# 12 principles for **saving** and **investing**

in medium- and long-term investment solutions


This guide has received the label

Stratégie nationale d'éducation économique, budgétaire et financière
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# You wish to save and invest your money

Saving means not spending a portion of your income, in other words putting some money aside. Your money is therefore safe and available, but its value decreases each year by the level of inflation. To guard against this, you can invest these savings in financial products that fit your needs. Investing entails a certain degree of risk but offers the potential for medium- or long-term financial gains.

The aim of this educational guide is to help you understand a financial universe that may at times seem complex and take charge of your savings. It provides a simple process based on 12 principles to enable you to:

- **ask yourself the necessary questions to define your goals,**
- **familiarise yourself with basic savings and investment concepts,**
- **play an active role in selecting and monitoring your investment solution**.

Throughout this process, you will acquire the knowledge you need to take a methodical approach to managing your investments. This will help you avoid certain pitfalls and mistakes that might prevent you from achieving your goals.

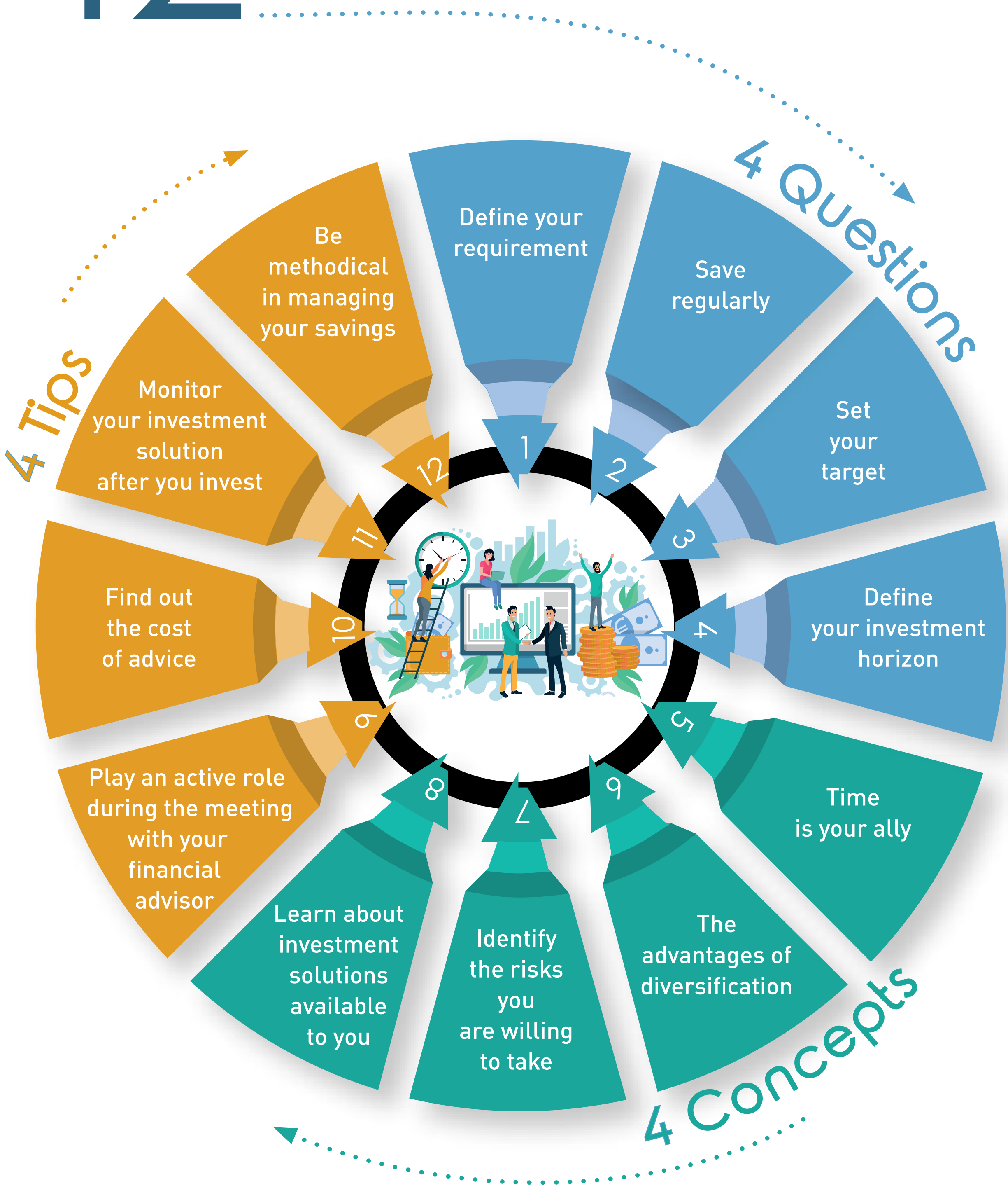
This guide can support you in preparing for your meeting with your financial advisor, when the time comes, to ensure a constructive dialogue.

