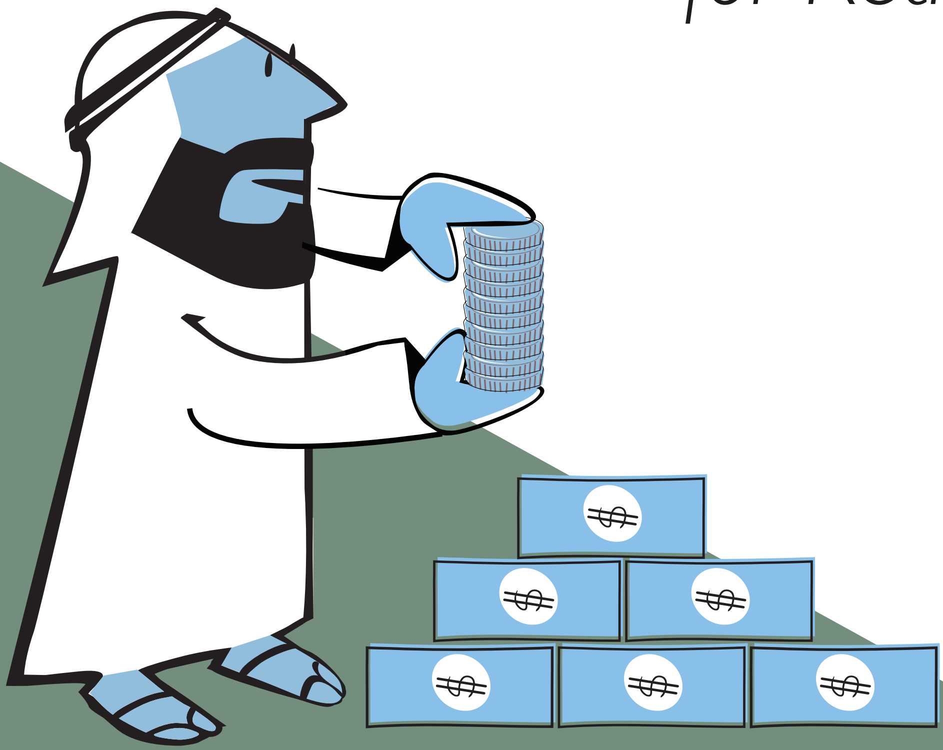
Kingdom of Saudi Arabia
Capital Market Authority

هيئة السوق المالية
Capital Market Authority

Investment Guide for Retirees



Introduction

Retirement is a good time to be an investor. The right investment decisions can help you increase your financial security and provide income that you can use to live comfortably after you stop working. However, it is important to avoid taking too much investment risks, such as buying on margin or selling real estate to raise money to invest. You want to safeguard your assets, not lose them.

Investment could be a way to increase profits and achieve financial goals. However, it is necessary to take the right investment decisions and avoid risks such as buying and selling shares on the basis of rumors and wrong information or settle for one area of investment. The goal here is to achieve the accumulation of assets and not lose any of them in the end.

This booklet will provide you with an overview about investing. It will identify the most appropriate investment strategies and how the financial market performs, especially investment portfolios, to get in the end to the most appropriate investment returns.

This booklet also discusses the investment risks and strategies that can reduce the risk, learn how to make investment decisions, avoid mistakes and take advantage of the opportunities and benefits provided by the investment process. It also has an indication of how to invest and maintain the assets you own and insure a financial return to your heirs.

Part 1: Sources of Retirement Income

When you retire, you no longer receive a pay-check from your employer. On the other hand, you still need a regular income to pay for your living expenses. This money is likely to come from several sources, including the governmental retirement benefits (if you are eligible for one and it is a non-increased pension) as well as your own savings and investments.

Government Programs

For example, If you contributed to the Kingdom of Saudi Arabia's pension program for at least 120 months, you will be eligible to receive monthly pension payments when you retire, provided that you are at least 60 years of age if you are a man or 55 if you are a woman.

Your pension is usually 1/40 of your average monthly wage for the two years before you retire, multiplied by the number of years you joined the program. For example, if you earned an average of 4,100 Riyals a month before your retirement and contributed to the pension program for 30 years, you would receive 3,075 Riyals each month in retirement.

4,100 Riyals (Average of monthly salary) / 40 (1/40) = 102,5 x 30 years of subscriptions = 3,075 Riyals

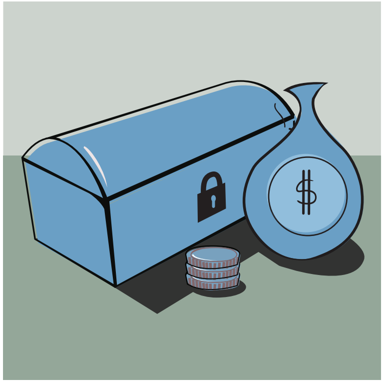
In this example, the pension would replace 75% of your pre-retirement earnings, which would cover a substantial part of your estimated living expenses as a retiree. The actual pension could be more or less, depending on the retiree's work history.

Retirement Savings

The money you have saved during your career will help you in your financial needs after retirement which will allow you to spend and pay for things you would like to have. One of the important decisions you will have to make is how to use the assets you have accumulated.

