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PRESENTS

FINANCIAL INVESTMENT

(Bonds, Stocks & Shares)

BY

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Financial Investment I

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ABSTRACT

In line with the sustainable development SDG goal number one 'End Poverty', this study tends to give the general public an overview on financial investment (Bonds, Stocks and Shares) which can help them in earning more income to enable them tackle poverty. It is in human nature to plan for the rainy days. An individual must plan and keep aside some amount of money for any unavoidable circumstance which might arise in days to come. Future is uncertain and one must invest wisely to avoid financial crisis at any point in time.

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Introduction

Every individual needs to put some part of his income into something which would profit him in the long run. Investment is essential as unavoidable circumstances can arise anytime and anywhere. One needs to invest money into something which would assure maximum returns with minimum risk in the future. Money saved now will help you overcome rough times in the best possible way (Investopedia, 2013).

Historical background

Financial investment is an investment enhanced by the capitalism economic system. Capitalism is a social economic system where capital assets are merely owned and controlled by private persons, where labor is purchased for money wages, capital gain accrue to private owners, and price mechanism is utilized to allow capital goods between uses. Capitalism emerged after the failure of the feudal system in the 14th century and reached a high, level of development during the industrial revolution, which began in Britain in 1688. The industrial revolution brought about large-scale machine production, which was based on hydroelectric power and the wide application of science to the process of production.

Capitalism began with the Laissez-faire system, which means free competition or leave things alone. The philosophy underpinning Capitalism was that the less a government interfered in an economy the better for the country. But towards the end of 19th century, there was a bitter struggle for supremacy between capitalist and socialist states led by the USA and the former Soviet Union respectively. The war of words between the two groups is often called the cold war. Eventually, socialism collapsed in the east Europe states in the early 1990s and today Capitalism seems to be gaining the upper hand. It is spreading like wild fire to all parts of the world including Nigeria but it may not be more than a pyrrhic victory (Bulus, 2007).

Aim

The aim of this study is to give an insight to general public on what financial investment is. This study focuses on bonds, stocks and shares.

Objectives

Following the objectives are:

- Enlighten the general public on the distinctions between bonds, stocks and shares.
- Identify the type of financial investment that is safer between bonds, stocks and shares.
- Explain how federal government of Nigeria issues bonds to individuals.
- Identify the various types of bonds, stock and share and highlight the content of a bond certificate.

Financial investment

Financial investment refers to putting aside a fixed amount of money and expecting some kind of gain out of it within a stipulated time frame. There are various types of financial investments.

Financial market

A market is a situation that brings buyers and sellers into close contact for the purpose of transaction.

Properties, stocks and shares, bonds, fixed deposit necessity various investment market such as property market, capital market, money market, forex market, commodity market, and others.

Financial market is a market that supports the

trading of financial investment (Ric, 1996).

FIG.1. Source:

https://goo.gl/images/aLDcBw

Bonds

Government or an Organization might want to rise capital and the easiest way to rise capital is through issuance of bonds. This can be done by printing and selling of certificates. It works like this; when you invest in Bonds, you are a lender in the sense that you borrowed your money to the issuer for interest for a particular period of time more than a year. Bonds are also known as income or debts. In Bonds investments, whether the issuer makes loses or profits, as long as they stay in the business, you will receive a specific

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rate of interest and you will get your money back at a predefined date called "maturity date". Maturity date refers to the final date for the payment of any financial product when the principal along with the interest needs to be paid to the investor by the issuer. If the issuer goes broke, you will be ranked very high on the list of creditors in the bankruptcy court. Therefore in Bonds investment the risk is minimal because the payment of your capital is certain alongside the interest. Treasury bills is an example of a Bond. Investor in bond receives interest called coupon at regular bases and their initial investment is repaid at a specific date agreed (Ric, 1996).

