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# 'Your Money'

A **MONEYworks** Guide to Financial Fundamentals  
in association with



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# Editor's note

Contrary to what many of us believe, you don't need to make or inherit a fortune in order to thrive financially. When it comes to being financially secure and having the lifestyle you want, what really matters is how you manage the money you have.

While it is never too early to save or take control of your money, it is also never too late. As such, we've used this guide to lay out some financial planning fundamentals that any person can benefit from, no matter their age or financial situation.

'Your Money' highlights such personal finance essentials as making sure you have the right kind of insurance, creating a budget for your lifestyle, saving and investing for your long and short-term financial needs and turning an eye to the future by taking care of your children. To simplify things as much as possible, we've used US dollars as a reference currency throughout the guide.

We hope you find the following information useful and that you might even pass it along to a friend or family member. In addition, remember to keep reading **MONEYworks** magazine every month, as there are always a number of experts writing on many of the topics in this guide.

Kara Sensoli  
Editor



# The pillars of financial planning

It's not hard to grasp the fundamentals of personal finance. What's hard for many of us is the decision to take control of our financial situation. Then it's time to make a plan and stick to it.

**W**hether you're thinking of starting a family or already have children, you are no doubt aware of how quickly time passes. Because the future has a way of showing up much sooner than you expected, what you do with the time leading up to that future is critical, especially when it comes to the choices you make with your money.

You don't need great wealth to take advantage of time. All you need is an understanding of financial fundamentals and a desire to protect the ones you love. Making responsible financial choices will not only allow you to look after yourself and your loved ones today, but will also ensure that your family has a secure and happy future for generations to come.

## Protecting what you have

You may not realise it, but your ability to earn an income is your most valuable financial asset. Your income guarantees that bills are paid, that school tuitions are provided and that your family's lifestyle is maintained. So what would happen if you were suddenly unable to supply that income? Or worse, what would happen if your family had to survive without you altogether?

It's never pleasant to think about, but the fact is that your unexpected death or disability could have an enormous impact on your family's financial situation. Wouldn't you feel better knowing that your family would be protected if something happened to you? Having the right kind of insurance can help to secure your family's financial welfare

## The Fundamentals

and allow you to rest easier knowing that they will be taken care of no matter what.

To obtain maximum security, it's a good idea to be in possession of health insurance, life insurance, income protection insurance and possibly even critical illness insurance. For each insurance policy you acquire, you will agree to pay a designated premium (a regular periodic payment) and your chosen insurance company will agree to cover you for certain losses you might suffer.

### Health insurance

Sadly, accidents and serious illnesses happen to people of all ages. If you don't have health insurance, then you may not be able to afford medical care when you really need it. Ask yourself what you would do if you or someone in your family needed minor surgery. It may not sound serious, but even a seemingly simple

procedure could end up costing you well over US\$10,000. Would you be prepared to pay this bill on your own?

With health insurance, your family has the benefit of obtaining quality medical services when they're required. More importantly, your insurance company will pay for a portion of your medical bills, so you'll neither suffer a large financial burden nor be forced to borrow money or compromise your family's lifestyle.

Many people are lucky enough to be covered under a health care plan provided by their employer or their spouse's employer. However, if you don't have the benefit of a group plan through work, you can purchase an individual health insurance policy on your own.

### Life insurance

If your family depends on your income for their financial survival, then you will want to ensure that they are protected in case something happens to you unexpectedly. Life insurance pays your beneficiary upon your death and can help satisfy final expenses, replace the loss of your income, send your children to college or even pay off a mortgage.

When you buy life insurance, the premium you pay will depend on factors such as your age, sex and health. There are two basic policies that you can purchase. With term life insurance, you pay premiums for a specified term and receive coverage during that term. At the end of the term, you may have to renew your policy for a higher rate, depending on how much your situation has changed. Whole life insurance costs more

than term life insurance, but it builds cash value over time. This means that you could potentially submit the policy for its cash value or take out loans against it. Moreover, the premium and death benefit for whole life insurance generally stay the same for the rest of your life, even if your health changes.

### Income protection insurance

It is not uncommon for an illness or accident to prevent someone from working for an extended period of time. If you are unable to work for more than a month and, in the meantime, find yourself with extra medical bills, your finances could take a serious turn for the worse.

Income protection insurance will generally pay you up to 75 per cent of your income if an illness or injury prevents you from working. It means you can still pay your bills and meet your other financial commitments so that your family's lifestyle does not suffer and you can focus on a worry-free recovery.