## Your savings and investment approach will be based on how well you define your situation and personal goals.

As there is no single solution that covers all your requirements, you will need to make choices to ensure that the return on your money is sufficient to finance your day-to-day or longer-term life goals.

? The definitions used throughout this guide come mainly from the public portal mesquestionsdargent.fr.

# 12 principles for saving and investing

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# 1 Define your requirement

Your savings are the portion of your income that is not spent today.

Building up savings allows you to accumulate assets*.

Therefore, as much as possible, when balancing your budget* make sure you have enough savings **to eventually achieve your goals.**

The first question to ask yourself is what are you saving for:

- for example, are they precautionary savings, available* at any time to deal with an unexpected expense in everyday life?
- project savings, for example to purchase a vehicle or a home?
- income or future capital savings, for example to supplement the payments you receive when you retire?

You can then organise your savings based on your needs.

Occasional cash receipts (donations, inheritances, loans, etc.) can also supplement your savings to help bring your plans to fruition.

*Assets

All property evidenced by a title of ownership or to which a right can be asserted and which can be sold.
While an inheritance is frequently an asset source, assets are also built up with property acquired on your own.

*Budget

Estimated income and expenses for a given period.

*Availability of savings

An investment is considered "available" when savers can get their savings quickly.
Savers must take into account any fees, penalties or losses of advantages (including tax) specific to each product.
Some products are unavailable until a certain date (for example, employee savings or retirement products).

# 2 Save regularly

By putting money aside on a regular basis, you avoid having to struggle to save when you need money (precautionary savings), which can create pressure for you in your day-to-day consumption.

As part of a medium to long-term plan, saving – and therefore investing – regularly will also help you avoid certain behavioural biases, such as trading too often and/or entering the stock market at the wrong time.

By saving regularly, you **build up financial wealth that increases in value and protects you** against the loss of purchasing power* caused by price increases*.

*Purchasing power

Amount of goods and services that you can purchase with your income. The change in purchasing power is linked to changes in income and prices. If income increases more than prices, purchasing power increases.

*Inflation

Continued rise in the general price level. Most of the time, the consumer price index is used to measure the inflation rate.

# 3 Set your target

**Set a target amount based on what you are saving for.**

Achieving your goals depends mainly on four variables:

– the amount that you save regularly,

– the amount of additional cash,

– how long you plan to save, and

– the expected performance* of your savings.

To help you in this process, many simulators* are available for free online.

For long-term savings such as retirement savings, and to calculate your desired pension supplement, you can refer to the pension income estimates* made by public authorities.

***Performance**

Result expected or obtained by an investment, generally expressed as a percentage. It takes into account changes in capital and/or income.

***Simulator**

Example: the public website mesquestionsdargent.fr is the national portal for economic, budgetary and financial education. This portal directs you to simulators that will help you calculate your budget, develop your savings plan, simulate your investment's performance, understand how fees affect the return on your investments, etc.

***Pension estimate**

The public website info-retraite.fr provides members with information about their retirement. From age 45, your estimated future pension is based on the actual data for your profession known by your pension schemes. Before age 45, online simulators on this site allow you to calculate your pension, retirement age, etc.

# 4 Define your investment horizon*

**You define the length of time during which a portion of your savings is allocated to financing your goals.**

This step is important for determining the most appropriate allocation* of your investment to your goals.

To take full advantage of this allocation, i.e. to obtain the expected performance needed to finance your goals, you must consider your savings unavailable during the entire investment period. Indeed, the risk* and the return* on your investment also depend on the length of the investment.

The longer your investment horizon, the more you can broaden your investment opportunities and the higher the expected performance of your investment can be with better risk control.

*Investment horizon

Time during which the invested funds are unavailable, which is the planned investment period.

*Asset allocation

This is a technique that entails allocating your assets among various asset classes (stocks, bonds, derivatives, real estate, etc.) in order to diversify them to minimise portfolio risk.

