long bench because commercial trading and transactions used to be done sitting down on benches in markets and preaching halls back in medieval and renaissance Italy, in the affluent cities of Florence and Venice.

Banks have been in existence for a long time, providing different services to individuals, businesses, organisations and even Governments. Majorly, banks act as intermediaries between depositors (who lend money to banks) and borrowers (to whom the Banks lend money).

A simple example of how banks **WORK**

Diza has just received the sum of ₦500,000 as a reward for winning a school competition, so she decides to open a savings account and deposits her money in G.Taylor Bank. The bank in return promises to pay an annual interest of 5%, which means that for every year she keeps the money in the bank, she will receive an additional ₦25,000.

Valerie, on the other hand, needs ₦500,000 to complete the payment for her new fashion store. She approaches G.Taylor Bank to lend her ₦500,000 for this purpose. The bank decides to loan Valerie the money with 10% interest rate over a defined period.

The additional 5% on the loan to Valerie will be retained as the bank's profit, whilst Diza receives the original money deposited (₦500,000) and interest (₦25,000). The bank will have the double benefit of paying Diza back while still making some profit for themselves.

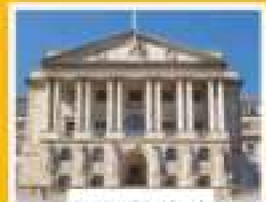
Banks carry out multiples of these kinds of transactions daily - deposits, withdrawals, loans etc. These transactions enable the bank to provide support to individuals, organisations, etc., making profit along the way.

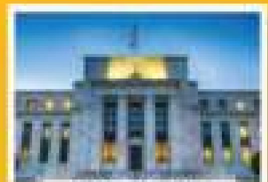
Today, banking has evolved as a result of technology being embedded into its processes, moving beyond physical banks to online banking, mobile banking, digital wallets, such as Apple Pay, Google Wallet etc., designed to move customers from physical wallets to a world where you can make payments from a device, such as a phone.

Central **BANKS**

A Central Bank is a centralised financial institution of any country to which has been entrusted the duty of regulating the production, circulation and supply of money in that country, seeking to regulate the commercial banks and stabilise a nation's economy and national currency.

For example, the Bank of England is the central bank for the United Kingdom; the European Central Bank (ECB) for the combined Eurozone; the Federal Reserve System for the United States; Swiss National Bank for Switzerland, the Bank of Canada for Canada and the Central Bank of Nigeria is Nigeria's Central Bank.


Bank of England


Federal Reserve System


European Central Bank (ECB)


Swiss National Bank


Bank of Canada


Central Bank of Nigeria

Central Bank of NIGERIA

The Central Bank of Nigeria (CBN) is the apex monetary authority in Nigeria, fully established on July 1, 1959, to manage the country's currency and supervise and co-ordinate other financial institutions in Nigeria in the facilitation of economic development. The Federal Republic of Nigeria charges the CBN with the monetary policies' overall control and administration to:

- Ensure monetary and price stability
- Issue the legal tender currency in Nigeria
- Maintain external reserves to safeguard the international value of the legal tender currency
- Promote a sound financial system in Nigeria
- Act as "Banker" and provide economicand financial advice to the Federal Government

The CBN is also charged with the responsibility of administering the Banks and Other Financial Institutions Act (BOFIA), 2020, with the sole aim of ensuring high standards in banking practices and financial stability through its surveillance activities, as well as the promotion of an efficient payment system.

History of the NIGERIAN NAIRA

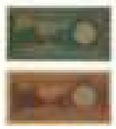
Nigeria's currency is known as the Naira. The first major currency issue in Nigeria sequel to the colonial ordinance of 1880, which introduced Shillings and Pence as the legal tender currency in British West Africa.

1912 to 1959:

The West African Currency Board (WACB) issued banknotes and coins in Nigeria, Ghana, Sierra Leone, and the Gambia. Prior to the establishment of WACB, Nigeria had used various forms of money, including cowries and manillas.

1959:

By July 1, 1959, the Central Bank of Nigeria (CBN) issued Nigerian currency banknotes, while the WACB-issued banknotes and coins were withdrawn.

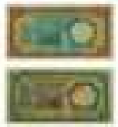


1962:

It was not until July 1, 1962, that the currency was changed to reflect the country's republican status. The banknotes which bore the inscription, 'FEDERATION OF NIGERIA', now had, 'FEDERAL REPUBLIC OF NIGERIA', inscribed at the top.

1968:

The notes were again changed following the misuse of the currency banknotes during the civil war.

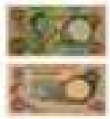


1973:

The major unit of currency which used to be £1 ceased to exist, and the one Naira which was equivalent to ten shillings became the major unit, while the minor unit was called the Kobo, a hundred of which made one Naira.

1977:

By February 11, 1977, the new Twenty Naira note (₦20) was issued to bear the portrait of a prominent Nigerian citizen, the late Head of State, General Murtala Ramat Muhammed (1938-1976) who was the torchbearer of the Nigerian Revolution in July 1975. The note was issued on the 1st anniversary of his assassination as a fitting tribute.

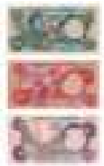


1979:

The One naira (₦1), Five Naira (₦5), and Ten Naira (₦10) notes were introduced on July 2, 1979. The engravings at the back of the notes reflected various cultural aspects of the country.

1984:

In April 1984, the colours of all the banknotes in circulation were changed except for the 50 Kobo banknote, to arrest the currency trafficking prevalent at the time.

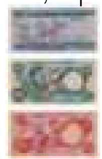


1991:

The 50 Kobo and ₦1 were both coined.

1999-2005:

In response to the expansion in economic activities and to facilitate an efficient payments system, the ₦100, ₦200, ₦500 and ₦1000 banknotes were introduced in December 1999, November 2000, April 2001 and October 2005, respectively.



2007-2014:

The ₦2 coin was introduced, and the ₦5,₦10, ₦20, ₦50, ₦100 redesigned and issued in polymer substrate.

Source: CBN Website

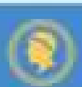
Unique MONEY FACTS

FACT 1

In Old English, "pygg" was a type of clay used to make jars and dishes that held money. As language changed over the years, "pygg" and "pig" started to sound familiar, which led to the formation of the word 'Piggy Bank', also designed like a pig.

FACT 2

US paper money is made from cloth and not paper. In Ben Franklin's day, people repaired torn bills with a needle and thread.



FACT 3

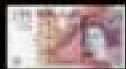
Early Romans used salt as a form of money. The word "salary" was derived from sal, which means "salt" in Latin.

FACT 4

There is more money printed for the monopoly game every year than real money printed around the world.

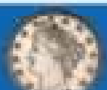
FACT 5

The first Bitcoin transaction was to buy a pizza for 10,000 Bitcoins.



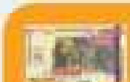
FACT 6

The British pound is the world's oldest currency that is still in use today, dating back to the 8th century.



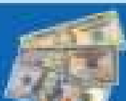
FACT 7

The motto on the first US coin was "Mind your Business"



FACT 8

The world's largest banknote was 216mm x 133mm and was made by the Philippines Government in 1998 to celebrate independence and freedom.



FACT 9

Living Presidents are banned from having their faces on the US currency.

Crack the Vault

Can you save the world from an economic crash by decrypting the code to unlock the vault which has what it takes to save world's currencies? Use the three words below given in codes, to find the code for the word "**NUMISMATICS**". *The order is mixed up.*

Example:

The code for the following words are

PAY = ₱ ₳ ¥

SAVE = $ ₳ ₠ €

INVESTOR = ₪ ₦ ₠ € $ ₮ ¢ Rs

This means "**RATES**" will be "Rs ₳ ₮ € $"

Code:

Currencies: ₵ ¥ ₭ ₭ £ ₦ ₵ € £ $

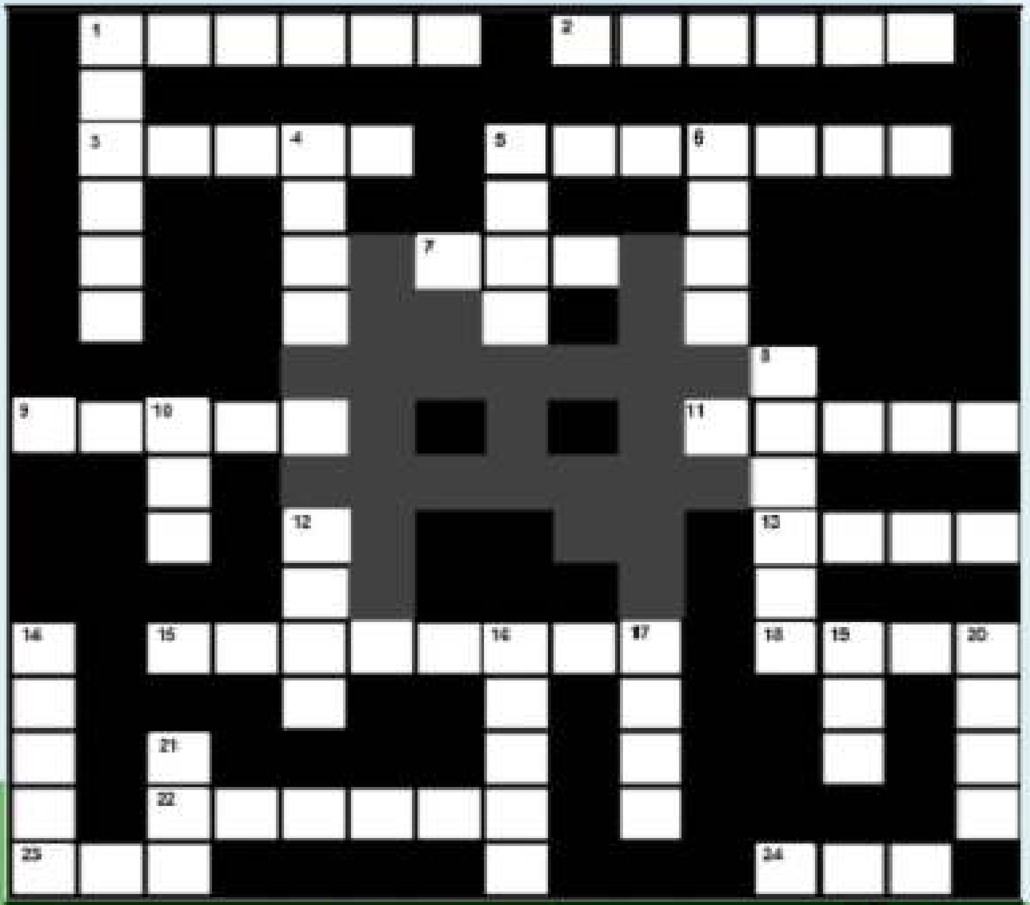
Commercial: ₵ ∏ ₩ ₩ £ ₭ ₵ € ₪ Rs

Depositors: ₫ £ ₱ ∏ $ € ₣ ∏ ₭ $

Write your answer in this box here

ALL AB฿UT M₦£¥

Use the clues to complete the crossword. Each clue is related to money.