### Critical illness insurance

If you suffered a critical illness, would you be able to handle the extra expenses associated with your recovery? Recovery from a critical illness is usually lengthy and expensive, and traditional health insurance may not provide the coverage you need to survive a critical illness and protect your quality of life. More than half the cost of cancer treatment is not covered by traditional health insurance.

Unlike income protection insurance, critical illness insurance will give you a lump sum cash payment if you are diagnosed with one of the critical illnesses or conditions listed on your insurance policy. You can use this cash benefit however you choose, so you



are free to get the treatment you want, pay your bills and spend quality time with your family.

## **Saving for emergencies**

While insurance can act as a lifesaver, it may not cover more mundane crises like job loss or expensive auto repairs. If you have no savings or investments to assist you in emergencies, you may have to borrow money or rely on credit cards, thus racking up significant debt that could take you ages to pay off.

By building up a substantial savings account, you will have access to immediate funds when you find yourself in desperate need of cash. Most financial planners recommend that you keep three to six months of income in this account. A money market account will pay you higher interest than a regular savings account, but make sure your account has check writing privileges so you can get to your money when you need it.

Since most people do not have six months of income readily available to place in a savings account, it is a good idea to build up your account gradually. If you wanted to build your emergency fund by one month every year, you would have to save 8.3 per cent of your income each month. After six years, you would have a six month supply of emergency cash.

If you find it difficult to get into the habit of contributing to a savings account, you may want to have the money automatically taken from your salary or current account each month. This will ensure that you don't skip an installment or become tempted to use the money for something else. You can also give your account a boost now and then by depositing money you receive from birthday gifts, rebates, inheritances or insurance settlements.

# **Financial Plan**

*Investments  
Retirement Plan  
College Plan  
Insurance  
Taxes  
Estate Plan*



If you never use your emergency savings account, you will simply have more money when you retire. Or, you may be able to retire earlier with the extra money you saved.

## **Providing for your children**

For the average family, it can cost over US\$200,000 to raise a newborn child to age 17. However, if you consider the amount of money it will cost to send your children to college, that figure is just the beginning. Today, one year at a private college or university can cost over US\$30,000. Even moderately priced or more inexpensive schools can present a financial challenge to many families.

What's important to remember while your children are young is that time is money. If you have a lot of time, then compound interest can make your money go a long way, even if you start with very little.

Suppose you deposited US\$500 in a money market account for your newborn with an annual percentage rate of five per cent. If you deposited

just US\$1 a day in the account for the next 17 years, your child would have close to US\$10,000 to use for college. Imagine what this amount would be if you had deposited even more over the years, or if you left the money for even longer.

If you put any amount of money in an account with a competitive interest rate, you'll earn interest payments on your initial deposit. As each month goes by, you'll earn interest on everything in your account, so you are basically earning interest on your interest. Plus, the higher the annual percentage rate you can get, the more your bank will pay you each month in interest.

Over a long period of time, compound interest can really add up, so it makes good sense to start early and deposit funds whenever you can. What if instead of buying your child another new toy this week, you decided to deposit the money in his or her savings account? Years later, long after the toys have been sold at a yard sale or given away, your child may even thank you!



## Deciding on a financial direction

Creating a budget is the first step to financial well-being. Working out what you're making, what you're spending and how much you can afford to save will determine which financial path you travel.

**W**ithout a budget or monthly spending plan, it is difficult to keep track of where your money is going. You may even end up exceeding your income or plunging yourself into debt. As such,

it is very important to keep track of your spending each month, including how much you're saving and how much you're investing.

In order to establish a budget, you will want to set realistic spending

limits. If the amount you actually spend does not match your budget, then the budget will do you no good. Make sure your spending plan includes all of your day to day living costs (e.g. food, entertainment, etc.),

rent, utilities, loans (e.g. auto loans, mortgages, etc.), school tuitions and any other monthly bills you might have. Don't forget to factor in money that you put aside for savings or investments.

If you find that there is a discrepancy between the amount you expect to spend and the amount you actually spend, then you may need to track your spending for one month to determine where your money is going. Write down everything you spend money on and the corresponding amounts, including credit card charges. It's a good idea to categorise your expenses so you know what areas need work.

Once you have identified your actual spending, compare the amounts to those in your established budget. If you are overspending, then you will have to adjust your spending patterns to fit into your budget. Although reducing expenses in certain categories (e.g. loans) may be difficult, there will likely be a few areas in which you can cut down on spending.

## Your lifestyle

Following a budget does not mean that you have to sacrifice the quality of your life. It is simply a way to ensure that you have control over your money and will be able to reach your long and short-term financial goals.

