ZURICH

Dear money, we should talk

Everything you need to know about investing

Foreword

“You should not run after money; you have to meet it halfway.”
Aristotle Onassis

We hope that this little book will help you to take your very first step.

Anyone interested in investing money profitably over the long term cannot do so without knowing a couple of essential principles of investment. We’d like to guide you through the first steps in the pages of this book. Among other things, you’ll learn the jargon of asset planning, familiarize yourself with different types of assets, and get to know the fundamental mechanisms that play a key role in financial investment.

With this knowledge, you will be able to evaluate your own financial situation more effectively and start taking the first steps towards using your money to achieve what you want – be it travelling around the world, having a nice home, or simply growing old on a beach under the palm trees somewhere.

We hope you will enjoy our guided tour.
Zurich

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01 What exactly are assets?

When people talk about assets, they're referring either to the possession of a thing (a ritzy car or a dazzling ring, for instance) or to money.

If you want to make your money grow, you can do so by saving – in other words, by forgoing consumption. Yet this is not always easy and it requires discipline. There are, however, other ways of increasing your money, because money can actually work for you. How? Read on to find out.

Monetary assets

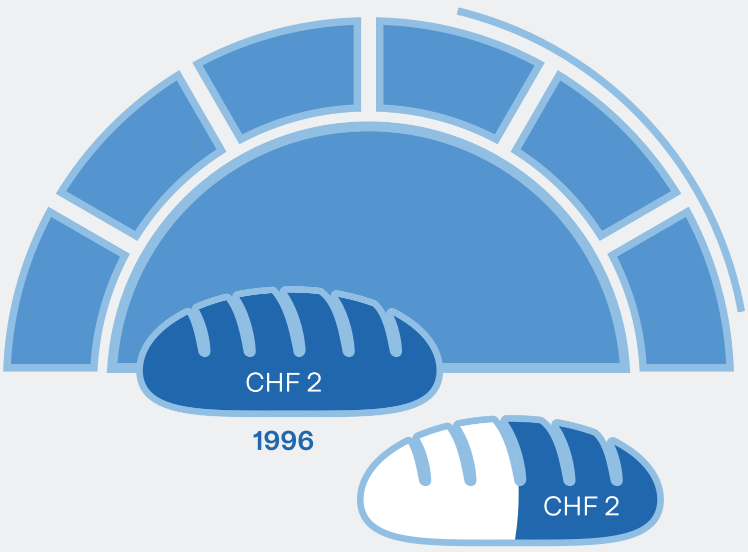
- Cash
- Bank deposits
- Bonds
- Pension fund assets