Across

1. To make your money work for you, save or .... (6)
2. Israeli currency. (6)
3. The first country to use paper money. (5)
5. A form of cryptocurrency.
7. Ghana's currency code. (3)
9. Russian currency. (5)
11. British currency. (5)
13. Money you borrow. (4)
15. A country's money. (8)
18. South African currency. (4)
22. The earliest method of trading. (6)
23. Japanese currency. (3)
24. Settling a bill. (3)

Down

1. Money you earn by doing work. (6)
4. Paper money is known as bank______ .(4)
5. Thai currency. (4)
6. Peso is the currency of __________ (4)
8. American currency. (6)
10. A purchase. (3)
12. Currency spent in most parts of Europe . (4)
14. Medium of exchange. (5)
16. Nigerian currency. (5)
17. Chinese currency. (4)
19. A device for dispensing cash. (3)
20. Vietnamese currency. (4)
21. Nigeria's apex bank. (3)

Savings, Investing and Economic Concepts

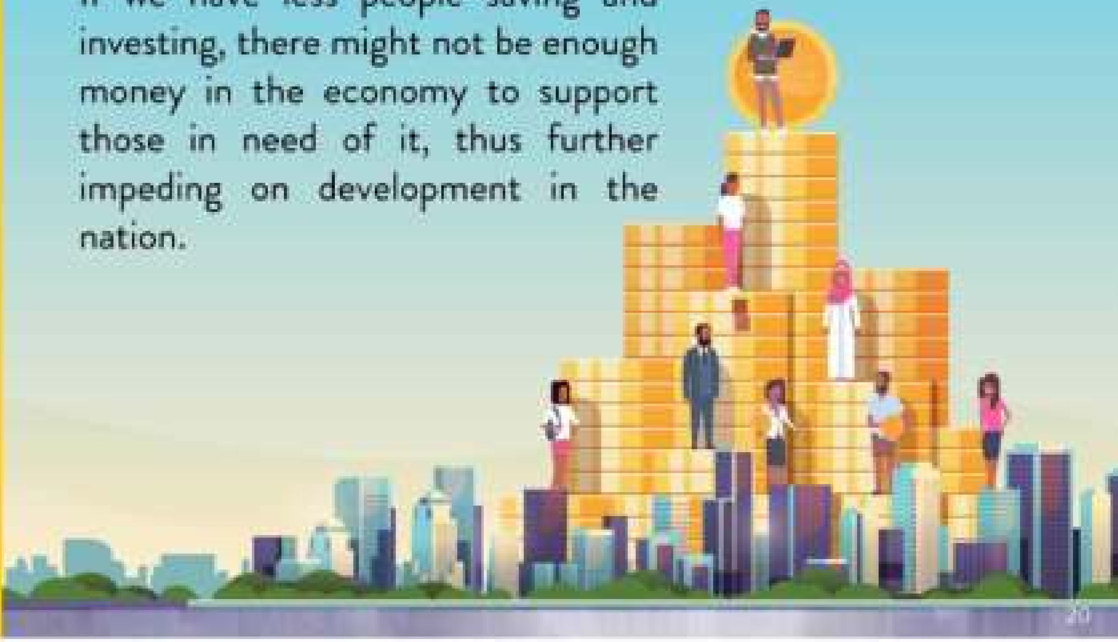
Imagine for a second that everyone spent all their money on food, drinks, clothes, holidays etc., with no one ever saving or investing a portion.

We would all just go broke in a very short period!

When we save or invest, we are basically supporting the flow of money, from one sector to another, and sustaining the activities required for an economy to function adequately.

For instance, if more people save, it enables the banks to lend more to individuals, businesses, and organisations.

If we have less people saving and investing, there might not be enough money in the economy to support those in need of it, thus further impeding on development in the nation.



Some ways to earn MONEY?

You do not need to be an adult to start earning money. It is never too early to start earning money. Smart youngsters explore different viable options.

Gifts: Money from Aunty Stella for getting good grades or money gotten on your birthday, or even as a treat.

Pocket Money or Allowance: This is a weekly or monthly amount received from your parents.

Getting a Job: You can get a part-time job to earn additional money.

Sell a Product: You can sell a product to your circle of friends and their network.

Provide a Service: You can tutor younger kids, teach adults how to use social media or electronics, amongst others.

It is not enough to have money, it's also important to have a plan on how you will spend your money when you get it. You need to learn about budgeting so you can properly manage all your money.

Remember to be disciplined with how you handle the money you receive. Always ask yourself these three questions and make a plan:

1. **Should I spend the money?**
2. **Should I save the money?**
3. **Should I invest the money?**

NEEDS *vs* WANTS

Tito receiving a gift of ₦10,000 from her aunt for getting excellent grades. Earning money comes with making choices remember?

A few questions that can guide her in making the right choice:

- Are there items that you urgently need and cannot do without - **Needs**?
- Are there items you can put off for a later time - **Wants**?

The ability to separate needs from wants is an important step in managing the money we have, otherwise, we may end up spending it on all the wrong things. We cannot always get everything we want immediately, however, by putting off buying or getting some things later, this helps to build the discipline of focusing on what is most important right now – this is called **Delayed Gratification**.

Delayed Gratification is the ability to resist the impulse to take an immediate reward to obtain a more favourable reward later.

What should Tito do with the money? What would you do if this were you?

Understanding the difference between needs and wants is an important concept in money management. **NEEDS** are things critical for survival such as food, housing, shelter etc., while **WANTS** refer to something which is nice to have, but not essential for survival.

I do not really need a new pair of Jeans. I remember when I attended the FMDQ-Next Summer Camp, I learnt about various investment vehicles. Instead of spending this money, I am going to invest it.

Exercise

Now that you know the difference between NEEDS and WANTS, imagine you have been given ₦50,000, what will you spend it on? Using the table below, determine if what you want to spend it on is a need or a want.

Needs	Wants

Budgeting is the process of creating a plan to spend your money.

Using a Budget helps you prioritise your spending in order of what is most important to you. Most of the time, when you decide to spend money on one item, you may have to give up buying another item.

For example, imagine you have only ₦1,000 to spend at the movies after buying your ticket, if you spend all the money on popcorn, it means you won't be able to use that same amount to buy a hotdog. The same goes with how time is spent. If you spend your time at the movies, you cannot be at your friend's house at that exact same time. This is known as **Opportunity Cost**.

Opportunity Cost is the cost of an alternative that must be foregone to pursue a certain action. It is essentially what must be given up to obtain something that is desired.

As you continue to earn more money, it is important to begin to set financial goals and personal targets on how you will spend, save and invest.

Concept of SAVING

The concept of saving can be likened to the popular Aesop's Fable called "The Ant and the Grasshopper." In this story, the ant worked diligently all summer to put away enough food for the winter, while the frivolous grasshopper chirped and played. When winter came, the grasshopper had no food to eat and the ant, of course, had surplus food. The ant does not eat all its food immediately it saves some for the future.

Saving is essentially setting aside money not spent now, but for emergencies or a future purchase. Some people save their money at home, however, this is not a great way to save because money loses value over time due to Inflation. When money is saved in a bank, it is lent to other people (borrowers) who need money, via a Loan. The bank charges the borrowers a fee, in the form of interest, of which a portion of this fee is paid to you for storing your money in the bank.

Inflation is the steady increase in the price of goods and services over time.

Types of BANK ACCOUNTS

There are different types of accounts you can open with a bank. The most basic ones are:

Current Account - This is a personal bank account used for everyday spending. You can deposit and withdraw money at any time using an Automated Teller Machine (ATM), debit card or cheque book.

Savings Account - This is an interest-bearing deposit account held at a bank that pays interest. They are typically opened to keep money that you don't intend to use for daily or regular expenses and can be withdrawn at anytime.

Fixed Deposit Account - This is like a savings account, however it holds your money for a fixed period, for instance three months or for one year. This provides individuals with a higher rate of interest than a regular savings account, but you will have to commit to keeping your money in the account until the given **maturity date** to avoid any early withdrawal penalties.

Remember in the previous scenario, where Tito decided to invest her cash gift, but what if she spent half of it and saved half by keeping it at home?

Then a year later the following happens:
Tito: I have saved some money, so I can buy the jeans I wanted last year.

Tito: Oh no! The jeans now cost ₦5,500!

This is an example of inflation. The same jeans which cost ₦5,000 last year now costs ₦5,500, because Tito kept her money at home, instead of in an interest bearing account in a bank. She can no longer buy the jeans with the money kept at home, as it has lost some of its actual purchasing value, though it is still ₦5,000. Tito would have been better off depositing her money in a bank or investing it.

INVESTING

This is the act of buying securities such as stocks, bonds, commodities, amongst others, with the expectation that your investment will make money for you. Once there is a good amount of money saved, it is best to invest some of it, in order to maximise your returns. You should only invest money which would not be needed for emergencies or everyday expenses, as investments are ideally for the long-term and yield much more interest/ returns than a savings account. We cover more of this in the next chapter.

Before investing, spend time understanding the investment product, its features, advantages and disadvantages and your risk appetite.

The difference between Saving and Investing

SAVING	INVESTING
Low risk	Higher risk
Moderate return	Potential for higher returns
Ideal for short term goals	Ideal for long term goals

There is no right or wrong option when deciding whether to save or invest. What you choose will depend on your financial goals, risk level, timeline and willingness to put your money away, amongst other factors. Always remember that money kept idle without any use tends to lose its value. Start making significant contributions to the economy by deciding to save and invest today!

More ECONOMIC CONCEPTS

Economics is how individuals, businesses, governments and countries make choices about ways to utilise scarce resources to meet their needs.

Two important terms in an economy are **Goods** and **Services**:

- **Goods** are physical objects bought and sold, such as cars, food, clothes, etc.
- **Services** are actions that one person pays another to do for them, such as paying a teacher for home lessons, paying the barber to get a haircut, etc.

The exchange of these goods and services generate the money that moves around the economy and is occasionally affected by a few factors, such as, human resources, equipment, access to natural resources, amongst others. For there to be an exchange, it

means one person/party is giving, and the other person/party is receiving. In economics, this is known as **Supply** and **Demand.**

SUPPLY *and* DEMAND

The **Supply** of a product is simply how much of the product is available for for purchase at a givne price, and the **Demand** for a product is the quantity that people want to buy at a given price.

Supply and **Demand** is an economic theory that explains the relationship between producers and consumers of goods and services.

The interactions of **Demand** and **Supply** determine the actual market prices and volume of goods and services; and the perfect position for both laws is described as market equilibrium where all supply of goods is equal to its demands.

Factors affecting SUPPLY AND DEMAND

Price

As the prices of goods and services rise, there is a corresponding fall in demand. However, when the prices of necessities and some luxury items increase, it may not necessarily lead to a decline in demand. On the other hand, the higher the prices are, sellers will supply more goods and services.

Substitutes

These are goods with similar features in competition with each other, examples include, dairy products, such as Dano, Peak, Three Crowns etc. On the supply side, when a substitute product's price is cheaper, other competitors may reduce their prices, thus, increasing the demand for the cheaper products. Alternatively, the demand may fall if competitors cannot reduce their prices.

Technology

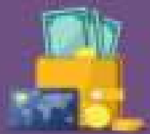
Advanced technology enables firms to reduce their cost of production, which helps to improve supply efficiency.

Seasons

The demand and supply of certain goods and services may be affected by the seasons. For example, there might be an increase in demand for umbrellas during the rainy season.

Income

The higher the income of an individual, the more they may demand for particular goods and services.



Tastes and Preferences

The deman or supply of goods and services depends on the taste and preference of consumers in terms of quality, quantity and value.

TAXATION

Taxation is essentially a primary source of revenue for most governments, used to help pay for public infrastructure, health care, universities, welfare, the military, refuse collection, sports facilities, amongst others.

Sources of taxation include personal income tax, corporate tax, stamp duties, capital gains tax, withholding tax, value-added tax, petroleum profit tax, etc.Taxation is one of the primary ways a Government raises funds, other methods include, printing money and borrowing.

In Nigeria, taxation is applied via two tiers of Government - Federal and State. Taxes paid to the Federal are collected by the Federal Inland Revenue Service (FIRS).

FIRS

At the State level, there are different agencies responsible for collecting state taxes. For example, in Lagos, taxes are collected by the Lagos Internal Revenue Service (LIRS).

Figure It Out

Tosin needs your help to figure out what each of these sentences mean. The pictures and letters in each sentence once you can decipher it would reveal a popular saying which has something to do with savings or investments. An example has been done for you.

Example:  + M is M +  — H

Time is Money

Steps to Solve:

1. Tie + M makes 'Time', M + Honey — H makes 'Money'
2. Put all the words together to form the phrase 'Time is Money'.

1. A  + NY saved is a  + NY  + NED

A ________ saved is a ________ ________

2. Do  save W +  is left  -H- L+ TER spending,

Do ________ save ________ is left ________ spending,

but S +  + D W +  is left  -H - L + TER saving.

but ________ ________ is left ________ saving.

3. M +  — H does  grow on 3 + S

________ does ________ grow on ________

4. Do  put  — B your  in 1 

Do ________ put ________ your ________ in ________ ________

5. Never spend your M +  - H B4 U  + N it.

Never spend your ________ ________ ________ ________ it.

Introduction to the FINANCIAL MARKET

Some of the world's leading Financial Market Infrastructures

NEW YORK STOCK EXCHANGE

HONG KONG EXCHANGES AND CLEARING LIMITED

FMDQ GROUP

EURONEXT

LONDON STOCK EXCHANGE GROUP

NASDAQ

What is a *Financial System?*

A financial system is a close connection of financial entities in the economic eco-system, comprising of financial markets, financial intermediaries, and financial instruments (also called products or securities).

The financial system involves the channeling of funds from entities such as Lender/Savers, i.e. households, businesses, foreign investors, etc., who have surplus funds to Borrower/Spenders, such as corporations, entrepreneurs, goverments, etc. who require funds, providing a platform to raise and allocate finance.