The goal of a budget is to spend less than you earn, but what you do with the money you have left over each month is up to you. Extra money can be used to pay off debt, to boost investments or even just to enhance your family's lifestyle, whatever that means to you.

It is equally important to save

up for personal items you may want but can't immediately afford. If you decide to take an expensive family vacation even though you don't have the money to finance it, you may put yourself in debt and ultimately sabotage your future financial goals. However, by saving for those "luxuries" you might otherwise not be able to afford, you can have them without guilt and, more importantly, without affecting your family's financial lifestyle.

## Good debt or bad debt?

The most common forms of debt are mortgages, credit cards, auto loans, personal loans and student loans. In general, debt is viewed as something to be avoided at all costs. If you are spending all of your money paying off debts, then you will not have anything left to save or invest. In fact, debt may prevent you from affording day to day expenses, which in turn could sink you even deeper into debt. The further you get into debt, the harder it is to get out.

However, not all debt is considered harmful. Some debt may even be viewed as beneficial, as long as it is kept under control. The big difference between good debt and bad debt is that good debt creates value, whereas bad debt goes down in value immediately and has no potential to increase.

Debt that charges compound interest is bad debt. This means the interest charged on the outstanding balance, not just the original principle. Therefore, you end up paying interest on interest and principle, and then interest on the previous interest and principle. Even worse, since most goods and services that you purchase decrease in value, you may not even own them

by the time you are finished paying for them.

Examples of good debt are real estate loans (mortgages) and school loans. Because real estate generally increases in value over time, you could actually end up profiting in the long run. Furthermore, school loans are considered good because education increases your earning potential when you get a job, and most jobs increase in income over time.

Still, it is important to remember that no debt is good debt if it is out of your control, prevents you



## Budgeting

from paying necessary day to day expenses or hampers your lifestyle in such a way that it becomes unacceptable to you.

### Credit cards

There's no doubt that credit cards can be a valuable financial tool if they are used responsibly. You get more purchase protection with a credit card than you do with cash. They're more convenient. And features like free travel insurance, airline miles and reward points are just a few added bonuses that many credit cards offer.

However, if they are used irresponsibly, credit cards can quickly become bad news. Because it is less easy to keep track of what you spend with a credit card, many people get into the habit of overcharging and thus end up spending money they do not actually have.

If charging gets out of control, you may find yourself with a large monthly bill that you are unable to pay. Most credit cards do not require you to pay off the balance each month, but if you make a partial payment on your credit account, you are then charged interest. And if you pay only the minimum amount required each month, then you risk never eliminating the balance on your card, as you will only accrue more and more interest.

The worst part of building up credit card debt is that some or all of the items you purchased with your credit card may lose value or disappear, while the amount you paid for the items continues to increase. Imagine still paying for food you charged and finished eating months ago! The most important step in responsible

credit card use is to completely pay off your balance each month, especially if you are using your card for everyday purchases.

Before acquiring a new credit card, it is also important to make sure you know the interest rate you will be charged, the grace period for paying your debt before interest kicks in and your credit limit. Being aware of these things can ensure that you do not pay extra and unnecessary fees. Moreover, be sure to make your payments by the date and time they're due. You may suffer a large penalty on any balance you pay late.

### Auto loans

Sometimes there is no way around an auto loan. Most people need an automobile, and the cost of one is usually higher than most people can afford to pay in one lump sum. However, purchasing a car can be done sensibly or insensibly. The mistake many people make is purchasing more car than they need or can afford, which can quickly turn into bad debt.

All cars are guaranteed to go down in value. A brand new car generally loses value the minute you drive it away from the showroom, and most cars continue to lose 15-20 per cent of their value each year. How much you want to pay for a car is up to you, but it usually makes more sense to spend as little

as possible. After all, do you really want to shell out a huge amount of money for something that may be worth very little to you in several years?

It is also a good idea to pay off your loan as quickly as possible. Many people buy expensive cars when they can't afford them and then use long-term loans to reduce the size of the payments they have to make each month. However, taking a longer loan will end up costing you more in the long run.

Longer-term loans generally charge higher interest rates. Extending the average car loan from three to five years will typically cost an extra US\$2,000 in interest. Moreover, people who take long-term auto loans often end up selling or trading in their cars before they are even paid off.



**Income**

Salary/Wages

Salary/Wages (Spouse)

Pension

Interest or other investment income

**Total income**

**Expenses**

**Regular commitments**

Mortgage

Rent

Auto loan

Car registration and insurance

House and contents insurance

Telephone (home and mobile)

Television

Water and electricity

Internet

Life insurance

Child care

Tuition

College loans

Credit card payments

**Total regular commitments**

**Day to day expenses**

Groceries

Household supplies

Petrol

Clothing/Shoes

Prescriptions

Dry cleaning

Pocket money

Entertainment – videos, magazines, etc.

