

DEFINITION OF TERMS

- 1 **Core Values:** Values are the qualities, standards, or principles considered worthwhile or desirable. They describe how you want to live. They also represent your deeply held beliefs and highest priorities. Your values drive you to what you do.
- 2 **Passive Income:** Income earned without having to work actively from morning to evening to earn it. Examples are: rental income, dividend income from shares / stocks, royalties from books or music, interest income from lending to institutions or government (Investing in Bonds, Money Market Funds, Fixed Deposit Accounts), Display Adverts placed on your website, YouTube Ads placed on your channel, earnings from a business that you started but have disengaged from because its being managed by someone you have hired, and so on.
- 3 **Investing:** Buying something (an asset) with the aim of generating a positive economic value in the future. For example, a television purchased for use in the home is not an investment. Neither is a car, mobile phone or bicycle unless they form part of inventory in your business.
- 4 **Successful Investing:** Successful investing is about postponing present consumption, and applying our wealth in a manner that creates even more wealth, so that we can have greater wealth in the future. It is about deploying capital in activities that create more capital.
- 5 **Emergency Fund:** An emergency fund is money put aside strictly for a rainy day. An emergency is a circumstance that calls for immediate action; an event that could affect you or an immediate family member's life significantly. It can be something that shakes your financial status, such as a serious illness, an accident that results in unexpected car repairs, a burglary, or losing your job. We often make the mistake of not planning for emergencies because "it won't happen to me", "things will sort themselves out somehow", or "I'll have a fundraiser so my friends and relatives can come to my rescue". Some people use credit cards as their emergency funds but these are not dependable ways of taking care of an emergency.
- 6 **Earning Curves:** these are curves that we use to show typical changes in income levels with age. There are 3 main earnings curves.

- (a) **Curve #1** is where one receives a high income while young and the income reduces with age. This curve would typically be seen in those who inherit money, entertainers (music, film) fashion models, professional athletes and sports men and women. These people generally earn a lot of money early in life, and when their career comes to an end, if they have not invested well, or if they manage their finances poorly, their money dwindles over time.
- (b) **Curve #2** This curve represents the typical earning cycle of majority of people who are employed. Those who are employed earn most of their money while working. Then when they retire, their earnings drop significantly. Millions of people have jobs that they rely on day to day, month to month with very little savings to fall back on.

Unfortunately, most Africans invest in their children's education and hope that their children and other family members will take care of them financially when they are unable to do so themselves.

- (c) **Curve #3** Those who have this earning curve begin with nothing and their wealth increases every passing year. Although they may have ups and downs, their wealth increases even after they stop working and they often leave generational wealth for their families.

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7 Value Congruence vs Value Incongruence

Value congruence is the extent to which an individual's behavior is consistent with the stated values. If your behavior is inconsistent with your stated values, then there's incongruence...

For example, your value is creativity but you are not creative at your place of work or do not have an opportunity to express creativity. In that state, it is difficult to find a sense of meaning and you will be frustrated and you are likely to be unproductive. Your goals will not be achieved.

8 Maslow's Hierarchy of Needs

Maslow's hierarchy of needs is a motivational theory in psychology comprising a five-tier model of human needs, often depicted as hierarchical levels within a pyramid. From the bottom of the hierarchy upwards, the needs are: physiological, safety, love and belonging, esteem and self-actualization. Needs lower down in the hierarchy must be satisfied before individuals can attend to needs higher up.



SELF-ACTUALIZATION

Desire to become the most that one can be



ESTEEM

Respect, self-esteem, status, recognition, strength, freedom



LOVE & BELONGING

Friendship, intimacy, family, sense of connection



SELF NEEDS

Personal security, employment, resources, health, property



PHYSIOLOGICAL NEEDS

Air, water, food, shelter, sleep, clothing, reproduction

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Asset Classes: Asset Classes are like baskets where all the financial products that belong to each basket share common characteristics, so they are placed in the same basket. They share things like risks, returns, ability to sell quickly, and so on. There are four main asset classes: Cash and Cash Like Assets, Fixed Income, Equities, and Alternative Investments



**Cash &
Cash-Like Assets**



Fixed Income



Equities



**Alternative Investments
(Real Estate, Commodities,
Forex Trading, etc.)**

10 Money Market Funds: A money market fund is a fund that pools investor's money and invests in low-risk investments such as fixed deposit accounts with banks, treasury bills, and treasury bonds. Money Market Funds invest mainly in fixed income securities that are safe (high credit quality) and with short investment durations (less than 12 months).