Functions of a *FINANCIAL MARKET*

Dami: The financial market has several functions and the easiest way to remember its functions is with *P.R.I.L.L.*

P — Price Determination

Provide vehicles by which prices are set for newly issued financial assets and for existing stock of financial assets.

R — Risk Transfer

Allow the transfer of risk from one party to another for a payment. For instance, insurance companies collect premiums from individuals and companies to provide insurance cover.

I — Information Coordination

They serve as collection points for information on financial asset values and the flow of funds from lenders to borrowers.

L — Lending & Borrowing

Financial markets permit the transfer of funds (purchasing power) from one agent to another for either investment or consumption purposes.

L — Liquidity

Financial markets aid investors easily sell their financial assets/securities, converting them into cash.

People have traded in financial markets for hundreds of years, which grew out of a convenient need to help companies that needed money raise it quickly. This trading activity can be done **bilaterally** or on a securities exchange, like FMDQ Securities Exchange Limited.

Types of Financial Markets

There are different types of markets, they include: Equity, Fixed Income, Commodities, Foreign Exchange, Derivatives Markets, and much more. These markets fall into one of two broad categories, **Capital Market** or **Money Market**.

Capital Market

This is a market where buyers and sellers engage in the trade of medium to long-term securities, such as stocks and bonds, with tenors usually over one year.

Money Market

This is a market for short-term borrowing, lending and investments. In this market, buyers and sellers engage in the trade of short-term securities, such as treasury bills, commercial papers, repurchase agreements, amongst others.

The financial market can also be categorised into Primary and Secondary Markets.

The **Primary Market** refers to the new issues market, where new securities are offered to investors for the first time. This market offers investors the opportunity to buy securities directly from the company or institution issuing the securities.

The **Secondary Market** is where existing or already issued securities are traded between investors. Here, investors purchase securities or assets from other investors rather than from the issuing companies themselves. This is where the bulk of exchange trading occurs each day.

Who are Financial Market Participants?

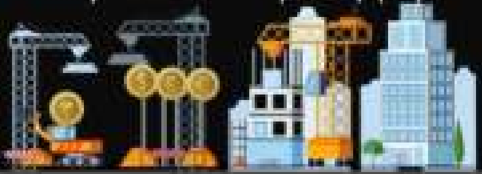
The financial market involves a wide range of activities with individuals and organisations performing various functions to ensure that the market functions appropriately. Some financial market participants include:

ISSUERS	These are businesses or organisations that issue various securities in the financial market to raise funds to expand business operations or execute major projects.
ISSUING HOUSES	These are financial institutions that first package the securities and then sponsor the issuance of these securities, for the issuer to be listed on an exchange.
INVESTORS	These are individuals or organisations that invest in various securities in the financial market, intending to make a return. Investors could either be **Institutional Investors** (e.g., insurance companies, banks etc.) or **Retail Investors**, (individuals, businesses etc.)
EXCHANGES	This is a marketplace where securities such as shares, bonds, commodities, etc., are bought and sold. Examples include, FMDQ Securities Exchange Limited, New York Stock Exchange and London Stock Exchange Group.
REGULATORS	They are the financial market police. The Securities and Exchange Commission monitors the capital market, while the Central Bank of Nigeria is responsible for regulating and monitoring the financial system. Other regulators such as the National Pension Commission, and National Insurance Commission regulate the pension and insurance sectors respectively.
BANKS	Banks are both participants and intermediaries in the financial market. They facilitate transactions in the financial market and act as market makers to ensure that there is enough liquidity in a market for trading to take place.
BROKERS	They are regulated and licensed organisations that have direct access to markets. They act as intermediaries to facilitate the buying and selling of securities between two parties.

Financial Market Infrastructures

What are they?

Financial Market Infrastructures (FMIs) are critical institutions essential to achieving and sustaining a country's financial system's stability. They play a central role in facilitating the trading, clearing and safe keeping of financial transactions in the securities market.



FMIs can be categorised as follows:

Trade Repositories

They provide a centralised platform for the collection, storage and dissemination of data to individuals, private and public financial institutions, market regulators etc., to provide transparency in the financial market, particularly in the OTC derivatives market.

Central Counterparties (CCP)

They act as a counterparty to both sellers and buyers, meaning, they position themselves between the buyer and seller, becoming the buyer to every seller and the seller to every buyer, covering any potential losses that may occur due to default from one party.

Securities Settlement Systems

These are systems that permit a security to be transferred and settled either by **Delivery vs Payment** - where delivery of the security occurs only when payment is made, or **Delivery vs Free** – where delivery of the security occurs without payment.

Central Securities Depositories

They provide safekeeping services for some financial assets and securities in the financial market. They hold securities either in physical or electronic forms ensuring the integrity of these securities, and so that ownership can be easily and seamlessly transferred.

Payment Systems

They are a set of instruments, procedures and rules for the transfer of funds between parties, with defined terms and conditions for the transaction.

Examples of some FMIs include, London Stock Exchange Group in the UK and FMDQ Group in Nigeria, which is Africa's first vertically integrated financial market infrastructure group, providing end to end services in the financial market, such as:

FMDQ Group provides these services through its wholly owned subsidiaries:

- FMDQ Securities Exchange Limited (FMDQ Exchange)
- FMDQ Clear Limited
- FMDQ Depository Limited and
- FMDQ Private Markets Limited

ZIG ZAG WORDS

Twenty six (26) words related to financial market are hidden in a zig-zag pattern. Can you find all twenty six (26)? Once you found them, the remaining letters will spell out an interesting fact about FMDQ.

Assets	Face value	Return
Bondholders	Funds	Risk
Bonds	Investment	Securities
Broker	Investors	Selling
Buying	Liquidity	Shareholder
Commodities	Market	Shares
Coupon rate	Maturity date	Stock exchange
Dividend	Principal	Treasury bills
Equities		

Look left, right, up, down but NOT diagonally to find the hidden words.

S	H	A	R	E	H	H	P	R	I	N	C	O	D	L	E	Q	U	D	R
I	N	L	A	S	O	G	S	P	C	L	I	C	I	I	S	F	I	I	I
C	R	I	S	T	L	D	E	R	O	S	P	T	V	I	D	E	T	K	S
O	V	Q	S	E	E	R	T	I	U	C	A	L	A	E	L	N	I	E	L
M	Y	U	I	D	I	I	T	N	P	O	N	R	A	T	F	D	E	U	S
M	I	N	V	E	T	T	R	E	G	B	I	L	L	S	A	R	S	L	E
O	A	T	E	S	Y	D	E	F	I	Y	N	B	R	A	C	E	V	A	I
D	N	C	S	T	I	B	A	S	U	R	A	L	O	B	S	E	C	M	T
I	T	I	E	M	A	A	N	R	K	E	S	E	K	U	Y	I	U	R	I
E	V	N	I	E	N	T	K	S	T	O	C	L	E	R	T	N	I	H	S
S	M	B	O	N	D	H	O	N	F	R	K	L	F	U	N	G	S	A	S
T	A	T	T	R	E	D	L	H	C	X	E	I	R	R	D	S	E	R	U
O	R	K	E	S	C	T	R	A	R	E	G	N	G	O	T	Y	D	A	T
R	S	U	E	R	I	R	E	N	G	E	U	L	A	T	I	E	O	B	E
N	R	U	T	G	S	S	U	R	O	U	M	A	T	U	R	P	N	D	S

Write the answer to the clue here.

FMDQ ________________ __________ ______

Africa's ________________ ________________

________________ ________________

________________ (FMI) ________________

HINT The first Financial Market Infrastructure (FMI) group in Africa.

Types of Financial Products

In the previous chapter, we learnt about the different types of financial markets, players in the financial market and financial market infrastructures. In this chapter, we will examine financial market instruments as investment vehicles for potentially growing wealth.

Financial Market *Products* and How They Work

Equities

Equities also known as shares or stocks, are a type of investment that gives you a piece of ownership in a company.

"If you purchase a share of a company, you are essentially buying a piece of the company, and that makes you a Shareholder."

Why and How do Companies issue Stocks?

People like you and I may decide to invest in a company to increase wealth. In contrast, a company issues shares to raise large amounts of capital to fund different projects that should ultimately lead to the growth of the company and create a return for investors.

Lere owns a games arcade called Gamers N Fun, which is a fun place to hang out and play various types of games. Gamers N Fun launched five years ago and has become highly successful and profitable.

The company is currently funded using personal funds of Lere, the founder, some friends and family.

This means she will be able to issue shares of Gamers N Fun to the public, to attract the money required to fund its expansion.

They discuss, **number of shares to issue, percentage ownership of Gamers N Fun to give up, share price** amongst others.

All this is necessary for Gamers N Fun to be able to go public through the issuance of an Initial Public Offering (IPO), which is the very first time a private company offers shares to the public.

The IPO officially launches Gamers N Fun to the public market, turning it from a private company into a public one, where anyone or company that believes in the company's prospects can purchase shares in the company; making them shareholders with partial ownership in the company.

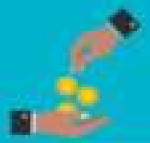
Shares are typically volatile securities, as different factors influence them. Such factors include news releases on earnings and profits, future estimated earnings, introduction of new products, an announcement of dividends, leadership changes, employee layoffs, scandals, political instability, amongst others.

BENEFITS of Investing In Shares

Higher Returns

If a company performs well, you can enjoy a good return on your investment and see the value of your shares rise.

Income from Dividends



Dividends are also paid to investors by many well-established companies, which increases one's overall return on investment.

Easily Diversified

You can invest in a few stocks across different industries, sectors, countries, which give you exposure to growth opportunities and help diversify your risk.

DOWNSIDE to Investing in Shares

Takes Time

Growing wealth through investing in stocks is achievable, but it generally takes a long time, sometimes decades, not weeks or months.

No Guaranteed Return

When a company is experiencing financial difficulties, the price of the stock can decline rapidly, which can lead to a significant loss of investment, especially if you are unable to sell off the shares.

Increased Volatility

Share prices are susceptible to increased volatility (rising and falling) due to a heightened sensitivity to good or bad news.

Time Consuming Investment

If buying stocks on your own, you will need to perform research on each company, to ascertain how profitable you think it will be before you buy its stock. Even after you find a stock to buy, you must monitor the movement of the stock's price.

BONDS

A bond is a fixed income instrument or debt instrument representing a loan made by an investor to an entity. The bond issued is typically used to raise finance for various reasons, such as the construction of a bridge, to pay for vital services, expand business operations, fund large projects, amongst others.

TYPES OF BONDS

Bonds can be categorised according to issuer type, tenor and structure.

Bond Issuers

Sovereign

These are issued by the Government of a given country and used to generate funding for government spending and budget deficits.

Sub-national

A state government issues a bond to support financing for key projects aimed at supporting economic growth within the state.

Supra-national

These are issued by multinational entities to promote economic development for member nations.

Corporate

Businesses or corporations issue these to raise funds for business expansion, big projects, equipment financing, amongst others.

Tenor

The tenor of a bond is usually aligned with the length of time required to complete the project.

Short Term Bonds

These are bonds issued for tenors typically between one and three years.

Medium Term Bonds

These are issued for tenors between three and ten years. They are also known as intermediate-term bonds.

Long Term Bonds

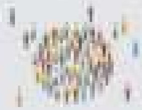
These are bonds that are issued for tenors above ten years.

Structure

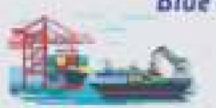
Bonds can be structured in the following ways:

Eurobond: These are bonds issued by governments and companies in an offshore market in currencies other than the government/issuer's domestic currency.

Green Bond: These are bonds issued to fund projects that positively impact the environment or for projects with climate benefits.



Social Bond: These are bonds issued to finance projects with positive social impact.