Hobbies

**Total day to day expenses**

**Occasional expenses**

Car repairs

Household repairs

Dining out

Medical

Dentist/Optical

Gifts

Travel/Vacation

**Total occasional expenses**

**Saving and Investing**

Savings account payments

Pension payments

Other investment payments

**Total saving and investing**

**Total of all expenses**

**Income minus expenses**

Because it is all too easy to buy a car you can't really afford, it is important to factor a car into your monthly budget before you actually buy one. Start by tallying your monthly bills and subtracting them from your income. Also take into account your monthly insurance premium, registration fees and how much you will spend on gas each month.

The smart rule of thumb is not to spend more than 20 per cent of your income on auto payments. Some financial planners even recommend spending less than 10 per cent of your monthly income on a car payment, especially if you have other debt. Just consider what your money could have earned in an investment or savings account if you hadn't put it into a car.

## Mortgages

If debt is taken on to purchase something that will appreciate in value, then the debt is generally considered a good one. Since homes appreciate in value, the mortgage loan you take out to pay for the home is an investment.

As the market appreciates and you pay down your mortgage loan, you end up with increasing equity in your home. Part of your mortgage payment goes toward the loan principle to reduce your obligation, and that builds up your equity. As your equity builds, you can then sell your property and take the profit or gain.

Of course, no debt is good if it hurts your financial health. It's true that unlike renting, buying a house gets you something for your money. However, make sure you consider what your mortgage payment would be compared to what you would

pay for rent. Owning a home can be expensive, and monthly mortgage payments are often more than the average rental payment.

If a mortgage payment is taking up half of your income, then it's unlikely that you are going to have much left for saving money, paying all of your bills or eliminating other debt. When you rent, you are likely paying a smaller portion of your income each month and thus have more of a financial cushion.

In most real estate markets, it is usually not the best idea to buy a home if you don't intend to keep it for more than a few years. If you were to sell your home after a short period of time, it's possible that you might not even break even on the closing costs incurred when purchasing the home. In general, you may not see the financial benefits of buying for at least five to 10 years.

However, because different markets offer different rates of return, there may be times when it actually makes sense to buy a home as a short-term investment. The UAE market, for example, has given returns beyond most real estate markets in the past three to five years. As such, it's important to research the market in which you plan to purchase a home, as some real estate investments are likely to be far more profitable than others.

Overall, if you are raising a family and want to reap the benefits of owning your own home, buying real estate can be a great investment, as long as you make sure you are not buying more house than you can afford. As with a car loan, it is a good idea to work out what kind of payment you can comfortably make and not exceed your limit.



# Building for the future

So you've decided on the financial course you want to take. Here are a few ideas on what you need to do to get to where you want to go...

**E**veryone has different goals for retirement. Where do you see yourself at age 65? Relaxing on the porch of your beachfront holiday home? Helping your children or grandchildren graduate from college without debt? Taking a trip around the world financed by your retirement funds? Whatever your goals may be, chances are you don't still want to be working when you're well past retirement age.

To achieve your future goals, it's essential to start putting away money for retirement as early as you can. The sooner you start, the more you'll have when you retire. If you wait too long, you might not have enough to finance the lifestyle you've envisioned. In fact, you might not even be able to afford to stop working. As governments are unlikely to be able to support people after they retire, it is important to make your own financial arrangements to ensure that you will be able to survive.

## Retirement basics

Here's a fairly simple example. Say you wanted to retire at age 65 and started putting away money for your retirement at age 25. If you saved US\$2,000 a year and your earnings grew at eight per cent annually, you would have around US\$560,000 for

retirement. However, if you waited to start saving until you were 35, saved US\$2,000 a year and received an investment return of eight per cent per annum, you would only end up with US\$245,000 for retirement – less than half the money.

Time can make a huge difference in retirement planning. The longer you wait, the more you will have to put away each year in order to reach your goals. Most experts suggest putting away at least 10 per cent of your income each month, although 15-20 per cent is better. If your company offers a group pension plan, it's a good idea to get involved, as many plans offer matching contributions. If you don't have access to such a plan, you can contribute to an individual retirement account.

### Know your net worth

When you're thinking about investing or planning for retirement, it is important to know your net worth. You need to know where you stand now so you can figure out what you need to do to reach your financial goals.

