

Staying Connected

For the Alumni of the ECCB's Savings and Investments Course



FINANCIAL FITNESS

Reduce Your Cash Outflow, Increase Its Inflow

- **Make gifts instead of buying them** *–if you are skilled at baking give a gift of a cake. If you have lots of plants and trees in your garden give a potted plant or a tree slip.*
- **Consider a part time or a week-end job**
While an extra job may be too much to handle for a long period of time, you may wish to take an extra job temporarily until you pay off a few of your bills. Good choices for part time jobs include local restaurants, retail stores, baby sitting and entertainment attractions.
- **Invest in your education**
It is never too late to learn something new especially when that something can help build wealth or create a new career opportunity.



Combating High Oil Prices by Leon Bullen

Crude oil prices reached an all-time high of US\$119.00 per barrel on 22 April 2008. This compares with a price of US\$44.07 in the beginning of 2005 and represents an increase of 170.0 per cent in just three years!



And since crude oil is the raw material for both gasoline and diesel, we have been feeling the effects right here in the ECCU with these prices at all-time highs as well.

Oil prices have been growing at a faster rate than our incomes.

Data on gasoline retail prices in the ECCU as at April 2008 indicated that five of the member countries were above the regional average of EC\$13.21 per gallon. The other three countries had prices ranging from EC\$12.60–\$12.95 per gallon.

What all this amounts to, then, is a rise in general cost of living as oil is used in virtually every aspect of our small open economies; from powering our cars, to lighting our homes, to shipping goods, to our highly open economies. More importantly, oil prices have been growing at a faster rate than our incomes, leading to a decline in the amount of goods and services that our money can purchase.

Time to Hedge Editor's Note

Hedging is about maintaining your upside potential, whether limited or unlimited, while reducing your downside loss.

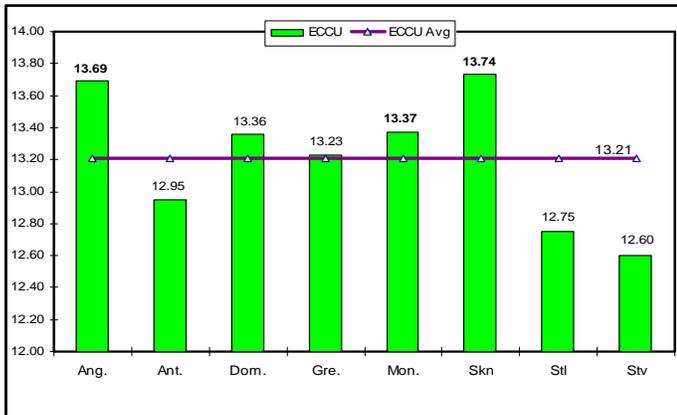
I recall a recent discussion with an industry colleague who was adamant that **hedging**, this “so called advanced” financial strategy of taking steps to reduce the risks of adverse price movements in an asset had very little relationship to us in this part of the world.

This got me thinking about the concept of a simple hedge, the one that we used to place around the perimeter of our yards for beautification purposes. This floral hedge was soon converted into a more sturdy structure, using wood, wire, even galvanize, as we sought to minimise the risks of animals coming on to our property and creating havoc. As crime became more commonplace the hedge

became a sturdy fence made of blocks and concrete. Some of us went as far as to place broken glass on the top of our concrete hedges to reduce further the risks of attacks to our property and person. This was followed closely by investments in burglar bars and electronic security systems. The concept therefore of hedging to reduce risk exposure to our assets is not

a new or advanced concept. It is part of our everyday activities. We hedge when we purchase health, life and property insurance so that we can reduce our risk of financial loss in the event of an adverse occurrence. The cost of our insurance premium is the cost of the hedge. The risk is transferred from the insured to the insurer. Similarly we

Oil Prices *Cont'd*



Gasoline Retail Prices as at 22 April 2008 (EC\$ per gal)

All of us as consumers, therefore, need to make important adjustments to our consumption patterns in order to soften

the effects of these high prices. Here are some useful energy-saving tips that could potentially make a huge difference to our bottom line:

Food Baskets

Food accounts for a significant portion of our consumption bill and the declining role of agriculture in our economies means that we are becoming more dependent on imported goods to feed ourselves. The rising price of oil has a direct impact on the cost of shipping and distribution and as a result, food prices are also affected. A few ways in which we can address this situation follow:

- We live in a region with some of the most fertile soil in the world. Surely we can grow our own domestic fruits and vegetables such as bananas, oranges, carrots, lettuce, peas, corn and ground provisions. These provide much of the essential carbohydrates, vitamins and minerals we need to live healthy lives. And what's more, they are grown organically. This makes them a lot healthier than their imported rivals.