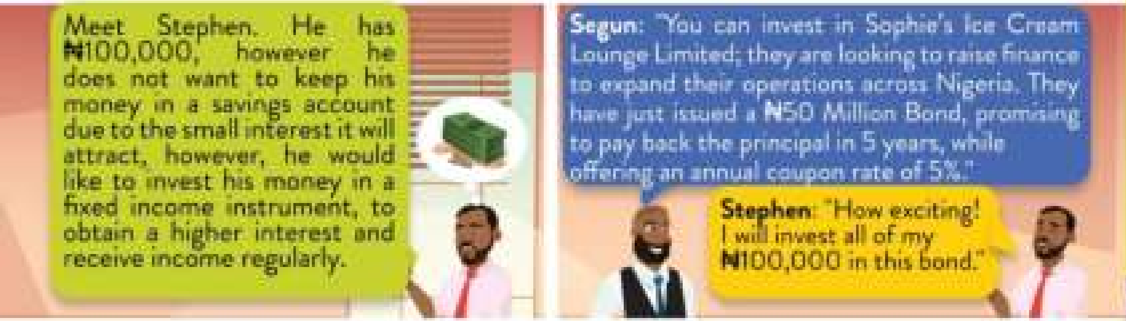
Blue Bond: These bonds are issued to raise capital from impact investors to finance marine and ocean-based projects.

Project Bond: These bonds are structured and issued to finance a specific project and the bonds proceeds are paid exclusively from the cash flow generated by that project.

Sukuk: Structured in compliance with Islamic "Shariah" Law, prohibiting interest payments on the borrowed funds.

How It Works

If a company needs to raise money to expand its business operations, rather than going to a bank for a loan, it could issue a bond, which is also like a loan. When you purchase a bond, as an investor, you are lending money to the company (the Issuer/borrower). The issuer promises to pay a specific interest in return for the money borowed, known as coupon, at defined periods, usually twice a year. Like loans, the issuer is expected to pay back the full amount borrowed, also known as the bond's face value, at maturity.



Benefits of Investing In Bonds

Less risky compared to stocks

In the event that a company goes bust, bondholders are paid first over shareholders.

Investment returns are fixed

You have clarity on how much your returns will be, as you are entitled to receive a fixed rate of interest and your principal is returned when the bond matures.

Less volatile

Bond values fluctuates according to the current interest and inflation rates, but they are generally more stable compared to shares.

Bonds have clear ratings

Unlike shares, bonds are rated by credit rating agencies which provide investors with increased confidence when selecting a particular bond. However, you must always carry out your research and due diligence before investing.

Downside to Investing in Bonds

Direct Exposure to Interest Rate Risk

Bondholders are exposed to interest rate risk, which is the risk that interest rates in the financial market will rise above what they are receiving in coupon payments, thus leading to the bond potentially suffering market price losses, as bond prices rise when rates fall and fall when rates rise.

Direct Exposure to Credit Risk

Bondholders are also exposed to credit risk, which means that issuers could default (fail to pay) on their interest and principal repayment commitments if they run into cash-flow problems or go bankrupt.

TREASURY BILLS

Treasury Bills (T.bills) are short-term debt securities issued by the Federal Government to raise short-term funds from (private individuals, institutional investors, etc.). When an investor buys a T.bill, they are essentially lending money to the Government. T.bills typically mature in one year or less, and are issued for tenors of 91 days, 182 days, and 364 days.

In the **primary market,** the Central Bank of Nigeria issues T.bills through a competitive bidding process, i.e., the T.bills auction, every fortnight where investors (banks, fund managers, individuals, etc.) are requested to quote the rates they are willing to pay for the tenors, 91-day, 182-day and 365-day bills. During the auction, the CBN will only sell at the stop rate, which is the maximum rate the CBN is willing to accept. Quotes at the stop rate and below get accepted, while any amount quoted above the stop rate will be unsuccessful.

In the **Secondary market**, however, T.bills can be bought and sold every business day from existing T.bills holders.

How do Treasury Bills Work?

One of the distinct features of T.bills is that the Government does not make regular interest payments to the T.bills holder, like bonds for instance, rather, the bills are sold at a price below face value, i.e., sold at a discount, with interest paid to the investor upfront, essentially the very day the investment commences.

Let us go through an example to understand how it works.

Lima has ₦100,000 and wants to invest in a 364-day T.bill, which promises to pay a rate of 10% per annum. The amount she pays on the day of the investment will be ₦90,000, however, at maturity (when 364 days elapses) she will get back ₦100,000. This amount is referred to as the face value, while the initial investment is referred to as the discounted value.

The Golden Rule for buying T.bills is to buy high and sell low i.e., buy at a high discount, and sell at a low discount.

Benefits to Investing in Treasury Bills

Low risk

T.bills are one of the safest investments as they are backed by the full faith of the Federal Government.

Tax-Free

Interest received from T.bills investments are typically tax-exempt.

High Liquidity

T.bills are typically very liquid securities and thus can be converted to cash very quickly.

Little Investment required

They offer a low minimum investment amount making it easy for anyone to purchase it.

Downsides to Investing in Treasury Bills .

Lower returns

T.bills offer low returns compared to many other forms of investments.

Interest rate risk

T.bills also have high-interest rate risk caused by factors such as monetary policies and can become less attractive if interest rates in the financial markets are rising.

COMMERCIAL PAPERS

Commercial Papers (CPs) are short-term debt financing securities with a maximum tenor of 270 days, issued by institutions to meet short-term debt obligations. They are also typically issued at a discount like T.bills. They are commonly issued by large companies with high credit ratings, and are classified as **unsecured debt** because they are not usually backed by any form of **collateral.** As a result, only firms with high-quality debt ratings will easily find buyers without offering a substantial discount to the issuer for the debt issue, or securing the CP with a guarantee from another company with high credit rating or a bank, i.e. Guaranteed CP.

FMDQ Exchange is currently the only exchange where commercial papers are registered, quoted and traded in Nigeria.

Features of COMMERCIAL PAPERS

- CPs are short-term money market instrument with fixed maturity dates
- A financial institution, such as an investment bank, acts as an agent for a CP issue, arranging and selling the paper to investors.
- They are similar to T.bills because they are issued at a discount, but can also be issued in interest-bearing form
- An investor could decide to pay ₦980,000 today for a 90-day CP at 8%, receiving ₦1 million (face value) in the future or could choose to invest ₦1 million today to receive a capitalised return at maturity above the investment amount, of ₦1.02 million (1,000,000 x 8% x 90/365 days)
- At maturity, the CP issuer pays the amount due to the holder of the CP.

Advantages of COMMERCIAL PAPERS

Competitive Returns

CPs offer competitive returns compared to other fixed income investment options.

Tax-Free

Financial returns on CPs are tax-free.

Cheaper Source of Short-Term Financing

For the issuer, CPs are a cheaper source of short-term financing when compared to a bank loan.

Downside to COMMERCIAL PAPERS

Screens Out Smaller Companies

CPs are typically issued by large corporations, as they are able to issue such an instrument without collateral backing. Small organisations on the other hand, may struggle to issue a CP, as investors may perceive the small company as having higher credit risk – the likelihood that a borrower is unable to repay the loan.

COMMODITIES

Commodities refer to basic goods or raw materials that can be bought or sold in a financial market.

Types of COMMODITIES

Commodities can be Hard or Soft.

Hard Commodities consist of natural resources that can be mined or extracted, such as:
Energy
Crude oil, gas and coal
Metals
Gold, silver and copper

Soft Commodities consist of agricultural products such as:
Crops
Sugar, coffee, corn and wheat
Livestock
Live cattle and live poultry

These are some of the most popular commodities that are bought and sold every day, in the physical market and in the financial market. These commodities are essentially building blocks of a global economy.

How does the BUYING and SELLING of Commodities work?

1. SPOT MARKET

This is the buying and selling of commodities based on immediate payment and delivery, conducted mostly over the counter.

They negotiate back and forth. Eventually, Mirian hands ₦15,000 to Abdul.

The trading of commodities can be traced far back to when farmers started converging in physical locations to exchange their agricultural goods for cash from buyers. Prices were agreed and cash was given in return on the spot . This mode of trading can be referred to as **Spot Trading** in the financial market - which is the immediate exchange of cash for assets.

2. FORWARDS MARKET

This is the market for the buying and selling of commodities at an agreed price for future delivery at a future date. Here, there is a direct obligation to between the buyer and seller to exchange goods for payment at a future date.

Mirian meets with Abdul on his farm, not the market.

Asides from the spot trading, the same farmers, soon began to trade their expected harvest from their farm for delivery in the future. This mode of trading utilises a Forward Contract -an agreement made between the buyer and seller to deliver a specific commodity, at an agreed price, at a future date. Hence the forward contract, as it was forward in time.

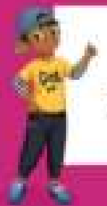
They sign an agreement

By agreeing to a price ahead of time through forward contracts, both the farmer and the buyer gained protection against price changes. Here, prices are set based on demand and supply interaction between a willing buyer and a willing seller.

3. FUTURES MARKET

In the financial market, the most common way to trade commodities is to buy and sell futures contracts, which is similar to a forward contract, however this time around, they are traded on an Exchange. Here, commodity futures contracts bought and sold on an Exchange are all the same, delivery is also at a future date, however only the price is negotiable.

Some Commodity Exchanges include **African Mercantile Exchange (AfMX) in Kenya, Chicago Board of Trade (CBOT) in the US, London Commodity Exchange (LCE) in the UK and Nigerian Commodity Exchange (NCX)** in Nigeria. Most of the buyers of futures contracts are not end-users of the commodities, but rather, Speculators, who simply trade to profit from price movements.



Benefits of INVESTING IN COMMODITIES

Diversification

Commodity prices tend to rise and fall at different times and rates from other investments, such as shares or bonds, which can help offset the negative returns on other asset classes within an investment portfolio.

Inflation Hedge

As inflation is bad news for regular investments, commodity prices usually go up during high inflation periods. Investments in commodities offers a hedge against inflation.

Potential for Higher Returns

Commodities are considered high-risk investments and therefore create opportunity for high returns.

"The higher the risk, the higher the reward"

Drawbacks to INVESTING IN COMMODITIES

Price Volatility

As supply and demand are sometimes dependent on factors that are unpredictable or that cannot be controlled, such as bad weather conditions, regulatory policies, geopolitical risks, etc., these can cause volatility in the commodities market.

Exposure during economic slowdown

Commodities are closely correlated to global economic growth and may fall sharply in value during global economic slowdowns due to lower global demand.

MUTUAL FUNDS

A Mutual Fund is an investment vehicle that pools money contributed by multiple investors to invest in a portfolio of securities such as, stocks/shares, bonds, money market instruments, and other asset classes. Mutual Funds are managed by professional fund managers who allocate and invest the money in the fund and distributes the returns earned from the securities in the portfolio to the investors quarterly, semi-annually, or as stipulated in the Fund's offering document, called the **Prospectus.**

Types of FUNDS

Mutual Funds can be broadly categorised based on the type of asset class they invest in. These include:

EQUITY FUNDS

These funds invest primarily in the shares of companies.

BOND/FIXED INCOME FUNDS

These invest mainly in fixed income instruments such as, government or corporate bonds.

MONEY-MARKET FUNDS

These funds invest in short-term securities, such as treasury bills, commercial papers or certificates of deposit.

MULTI-ASSET MUTUAL FUNDS

These invest in a diverse spectrum of asset classes, such as equities, bonds and money-market instruments, thus giving the investor diverse exposures based on the broad range of securities invested in.

Classification of FUNDS

Open-ended

These are funds that issue an unlimited number of units to investors. Here, the units issued by the fund manager are not fixed and additional units of the fund can be issued as investors put more capital into the fund.

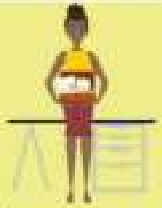
Closed-ended

These are funds which issue a fixed number of units to investors. Here, the fund manager determines the amount of capital required for the fund and the resulting units to be issued to investors who pool/provide capital for investment in the fund.

How do MUTUAL FUNDS *work?*

As Chika does not know much about stocks and bonds or have the time to research which is performing well, she decides to put her money in a Mutual Fund, entrusting the decision making on the best securities to invest in, to a professional fund manager.

Chika's money is then pooled in along-side other investors with similar investment goals. The professional Fund Manager invests the pool of funds in various stocks, bonds, amongst others, to spread the risk, all in one package.



Chika only has to make one purchase to gain exposure to all these securities. Once Chika invests in the Mutual Fund, she will be given a proportionate number of the fund units, which represents the money she has invested in the fund.

Benefits gained from INVESTING IN Mutual Funds

Diversification

By mixing various investments within a portfolio, diversification minimises the effect one single security or a class of securities can have on the overall portfolio. As mutual funds hold securities from multiple issuers, companies, industries, investors may not mind if one class of securities does not perform well, the better performing securities will balance things out.

Professional Management

Many investors do not have the required financial knowledge or know-how to research, analyse and micromanage their investment portfolio. It is for this reason that people invest in Mutual Funds, so all the work is done for you by a professional asset manager, though you pay a fee.