One approach is to try to preserve the capital, or the amount you have saved and invested, and to spend only the income that your financial accounts generate. The main principal is "the greater the money saved and invested is, the greater your earnings potential will continue to be in the future". The downside of this approach is that in order to preserve your savings, you may have to postpone things you were looking forward to do or give up things you wanted to buy.

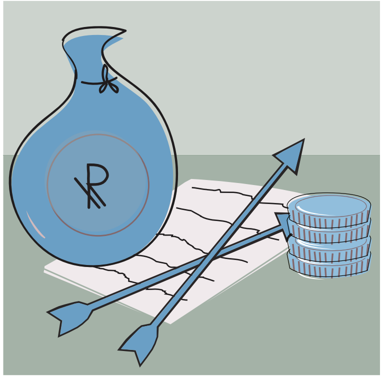
Another approach is to spend a portion of the invested capital each year in addition to the earnings the capital generates. After all, you worked hard to save that money so you might as well enjoy your retirement. Why don't you spend it? The risk of spending your capital is that you may outlive your savings and not have enough to pay for your needs as you grow older.



You may want to consider different combinations of saving, spending, and investing that balance in the things you want to do with the comfort of knowing you will always have enough money in retirement.

Investments

Your investment can be an excellent source of retirement income, although not all investments provide a regular income. For example, your portfolio may be worth a substantial amount, but if it is invested primarily in growth stocks you may not be earning much dividend income. One way to start converting your investments to a source of income is to move some of your assets into income-producing stocks, investment funds of mixed stocks or bonds.



You should also remember, that not all income investments pay within your time frame. For example, stocks usually pay dividends once quarterly, semi-annually, or annually. The timing of these payments can be a problem if you need money on a monthly basis or according to your need and schedule.

It is equally important to know that the income from your investments is not guaranteed. Even a stock that usually pays dividends may have a bad year and not pay any dividends at all. So you need to plan carefully to ensure that your sources of investment income are adequate to meet your financial needs.

Determining What You Need Exactly

The amount of income that you need when you retire will depend on several factors:

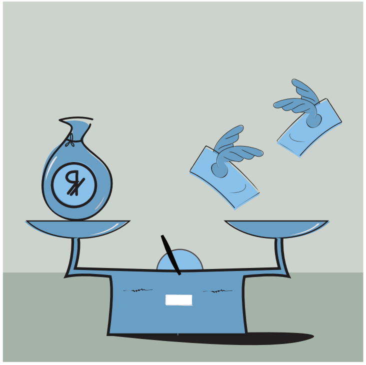
1. Your regular expenses before your retirement .
2. New interests you plan to pursue in retirement.
3. Potential health problems or other unexpected expenses that may come up during retirement.

The overall amount you need will also depend on how long you expect to be retired. For example, if you retire at 60 you are likely to need more savings than if you retire at 65. That is partly true because you are likely to live longer in retirement and partly because your government pension will probably be less. While there are certain guidelines to help you determine your expenses in retirement, you may benefit from talking to other retired people to see how their costs have changed. A trusted authorized person who provides financial advice may also be able to help you figure out how much retirement income you will need and work with you to create a plan that meets your expenses after retirement.

Balancing Income and Expenses

The first step in balancing your income with your expenses is to determine how much money you need in retirement, and then to weigh your options for creating the income you need. The goal is to create a plan that will preserve your assets for as long as you need them, and enable you to do the things you want to do when you retire.

While many retired people have similar concerns and experiences, you need to recognize that your plan will not be exactly the same as any other person. Specifically, your plan will depend on what you have saved, where your money is invested, and what you hope to do with it when you retire and this varies from one person to another.



Part 2: Financial Planning

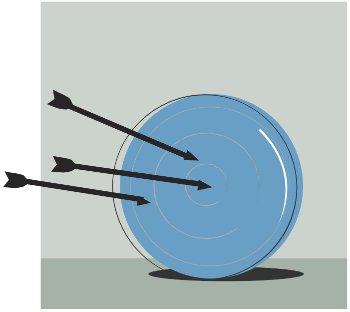
To manage your money effectively you will need to have a financial plan. A financial plan for retirement is a written statement of how you intend to spend, save, and invest your retirement income. This plan should include:

1. A summary of your current assets and expected sources of retirement income.
2. An estimate of how much you will need to meet your daily living expenses
3. An amount you would like to keep available to meet unexpected expenses and emergencies
4. A strategy for balancing saving and investing to make sure that your money lasts your lifetime
5. A list of the types of investments that suits your retirement plan
6. A list of your primary goals in retirement, a timeframe for meeting them, and how much they will cost
7. The assets you would like to leave for your heirs

A financial plan, especially for retirees, is an ongoing process. You will want to evaluate your expenses, savings, and investments on a regular basis, modify your goals and revise your retirement activities as your financial situation changes.

Defining Goals

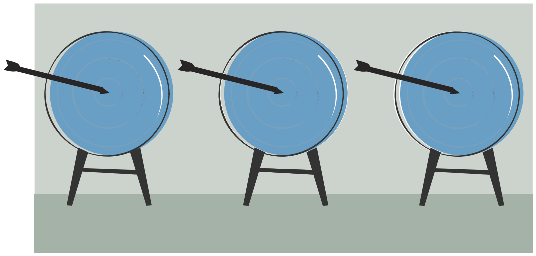
You may have several different financial goals for retirement. They can be as immediate and simple



as planning a vacation for next year or as far off and comprehensive as building a fortune for your heirs. The most helpful way is to group your goals and prioritize by importance, estimate their cost, and set a timetable for meeting them.

