Diversify your savings, investments...But where?

By Julius Masaba

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Investing for the future is akin to a bird laying many eggs. Most of us aspire to start up businesses of our own, save and live a good life. However, few of us really know where, how, when and why we need to invest. And as we age, we start thinking of saving. I will share with you some of the ways of saving, wealth building, and expecting future income flow particularly in Uganda.

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Bank Accounts

Open a bank account to start saving as soon as you enter formal employment, but even without formal employment one can do it. There're many types of accounts to start with, including: like savings, current, fixed deposit account among others.

But remember bank savings are not "safe" because interest is paid annually and small yet banks keep "chopping" your balances through withdraw charges, account management/ledger fees, income statement charges et al, so think twice before you subscribe; or scout for a better option (such as a fixed deposit or savings account rather than a current account).

Per Bank of Uganda (BOU) statistics, the April 2015 fixed deposit rate was 11.51% - not bad!

NSSF Options

There's social security and retirement benefits schemes (pensions). In Uganda National Social Security Fund (NSSF) handles this. As long as your employer has more than 5 employees, join the Fund. Civil servants are pensionable, they don't join NSSF.

But it takes several decades to access the savings! Savings are always safe, offer high future returns due to high interest rates; plus the Fund invests in shares. But other players will emerge due to liberalisation; competition via interest rates will manifest.

Unfortunately at times there're low interest rates, loss in value due to inflation or being mismanaged; or if the Fund invests the savings in highly risky ventures.

Insurance

There's also insurance cover, insurance policy/subscribing to an insurance scheme. This cover is advantageous especially for one's family and relatives.

In case of death, claims made (cash proceeds) can be used for future investment, in assets or starting a business.

Some insurance companies have investment advisors to help them invest those insurance claims e.g. UAP. Moreover one can save with NSSF and have insurance cover concurrently.

Stocks/Shares/Bonds

Stocks/shares and securities like treasury bills/government bonds are preferred too. Shares are held by an individual usually in blue-chip companies. One can have as many shares in many companies as one may wish. They are transferable any time, say to a family member, a creditor et al; through shareholding certificates.

They earn dividends annually when profits are made.

Government issues TBs on short-term usually 91 days, carry a rate of interest and given after maturity period. Unlike bonds, which don't offer the option of interest payment; instead their maturity value will be higher than the invested value depending on the prevailing rate of return.

They are among fixed-income investments and not so much utilized by the Ugandan public. Stocks and shares have very high price fluctuation tendencies, making it hard for one to resell/get back one's invested on short notice.

Per Bank of Uganda (BOU) statistics, the June 2015 interest rates for the various securities were:

- T/Bills (91 days): 14.02% (June: 13.62%)
- T/Bonds (2 years): 16.68% (June: 16.68%)

It's even better than for fixed deposit rates, as of March 2015!

Real Estate/Property/Vehicles & Machinery

Investment in real estate, fixed assets like land, buildings et al is viable too; they increase in value over time. Vehicles and machinery are assets too but depreciate in value thereby having a lower resale value than their cost price; unless they have been adding value to your investment.

However they can be hit by floods, fire et al. Such risks lessen the value of the assets over time. Depreciation is another disadvantage though some assets can be revalued or still maintained (like painting structures/buildings) and or to maintain their resale value.

Therefore, for your long-term investment goals, at least have three options. The aim of having multiple long-term investment options is to ensure continuous flow/a stream of income in future and diversifying your portfolio can help you create more future wealth while countering the risks of putting all your eggs in one basket.

ABOUT THE AUTHOR

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