Affordability

One can begin investing in mutual funds with as little as ₦5,000, depending on the nature of the fund, while others have a minimum requirement of ₦100,000 or even ₦1,000,000.

Downside to investing in MUTUAL FUNDS

Investment Risk

With Mutual Funds, there is a possibility that the value of your portfolio may reduce, as different funds come with a level of risk. For instance, stock funds carry more risk than bond funds due to the volatile nature of stocks. Similarly, bond funds may have more risk than money market funds, as there is some credit risk involved with investing in companies.

Professional Fees

Mutual Funds can attract high professional fees which can eat into your investment return.

Less Control

As professional fund managers manage your portfolio of investments, investors essentially relinquish control to the fund managers, meaning the return on your investment is dependent on the Fund manager's experience, skill, and judgement.

EXCHANGE-TRADED FUNDS

An Exchange-Traded Fund (ETF) is similar to a Mutual Fund because it is also an investment fund that consists of an underlying basket of securities such as stocks, bonds, and a blend of other asset classes. Shares in ETFs also represent partial ownership of a portfolio put together by professional fund managers, like Mutual Funds.

What is the DIFFERENCE

The critical difference between Mutual Funds and ETFs is that ETFs are listed on an exchange; hence the name **Exchange-Traded Funds**, which means that they can be bought and sold like shares throughout the trading day, at prices that are driven by supply and demand. Whenever an investor purchases an ETF, he or she is investing in the performance of an underlying bundle of securities, usually those representing a particular index or sector.

Types of ETFs

Stock or Equity ETFs

These are made up of shares from various companies. While they are less risky than individual stocks, as they track different sectors, industries, and regions, they are typically riskier than bond funds, for instance.

Currency ETFs

These help investors gain exposure to the foreign exchange market without directly trading complex transactions such as futures. They sometimes also track international currencies such as the US Dollar, British Pound, etc., giving investors access to multiple foreign currencies.

Bond ETFs

These are designed to provide exposure to virtually any Bond available, including government, state, corporate, etc.

Sector ETFs

These provide a way to invest in specific companies within a particular sector, such as the technology, oil and gas or pharmaceutical sectors.

Commodity ETFs

These provide an alternative way to track the performance of commodities such as gold, wheat, oil, etc.

STANDARD &POOR'S 500

Market ETFs

Designed to track a specific index like the S&P 500 or Dow Jones Industrial Average, FTSE 100, amongst others.

How it WORKS

Tayo is a financial market enthusiast whose dad works in the financial market and is always talking about the benefits of investing. He recently turned sixteen and received ₦20,000 as a birthday present from his uncle. He decides that instead of spending the money on new shoes, he would like to invest the money in ETFs, to gain exposure to different securities.

So, his dad puts him in touch with an asset manager, who has already purchased a bunch of securities, from stocks, bonds, commodities, amongst others and owns the underlying assets. The asset manager treats the fund as a company and sells shares in the fund to different investors, such as Tayo.

FMDQ

These shares of the ETF are then listed on an exchange, like the FMDQ Exchange, similar to how a company's shares are listed on an Exchange. If the assets in the fund gain in value, then the ETF share will go up and vice versa. If Tayo invests his ₦20,000 in this fund, he becomes a shareholder who owns a portion of the ETF, though he will not own the underlying assets in the fund.

Advantages

Diversification

They provide investors with the opportunity to diversify their investments by providing access to a wide variety of sectors and indices through a single fund.

Accessibility to Markets

ETFs provide exposure to asset classes that may otherwise have been very difficult for retail investors to access, such as emerging market equities, gold bullion, amongst others.

Easy to Trade/Liquid

ETFs can be bought and sold at any time of the day, making them more liquid, when compared to mutual funds.

Disadvantages

Market Risk

Like other asset classes, ETFs are exposed to the volatile movements in the financial markets.

Trading Costs

These costs are usually in the form of commissions, sales charges, management fees and other direct trading costs, etc. and should be carefully assessed at the point of building your investment portfolio.

Trading Flexibility

The trading flexibility nature of ETFs can encourage regular buying and selling, which could lead to making bad judgement calls, resulting in potential losses.

Foreign Exchange

Foreign Exchange is the conversion of one currency to another to facilitate international trade and investments. It is commonly referred to as FX or Forex or currency exchange. Globally, FX markets are decentralised and an over-the-counter market where various participants interact to buy, sell, and speculate on currencies, which are traded in pairsat specific rates called **Exchange Rates.** The FX market is the largest financial market (in terms of trading volume) and most liquid market in the world, where trillions are traded daily.

What is an Exchange Rate?

An **Exchange Rate** is the rate at which one currency can be exchanged for another. If you travel to Spain, for instance, you will need to change your naira to the local currency used in Spain, which is Euros, in order to spend money. It is the exchange rate that will determine how much naira you will need to change to obtain Euros.

Currencies are identified by the International Standard for Organisation (ISO) three-letter currency codes, which is used on the global market, for instance USD represents US Dollar and NGN represents Nigerian Naira. Like global FX markets, the Nigerian FX market is an OTC market, with the USD/NGN ($/₦) currency pair being the predominantly traded currency pair.

A Currency Pair is a combination of two different currencies that are quoted against each other, for instance, for the currency pair USD/NGN, the Base currency is the first currency in the pair (USD), against which exchange rates are generally quoted in each country, while the Quote currency is the second currency in the currency pair (NGN), which indicates how much of the quote currency is required to buy a single unit of the base currency. For example, how much Naira is required to buy one Dollar.

Types of Exchange Rate Regimes

A Fixed Exchange rate

This is set and maintained with the help of a country's central bank and fixed against the value of one or more other currencies, usually US Dollar. It involves government restrictions on the currency to protect its value. To maintain the desired rate by the government, the central bank will need to have a high level of foreign currency reserves.

Floating Exchange rate

This is also known as a flexible exchange rate. It is free of government restrictions and therefore changes according to supply and demand. For instance, if the demand for a currency is low, its value reduces, and if the demand for a currency is high, its value increases and consequently its exchange rate appreciates. This is the most common model adopted by most developed countries, like the US, United Kingdom, Japan, etc.

Managed Float or Pegged Exchange Rate

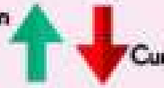
It is a hybrid between floating and fixed exchange regimes. It is an approach whereby a central bank sets a range which its currency value is allowed to freely float, however, if the currency falls below the range's limit or rises above the range's ceiling, the central bank will intervene to bring the currency's value back within range.

Currency APPRECIATION and DEPRECIATION

Currency Appreciation refers to the increase in the value of one currency against another, meaning the currency has become stronger. This happens when exchange rates change, allowing for the purchase of more units of a currency. Currency appreciation directly corresponds to the base currency. For example, if $1 USD = ₦400, this means you will need 400 units of Naira to buy one US Dollar. If the Naira rate changes to 380, that means 380 units of Naira is now required to buy one US Dollar, which means it will cost you less Naira to buy one US Dollar.

Currency Depreciation is the decrease in the value of one currency relative to another, meaning that the currency has become weaker. This happens when exchange rates change, allowing for the purchase of less units of a currency. Using the previous example where $1 = ₦400, if the Naira rate changes to 420, then it means 420 units of Naira is now required to buy one US Dollar, which means it will cost you more Naira to buy one US Dollar.

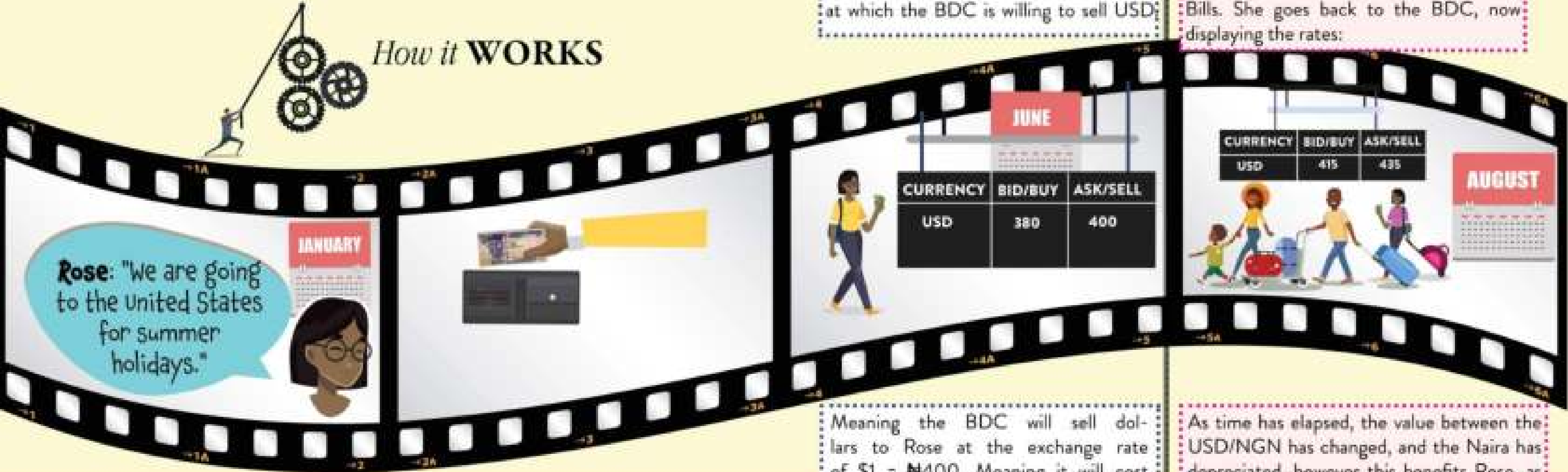
Currency Appreciation



Currency Depreciation

Interest rates, inflation, monetary policy, political stability, amongst others, contribute to the appreciation and depreciation of a currency, relative to others.

How it WORKS



Since the start of the year, Rose has been saving all the money she received as gifts, for her summer holidays to the United States. Rose is excited as she has saved a total of ₦100,000.00. She is aware she cannot spend Naira in the US, so must change her Naira into US dollars (USD/NGN).

Two-Way Quote Dealing System is a system where banks/dealers quote binding "Bid & Ask" prices to one another. Just like the BDC did. The Bid is the binding price at which the dealer is willing to buy, and the ASK is the binding prices at which the dealer is willing to sell.

At the Bureau de Change (BDC) the below rate is displayed. The rate displayed under **Bid/Buy** is the price at which the BDC is willing to buy USD and the **Ask/ Sell** rate is the binding price at which the BDC is willing to sell USD.

Meaning the BDC will sell dollars to Rose at the exchange rate of $1 = ₦400. Meaning it will cost Rose ₦400 for every $1 she buys.

She changes her ₦100,000.00 to US dollars, which gives her $250 (₦100,000/400).

At the end of the summer holidays, Rose returns to Lagos and still has her $250, because her parents did all the spending. She now wants to change the money back to Naira, so she can invest it in Treasury Bills. She goes back to the BDC, now displaying the rates:

As time has elapsed, the value between the USD/NGN has changed, and the Naira has depreciated, however this benefits Rose, as the BDC will buy back her Dollars at the exchange rate of $1 = ₦415. Rose changes her $250 back to Naira, which gives her ₦103,750.00 ($250 x 415), meaning she gained ₦3,750 (₦103,750.00 - ₦100,000.00) from holding dollars while the exchange rate changed.

This is essentially how trades take place in the FX market. You buy at a low price and sell at a high price, making money along the way. This is the **GOLDEN Rule** when buying and selling FX.

Top 10 Strongest Currencies in the World

1 – Kuwaiti Dinar (KWD)

Kuwait is one of the richest countries in the world. Its strong exchange rate is due to significant oil exports to the global market.

3 - Oman Rial (OMR)

Oman is on the Arabian Peninsula, with a well-developed economy and a big exporter of petroleum resources. The purchasing power of this currency is so high that the government issued 1/4 and 1/2 Rial banknotes!

5 – British Pound Sterling (GBP)

Most will think that the British Pound is the strongest currency, but surprisingly the Pound Sterling only ranks top 5, though it is one of the most traded currencies in the world.

7 – European Euro (EUR)

Given that the Euro is the official currency of the European Union, which consists of some of the most developed economies in the world, it comes as no surprise that the Euro is ranked as one of the strongest currencies.