Immediate Goals

are those you hope to meet shortly after you retire. To make sure you have adequate funds on hand to meet these goals, you must keep your money secure and liquid, probably in a savings account or an investment account with low risk or none at all and be able to return them when you need. You should not, in any case, invest it in highly risked or uncalculated investments.



Intermediate Goals

are those you expect to achieve within the next few years such as buying a house, planning for an investment or financing a business. These goals could involve some risks, especially if they last for several years. As your timeframe starts to descend, you may want to sell the riskier investments and put the money into a more secure account.

Long-term Goals

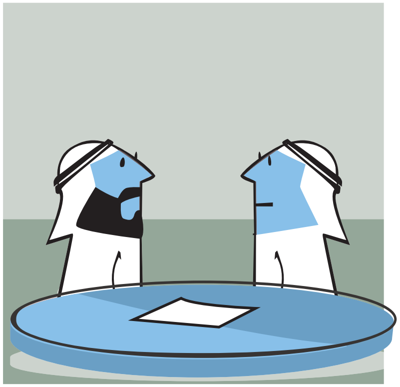
are those that may take more time to achieve and which could create a legacy for your heirs. To be sure you have the money you will need, you may want to invest a portion of your portfolio in investments that have the potential to pay higher returns over time.

Remember, however, that as you get older you may need more money for medical and other unexpected expenses. So you want to avoid risky investments that may cause you to lose your whole capital. That's why it is so important to have a financial plan. It can help you balance your expenses, savings, and investments to meet your immediate and long-term goals.

Seeking Advice

Many people seek professional advice in making and implementing a good financial plan. One advantage of working with a professional, particularly one who is familiar with managing personal finances in retirement, is that he can help you prioritize your goals and anticipate your expenses. This type of advice can help ensure that your money will last for your lifetime, and that you will also be able to achieve the goals you have set for your retirement within your timeframe.

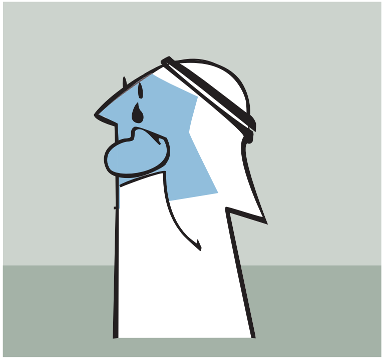
Another way is to ask some friends or family to obtain addresses of expert financial advisers and discuss the financial needs with the person who is capable of studying and analyzing it, taking decision and making investment operations.



Part 3: Investing During Retirement

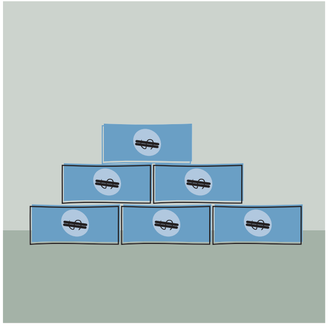
Why do we Invest during the Retirement period?

At the time of retirement, the retirement income doesn't grow and the allowances and privileges you used to get while working stops. Once you reach retirement, many reasons lead you to find an extra income and then invest. The income from profitable investments where you will put your money in, can help provide money so you can fulfill your obligations, help you to pay unexpected costs and medical bills. It also helps to protect your capital from being eroded by inflation and to preserve it to pass on to your heirs.



Steady Income

Once you retire, you may find it difficult to insure a steady income to pay your regular bills. Although your government pension might cover some expenses, not all the ones you may face because it doesn't accumulate by annual bonuses like the time you were at work. You may want to work part-time in your early retirement years to provide extra income. In addition, you can move some of the assets in your investment portfolio into income-producing stocks, mutual funds, or bonds. This money can then cover some of your monthly expenses.



Remember, however, that many investments pay their dividends quarterly or more. So if you are using that money for extras, you might plan your schedule around those payments. You can also subscribe in one of the mutual funds to make redemptions on a periodic schedule, such as weekly or monthly through the sale of some units and the recovery of amounts according to the fund's performance.

Keep ahead of inflation

Investing during retirement can also help protect you from inflation, that causes the currency to lose its value and raise the prices. This means that you need more money every year to maintain the same standard of living. According to the Saudi Arabian Monetary Agency, inflation in the Kingdom has risen significantly in recent years.

Some people think that by saving retirement money instead of investing it, they are avoiding risk. Although a bank account can keep your money safe, it would not allow your assets to grow at a rate that is high enough to offset inflation. So the value of your savings, measured as buying power, will steadily decrease.

However, if your investment portfolio gives you a return significantly greater than inflation, you will be away from inflation and you will be able to increase your capital in that portfolio.

Having enough to maintain a comfortable lifestyle

Some of your expenses may decrease after you retire, because you no longer:

1. Commute to work, or pay other work-related expenses
2. Support your children who are more capable now of managing their own expenses
3. Pay for your home, if you have paid off your mortgage or moved in with children or other relatives
4. On the other hand, other costs can increase in retirement such as:
5. Healthcare, and unexpected expenses.
6. Travel and other things you couldn't do while you were working.
7. Pursuing new interests and projects.