11 Treasury Bills: Treasury Bills, also known as T-bills are secure, short term investments issued by the Central Bank on behalf of the government to borrow money to meet temporary shortfalls. T-bills don't earn interest but instead are issued at a discount, at maturity they are repaid at their full value. (At par). This means that investors choose the amount that they want to receive when the T-Bill matures, and pay less than that amount when purchasing it. So if for example the interest offered for a 354-day Treasury Bill is 10%, and you would like to receive 100,000 at the end of 1 year, you would pay 90,000.

Individuals and corporate bodies can invest in Treasury Bills through their banks by opening nominee accounts. However, one can invest directly with the Central Bank by opening an account with them to avoid additional fees charged by these financial institutions.

12 Treasury Bonds: Treasury bonds are secure medium to long term investments issued by the Central Bank on behalf of the government to finance government expenditure. These investments typically make interest payments to investors every six months throughout the bond's maturity.

Treasury Bonds and Treasury Bills are like an IOU from the government. They are backed by the full faith and credit of the government that issues them and are therefore considered by investors as the safest investments, and are referred to as 'risk-free' investments.

Due to the fact that they are risk-free, Treasury Bonds and Bills tend to pay modest interest rates... lower than other comparable investments.

13 Pension Account (or Pension Plan): A pension is a long term investment product that allows individuals to contribute towards their retirement. A pension plan has tax advantages and allows individuals to make contributions into a pool of funds that are managed by professional fund managers for the individuals' future benefit.

14 Inflation: Inflation is the rate at which prices of goods and/or services increase from one period to the next. The cost of living continually goes up due to inflation. When you invest your money in assets such as stocks, the impact of inflation is likely to be offset by dividend income and the increase in the price of the stocks you have.

15 Commercial Paper: Commercial Paper is an investment that is issued, or sold by companies to raise money for short-term working capital needs, such as purchasing raw materials, financing payroll, inventories or other short term obligations. They are usually short term in nature – twelve

months or less and are issued at a discount to the face value (similar to Treasury Bills). It is important to note that Commercial Paper is not usually backed by any collateral or security, which means that they are unsecured. If the company that issues them is unable to raise cash flows to repay commercial paper investors, these investors lose their money. The decision on whether or not to invest is based on the size of the company and their ability to generate sufficient cash to repay when the debt falls due.

16 Face Value (of a bond/treasury bill): face value (or par value) is the amount paid to an investor at the date of maturity of the bond, treasury bill or commercial paper.

17 Corporate Bonds: Corporate bonds are similar to Treasury Bonds, except that they are issued by corporate entities to finance investments or finance expansion. They are usually issued for a period above 1 year but below 10 years.

18 Human Capital: Human capital is a measure of the characteristics, capacity, education and skills that employees have, that directly or indirectly influences their abilities, productivity levels, efficiency and skills. We have referred to human capital as your investment in education, skills and knowledge in order to increase your chances of generating additional income or a higher income.

19 Compound interest: When you invest your money and you earn interest or dividends from your investments, when you continually reinvest those earnings – the dividends or interest, your wealth continues to grow in value exponentially as time progresses, because the interest earned, earns more interest. This is compound interest.

20 Withholding Tax: Withholding tax is tax that is deductible from certain classes of income at the point of making a payment. For example, when you invest in a fixed income investment, the government withholds 15% from the interest earned, before they make payment. Likewise, when you invest in stocks and dividends are declared, the company withholds 5% from the dividends due to shareholders and they remit the tax to the Revenue Authority.

21 Hard Currency: There are globally traded currencies that are considered 'strong', 'reliable', 'stable' and 'safe havens'. If you live in Africa, you belong to a developing market characterized stereotypically by political instability, lack of government commitment and economic uncertainty. All this results in a great sensitivity of capital flow into the continent. Currencies in developing countries are very susceptible to shocks thus triggering capital flight. Investors move their money to safe countries and currencies, resulting in an overall weakness of the domestic currency. It is therefore advisable to save some of your money in a currency that offers some level of stability, where its purchasing power is concerned.

22 Index Funds: Financial vehicles that put investors' money in a portfolio of securities that mirror a particular market index.