Your net worth is the difference between your assets (what you own) and your liabilities (what you owe). The first step in determining your net worth is to calculate the value of all your assets. This includes liquid assets (e.g. current or savings accounts), investments (e.g. stocks, bonds, mutual funds), real estate (e.g. primary residence, vacation homes) and personal property (e.g. cars, jewellery, electronic equipment). Make sure to use the current value of your assets, not what they may be worth in the future.

The second step is to calculate the value of all your liabilities. These include mortgages, car loans, credit

card debt, school loans or any other loans you might have. (Use loan or credit card balances.) Now you can calculate your net worth by subtracting liabilities from assets.

As long as your assets exceed your debts, you have a positive net worth, which you will want to continue to grow. If you have a negative net worth, you may need to step back and evaluate your spending patterns. It's important to spend less than you earn, so it may be necessary to create a budget to cut back on your expenses. Then you can focus on increasing your net worth.

### Building wealth

To determine the best investment strategy for your goals and financial situation, it is best to consult an independent financial advisor (IFA). An IFA is a professional who can offer you unbiased advice on most financial matters. This person will try to learn as much as possible about you and your financial goals and will then recommend suitable financial products to help you achieve those goals.

Because your IFA will hold a lot of information about you, it is important to find someone you trust. You should also ask for a contract in advance so that both you and your IFA understand how he or she will be paid. An IFA is generally paid in one of two ways. You can pay the IFA an agreed upon sum for his or her time, or the IFA can be paid out of the money you pay to the product provider.

It is also best to find an IFA who will take as much time as necessary to explain what you are investing in. If you don't feel comfortable with what your IFA is recommending, then don't go through with it. Also, remember to be skeptical of investments that

## DETERMINING YOUR NET WORTH

ASSETS	US\$
<b>Current/liquid assets</b>	
Cash available	_____
Current accounts	_____
Savings accounts	_____
Money market funds	_____
Cash value: life insurance	_____
Other liquid assets	_____
<b>Total liquid assets</b>	_____
<b>Personal use assets</b>	
Home/residence	_____
Personal property	_____
Cars/other vehicles	_____
Collectibles	_____
Other personal use assets	_____
<b>Investment assets</b>	
Bonds	_____
Stocks	_____
Fixed income assets	_____
Mutual funds	_____
Commodities	_____
Investment real estate	_____
Retirement plans	_____
IRAs/Keoughs	_____
Other investment assets	_____
<b>LIABILITIES</b>	
<b>Current Liabilities</b>	
Rent/mortgage payment	_____
Utilities	_____
Credit cards	_____
Taxes	_____
Car payments	_____
Other current liabilities	_____
<b>Total current liabilities</b>	_____
<b>LONG TERM LIABILITIES</b>	
Home mortgage	_____
Car/Vehicle loan balances	_____
Educational loans	_____
Business loans	_____
Other long term liabilities	_____
<b>Total long term liabilities</b>	_____
<b>Total assets</b>	_____
<b>Total liabilities</b>	_____
<b>Summary:</b>	
Assets US\$_____ less Liabilities US\$_____ =	
<b>TOTAL NET WORTH: US\$_____</b>	

## Building your financial future

seem too good to be true or offer very high returns. A good investment is generally one that can boast consistent, long-term performance.

### Save or invest?

It is important to note that saving and investing are two different things. Saving is usually associated with short-term goals, like building an emergency fund or buying a car, whereas investing is generally associated with long-term goals, like planning for your retirement.

Saving means placing your money in an account that will keep your principle safe and earn you interest on your money. The good thing about a savings account is that the interest you earn, however low, is pretty much guaranteed. If you were to invest in

stocks, the interest rate would vary, giving you a variable rate of return. Moreover, because it is possible that an investment could harm your principle, many people believe that savings accounts are a better idea for money that is needed in the short-term.

There are several types of savings accounts that you can acquire. For a basic savings account, the minimum deposit requirement is low, usually from US\$5 to US\$200. Your money will earn interest at a relatively low rate, but you can put money into and take money out of your account whenever you want.

A money market account will require a larger minimum deposit and the account may limit the number of times you can withdraw money.

However, this account will usually earn a higher interest rate than a regular savings account.

Most banks offer term deposits that will also give you a higher interest rate. However, remember that the minimum deposit requirement will likely be much larger than a regular savings account and you are required to keep your money in the account for a specified period of time, usually from one month to five years.

The downside of a savings account is that its relatively small return potential may not be able to keep up with the inflation rate as the cost of living increases. If you want to achieve your long-term financial goals, then your money probably needs to grow faster than inflation. As such, investing is generally viewed as the better option for earning a lot more money over a longer period of time.

