CAPITAL MARKETS AUTHORITY

Promoting the Integrity and Growth of the Capital Markets

CAPITAL MARKETS INVESTMENT

Opportunities for Retirees

INTRODUCTION

- A retiree is a person who has stopped actively working i.e. retired from employment.
- A pensioner is a person who is entitled to pension and other retirement benefits. Only 20% of Kenyan workers are enrolled in pension schemes. The pension industry in Kenya is worth over KSh1. 2 trillion in terms of assets under management and only about 20% of workers in Kenya are enrolled in pension schemes.
- Statistics show that 86% of Kenyans risk sinking into poverty after retirement. Only one in every seven working Kenyans is fully confident about their financial well-being after retirement. Majority (86 per cent) risk sinking into poverty upon retirement.
- The Authority is interested in securing a better financial future for retirees by facilitating their investment in the capital markets. This can be accomplished by targeting this constituent with a robust capital markets awareness programme and advising them on the products available in the market.
- The Authority has established that a significant number of retirees are vulnerable to fraud such as pyramid schemes due to their lack of information on capital markets and to some extent, some desire to invest their pension in 'ponzi schemes. But with relevant information it is the Authority's belief that the retirees will be well equipped with the proper tools to protect themselves from scammers.

Opportunities for Investment for Retirees

- The products available in the capital market are Stocks, Bonds, Collective Investment schemes, Global Depository Receipts, Exchange Traded Funds, Real Estate Investment Trusts.
- Stocks represents an ownership in a public limited liability company, it can be obtained through an Initial Public Offering (IPO), Rights Issue or purchase at the Nairobi Securities Exchange.
- Bonds are debt instruments that tend to attract institutional investors and trade in large blocks.
- M-Akiba Bonds allow investors to purchase Government Bonds with as little as Kshs. 3000.
- Collective Investment Schemes are investment vehicles where resources are pooled together from various people in order to invest in numerous stocks and other securities.
- An exchange Traded Fund is a marketable security that tracks an index, a commodity, bonds or basket of assets like an index fund.
- A Global Depository Receipt is a certificate issued by a depository bank which purchases shares of foreign companies and deposits it on the account.
- Real Estate Investment Trusts are pooled investments typically designed to enable the investors to benefit from investments in large-scale real estate enterprises.
- Derivative instrument is a financial instrument whose value is derived from the value of one or more underlying assets. Derivatives generally take the form of (legal) contracts in which two parties agree to payoffs based upon the value of an underlying asset or other data at a point in time.

THE PROCESS OF INVESTING IN CAPITAL MARKETS

1.

Conduct 'financial self-examination'
- Analyze your financial objectives, your income sources, constraints and risk tolerance. Ask whether you are financially ready to invest in the capital markets.

2.

Deal only with licensed Entities
- Identify your financial investment advisor and open a CDSC account with them. Your investment advisor must be a licensee of the Capital Markets Authority (CMA).

3.

Open a Central Depository System (CDS) account
– This is a computer system operated by Central Depository and Settlement Corporation (CDSC), which facilitates holding of securities in electronic accounts opened by shareholders. It manages clearing and settlement of all financial instruments traded through the Nairobi Stock Exchange (shares and bonds) in a safer, faster and easier manner

4.

How to open a CDS Account
- You open a CDS account by completing an signing a securities account opening/ maintenance form with your Central Depository Agent (CDA), providing two recent passport size photographs and a photocopy of your national identity card. A CDA is a central depository agent, either a Stockbroker an Investment Bank or a Custodian Bank, who has been authorized by Central Depository and Settlement Corporation (CDSC) to open CDS accounts on behalf of investors.

5

Take Control of your Trading Account.
Ensure that your stockbroker/investment bank does not trade in your account without your knowledge. It is important to make sure that you are receiving all documents relevant to your transactions including; receipts, transaction statement, purchase and sales contracts, CDS account statements, etc. To know the status of your account, obtain a statement from your broker/ investment bank, or CDSC. You can also register for a CDSC SMS service by sending the word register to 2372 to keep you updated on movement in your account. Ensure you take full responsibility of your trading account at your Investment Bank or Stockbroker. These accounts are for your exclusive use. Never let anyone, including your dealer trade in your account without your knowledge or consent.

HOW TO BE A SMART INVESTOR

- Know what investment products are available. Find out what financial products are available in the market before investing. This information can be obtained from any of CMA's licensed institution as well as the Authority's website at www.cma.or.ke.
- Know your investor profile. All investments carry risk; some very much more than others. You must find out whether you are a "risk-taking" or "risk averse" type of a person, so that you can pursue an aggressive, moderate or conservative investment programme, in other words, an investment strategy that fits your risk profile.
- Choose the right investment product. Know the various financial investment products available in the market and do an analysis of each and make a choice. But if you cannot make the right choice, seek advice from a professional advisor licensed by CMA.
- Do your homework before you invest. Do not put your money in any investment until you have understood all relevant information regarding the investment. Prepare yourself to do (or have your broker, investment bank or investment adviser do) the vigorous homework of analyzing company annual reports, accounts and other statements while keeping abreast of what's happening in the industry, country and elsewhere in the investment world. The rule with buying stocks is caveat emptor: Let the buyer beware.
- Build your buffer. First do not embark on any investment programme if you have not built up a liquidity or cash buffer to take care of financial emergencies. The buffer is vital otherwise a financial mishap can cause you to plunder your investment programme too early for it to gain momentum. Understand the greater risk of investing with borrowed money.
- Think Long Term. Bear in mind that in any investment, there will always be short-term aberrations that will even out in the long-term, so have the sustaining power to hold your investments for longer periods. History has shown that investment markets always recover and move on to new heights. But if you decide to turn speculator and go for quick-grabs, do so with your eyes wide open and never with more money that you cannot afford to lose.
- Avoid putting all your eggs in one basket. The best way to minimize total risk while keeping return rates high is to diversify your investments across various investment products and within asset classes.

For further information, please contact:

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