

Financial planning narrative essay

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Investment is not as simple as it seems. For, many people often wonder which of the different types of investment processes will yield more money in the shortest possible time (Weston, 1996). People often equate the viability of investments in terms of many factors including safety, risk, income, growth, and liquidity. The following paragraphs explain these decision making factors in detail.

BODY

Stock or Equity Financing. The investor will feel safe if he invests in a company that has a historical trend of generating profits (Gapenski, 1997). For, he gets a share of the income if the company makes money. On the other hand, the investor will have a high probability of squandering his or her money if the company he or she invests in has been generating losses for the past year or years of operation. To reiterate, he will generate income if the company generates income. Also, he or she will find his or her investment money decrease if the company generates losses.

For, his or her investment in stocks or equity financing will grow if the company generates profits in its generating activities. Thus, if the company generates losses, the company will stop growing in terms of net assets. If the assets of the company are liquid, then this is a good investment. Liquidity is how very near the assets like inventory, accounts receivable and the remaining other assets can be easily converted into cash. Cash is the most liquid asset. The investor is the stockholder or owner of a certain percentage of the company. Surely, future income is unpredictable.

Corporate and Government Bonds. The investor will feel safe if the company he lends his money has been generating income for the past year or years of operations for there is strong probability that the company will have enough money to pay the bond investor. Evidently, this is a lender (investor) & borrower (loaner) relationship. Likewise, if the company is generating profits for the past years, then there a miniscule risk that the creditor will be paid when the due date for loan payment arrives.

The income of the investor here is based on a pre -agreed interest rate. Thus, future interest income can be predicted. The growth is predictably fixed based on the periodic interest income rate agreed by the parties. Investment here is very liquid because the investor received fixed interest income on the money he lent to the company. Definitely, investment here is very predictably fixed.

Mutual Funds. Here, money from a group of investors is collected and invested in bonds, stocks and other short term money market securities and instruments. This is a safe investment because the mutual funds are invested by an expert third party in stocks, bonds or cash options such as Euro dollar, and other foreign currencies in what we call forward contracts. Thus, investments here are safe and the risk is very minimal. The income is very assured because money is invested in several income -generating companies.

The mutual fund representatives are generally experts in giving advice on which funds to invest money in. The mutual fund advisor gathers data and analyzes the peculiarities of each fund and determines the optimal mix of

securities and communicates this to the investor. Consequently, money invested here will grow fast because of the expert management of the mutual fund advisors. Finally, liquidity is reassured because the money invested in the different funds can be easily divested and the cash investment withdrawn. Clearly, future income here is unpredictably in the investor's favor.

Real Estate. Investment in real estate is very safe because the market value of land continues to escalate upward. Thus, there is a very small risk in real estate investments. Investment in land is very reassured because land prices continue to rise each year. Furthermore, growth will undoubtedly unfold each year. This investment is very liquid because, land can easily be sold and converted to cash anytime of the day. Investment here is very lucratively predictable.

CONCLUSION:

Four of the more popular investment methods are 1) Stock or Equity Financing 2) Corporate and Government Bonds 3) Mutual Funds 4) Real Estate. The bottom line here is that the investor is interested to know if he or she will make money from investing his or her hard earned cash and cash equivalents. In conclusion, each investor will often choose the method which he or she is very comfortable with.

REFERENCES:

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