9 – US Dollar (USD)

The US Dollar is the world most traded currency, as it is held by both central and commercial banks all around the world to carry out international transactions. It achieved World Reserve Currency, which means you can make dollar payments in any country. This is what makes it consistently strong.

**Information as of 2021*

2 – Bahrain Dinar (BHD)

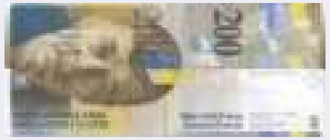
With a population of just over 1 million, Bahrain's largest source of income is also from oil exports.

4 - Jordan Dinar (JOD)

Jordan does not export oil; however, it comes top 4 because its currency has been pegged to the US dollar for the last 20 years!

6 – Cayman Island Dollar (KYD)

The Cayman Islands ranks top 6, as it is a tax haven and one of the five largest offshore financial centres in the world.



8 – Swiss Franc (CHF)

Switzerland is one of the world's richest and most stable countries, with low unemployment, a highly skilled labour force, and a per capita GDP among the highest in the world. Its economy benefits from a highly developed service sector, led by financial services, and a manufacturing industry that specialises in high-technology and knowledge-based production.

10 – Canadian Dollar (CAD)

Canada's official currency is the sixth most traded globally. The value of its natural resources rank 3rd worldwide. This is primarily due to its oil reserves of crude oil and it being the second largest supplier of uranium in the world.

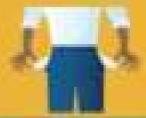
Factors Affecting the FX Market

Government Intervention

Central banks can influence rates by buying or selling the domestic currency.

Inflation

Countries with consistently high inflation rates tend to have lower currency values. This is because purchasing value decreases relative to other countries. While a country with low inflation rate will see an increase in the value of its currency.



Economic Cycle

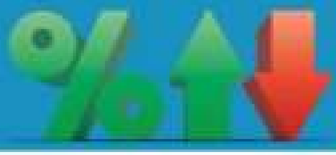
Low level of economic activities experienced during economic recessions discourageforeign investments and limits the supply of foreign currencies and vice versa.

Foreign Investment

If a country is seeing a lot of investment from overseas businesses, the demand for its currency will increase which will drive up its value and the exchange rate.

Interest Rates

A rise in interest rates in a country can offer investors a higher rate of return relative to other countries. As such, high interest rate in an economy attracts foreign investors thereby increasing demand for local currency. Conversely, low interest rates relative to other countries can result in an increase in demand for foreign currencies and a decrease in the value of the local currency.



Foreign Debt

An increase in foreign currency-denominated debts increases the demand for such currencies to service these debts, thereby weakening the local currency.

Current Account Deficits

If a country has a current account deficit, it means that it is spending more than it is earning in foreign trade. To make up this deficit, countries may borrow capital from other external sources, which in turn will make the domestic currency depreciate.

Political Stability & Economic Performance

A country with a stable political environment and strong positive economic performance, attracts foreign investors who seek out such countries to invest their capital, which in turn leads to an appreciation in the value of the domestic currency.

Falling Oil Prices

In Nigeria, oil accounts for over 95 percent of the country's foreign earnings and about 83 percent of its budgetary allocation, therefore changes in oil prices has implications for the Nigerian economy and, in particular, exchange rate movements. An increase in the exchange rate can lead to an increase in the price of petrol, the groceries you buy from the supermarket which may have been imported, international trips etc.

Advantages

High liquidity

The FX market has the largest and highest number of participants compared to other financial markets, which promotes increased liquidity in the market.

Flexibility in trading

FX markets provide traders with a lot of flexibility because there are no restrictions. This is because there is no restriction on the amount of money that can be used for trading.

Low-cost investment

The FX market provides an environment with low transaction costs when compared to other markets.

Disadvantages

Complex Price Determination

FX rates can be difficult to assess and draw reliable conclusions to trade on because they are influenced primarily by global politics or economics.

High Volatility

Traders can lose large amounts of money due to the high volatility in the FX market.

High Leverage

Leverage is the use of borrowed funds to increase one's trading position beyond what would be available from their cash balance alone. FX traders often use leverage to benefit from moderately small price changes. Leverage, however, can increase both profits as well as losses.

Derivatives

A derivative is a financial contract between two parties that derives its value from the market performance of an underlying asset. These underlying assets can take different forms, including, stocks, bonds, commodities, currencies, amongst others.

Key Types of Derivatives

Derivatives can take different forms and are split into two categories:

- **Over-the-Counter Derivatives:** For example, Forwards and Swaps. Here contracts are customised, largely unregulated and each contract is with a counterparty
- **Exchange-Traded Derivatives** : For example, Futures and Options. Here contracts are standardised and backed by a central counterparty, eliminating counterparty default risk.

Over-the-counter (OTC) is the trading of securities between two parties, executed outside of formal exchanges and without the supervision of an exchange regulator. Buying and selling of securities is carried out in a decentralised place with no physical location, however through dealer networks.

Forwards

A Forward contract is a tailor-made or non-standardised agreement between two parties to buy or sell an asset at an agreed price today and on a specified future date. They are non-standardised and traded over the counter and not on a formal organised market like an Exchange. They are typically riskier than futures, as transactions here are private between two parties. Recall the commodities transaction between Abdul and Mirian earlier.

Futures

A Futures contract is an agreement between two parties, a buyer and seller, to trade an underlying asset or security at a specific time in the future, at a specific price determined today. They are multilateral by nature and traded on an Exchange. Futures contracts are standardised, with clearly defined features which makes them easy to be traded on Exchanges.

Key Differences

Forwards	Futures
Contract is tailor-made	Contract is standardised
Contracts are generally not transferable and so cannot be traded with a third party	Contracts are extremely liquid because it is possible to unwind a contract at any time
High default risk exposure as there are incentives for the losing counterparty to back out on obligations	Low default risk as participants trade with a central counterparty
Usually one specified delivery date	Range of delivery dates
Trade is done at no specific location	Trading is carried out on an Exchange

Options

This is a derivative contract that gives the buyer the right, but not the obligation to purchase or sell an underlying asset at a predetermined price. This means you are paying for the option or right to make a transaction you want; however, you are under no obligation to do so.

A Call Option gives you the right, but not the obligation to buy at a pre-agreed price at a future date, while a Put Option, gives you the right but not the obligation to sell the asset at an agreed price and future date.

Swaps

This is a contract between two parties where they exchange a series of cash flows in the future. One party will agree to pay the floating or variable interest rate on a principal amount while the other party will agree to pay a fixed interest rate on the same amount, in return. **Interest Rate Swaps** and **Currency Swaps** are the two most common types of swap contracts as they are highly volatile.

Uses of Derivatives

Derivatives are used for different purposes:

Hedging

This is essentially using a derivative to minimise risks in the market. Here, derivatives are used like an insurance policy.

Speculation

This is motivated by a desire to make profit as opposed to reducing risk. Here a speculator buys a security (for example at ₦100) in advance if he thinks the price is likely to rise soon (to ₦150), so that he can sell it, if the underlying asset moves in the way he expects, he makes a profit of ₦50.

Arbitrage

This is taking advantage of short-term price irregularities in the market. By buying securities at a lower price in one segment of the market and selling them later at a higher price in another market.

Simple example of how a Forward Contract WORKS

Dera is a student who just finished her final exams and will obtain her results in 3 months' time. Her parents have promised to replace her old car if she graduates with a first class. Dera is confident she will emerge with a first class and is already looking to sell her car.

Dera believes the price of cars in her small town will drop in 3 months' time, so decides to set her price at ₦1,000,000

Dera finds a buyer, Joyce who is willing to pay ₦1,000,000 for the car in 3 months' time. They both lock in this price by entering into a forward contract, with the car as the underlying asset. This means that in 3 months' time, Dera must sell the car to Joyce at the strike price of ₦1,000,000 and Joyce must pay for it at that same price regardless of what happens in the market.

In 3 months', time, the price of the same car has actually increased to ₦2,000,000, contrary to what Dera expected. She is unhappy, as she could have sold her car at a higher price to another buyer, but because she entered into a contract with Joyce, she cannot sell to another buyer. Joyce on the other hand is happy because she gets to buy the car at ₦1,000,000 instead of the current market price of ₦2,000,000. Joyce can even decide to sell the car at ₦2,000,000 and make a ₦1,000,000 profit if she wants.

This is a typical example of a hedger and a speculator. In this example Dera is a speculator, as she sets her price in anticipation that the market will go in her favour, unfortunately it did not. If, however, the price of car had dropped to ₦500,000, Dera would have been happy as Joyce would still have had to pay her ₦1,000,000. Joyce in this instance would have been sad, as she could have bought the car in the market for ₦500,000 instead of the ₦1,000,000 she locked in.

Advantages

Reducing Risk

They help in insuring or protecting against unfavourable movements in the price of an underlying asset.

Access to unavailable markets

Derivatives can provide access to unavailable markets and assets. Using interest rate swaps individuals can obtain funds at lower or favourable rates of interest as compared to direct borrowings in the current markets.

Underlying price determination

They are frequently used to determine the price of an underlying asset.

Disadvantages

High Risk

Derivatives could potentiall result in significant losses, as derivatives contracts are exposed to a high degree of risk, due to the volatile prices of underlying securities.

Speculative Features

Derivatives are used for speculative purposes with the aim of earning profits. Sometimes significant losses may occur due to unreasonable speculation as derivatives are unpredictable.

Complexity

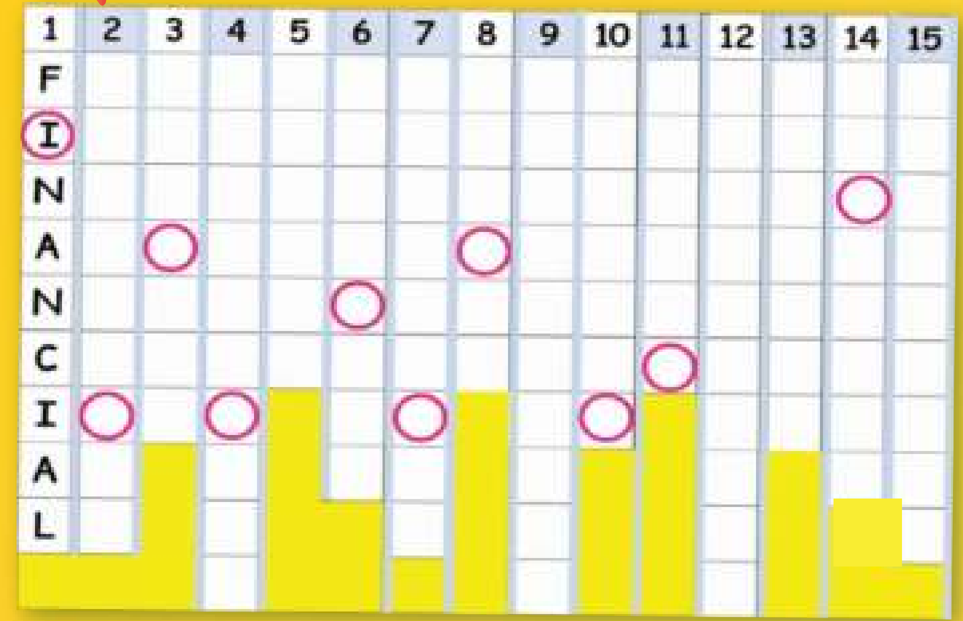
Due to the complex nature of derivatives, this limits its use to mainly experts, making them a difficult tool to utilise for the everyday person.

Always remember, before you invest in any security, ensure you carry out thorough research, and speak to a financial specialist so you can understand all associated risks before investing.

THE UNSCRAMBLER

Using the clues, join together 2 letter groups from the word bank below to form a word that answers each clue. Each clue can only be used once. There is an example for you. Unscramble the letters in the circle to answer the trivia below.

Stocks and bonds are known as _______________.



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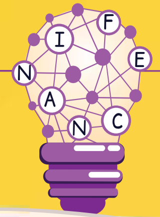

1. Financial market is where traders buy and sell assets.
2. A basic good or raw material that can be bought or sold in the financial market is called ___.
3. ____ exchange is commonly called Forex.
4. A contract between two parties whose value is based on an underlying financial asset.
5. The sixth most traded currency globally, is officially spent in _______.
6. A person who allocates capital with the expectation of receiving financial returns in future.
7. A........... purchases securities in advance, with the expectation of selling when prices rise.
9. A company that issues securities in the financial market to raise funds to execute a project.
10. A person or organisation that owns a bond or bonds.
11. In a Bond transaction,the investor is the..........
12. An agent that facilitates trading between two parties.
13. An investment vehicle that pools investors funds together.
14. ___ dinar is the strongest currency in the world.
15. A market place where securities are bought and sold.
16. A general increase in prices and fall in the purchasing value of money.