Federal Government of Nigeria Bonds (FGN Bonds)

FGN Bonds are debt liabilities of the Federal Government of Nigeria (FGN) issued by the Debt Management Office (DMO) on behalf of the Federal Government. The FGN has a compulsion to pay the bondholder the principal and agreed interest as and when due. When you buy FGN Bonds, you are lending to the FGN for a specific time frame. The Bonds are considered as the safest of all investments in domestic debt market because it is backed by the 'full faith and credit' of the Federal Government, and as such it is hush-hush as a risk free debt instrument. They have no default risk, meaning that it is undeniably certain your interest and principal will be paid as and when due. The interest income earned from the securities are tax free (DMO., 2018)

Types of Bonds

Following are the types of bonds according to Management study guide, (2018):

i. **Fixed Rate Bonds**
In Fixed Rate Bonds, the interest remains throughout the tenure of the bond. Owing to a constant interest rate, fixed rate bonds are resistant to chances and fluctuations in the market.

ii. **Floating Rate Bonds**
Floating rate bonds have a fluctuating interest rate as per the current market reference rate

iii. **Zero Interest Rate Bonds**
Zero interest rate bonds do not pay any regular interest to the investors. In such types of bonds, issuers only pay the principal amount to the bond holders.

iv. **Inflation Linked Bonds**
Bonds linked to inflation are called inflation linked bonds. The interest rate of inflation linked bonds is generally lower than fixed rate bonds.

v. **Perpetual Bonds**
Bonds with no maturity dates are called perpetual bonds. Holders of perpetual bonds enjoy interest throughout.

vi. **Subordinated Bonds**
Bonds which are given less priority as compared to other bonds of the company in cases of a close down are called subordinated bonds. In cases of liquidation, subordinated bonds are given less importance as compared to senior bonds which are paid first.

vii. **Bearer Bonds**
Bearer Bonds do not carry the name of the bond holder and anyone who possesses the bond certificate can claim the amount. If the bond certificate gets stolen or misplaced by the bond holder, anyone else with the paper can claim the bond amount.

viii. **War Bonds**
War Bonds are issued by any government to raise funds in cases of war.

ix. **Serial Bonds**
Bonds maturing over a period of time in installments are called serial bonds

x. **Climate Bonds**
Climate Bonds are issued by any government to raise funds when the country concerned faces any adverse changes in climatic conditions.

Importance of bonds to the Nigerian Government

Debt management office (2018), stated the importance of bonds to the Nigerian Government which are to:

• Enhance government fiscal deceits in a non-inflationary and sustainable manner.

• Enhance fiscal discipline of the Government.

• Refinance maturing debt obligations of the Federal Government.

• Establish benchmark yield curve, this serves as reference for pricing bonds issued by other bodies, especially the private sector issuers.

• Develop and ensure liquidity in the domestic bond market on a sustainable basis.

• Enhance and deepen the savings and investment opportunities of the populace.

• Sustain the development of other segments of the Bond market.

• Diversify government financing sources.

Contents of a Bond Certificate

All the details about a particular bond are included on the Bond's certificate:

- The value of the Bond which is known as the face value
- The interest rate
- How often the interest is paid
- Who issued the bond
- The maturity date

Stocks and Shares

A stock is a general term used to describe the ownership certificates of any company. A share is an indivisible unit of capital expressing the ownership relationship between the company and the shareholder. Shares are issued by companies in smaller units. A dividend is usually paid each year in respect of shares, this vary according to the company or firm. The shares of a company depends on the activities of that company; the more a company prosper the more its shares. Holding a particular company's share makes you a shareholder.

Stocks are of two types; common and preferred. The difference is while the holder of the former has voting rights that can be exercised in corporate decisions, the later doesn't. However, preferred shareholders are legally entitled to receive a certain level of dividend payments before any dividends can be issued to other shareholders (Investopedia, 2013).

Types of Shares

- Equity shares
- Preference shares
- Bonus shares
- Right shares
- Employees' stock option plans and sweat equity shares (Bennett, et al., ND).

Stocks and Bonds distinctions

Bonds vs. Stocks

Yes	Must pay Interest	No
Yes	Capital must be repaid	No
No	Must give up control	Yes

(Ric, 1996)

Conclusion

Unlike property investment which involves large capital outlay to acquire, financial investment are more cheaper option than property investment because in property investment there is stipulated routine cost for maintenance and income is gotten from the rent paid by the tenants. In Bonds, you have little to worry about since whether the issuer makes profit or not you will still get your money back. In stock, you hold part of the company asset which when there is default of payment you will be given possession of the company while in shares, a shareholder can't do as he wished with the company's asset, when there is bankruptcy the shareholder losses everything. In conclusion, in financial investment, grossly in stocks and bonds there are minimum risks compared to other forms of investments which when not insured it is exposed to greater risk.

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FIG.1."Capital Market".*https://goo.gl/image*

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