### Investing

Because the market changes and investments fluctuate in value, investing does involve greater risk to your principle than saving. However, if you do your research and make wise investment decisions, you can avoid losing the original principal, and the much larger



monetary rewards associated with investing can make any short-term uncertainty well worth your while.

Different financial instruments have different levels of risk. Generally, the higher the risk, the more you could gain or lose. The investments you decide to make will ultimately depend on how much risk you're comfortable with. Your age, financial situation, time frame and family commitments are all factors that you should consider when determining how much risk you are willing to take. If you are unsure, an IFA can help you to ascertain your risk tolerance.

### Life stages

As the stages of your life progress, your investment and income needs will likely change as well. Whether you are starting a career, raising a family or getting ready for retirement, the amount of time you have to accomplish your goals will influence your choice of investments.

There are three main investment objectives that you will want to consider: capital preservation, current income and capital appreciation. The idea of capital preservation is to maintain the initial value of your investment. Current income seeks to provide you with regular revenue while still preserving the value of your investment, and capital appreciation is aimed at increasing the value of your investment over the long-term.

If you are single and do not have the expenses associated with raising a family, then it might make more sense for you to consider more aggressive investment strategies that will give you maximum capital appreciation, even if it comes at a high risk.



However, if you have a lot of family obligations and monthly expenses, then you might want to focus on investments that draw current income as well as seek capital appreciation.

If your kids are finished with college or your current expenses have decreased, then you will probably be able to invest more of your income than you previously did. You may also want to allocate more towards your approaching retirement. If you plan to retire very soon, then it may be a good idea to keep risk level at a minimum and focus on securing a lump sum that will provide you with income during your retirement.

### Investing in stocks

Publicly owned companies sell shares of stock to raise money for their financial needs. When you own stock, you actually own part of that company, and the value of your share rises and falls as the company's value changes.

When stock prices go down, you don't actually lose anything unless you sell your stock while the price is low. You can recover your loss the next time the stock rebounds, but if you sell your stock when it is down, your loss will be final. Also realize that not all stocks that decline in value end up recovering.

As stocks do not offer a guaranteed return, it is important to choose them carefully. If you don't understand something, then don't invest in it. Doing your homework and making an informed decision will give you a greater opportunity for return on your investment.

### Investing in bonds

Bonds are known as fixed-income securities because their income is fixed at the time the issuer sells them. When you buy a bond, you

are lending the bond issuer money in return for a fixed rate of return. This interest is usually paid quarterly, but is sometimes paid when the issuer repays the principal it borrowed from you.

Governments and corporations are examples of large organisations that issue bonds. With corporate bonds, remember that some are safe and others are risky. High-yield bonds pay a higher interest rate, but they are issued by companies with a below investment grade credit quality. As such, these bonds are known as "junk bonds".

Most people who buy bonds do so because bonds are generally a safer investment. However, bonds do carry the potential risk of default, no matter how minimal that risk may be.

### Mutual funds

Mutual funds are a way for investors to pool their money so they can invest in many different stocks. Each investor is charged a percentage of his or her investment as a fee to pay for a professional fund manager and various other expenses, including researching, buying and selling stocks.

Mutual funds are a good alternative because they diversify your portfolio among a larger number of stocks than you could achieve by purchasing individual stocks. Moreover, they don't require a lot of money to get started. Like stocks, some mutual funds are riskier than others, so you will want to be sure to read the fund's objectives and know exactly what it invests in.

Mutual funds tend to be less risky than individual stocks because their investment in any one stock is small compared to their entire holdings. If one company crashes, it will not have a huge effect on the fund as a whole. ■

# Where there's a will, there's a way

Planning for what might be is easier than we think. The future always arrives sooner than we expected, so why not help our loved ones by making sure we're prepared?

**M**any people think that estate planning is something they will not have to worry about until later. However, as accidents or misfortune can occur at any time, it is important to have a will to ensure that such issues as guardianship for your children and disposition of your assets are handled the way you want.

A will is a legal document that is used to transfer the assets you own to the people you want to leave them to after your death. In it, you must name someone who will enforce the will and ensure that your wishes are carried out. This person is called the executor. It is also a good idea to name an alternate executor, in case your first choice is unable to do the job.

In your will, it is especially important to name someone who you would like to raise your kids if you are not around. When you have done this, you will likely rest easier knowing that your kids will be looked after by someone you trust if something should happen to you. Here it is also prudent to name an alternate, in case your first choice is unable to assume the responsibility. Make sure you talk to your chosen guardian first and ensure that he or she is capable and willing.