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Building a Sustainable *FINANCIAL FUTURE*

In the previous chapters, we learnt about the different ways in which we obtain money, such as from gifts, rewards, pocket money, amongst others. We also learnt about the importance of being prudent when spending, enabling you to save more, a nd the different investment vehicles that exist for increased wealth creation.

Now let us learn about the various ways in which individuals generate income, because having multiple income streams can swiftly enable you to achieve financial independence.

Types of INCOME

Earned Income

Also known as active income. It is generated by providing services to an organisation. It requires you actively committing your time, effort and energy in return for money. The income can be received daily, weekly, or monthly, depending on the type of job or business. The **Salary** an employee receives from an employer at the end of each month for work done is a typical example of earned income. Earned income is how most people make a living.

Passive Income

Passive income refers to money earned in a manner that requires little to no daily active contribution of time and effort to maintain. This could include, rent received from a property you own, interest received from cash deposited in a bank account, e.g., savings account. With passive income, you will need to make some investment at the initial stage before you start receiving your rewards or returns.

Portfolio Income

This is made through capital gains. This is money earned from buying then selling an asset or investment for more than the amount you paid for it. For instance, if you buy shares worth ₦100,000 and you sell them for ₦120,000, the capital gain is ₦20,000. Portfolio Income is also earned from dividends, interests, etc. received from holding securities such as stocks, bonds, treasury bills, mutual funds, etc. Portfolio income is also a form of passive income.

Profit Income

This is earned through selling a product or service for more than it cost you. It is one of the most challenging forms of income to obtain, as it will require taking a bold step, to transition from the comfort of earned income to profit income, gained from starting a business.

Some Career Paths in the Financial Market

The financial market is multidimensional and offers a wide range of career options that cater to different skills and interests, providing diverse opportunities for young and experienced professionals to play a significant role in the economic growth and development of a nation's economy.

Law

A financial markets lawyer essentially acts as a business adviser on legal and regulatory matters to various financial market participants. They also provide expertise on negotiating contracts, drafting documents, handling disputes and disciplinary matters, amongst others.

Investment Banking

Investment Bankers work with corporations, governments, and other large financial institutions to help them raise capital or advise them on making strategic decisions on business opportunities that are right for them, for instance, facilitating the issuance of new securities for a company that wants to go public, investing in new or growing ventures, assisting companies to merge or acquire other companies.

Asset Management

These firms pool and manage funds from individuals and companies, channelling the funds into various investments, including stocks, bonds, commodities, amongst others, on behalf of their clients, to grow their finances and portfolio.

Accounting & Finance

This involves seeking and managing the capital required to run an enterprise. It also involves developing the company's overall financial strategy, forecasting profits and losses, negotiating lines of credit, preparing financial statements, amongst others.

Business Development

This involves bringing new ideas, initiatives and business activities that increase the revenue, growth and expansion, and profitability, through the offering of various products and services, building strategic partnerships and making strategic business decisions.

Research and Development (R&D)

An R&D professional provides essential information and ideas to enable a company innovate and introduce new products and services to the financial markets, towards increasing the company's bottom line.

Human Resources

The primary focus of the Human Resources function is the company's people. HR covers a wide spectrum of areas, from recruitment and selection, performance management, talent management, learning and development, compensation and benefits, employee engagement, amongst others.

Sales & Marketing

Sales is all about selling a company's products and services, while the Marketing function is the brain behind getting the word out about a company's products or services. They work across different channels and skills sets, such as public relations, traditional and digital marketing, web design, etc., working closely with different company functions to develop awareness about and sell a company's products and services.

Information Technology (IT)

Information Technology is the engine that keeps the financial market running. From IT services, technical architecture, infrastructure development, to transformation and change. This technology age is changing the way the financial market works and is central to maintaining a competitive edge and advancement in the financial market.

On average, people spend 75,000 hours working throughout their lives, so ensure you choose the right career path!

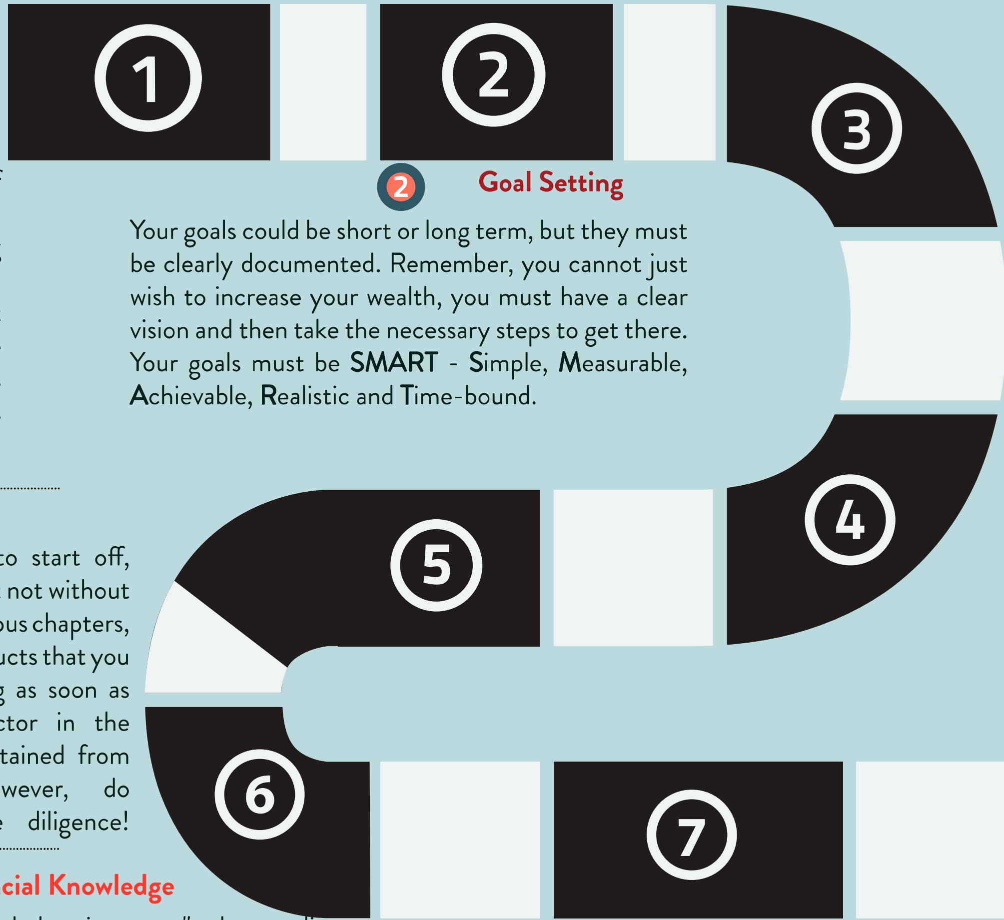
Some of the wealthiest CEOs in the world, who have attained wealth in different ways.

FOLORUNSHO ALAKIJA	ALIKO DANGOTE	JOHANN RUPERT	BERNARD ARNAULT	ELON MUSK	BILL GATES	NICKY OPPENHEIMER	JEFF BEZOS	MIKE ADENUGA
Oil Exploration	Cement, Sugar	Luxury Goods	Luxury Brands	Electric Car Maker - Tesla	Founder, Microsoft	Diamonds	Founder, Amazon	Telecom & Oil

Important Tips for Wealth Creation

Imagine that you never have to worry about money for the rest of your life! That strategic plan, utilising the right resources, networks and discipline, to create the right wealth building attitudes and actions early on. Some of these include:

would be a great feeling isn't it? Wealth creation, however, requires a delibrate and the financial future that you desire. To be able to achieve this, you need to inculcate the



1 Building a Great Career

First things first, you need to gain and maintain multiple sources of income. This could be through paid employment or by starting a business. Whatever path you choose, ensure you are good at it and you enjoy what you do. Give it everything you have got, as hard work pays, and people always notice hard workers.

2 Goal Setting

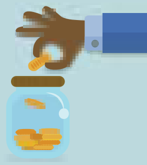
Your goals could be short or long term, but they must be clearly documented. Remember, you cannot just wish to increase your wealth, you must have a clear vision and then take the necessary steps to get there. Your goals must be **SMART** - **S**imple, **M**easurable, **A**chievable, **R**ealistic and **T**ime-bound.

3 Budgeting

This ensures that your income and expenses are balanced. This very important skill defines how you spend every penny that you make or receive as a gift. Creating a budget helps you stay accountable, track your expenses, determine how much you need to save, invest and helps avoid impulse buying, etc.

4 Savings

We established the importance of savings in Chapter 2. It is advised that you save 30% or more of your earnings, depending on the financial goals that you have set for yourself. You must also keep your expenses in check so that they do not exceed your actual earnings.



5 Investing

While savings is a good place to start off, investing offers more rewards, but not without the risks! As discussed in the previous chapters, there are various investment products that you can choose from. Start investing as soon as possible, as time is a big factor in the exponential growth potential obtained from investing in securities. However, do not forget to do your due diligence!

6 Financial Knowledge

The popular saying that "Knowledge is power" also applies to creating wealth. Financial literacy is fundamental to building a sustainable financial future. Gaining knowledge about personal finance, financial market concepts, investment vehicles, etc., will guide you in making the right financial decisions in the short and long term.

7 Starting a Business

If you decide to start a business, you will also need to be very hard-working, self-motivated and of course, have a brilliant business idea! The vast majority of wealthy people are entrepreneurs; however, the challenge is coming up with an excellent business idea that masses of people buy into. If able to achieve this, it is one of the best ways to launch yourself into financial freedom.

8 Live Within your Means

It is essential that you spend less than you make and have a surplus to enable your money work for you in other ways. Managing your income and expenses is critical to ensuring that you do not run out of funds or go into unnecessary debt.

Sustainability

"MOTHER OF SUSTAINABLE DEVELOPMENT"

DR GRO HARLEM BRUNDTLAND

> Sustainability is meeting the needs of the present generation without compromising the ability of future generations to meet their own needs.

Many of the resources we use on earth are limited. Although it might take hundreds or thousands of years for some of them to completely run out, these resources will disappear completely if they are not adequately managed.

> A company should not only measure financial performance but should also consider environmental and social performance when measuring overall success.

JOHN ELKINGTON

In 1994, John Elkington, the British Management Consultant and Sustainability Guru, coined the phrase, **Triple Bottom Line**, as his way of measuring performance in corporate America. The idea holds that a company should not only measure financial performance but should also consider environmental and social performance when measuring overall success. This is sometimes referred to as the 3 P's, **P**eople, **P**lanet and **P**rofit.

SOCIAL PILLAR (People)

This considers the impact of an organisations business on the welfare of people, including employees and the community in which the organisation conducts its business; identifying and managing business impacts, both negative and positive on people. The Social Pillar goes beyond corporate giving; it cuts across areas such as, human right, community engagement, diversity & equal opportunity, fair labour practices, occupational health and safety, non-discrimination, amongst others.

ENVIROMENTAL PILLAR (Planet)

This pillar is focused on activities that enhance environmental preservation – human life, natural resources, wildlife, etc. It is concerned with the reduction of carbon emissions into the air, derived from greenhouse gas (GHG) causing pollution; the reduction of energy consumption, water usage, waste production, biodiversity etc. It aims to reduce the harmful impacts of our daily activities on our immediate environment.

ECONOMIC PILLAR (Profit)

It not only focuses on the financial condition of an organisation, but measures how much of an impact a business has on its economic environment. This considers economic performance, anti-competitive behaviour, anti-corruption, procurement practices, etc. An organisation that strengthens the economy is one that will continue to succeed in the future.

The United Nation's Sustainable Development Goals

In 2015, the United Nations Member States adopted the Sustainable Development Goals (SDGs), as a universal call to action to ensure that all people enjoy peace and prosper ty by 2030. The 17 SDGs provide a blueprint to achieve a better and more sustainable future for all, by addressing issues such as poverty eradication, education, health, inequality etc.

Various individuals, organisations and governments across the world have developed innovative solutions tailored towards the achievement one or more of the goals by 2030 and beyond.

HIDDEN WORDS

Hello Detective, eleven financial words are hidden between words in every sentence below. See if you can hunt down these sneaky words. Underline each word as you find it (Don't pay attention to punctuation.)