Time to Hedge *Cont'd*

hedge when we purchase a LIAT ticket or a seven-day pass to Disneyworld months in advance because we want to lock ourselves into an affordable price.

Sure, LIAT and Disney World stand to lose if prices were to go way up while they are locked into a lower price with us. However, by pre-selling they are assured of a certain guaranteed number of sales. On the other hand we would face the risk of financial loss if at the time we use the service, the price stays the same or falls. But out of economic necessity, both parties, customers and service providers, find this hedge, the upfront payment, as not only acceptable but desirable.

Given that hedging is so commonplace, the question is not "Is hedging an applicable concept to us in this part of the world?" but rather "Are we investing adequately in hedging to

protect our finances, our property, our businesses, our economy?"

To know if we are adequately hedging our economic competitiveness within this global economy we need to look at the classical economic theory regarding the factors of production—

- i. land and other natural resources**
- ii. labour** (human resources)
- iii. capital** (plant, machinery)

Are we investing enough in our natural resources to ensure their longevity? The answer lies in the percentage of tourism earnings re-invested to protect and preserve our natural resources—*our land and sea, our fauna and flora, our historic sites, our culture.* Tourism accounts for almost 70% of the currency union's foreign exchange earnings.

Are we investing enough in our human capital to ensure that our people have the skills and knowledge required to be productive in this global technologically and service driven economy so that the economy can continue to thrive and grow.

The answer lies in the number of technologically and service skilled professionals including entrepreneurs that our education system produces or fails to produce each year. The answer also lies in the amount of monies invested by businesses in staff retraining, re-skilling and retooling.

We can pose similar questions to ourselves. How adequately have we hedged our factors of production? Have we invested adequately in the knowledge and skill areas that would keep us

continuously relevant to the job market?

Our high dependency on imported goods, means that we are very vulnerable to price increases on the world markets. The surges in the prices of crude oil, rice, flour on the world market show no signs of abating. Instead of looking to our governments to ease our burdens through price controls we should be focusing on hedging our exposure to rising commodity prices by investing in backyard food gardens as well as wind and solar energy systems. We are blessed with fertile arable land, sunshine and wind.

If there ever was a time to invest in hedging, now is the time. While it may be seen as an advanced strategy for others, for the region and its people **it is an economic imperative!** ●

- Adjusting our eating habits to more locally-oriented meals will also reduce our reliance on imported foods. Some good steamed breadfruit and stewed fish is sure to satisfy most stomachs!
- Purchasing generic products (cereals, milk, rice, flour, etc) as opposed to brand-name products is a great way to save money. Often times, these products are made by the same companies, but under different labels.
- Bulk purchasing is also a smart way of reducing the cost of meat, fish and other products. Teaming up with friends and family to purchase in large quantities will deliver cost savings to all involved.

Lighting

Making adjustments to lighting is one of the fastest ways to cut our energy bill. The use of energy-saving bulbs (compact fluorescent lights) is a great start as they are much more efficient than their standard incandescent counterparts and last about four to ten times longer. Although we may have to pay a few more dollars for them, they more than pay for themselves over their lifetime.

Appliances

Appliances account for about twenty per cent of our household's energy consumption with refrigerators, washing machines, and clothes dryers at the top of the consumption list. Here are a few tips for maximising the use of our appliances:

- Don't keep the refrigerator or freezer too cold. Recommended temperatures are 37° to 40°F (2.8 to 4.4 °C) for the fresh food compartment and 5°F (-15 °C) for the freezer section.
- Regularly defrost manual-defrost refrigerators and freezers; frost build-up decreases the energy efficiency of the unit. Don't allow frost to build up more than one-quarter of an inch.
- Make sure the refrigerator door seals are airtight. Test them by closing the door over a piece of paper or a dollar bill so it is half in and half out of the refrigerator. If the paper or bill pulls out easily, the latch may need adjustment or the seal may need replacing.

- Cover liquids and wrap foods stored in the refrigerator. Uncovered foods release moisture and make the compressor work harder.
- Use small electric pans or toaster ovens for small meals rather than your large stove or oven. A toaster oven uses a third to half as much energy as a full-sized oven.
- Wash clothes in cold water using cold-water detergents whenever possible. Note that approximately **ninety per cent** of the energy used for washing clothes is for **heating the water**.
- Dry clothes on an outdoor line as opposed to using a clothes dryer where possible.