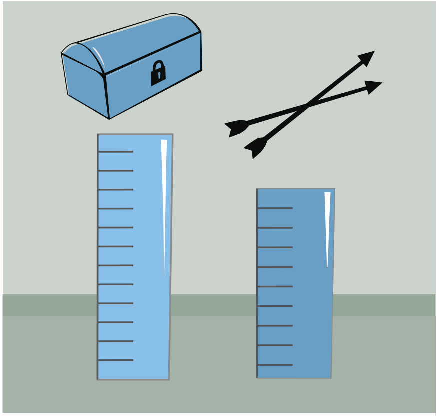
In retirement, you will probably need about 80% of the income you used to earn at your job to maintain your standard of living plus an added amount each year to offset inflation. For example, if you earned 55,000 Riyals each year before you retire, you will need an approximate annual income of 44,000 Riyals in the first year of retirement. The next year you would need 44,000 Riyals plus %7 as annual inflation (around 3,080 Riyals) so your total would be (47,080 Riyals).

If you subtract the amount you expect from your pension from the amount you estimate you will need to live on, you will have a good sense of how much you will need from your investment portfolio.

Estimated living expenses – Pension income = Amount needed from investments

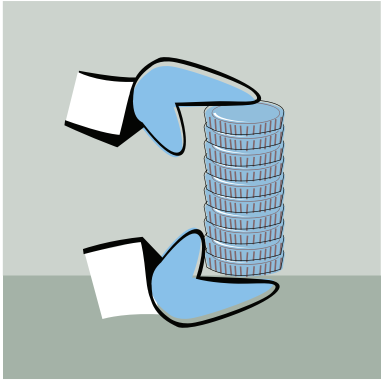
Savings vs. Investments

When you put your money in a bank's savings account, the bank usually insures your capital, or the amount you deposit. In exchange for this safety, however, you give up growth potential, or the possibility that your money could substantially increase in value if you invest it in one of the companies. In this case, whether you make or lose money depends on the performance of the company itself, the behavior of other investors, and what is happening in the investment market as a whole.



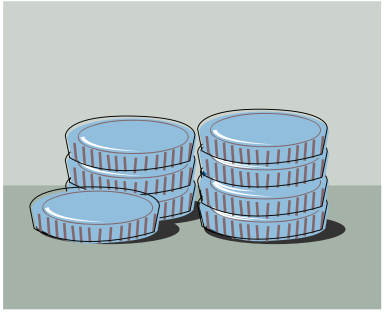
How much should I save ?

There is no exact formula to determine how much of your money you should put into savings and how much you should invest. The amount of growth you expect from your investments will vary, depending on the length of your retirement, the amount of unexpected expenses you encounter, and your level of business activity.



It doesn't matter how much money you choose to invest, but the most important thing is that you should keep six months of living expenses in a savings account including the unexpected expenses. A savings account is the best choice for this money because it is liquid. This means you can withdraw when you need the cash, with no loss in value unlike stocks which their value might decrease if sold

If you plan to use some of your investment income to pay regular bills, you might also want to keep this money in a savings account so it will be readily available when you need it.



How much to invest?

One of the known methods to know how much to invest in stock and other equity investments after you retire is to subtract your age from 100. Then invest the difference in stocks. Using this approach, if you are 60, you would invest 40% of your portfolio in stocks.

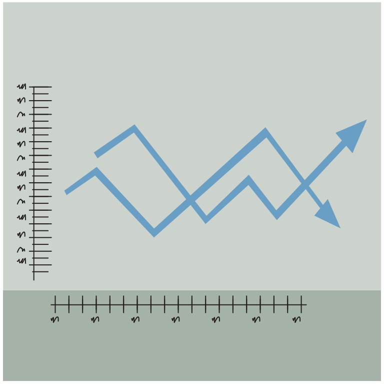
100 – your current age = percentage of the portfolio invested in stocks and stocks' mutual funds.

But if you live an active lifestyle, and you are interested in pursuing new adventures during retirement, you may want to invest an even higher percentage in stocks especially in the early years of your retirement. The same is true if you find that you have enough income to live on and you want to continue to build your estate, where this income allow you to invest higher percentage from your estate.

One good approach is to experiment by setting up a five-year plan, and evaluate your success for that period of time. If you find out you need more income, you may shift off your assets from growth investments to income investments. But if you find you are not spending all of your current income, you might cut back on the amount you are taking out of your investment accounts as long as your current income fill your needs.

How the ratios change with age, commitments, and lifestyle?

Just as you made changes in your portfolio allocation as you approached retirement, you will continue to make shifts as you get older. For example, the amount of income you need from your investments might be higher in your early retirement when you are most active, and then decreases as you grow older.



In contrast, as you get older, you may find that you need more help with the activities of daily living or that your medical expenses have increased. These needs, in return, will increase the amount of investment income you need.

The point is that there is no certain way to know what your financial needs will be. But the more investment income you have available for you if you need it, the more secure you can feel about the future.

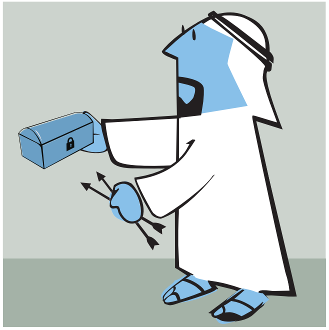
Investment as a Part of the Financial Plan for the retired

When you plan to build up your financial capability, investments can be an important way to build wealth for you and your heirs. It is easy to determine the market price of a publicly traded investment, making it simple to set the value of your estate. It is also easy to pass the ownership of stocks or stock's mutual funds to the people who are designated to inherit these assets after your death. That is not always the case with other possessions.