The first step in estate planning is to list all that you own. Don't forget items that mean something to you even though they may not have monetary value, such as family photo albums or favorite books. Then decide how you want these assets and items distributed if you die. You may want to use percentages rather than dollar amounts, in case the values of your assets increase or decrease.

Even if your estate plan is not very complex, it is important to review it periodically. As significant events occur or the value of your assets changes considerably, you may want to change the terms of your will.

## Living wills

A power of health care and a power of attorney are generally necessary to ensure that your wishes are carried out if you suffer a serious accident or illness and are unable to make your own health care and financial decisions.

Most people can tell you what kind of health care they would or wouldn't want to receive if they were unable to make their own decisions. A living will is a document that specifies how you want to be treated if you are terminally ill or incapacitated.

By creating a living will, you will receive the care you want and save your loved ones from having to make difficult decisions on your behalf. Your living will can include any wishes you have concerning preferable medical treatments, hospital or nursing home arrangements and funeral arrangements.

A power of attorney allows you to appoint someone else to manage your financial affairs if you become unable to do so yourself. You will want to choose someone you trust, as this person will be able to pay your bills, enter into contracts, buy and sell property and handle all other financial affairs on your behalf. The power of attorney lasts until you die, unless you decide to revoke it. ■



# Teaching your children to save

What if you'd known as a child what you know now? Imagine getting into the habit of saving as you learn your ABCs...now there's a financial future.

**H**ave you ever looked back at your life and wished you had started saving or investing earlier? Children who learn to save money at an early age are much more likely to practice responsible money management when they are adults. Because children so often model the behaviour of their parents when it comes to spending or saving money, it is important to set a good example for your children and teach them the things you wish you'd been taught.

A good first lesson to teach your children is that if you want something, you have to save your money for it. Take your children with you when you go to the bank. Show them how you make deposits and explain to them why you are saving money. Your reason might be for something practical, like an emergency or college fund, or for something fun like a family holiday.

To start, you could provide each of your children with their own "bank account" at home and then encourage them to save part of their allowance, or perhaps money that they receive as gifts or from doing household chores.

Once your child has a home bank account in place, it is a good idea to help him or her establish a savings goal. If there is something your child wants, sit down with him or her and figure out together what the item will cost and how he or she can save money for it. Try giving your child options for reaching his or her goal. For instance, you could point out that saving half of a monthly allowance will take twice as long as saving all of it.

Once children understand the value of saving money to reach their goals, you might want to open a real savings account for them or even introduce them to other investment vehicles, such as bonds or mutual funds. Explain to your child how interest works and can earn you more money over time.

Some parents don't teach children about money because they think they shouldn't talk about money with children. However, children are very interested in what their parents do. Don't be afraid to talk to your children about your finances or to include them in money management discussions and decision making.

If children can watch and even participate when their parents budget, pay bills, save money and make investments, it will likely capture their interest early on and stick with them up to the time they are ready to manage their own finances.

Making responsible financial decisions and planning for the future are both vital in having the financial lifestyle you want. Additionally, why not ensure that your children are given the tools to plan for their financial futures as well? If you teach your children about proper money management, as well as about good saving habits, then you are not only setting them up to be able to protect themselves, but also to have the best future possible. ■



# A brief introduction to a new look Mashreq

Mashreq has just launched a brave new, customer-centric look.

One of the oldest locally incorporated banks in the region, Mashreq is at the forefront of the banking industry in the United Arab Emirates (UAE). Celebrating its 40<sup>th</sup> anniversary in 2007, Mashreq is today the largest private bank in the UAE, with a reputation for innovation and an unparalleled pioneering spirit.

Just as the UAE has enjoyed strong and consistent growth in

cash dispensers, the first to issue debit and credit cards and the first to introduce consumer loans and comprehensive mortgage products.

Our focus on understanding and delivering our customers' needs has led us to be named the "Best Bank in the UAE" by Euromoney magazine in 2006 for the third time. At Mashreq we believe that it is vision, leadership and a single-minded devotion to clear goals which set us apart. We have

Our customers' needs direct our plans, define our approach to customer service and drive our pursuit of excellence. The possibilities are endless. Financial strength; a breadth of products, services and solutions; strong customer relationships; a strong brand - these are just a few of the attributes that make Mashreq proudly stand out in the financial services marketplace.

## Understanding the needs of our customers

At Mashreq, we know that we have a diverse customer base, and we develop products and services to cater to this diversity. Some recent developments include the introduction of Mashreq Gold, a premier banking service especially designed to put customers in better control of their money and time. It offers a wide range of exclusive benefits and services to assist customers in reaching their financial goals. At the heart of the Mashreq Gold experience are skilled relationship managers who guide the customers through every financial decision.