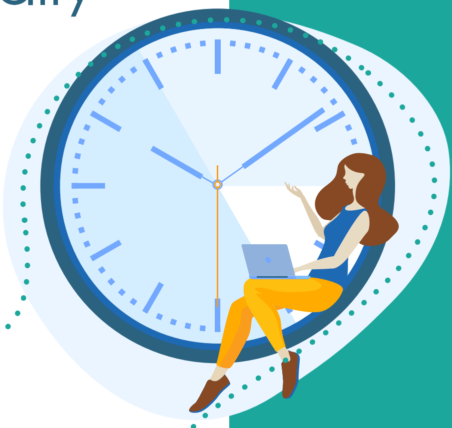
*Financial risk

Risk that the gain expected or hoped for by the saver may not be realised or that the invested amount may decrease. Generally speaking, the higher the likelihood of gains, the higher the risk.

*Return

Gain on an investment.

# 5 Time is your ally



**Starting to save early enables you to maximise the gains generated and reinvested each period.**

When you begin to save early, you extend your investment horizon, and the amount you need to save to finance your goals is less.

The investment period* also affects the behaviour of some investments: for example, the risk of loss on investments in stocks* decreases as the investment period increases.

A suitable investment for financing a long-term goal does not involve a series of short-term investments.

*Recommended investment period

Given the characteristics of the savings product, there is a recommended holding period that should allow savers to optimise the product's return based on their requirements.

*Stock

Financial instrument that evidences ownership of a share of a joint stock company (listed or not listed on a stock exchange) and confers upon its holder, the shareholder, associated rights, such as the right to vote at shareholders' meetings and the right to receive dividends.
The value of stock fluctuates upwards or downwards.

# 6 The advantages of diversification*

What distinguishes financial assets (stocks, bonds*, UCIs*, etc.) are, among other things, the risks they entail and the returns they generate. Unless it is guaranteed, the performance of a financial asset cannot be known in advance.

**Diversifying means reducing the overall risk of your investment allocation by including financial assets that do not vary in the same direction.**

Be sure to balance your investment allocation, for example by diversifying the asset classes, geographic regions and business sectors.

Along with the investment period, diversification of your assets has a significant positive impact on your investment's potential performance.

*Diversify your investments

Choose investments that do not all vary in the same direction at the same time. Proper diversification reduces fluctuations in your investment, and therefore its risk.

*Bond

Financial instrument issued by a company, a public body or the government. A bond is a debt security (i.e. it represents a debt) that is repayable on a date and in an amount set in advance and pays interest. During its life, the value of a bond fluctuates upwards or downwards.

*Undertaking for collective investment (UCI)

UCIs offer the opportunity, particularly to individuals, to access a portfolio of diversified financial instruments managed by a professional. They are referred to as collectively managed savings products.

# 7 Identify the risks you are willing to take

An investment that does not explicitly have a capital guarantee entails a certain degree of risk. Before you invest, you should define your risk profile, which includes, among other things, your ability to incur losses and your risk tolerance*.

This is a delicate exercise because it involves not only objective factors, such as your financial situation, but also subjective, emotional factors.

To limit this bias, issues such as the availability of your savings and the investment horizon are crucial for **assessing your risk tolerance over the entire investment period**.

In fact, the risk and the return on your investment also depend on its length.

A misperception of the levels of risk and return results in an investment allocation that is not optimal or not suited to your needs.

*Risk tolerance

Capacity to lose all or part of your initial investment in exchange for a better potential return.
An aggressive investor, with a high risk tolerance, is more likely to accept the risk of losing money in order to obtain better results. A conservative investor, with a low risk tolerance, tends to prefer an asset allocation that protects the initial capital.

# 8 Learn what investment solutions are available to you

The financial universe may seem abstruse and complex.

Your entire investment approach is based on how well you define your requirement. There are information sites* where you can find educational materials and high-quality impartial information appropriate to your level of knowledge.

Your friends and family can also share their experience, and financial advisors* can help you clarify your needs and **find suitable personalised solutions.**

*Information site

Example: the public website mesquestionsdargent.fr is the national portal for economic, budgetary and financial education.
This portal directs you to information on partner sites concerning, among other things, budget, savings and investment and retirement.
It also includes tools, such as games, knowledge tests, videos, simulators and more.

*Financial advisor

Financial intermediary who construct personalized financial plans that aim to achieve the financial goals of clients. He analyses the client's situation, recommends and monitors investment solutions.

# 9 Play an active role during the meeting with your financial advisor

Before you invest, your financial advisor should ask you questions about your occupational, personal and financial situation, investment objective, saver profile, knowledge and financial experience.

**Prepare for this meeting so that you can play an active role in choosing the saving solution that is most appropriate for financing your goals and reflects your concerns and commitments as a citizen** (for example, SRI*, etc.).