Individual Stock vs. Mutual Funds' Stocks

There are important differences between individual stocks and mutual funds' stocks, although both of them are equity investments and can be appropriate choices for your investment portfolio in retirement. Both offer the potential for strong returns, but neither individual stocks nor mutual funds ensure that your capital is safe or that you will make money.

You may be able to achieve more diversification with mutual funds because funds pool money from many investors and buy a variety of stocks or other investments for their portfolios. Each fund has an investment objective that determines the kind of investments it makes. So, in any case, if you want to invest for current income, you can find a mutual fund that is appropriate for your goal. In contrast, if you want investment income from individual stocks, you have to identify and invest in stocks that pay regular dividends.



Another difference you should keep in mind is that mutual funds carry annual asset-based fees that are subtracted from your account value each year you own the fund. These fees vary from one fund to another. Some simply deduct the annual fees, called administrative fees and others deduct subscription fees only once when you enter the fund in addition to the annual administrative fees. There are no fees to own stocks except the initial sales charge to buy and another when you sell.

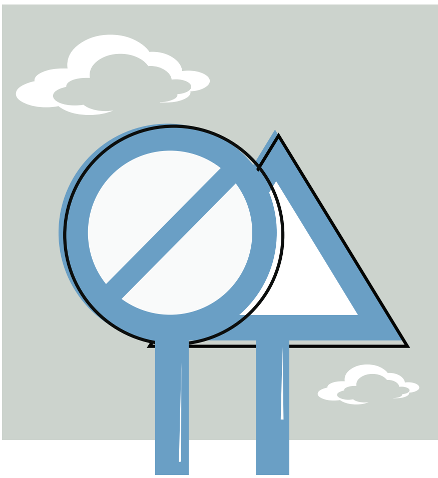
What some investors choose to do is buy both individual stocks and mutual funds' stocks to benefit from the advantages of owning both. For example, they may buy several individual stocks in large companies and mutual funds that invest in small companies or in a particular sector of the economy.

Part 4: Risks Of Investing In Retirement

There is no such thing as a risk free investment or an investment that is isolated from other surrounding factors such as companies' performance and other factors that generally control the economy whether it was national or international economy. Understanding those factors can help you create an investment strategy to help protect your portfolio against losses.

Special Risks

When you are retired, you face additional investment risks because you are investing to provide for your current daily needs instead of building assets. The future changes in the value of your investments can have an immediate impact on your ability to maintain your standard of living.



Loss of Capital

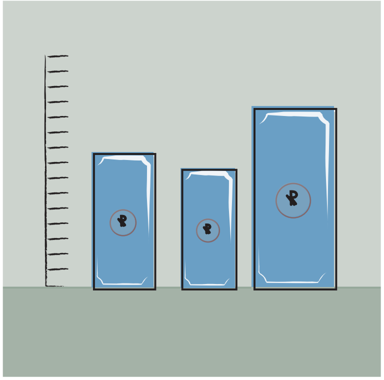
In retirement, losing capital, or the initial amount you invest, can have far-reaching effects on your portfolio. For example, if your portfolio increases in value an average of 10% annually, then you can withdraw 4% to 5% of the total asset value each year without using up your capital. But if you make unwise investment choices or your portfolio underperforms for a number of years, you might have to use a substantial amount of your capital to cover your investment needs . You may have a hard time making new investments to replace what you have spent since you will not have the same regular paycheck you received when you were working. Also, when your capital decreases, its earning potential goes down as well. If you continue to withdraw the same amount of money each month, you'll be taking out an increasingly larger percentage of the remaining balance. This means you could run out of money much sooner than you had expected.

If your portfolio continues to perform poorly, you may eventually need to reduce your standard of living or find additional ways to reinforce your income.

BETA and volatility

Due to the serious consequences of losses in your portfolio during retirement, you would want to stay away from investments that are too risky—even if they seem to have a lot of growth potential.

One way to gauge an investment's level of risk is to know the type of change (volatility) that can be made on the invested amount during a short term. Hence, rapid volatility means greater financial risks.

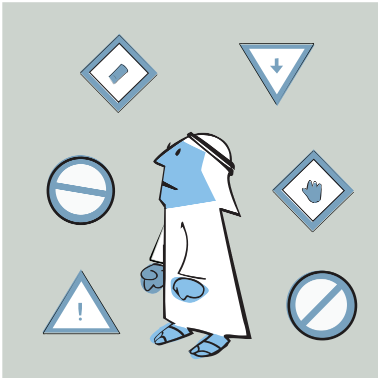


This volatility in the stock's price and its return is sometimes referred to as its BETA. Beta compares the volatility of an investment over time to the volatility of the overall market, which has a beta of 1. If the price of an investment typically fluctuates more than the market as a whole, its beta will be greater than 1. On the other hand, if the price is more stable, its beta will be less than 1. Therefore, a stock with a beta of 1.8 is much more volatile than a stock with a beta of 0.5

You can find the value of a stock's beta by checking economical research reports on stocks or ask a financial professional.

Not having enough capital to generate the income you need.