Driving and Car Maintenance

With the growing number of cars on our roads and the rising price of gasoline and diesel, following these tips will improve our car's gas mileage and save us some dollars:

- Avoid aggressive driving (speeding, rapid acceleration, and hard braking) as it wastes gas. Such driving can lower the gas mileage by five to thirty-three per cent. Also, gas mileage drops rapidly at speeds in excess of sixty miles per hour.
- Consider carpooling with friends and family. Families with more than one vehicle will be well served by using only one and rotating them weekly.
- Keep tires properly inflated and aligned. This will give us some extra miles.
- Get regular engine tune-ups and car maintenance checks to avoid fuel economy problems due to worn spark plugs, dragging brakes, low transmission fluid, or transmission problems.
- Replace clogged air filters to improve gas mileage by as much as ten per cent and protect your engine.

Ultimately, the decision to adopt these and other useful tips is an individual one. However, given that we live in an environment of rising prices, we would be well served by incorporating some of these tips into our daily lives. Our bank accounts will thank us for it. ●



Managing Money is Simple as ABC *by Julie Hendrickson, Angus Financial Ltd (reprinted from the www)*

- A. Always think beyond the moment.** Fail to plan, plan to fail. We all must think about and prepare for our financial futures. I have had many clients who spend more time planning and saving for vacations than they do their futures.
- B. Budget for everything.** Open separate accounts if that helps, for example a vacation account, a school fees account, a

clothing account. And always pay cash for non appreciating assets.

- C. Choose your advisor wisely.** Seek out a qualified professional. Your financial future is too important to entrust it to someone without the proper qualifications and experience.



In the Headlines

Cash Plus Group Ltd

Cash Plus was launched in 2002 by mortgage broker, Carlos O. Hill promising 10% return per month on investors deposits (*a minimum of J\$100,000 was required*).

After racking up billions in deposits this investment club came under the Jamaican regulatory radar in late 2007, culminating in the issuance of a cease and desist order by the Financial Services Commission (FSC). In April 2008, fraud related charges were slapped on the principals, while thousands of investors have been left holding an empty money bag.

While some have likened Cash Plus to a Ponzi scheme (*borrowing from Peter to pay Paul*) and a ticking time bomb, others hailed it as the poor man's messiah.

Albeit that investors were receiving the returns promised, these and other red flags were forever present:

- Cash Plus was not regulated by the FSC.
- There was a lack of published audited financial statements
- No information was forthcoming regarding the investments that enabled Cash Plus to offer these "abnormally" high monthly returns.

With so much at stake for thousands of investors, the Web has been buzzing with tales of woe. We certainly empathise with those investors who have lost their investments, for some, their life's savings. We are reminded, however, by the words of this blogger that, everything that glitters is not gold:

"Was it not written that the fool and his riches shall soon part? Take thee heed of the laws of mathematics and heed the words of its prophets. Listen not to the wolves wrapped in sheep garments prophesying of great returns to come. Great shall be the pain of the transgressors."

Robinotep
April 21, 2008 at 3.19 a.m.

The failure of Cash Plus Group Ltd should not be an indictment of alternative investment schemes; rather it should be a reminder to us to follow the tenets of good investing:

1. **Learn all about the various types of investments and their related risks.** Risks and returns go hand in hand. Greater potential returns also means greater potential risks.
2. **Buy quality investments.** While speculation may sometimes look attractive, stick to stable investments with proven track records.
3. **Ignore investments that sound too good to be true.** Be alert to any falsehoods or lack of data and avoid investments that have these warning signs.
4. **Do your homework.** Only invest in companies after you have done proper research and analysis of the company's fundamentals — profitability, liquidity, debt structure. Do not be swayed by emotions. ●

Managing Money is Simple as ABC *Cont'd*

M. Mentor someone.

Mentor the children in your life. Teach them the value of a dollar, rand or pound. No matter what the currency, money does not grow on trees!

O. Own something.

Own appreciating assets. Remember, this is your accumulation phase. This is the time to lay the foundation for your retirement. What will you do with that designer luggage if you cannot afford to travel off the island?

N. Needs versus wants.

Know the difference between needs and wants. We may want a steak dinner every night but sometimes a good hamburger will do. It's nice to have several pairs of shoes but, unless you are a centipede, you only have two feet!

E. Be ready for emergencies.

You never know when it will be your turn to endure that rainy day, month or year. Most financial planners suggest that you keep

on hand, three to six months' worth of cash needed to cover expenses. This is just a guideline. You determine the amount that makes you most comfortable.

Y. You are your most valuable asset

Take charge and take care of your mental, physical and spiritual health. Lead a well rounded life. A good employer wants and needs staff who lead well rounded lives with an appropriate work-life balance.

Take a course, eat healthy foods, manage your weight, control your diabetes, meditate and pray. Do this for yourself, your children and your children's children.

Successful investors set goals and objectives and devise a strategy to accomplish those goals.