To find the hidden words, you'll need to look inside the sentences.
Example:
The day<u>care ere</u>cts a new signpost in front of the building.
Answer: Career
The word 'career' is hidden in daycare erects.

SNEAKY WORDS

Broker
Budget
Demand
Earn
Income
Interest
Invest
Money
Save
Spending
Stock

"The Police Chief put me in charge of the investigation" said Paul.

"When does the train come in? I am running late for an appointment", says Dera.

The judge gave him one year to evict the premises.

Listening to music on my earbud gets me distracted when studying.

With so many problems pending, I need more time to think things through.

A self-made man develops his strengths and works on his weaknesses.

The show is not very interesting for young children.

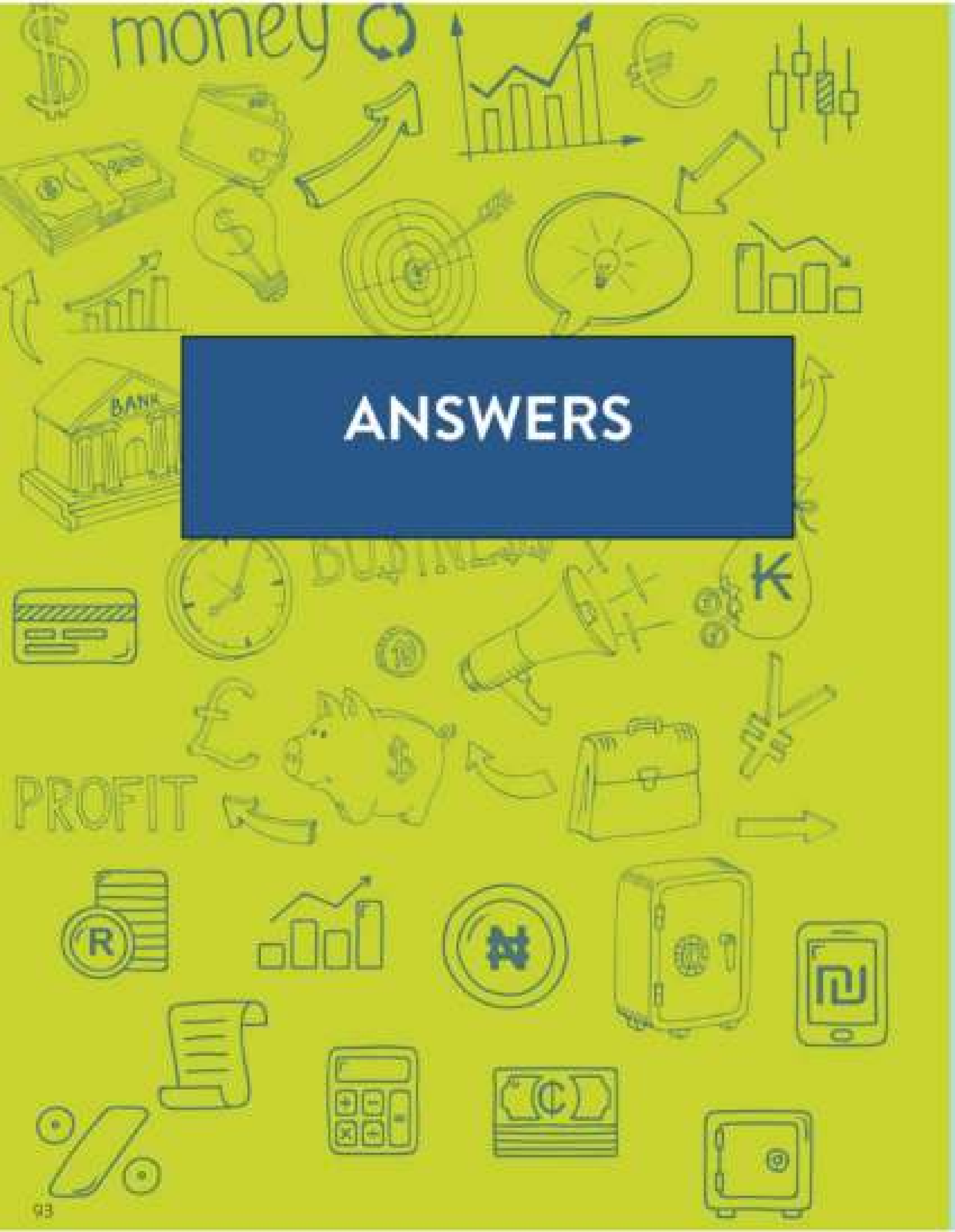
The new vaccine saved his life from the deadly virus.

In my very first job, I worked stocking shelves in a local grocery store.

The woman in the psychiatric ward can hear noises in her head.

Nnamdi broke, reassembled and sold the old table.

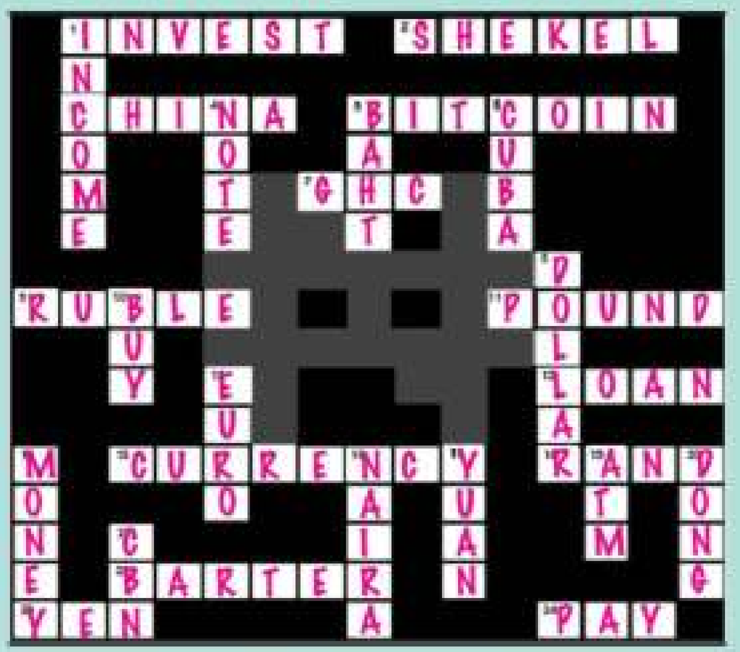
*All the sentences on this board have sneaky words.



ANSWERS

CRACK THE VAULT

ALL ABOUT MONEY



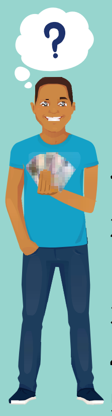
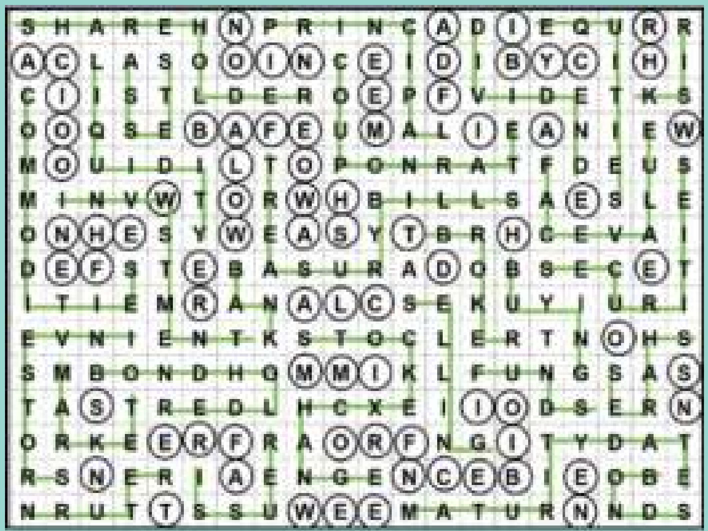


FIGURE IT OUT!

1. A penny saved is a penny earned.
2. Do not save what is left after spending, but spend what is left after saving.
3. Money does not grow on trees
4. Do not put all your eggs in one basket
5. Never spend your money before you earn it.

ZIG ZAG WORDS



FMDQ Holdings PLC, is Africa's first vertically integrated financial market infrastructure (FMI) group.

THE UNSCRAMBLER

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
F	C	F	D	C	I	B	I	B	L	B	M	K	E	I
I	O	O	E	A	N	O	S	O	E	R	U	U	X	N
N	M	R	R	N	V	R	S	N	N	O	T	W	C	F
A	M	E	I	A	E	R	U	D	D	K	U	A	H	L
N	O	I	V	D	S	O	E	H	E	E	A	I	A	A
C	D	G	A	A	T	W	R	O	R	R	L	T	N	T
I	I	N	T		O	E		L	S		F	I	G	I
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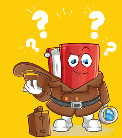

HIDDEN WORDS

1. "The Police Chief was put me in charge of the robbery investigation" said Paul.
2. When does the train come in? I am running late for an appointment, says Dera.
3. The judge gave him one year to evict the premises.

Lorem

4. Listening to music on my earbud gets me distracted when studying.
5. With so many problems pending, I need more time to think things through.
6. A self-made man develops his strength and works on his weakness.
7. The show is not very interesting for young children.
8. The new vaccine saved his life from the deadly virus.
19. In my very first job, I worked stocking shelves in a local grocery store.
10. The woman in the psychiatric ward can hear noises in her head.
11. Nnamdi broke, reassembled and sold the old table.

Glossary

Ask
The price a dealer is willing to sell.

Asset
An asset is an economic resource which can be owned or controlled to return a profit, or a future benefit.

Barter
A way of trading goods which does not involve the exchange of money.

Bear Market
A prolonged period of falling prices.

Bid
The price a dealer is willing to buy.

Bull Market
A prolonged rise in the prices of securities.

Bureau de change
A place to buy and sell foreign currencies.

Capital Gains
The amount by which an assets sale price exceeds its purchase price.

Collateral
Financial or physical assets pledged by a borrower as a guarantee for the repayment of a loan or bond in the event of a default.

Counterparty
An individual or institution which is party to a contract.

Coupon Rate
The rate of interest paid by a corporate entity or a government on its bond issue.

Credit Risk
This is the possibility of a loss resulting from a borrower's failure to repay a loan or meet c ontractual obligations.

Default
The inability of a company or government to meet its financial obligations.

Discount
An amount by which an item is selling below its normal price.

Dividends
A dividend is the portion of profit that a company chooses to return to its shareholders.

Going Public
The process of conversion of corporate status from private liability company (private ownership) to public limited liability company (public ownership). It is also used in relation to a company offering its securities to the public for the first time (IPO).

Gross Domestic Product (GDP)
The total value of the goods and services produced in a country over a specified period.

Index
An indicator or measurement that tracks the performance of a group of assets.

Initial Public Offering (IPO)
The first public offering of securities by a corporate entity.

Institutional Investors
Institutions such as insurance companies, pension funds, investment trusts and unit trusts.

Interest
The amount of money paid by people who borrow money to the people who lend it to them.

Interest Rate
The annual amount of interest paid on money borrowed, expressed as a percentage.

Liquidity
The ease at which a financial instrument can be converted into cash.

Market Maker
A dealer who stands ready to buy and sell securities for his own account at his own risk, thereby providing liquidity to and maintaining stability in the market.

Maturity Date
The redemption or expiry date of a debt.

Over-the-counter
This is a market where securities are traded through dealer networks as opposed to an exchange.

Portfolio
The totality of the various types of securities and other financial instruments (stock, bonds, treasury bills, etc.) held by an investor.

Products
Also known as securities.

Prospectus
A document issued by a company giving detailed information about itself and the securities being offered to the public.

Securities
They are financial instruments used to raise capital in the financial market.

Strike price
The set price at which a derivative contract can be bought or sold when it is exercised.

Supra-national
A supra-national organisation is a multinational union or association where member states share in decision making on matters that will affect each country's citizens.

Tenor
The length of time remaining before a financial contract expires.

Trading
The length of time remaining before a financial contract expires.

Underlying
The real financial asset or security that a financial derivative is based on.

Volatility
The degree and frequency of fluctuation in the prices of securities.

Learn about personal finance, how the financial market works, various products to invest in and the right attitudes for wealth creation. You are never too young to start commanding wealth! Start your investment journey today to secure your desired financial future tomorrow!

FMDQ Group

▪ Exchange ▪ Central Counterparty ▪ Depository ▪ Private Markets

Africa's First Vertically Integrated Financial Market Infrastructure Group

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