If you do not have enough capital invested when you retire, your portfolio will not generate the returns you need to maintain your pre-retirement life style. To avoid spending your retirement investments too quickly, you may consider reducing your current living expenses and save it until you retire. If you have the choice, you might also decide to postpone retirement for a few years. This should increase the pension you are eligible to receive. And if you spend carefully, you may be able to build up your investment capital during this time to strengthen your financial position.



Risks and Returns

Risk and return are directly related, which means that the greater the potential that an investment might lose money, the greater its return potential. One of the keys to successful investing is to find a way to balance the risk and return in your portfolio.

To protect your portfolio against the special risks, you will probably want to move the majority of your assets into more conservative investments. While you may give up some potential for future growth, you will be less likely to lose the capital you already have.

This strategy means looking for stocks and mutual funds that have a history of consistent returns over an extended period and that have paid a steady income to their investors. While future performance isn't guaranteed by what has happened in the past, positive long-term results nevertheless are a reason to consider an investment seriously.

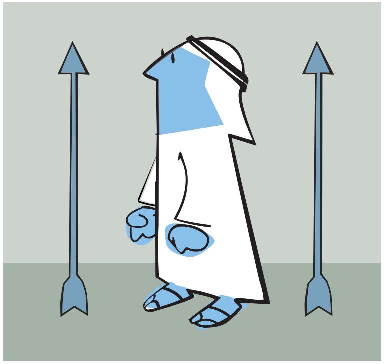
Knowing your Risk Tolerance

Some investors are willing to take on more risk than others. Your risk tolerance is generally influenced by factors such as your age, your financial situation, others who depend on you, or even your personality. For example, some investors have a greater tolerance for risk and are better in dealing with losses to their investments. They may be willing to invest in companies where there is higher risk, but also a greater opportunity for return. More conservative investors, however, are more comfortable with investments that do not have a great risk although they do not have the same potential for higher returns.

When you retire, your risk tolerance will most likely decrease. You may want to shift to less risky investments, so that if there is a sudden downturn in the market just when you need the money, you won't find yourself with less than what you planned for. Moving to safer investments will help protect the savings you have worked to build and preserve it for your heirs.

Part 5: Retirement Investments

When you reach retirement, you need to make changes in your asset allocation to reflect your changing financial needs. Your asset allocation is the way you choose to divide your portfolio among different types of investments, called asset classes, such as stocks, bonds, real estate and others. Some of these classes can grow more easily than others despite the exposure to fast volatility. On the other hand, other classes are more stable in terms of price, despite the slow growth rates.

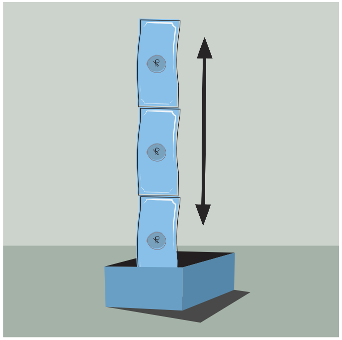


In addition, different classes perform best at different times, based on what is happening in the overall economy. Before you retire, you probably should focus on your portfolio's growth, by accepting a higher level of risk in order to maximize your future savings. Now that you are retired, however, you will have to work to preserve the savings you have accumulated and create a steady income stream.

Selecting Stocks

When you rebalance your portfolio in retirement to match the degree of risk you are looking forward to, you will need to shift your assets from growth stocks to income-oriented stocks that:

1. Have a good history of providing strong dividends to investors, where they use it to re-inject deposits to their money.
2. Have a low level of volatility that doesn't change and have beta less than 1.
3. Have a low level of risk, to protect you from losing your invested money.
4. Have a history of steady earnings, because they are more likely to earn consistently in the future.



How to Measure your Portfolio Performance ?

Even after you have created a portfolio that works for you, it is important to be careful about choosing your investments and make sure that these investments can be measured so you can apply changes to your portfolio as your financial needs

change throughout retirement. For example, you might decide to sell a stock that turned out to be much riskier than what you have expected, especially if it means that your entire portfolio will get affected by the high rate of the risk due to the rate of risk involved in this share.
It's a good idea to go through your portfolio about once a year to evaluate each of your investments and to make any necessary adjustments to your asset allocation.

Total Return

When you are trying to evaluate a stock's performance, the first step is to figure out its total return. This number takes into account any gain or loss in value, plus any dividends you received.

If you own a variety of investments, you may find it difficult to evaluate their performance in relation to each other. To compare return across investments you can calculate the return average and percentage for each one.

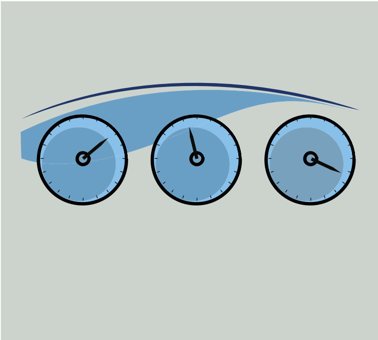
You can calculate percentage return by dividing the total return by the initial cost of the investment. For example, if you invested 3,700 Riyals in a stock with a total return of 750 Riyals, your percentage return would be 20%. And if you invested 70,000 Riyals in a stock with a total return of 8,500 Riyals, your percentage return would be only 12%. So in this case, the smaller investment (3,700) would have a better percentage return than the bigger investment (70,000).