- 23 Infrastructure bonds:** are fixed income securities issued to investors for the purpose of raising funds to finance infrastructure projects.
- 24 Zero coupon bond:** a bond that does not pay a coupon (interest) but trades at a discount to its face value. For example, if you purchase a Zero Coupon bond and you desire to receive KES 1,000,000 at maturity, you will invest at a discount of KES 900,000, and at maturity, you will receive KES 1,000,000.
- 25 Inflation:** The rate at which the general level of prices for goods and services is rising
- 26 Stocks:** a unit of ownership in a company. When you own a company's stock, you are a part owner of that company and are entitled to share in part of that company's earnings and assets.
- 27 Stock brokers:** Professional traders, licensed by the relevant regulator in the country, for example the Capital Markets Authority, who buy and sell stocks on behalf of clients. For example, Faida Investment Bank. You can find the list of all licensed stock brokers in Kenya here: [List of Trading participants - Nairobi Securities Exchange \(NSE\)](#)
- 28 Liquidate:** this refers to the process of converting assets into cash or cash equivalents by selling them.
- 29 Default:** A default occurs when a borrower fails to repay a portion or all of their debt including interest or principal.
- 30 Secured Loan vs Unsecured Loan:** A secured loan is a loan in which the borrower pledges some asset as collateral (security) for the loan, which then becomes a secured debt owed to the lender. An unsecured loan is a loan that doesn't require any type of collateral and is instead based on a borrower's creditworthiness (their ability and reliability to repay).
- 31 Premium:** a sum added to an ordinary price or charge (an additional payment). In the case of a fixed income security (or bond) for example, a premium is the difference between the price paid for the bond and the bond's face value.
- 32 Collateral:** an asset used as security for a loan. Collateral can take the form of real estate, a car or other kinds of assets depending on the purpose of the loan and the amount to be borrowed. The collateral acts as a protection for the lender. If the borrower defaults on their loan repayments, the lender can seize the collateral and sell it to recover some or all of the money borrowed.
- 33 Cartel:** A cartel is a collection of independent businesses or organizations that collude in order to manipulate the price of a product or service.
- 34 Working capital:** Money that allows a business to function by providing cash to pay bills and keep its day to day operations running.

- 35 Net income vs Gross income:** Gross income refers to income prior to the deduction of taxes while net income refers to the income level after taxes have been deducted.
- 36 Employee share ownership plans (ESOPs):** are employee benefit plans that give employees ownership interest in the company where they work after a certain number of years of employment. The benefit can be issued or sold at a discount to the employees. ESOPs are designed to give employees shareholding in the company to motivate them and consequently improve their productivity.
- 37 Hedge Funds:** are private investment companies or partnerships that are typically open to institutions and wealthy individual investors. These funds invest their clients' money in all kinds of alternative investments to pursue returns; this includes investing borrowed money to boost returns. They use a mix of alternative investments: derivatives, speculation in mergers and acquisitions, stocks, and so on.
- 38 Managed Futures:** an investment where a portfolio of futures contracts is actively management by professionals called Commodity Trading Advisors (CTAs). This particular investment product is for sophisticated investors looking for alternative investments in order to diversify their portfolio of investments.
- 39 Exchange Traded Funds (ETFs):** a collection of securities, that tracks an underlying index or commodity, that trades on an exchange. They are bought or sold on a stock exchange through a brokerage firm. ETFs are listed on exchanges and trade just like ordinary stocks. An example is the SPDR S&P 500 ETF (SPY), which tracks the S&P 500 Index. Another example is the ABSA NewGold ETF (GLD), listed on the Nairobi Securities Exchange enabling investors to invest in an instrument that tracks the price of Gold in real time. ETFs can contain many types of investments including stocks, commodities, bonds, or a mixture of investment types. They are easily bought and sold.
- 40 Market maker:** a market participant or member firm of an Exchange that buys and sells securities for its own account, at prices it displays the Exchange's trading system, with the primary goal of profiting on the bid-ask spread. Their role is to help to ensure there's enough liquidity in the market; they stand ready to buy or sell a stock. This ensures that whenever an investor wants to buy or sell securities, they can do so.
- 41 REIT:** A real estate investment trust (REIT) is an investment fund or security that invests in income-generating real estate properties. The fund is operated and owned by a company of shareholders who contribute money to invest in commercial properties. REITs offer a viable solution for financing the development and management of real estate property, as they source permanent capital to scale up business models centered around real estate.
- 42 Yield:** A return on an investment. A yield tells investors how much income they will earn each year relative to their initial cost of investment.