When you invest, for example by purchasing shares in a company, you finance activities that contribute to social and economic life. Based on the saving solution you choose, your investment will, to some degree, support the development of employment, innovation, the transition to the green economy, and so on.

Ask your financial advisor questions so that he can help you understand the content of commercial and regulatory documentation (KIID*, etc.).

Be sure to ask questions and shop around, and do not sign up for a saving solution unless you fully understand it.

*SRI

An investment that aims to reconcile economic performance with social and environmental impact by funding companies and public institutions that contribute to sustainable development regardless of their business sector. By influencing governance and corporate behaviour, SRI contributes to a responsible economy.

*KIID

Key Investor Information Document. Two-page document in a standardised European format that provides essential information about the product. It is given to investors who purchase units or shares of UCIs (undertakings for collective investment).

# 10 Find out the cost of advice

Personalised advice provided by a financial advisor* (financial investment advisor, portfolio management advisor, account manager at your usual bank) includes a cost that corresponds to the advisor's compensation.

This cost can be charged in two different ways: **it is either included in the price of the financial product* or service or billed separately in the form of fees.**

The advisor must let you know how he is paid and the amount of his compensation. Be sure to shop around.

*Financial advisor

Financial intermediary who construct personalized financial plans that aim to achieve the financial goals of clients. He analyses the client's situation, recommends and monitors investment solutions.

*Product price

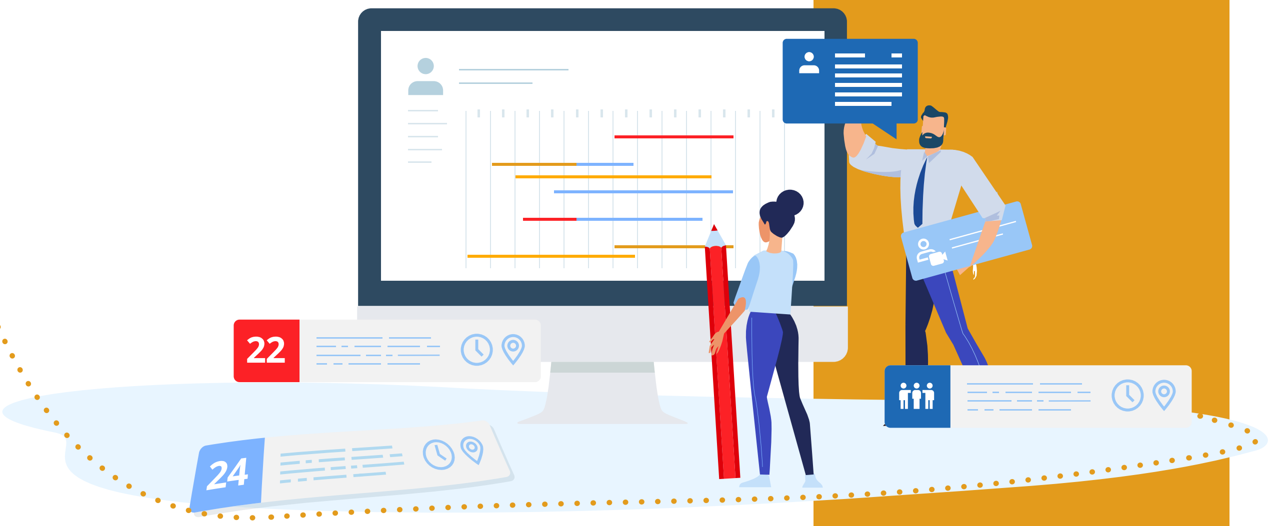
Aside from advice, the product itself can generate costs. For UCIs, this information is provided in the KIID.

# 11 Monitor your investment solution after you invest

In order to finance your goals, you have chosen an investment solution aligned with your savings strategy (investment horizon, regular savings, availability of savings, additional financial resources, etc.).

The expected performance of your investment solution relates to the entire investment period.

However, **your personal situation may change, so check with your financial advisor regularly to ensure that your investment still matches your goals and your saver profile.**



# 12 Be methodical in managing your savings

**Be aware: behavioural finance has shown that our behaviours are not always rational.**

Our actions are influenced by certain beliefs and emotional or social biases that distort our reasoning and judgement.

In terms of managing your savings, this means that your investment choices may not be in line with the goals that you wish to finance and can therefore prevent them from being achieved.

To limit the scope of these biases, be methodical in managing your savings by adhering to the principles outlined above.



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