(1)

$$\frac{\text{Total revenue: 750 Riyals}}{\text{Purchase price: 3,700 Riyals}} = \text{20\% revenue}$$

(2)

$$\frac{\text{Total revenue: 8,500 Riyals}}{\text{Purchase price: 70,000 Riyals}} = \text{12\% revenue}$$



Using benchmarks

In addition to calculating revenue to evaluate your investments, you can also look at your investment performance in comparison to the overall market by using a benchmark. A benchmark uses a measuring stick that tracks the performance of a selection of stocks within a particular economic sector and study the overall economic performance in that sector and thus identify the portfolio performance in general.

For example, if stocks in your portfolio lost 5% last year while the stocks included in the TASI index gained 15%, you might need to re-evaluate your individual investments to understand your disappointing results. But make sure that the index you use tracks investments that are similar to the ones you own, so you are comparing similar types of investments.

The Tadawul All-Share Index (TASI)

This index, is one of the benchmarks that evaluate the performance of stocks in the Saudi Stock Exchange (Tadawul). It consisted of 155 trading companies until the end of 2011 . These companies belong to many different sectors of the economy of the Kingdom of Saudi Arabia, including agriculture, retail, and telecommunications. Also a large percentage of the shares in this index belong to companies in the field of petrochemicals and industry, while some other sectors constitute only of a small proportion of the listed shares.

Targeting revenue to maintain a proper lifestyle.

To figure out how much investment income you will need to supplement your pension, calculate 80% of your pre-retirement salary and subtract the amount of your yearly pension payments. For example, if you earned 45,000 Riyals per year before you retired, and received 30,000 Riyals per year from your pension, then you will need about 6,000 Riyals each year to support your pension.

Pre-retirement income:
45,000 Riyals x 0,80 = 36,000

Post-retirement needs – the pension (30,000) = 6,000 Riyals (Amount you need from investments)

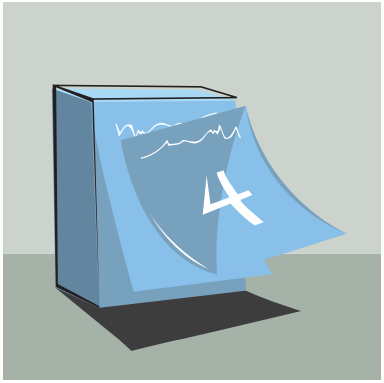
If you can meet your income needs by spending 4% to 5% of your total asset value each year, you should be able to support yourself in retirement without using up your capital too quickly. In order to do this, your investments will need to earn at least as much each year as you take out. If you consistently take out much more than 5%, you may need to make some changes in your portfolio to achieve the growth you need.

When you decide to invest in something, look at its history of revenues to see if it is likely to have the growth rate you need. Remember that the market can be unpredictable, and a strong performance in the past does not guarantee that a stock will do well in the future.

If the gap between your pension and your needed income is too large, it is not a good idea to try to make up the difference by purchasing stocks with too much risk. There are other options for finding the income you need, like working part-time or spending less each month on extra expenses.

When Should you Make Changes on Your Portfolio ?

As investments in your portfolio either gain or lose value, your asset allocation might change. That is because of the outgrow on some of your investments, which will take your portfolio to levels higher than what you excepted.



For example, if your portfolio had 60% invested in stocks, with 40% in other assets, and stocks performed very well over a period of time, you might end up with 70% in stocks and only 30% in other assets. This could leave you exposed to more risk than you intended.

One way to rebalance your portfolio, or restore the allocation you want, is to sell off some of the assets that have grown the most, and use the proceeds to purchase more of the investments that have fallen behind. While you may be hesitant to sell some of your most valuable assets, you will actually sell high and buy low, which is a good strategy. Another strategy is to use the money you set aside for investing each month to purchase more of the lagging asset, until your allocation is back to the balance you want it to have.

Some investors rebalance once a year, but you may follow a different time frame depending on your financial goals, needs and changes in your life or finances.

Working With a Broker

As you invest, you work with an authorized person to help you know the best way to buy and sell. A list of licensed authorized persons is published on the CMA website.

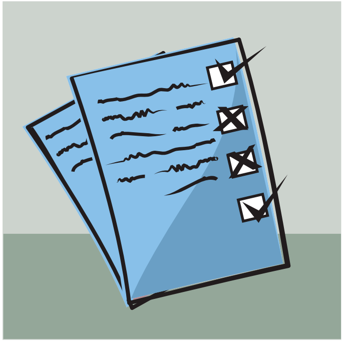
An authorized person is required by law to hold a valid license, and must adhere to CMA guidelines. These guidelines provide specific rules for responsible trading, charging appropriate fees and commissions, as well as providing information about investments.

Here are some questions to ask an authorized person with whom you are considering working with for the first time:

1. How much experience do you have in the field of retirement investments?
2. What investments do you recommend for someone who has retired?
3. Can you help me create a plan for moving investments from a focus on growth phase to a focus on income phase?
4. How will you keep me up-to-date on how my investments are doing?

Part 6: Mistakes To Avoid

Investing can be a powerful tool to help you provide for your retirement. But it is important to make sound decisions that will lead to earn money and not lose it. Some popular investment practices may seem smart, but it may be risky and can actually result in a loss rather than a gain.



Selecting less Riskier Stocks

Even though riskier stocks can have a greater potential return, but choosing risky investments in retirement can be dangerous because it is much harder to gain back your losses. One reason is that because you are not working and getting a regular income and so you don't have new money to invest. Another reason is you have less time to ride out downturns and start to invest again which will guarantee you a decent living and compensate your loses directly for your expenses and financial requirements.