Badr Al Islami is our Islamic Banking initiative, focusing on customers looking for true Shari'ah compliant products to meet their financial needs. Our Small & Medium (SME) business initiative focuses on understanding that each organization is different and is looking for solutions that are right for them.

Mashreq continues to build on the success of the past, keeping an eye firmly fixed on the future to cement its position as one of the leading financial institutions throughout the region. ■



Mashreq CEO, Abdul Aziz Al Ghurair

recent decades, Mashreq has continued to expand the range of services it offers to customers, becoming a fixed and highly respected part of the financial landscape for businesses and individuals across the country.

## Innovation, consistency and prudence

Mashreq has a reputation as a true pioneer. Over the past 40 years it has been consistently ahead of the competition in the development of new products and services. Mashreq was the first UAE bank to install ATM

built an organisational culture around a strong customer focus.

## Celebrating 40 years of forward thinking

This year has seen the launch of the new face of Mashreq, a reflection of our commitment to constant improvement. With one overriding theme 'Opening the Way', Mashreq's new identity is more than just a logo – it's a new brand direction that aims at enhancing Mashreq's relationship with its customers and partners to position the bank as the fastest, easiest and most up-to-date way to do business.

# Helping customers design their financial future

A conversation with Omar Asghar, Head of Affluent Segment, Mashreq.

## Where do you think the future of financial planning in the UAE is headed?

Financial planning and our need for it is driven at two levels – global and local. The global market is moving towards a more interactive form of financial planning where customers want a greater role in planning their future. They want to be involved, they want to be consulted; in short, they want to be seen as a partner. We have seen a more global view of financial planning, driven by relationship rather than products. In this new mindset, we have to help customers maximise the value they get from their financial planning.

## How does Mashreq help its customers with their financial planning activities?

At Mashreq, we believe in looking at our customers' needs not just in the immediate term, but also months down the road. We understand that our customers' financial needs fall into four basic quadrants based on whether they are looking to borrow, grow their assets, gain financial protection or are seeking convenience. This becomes the foundation of how we understand our customers and help plan their financial future, based not on the products we can sell them, but on what they need to make their financial goals a reality.

## Are you providing any channels for the customers to educate themselves on the fundamentals of finance?

We believe that customers should have access to clear unbiased information about their finances.



For this reason, we've introduced a 'Perspectives' section on our website that focuses on customer education on financial topics. It is not a marketing tool; it does not talk about our products or services. What it does is talk about the things that our customers care about; for instance, the value of teaching children to save or what to look out for when buying a house. We see this as a window that people – not just our customers – can use to access information that they care about, from a source they can trust.

## What products do you offer that are in line with these ideas?

We are looking at solutions rather than products and are developing bundled offerings that address the different needs of our customers. For instance, in keeping with our commitment to helping our customers get the best value of their investments, we offer a "Zero-Down Mortgage". When you get a mortgage, we will keep the down payment with us as your savings that you can put into an investment product, time deposit or

savings account. By bundling savings and investments together, we can help our customers maximise the value of their assets. Another example is our "Easy Saver" account that rewards you for every dirham you save. The more you invest, the better your return, encouraging customers toward a more savings-oriented approach. Our "Unfixed Time Deposit" combines the high return of term deposits with the flexibility of a savings account.

## Is there anything more you would like to add?

Understanding our customers and providing them with the solutions they need is our biggest driver for the future. Within each customer segment, we need to zone in on specific needs and manage them in the most professional way possible. For instance, we cater to our affluent customers through our Mashreq Gold services. We were the first bank in the region to have our customer relationship managers be certified by an independent authority to be able to sell investments. That is part of our commitment to this segment - our customers will always speak to a person who understands the market, the products and their needs. These needs are not just financial; we also look at the non-financial side of things. For instance, what activities they enjoy both individually and with their families. We are not just talking to them about investments – we also talk to them about things like yoga or feng-shui because we know that these things matter. As a company, we focus on understanding every facet of our customers to help them design their financial futures.

# Beyond the dotted line

Mashreq Gold is the premier banking service from Mashreq, specifically designed to put you in better control of your finances and time. Your personal relationship managers will facilitate you in reaching your goals through our wide range of exclusive financial and lifestyle benefits and services.

Mashreq Gold. Reaching Higher.

For more information please call Mashreq Gold Phone Banking on 800 4 GOLD (4653), visit [www.mashreqbank.com](http://www.mashreqbank.com) or e-mail [mashreqgold@mashreqbank.com](mailto:mashreqgold@mashreqbank.com)

