USE YOUR INCOME TO MAKE AN INCOME

Nigeria's capital markets offer every citizen opportunity to grow wealth.

Nigeria's increasingly sophisticated and well-endowed capital markets have seen a 63% growth in mutual funds over the last four years alone. This exciting growth presents a real opportunity for every Nigerian citizen, even with limited means, to use their incomes to make additional money.

Citizens of developed countries have traditionally enjoyed the ability to use even limited earnings and savings to augment their income while working, or to extend their earnings into retirement. These opportunities to increase and extend earnings have, traditionally, not been available to citizens of developing countries. This is because most developing countries lack the capital market infrastructure enabling safe, transparent and effective investment.

"Capital markets are a notional space where citizens and organisations who have capital make their capital available to citizens and organisations that need capital," says Bukola James-Cole, Head Registrar Operations, Coronation Registrars Limited. Transactions are usually managed by intermediaries in the financial system - like banks and investment and asset managers - who develop various financial products to enable this exchange. Those seeking capital use these instruments to access capital to build independent financial wealth. Those with capital use these instruments to increase their capital.

An effective capital market is a 'deep' one, equipped with a wide spread of financial instruments catering to the diverse capital needs of the citizens of that market.
The deeper a country's capital market, the stronger its economy is likely to be.

"All the hype about financial inclusion is simply about developing the financial systems and products that make the power of compound interest and investment available to ordinary citizens through capital markets," says James-Cole.

Globally, capital markets are about 100% the size of most countries GDPs. In Africa, South Africa's capital market is the largest, at about 300 % the size of the country's GDP. This is because South Africa has extensive financial services legislation and systems allowing the operation of the full spectrum of products and services enabling citizens to access local and global capital for their own use. While Nigeria's capital markets are currently about 35% of the size of the country's economy, financial services legislation as well as the products and services available to Nigerians is evolving fast.

One of the biggest barriers to development and growth in developing countries has been the absence of formal and regulated capital markets. Without capital markets capital is unable to aggregate, preventing individual citizens and organizations from leveraging the power of compound interest or investment.

While there is work to be done in Nigeria to continue deepening the country's capital markets and product spectrum, ***"Nigeria is at the point where every citizen with even a limited income can begin accessing our rapidly growing capital markets," says James-Cole***

One of the easiest ways to drive financial inclusion is for ordinary people to invest in a country's capital markets. And the easiest way for people with limited incomes to start investing in capital markets to make an additional income is through simple mutual funds.

A mutual fund pools and invests money from many investors. Mutual funds are operated by professional fund managers who, by investing the Fund's assets, work to produce capital gains or income for the Fund's investors in line with the objectives stated in the funds' prospectus. Mutual funds are regulated by the Securities and Exchange Commission and currently present the ***"easiest, safest and most effective way for every Nigerian earning an income, no matter how limited, to access Nigeria's capital markets," says James-Cole.***

The average mutual fund holds a spread of different securities, providing investors affordable access to a range of higher performance stocks. For example, if an investor buys an individual company share and that company has a bad quarter, the investor loses because "all her eggs are in one basket," says James-Cole. Buying shares in a mutual fund representing a wide spread of companies hand-picked by a knowledgeable investment professional guided by real research, "is a far better guarantee that any poor performance by individual companies will be offset by the good performance of all the other companies in the fund," explains James-Cole. As such, professionally constructed funds allow investors to slowly increase their capital over time with limited risk. Also, since mutual funds can be purchased or sold as needed, investors can easily access their funds – and additional earnings – at any time.

There are different advantages, costs and disadvantages of closed or open mutual funds. There is also a large range of mutual funds, including Equity, Bond, Money Market, Income and Fixed Income, Global and International, Exchange Traded and Infrastructure Funds. All have their own risks, price points and earning potential determined by prevailing economic fundamentals.

The best way for individual citizens to decide on a fund that suits their capital needs and longer-term life goals is to speak to an investment or fund manager, or even several investment managers. ***"Most investment managers are only too happy to talk to potential investors, explaining, for free, how their funds work, what they cost, what they deliver and what their advantages and risks are in the current market," says James-Cole.***

Talking to fund managers is also great way for the average woman or man to learn about financial products, start a savings plan and develop the discipline of earning additional income by exposing themselves to different stocks and debt instruments.

Finally, the more Nigerians participating in the county's capital markets ***"the deeper our capital markets will become, compounding wealth and spreading prosperity for all," concludes James-Cole.***