Excessiveness in Financial Transactions

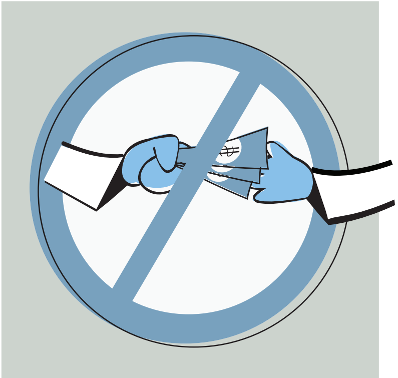
Even though new and promising investments may present themselves all the time, buying and selling too frequently is not usually a good strategy. Most good investments go up and down in value in the short term, but gain value over a long period of time. If you sell too quickly, you may miss out on the long-term benefits.

You will see that the price drops to less than what you paid to buy the investment. In addition, you pay a commission each time you buy or sell. The combined total of those charges reduces your overall return.

Selling Assets to Provide Money for Investing

No matter how good a particular opportunity may seem, it's never a good idea to sell what you have to purchase an investment. You could easily lose a major source of income if the investment fails.

Also, exchanging assets, which is a low risk, wealth-preserving investment, for a stock, which has more potential for growth but also a higher level of risk, can throw off your asset allocation and expose your portfolio to a much higher level of risk.

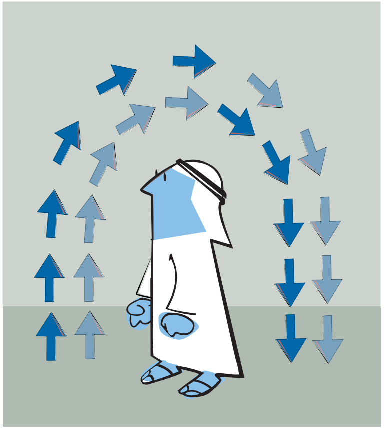


The risk of Margin Lending in order to invest

Margin lending is the practice of borrowing money from the bank to increase your investment capital. For example, if you invest 1 million Riyals in the market, the bank can loan you another million Riyals to double your investment and increase your potential return. But any loss on the investment comes out of your million, and not the bank's. So if the overall investment of 2 million loses 20%, or 400,000 Riyals, your personal investment of 1 million will actually lose 40%. And if your account goes as low as 1.25 million riyals, the bank will close your account, taking back its original million, and leaving you with only 250,000 Riyals.

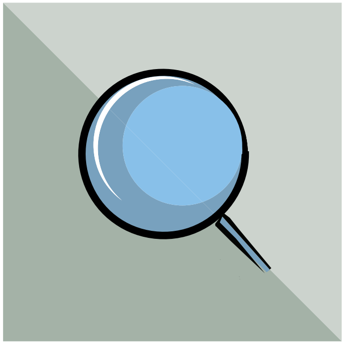
Over-reacting to Market Fluctuations

If you keep selling each time when the market prices declines, you will find that your capital is eroding and your losses are growing. Knowing that there are reasons to sell investments if they do not do as well as you reasonably expected them to or if they significantly underperform their benchmarks for two or more years. If the market as a whole is down, the problem is more likely to be with the broader economy than with a particular investment.



Remember that all markets have a cyclical nature. They go up, reach a peak, go down, reach a bottom, and go back up. This occurs over and over, though the timing is not predictable.

If the fundamentals of a company are strong, it has good management, and its products or services are reliable, then selling in a downturn is probably a mistake. In fact, if you have money to invest, it may be a buying opportunity.



Search Before Buying

Before you make any investment, you should learn as much as you can about the company, or the fund your investing in, review the financial reports and visit the websites to follow what is happening in the market. You should also learn what you can about the company's financials, goods and services, and business practices. Together these factors are known as the company's fundamentals.

Listening to Hot Tips and Rumors

Buying and selling investments based on tips and rumors is extremely dangerous. With any rumor there are several risks:

1. The information could be wrong.
2. The rumor could be misleading on purpose to get people to invest in risky investments for the benefit of other persons.
3. The rumor may encourage investing in suspicious and illegal investments.

Before you act upon any information, make sure you can back it up with your own research. You can use a source with a good reputation such as a well-known financial publication or an authorized person with whom you have worked. Ask yourself what the person providing the information stands to gain, and whether you know and trust the source.

You should be especially wary of tips you receive through unsolicited emails or phone calls.

Allocating Too Much of Your Portfolio to One Stock or Industry

Even though a single stock or industry might seem like an excellent investment, but "putting all your eggs in one basket" is never a good idea. There is always a chance that something could go wrong with any company or sector, no matter how strong it seems. If you have sold your other investments to buy those that turned out to be a bad choice, you could end up losing everything.
It is also very risky to take money out of your emergency fund or use the money of your everyday expenses to purchase stocks. It is considered a substantial financial mistake because you are putting your everyday and emergency money in risks you did not plan for

Borrowing to Invest

When you find an investment that you think will make a lot of money, it can be tempting to borrow from a bank or a close friend. On the downside, if this investment stumbled, you could end up losing the borrowed money as well as your own. It is a lot smarter to invest what you have already without borrowing from other people.

For more information, please don’t hesitate to contact us on the following address:

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