Material assets

- Real estate
- Stocks (company shareholdings)
- Commodities

02 Why money is working even when you’re asleep.

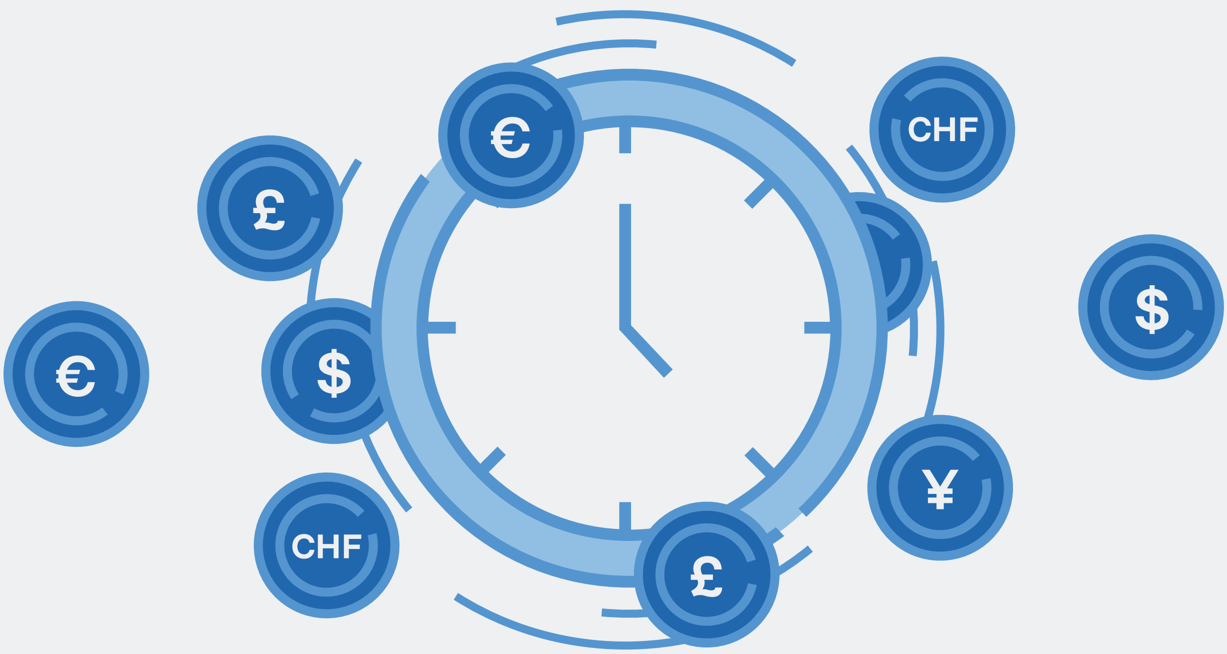
When people work, they generally receive money in return. This is also the case when money is at work – it earns what is called “interest,” which gradually accumulates. If the cash is simply stashed away under a mattress, it can’t do anything and therefore earns nothing in the way of a profit. In other words, you need to invest money or make it available to someone in order for it to be able to work. Putting it into a bank account is one example. In this case, the bank can use it to grant loans, which generate interest income, and ultimately you earn a portion of that interest.



Does money really have to work? What happens if I’d rather keep it under my mattress?

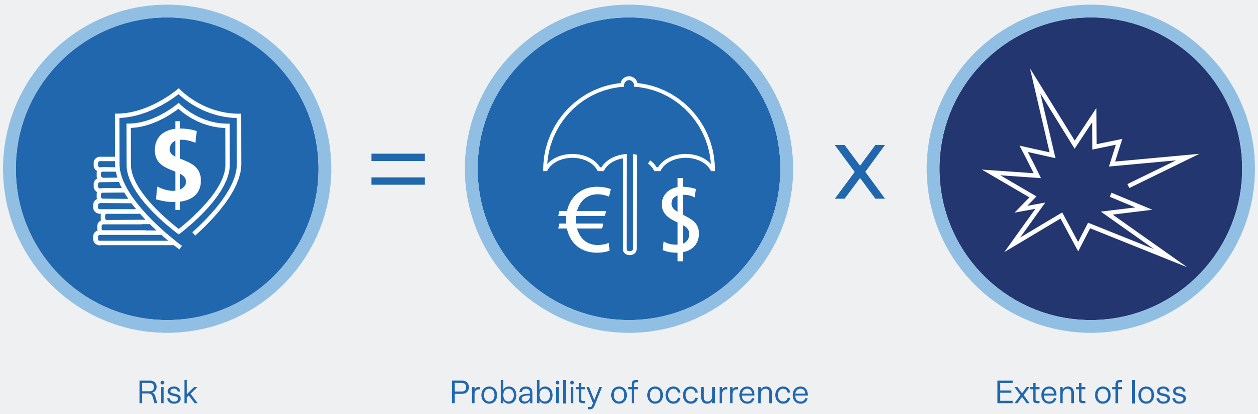
Over time, money loses its purchasing power. 20 years ago you could buy a loaf of bread for two Swiss francs, but if you only had that much to spend now, you’d only get half a loaf. On average, the value of money decreases by between 1 and 2 percent every year (due to inflation). If you want it to maintain its purchasing power, your money has to earn more than the average rate of inflation. As such, it’s advisable to put your money to work, rather than leaving it lying idle under the mattress.

Money can also multiply if it is made available to a company, or if you participate in that company. If the company is successful, you can earn dividends or achieve so-called capital gains due to your involvement. This can happen at any time of the day, as many companies operate worldwide and often work around the clock. This means that your money is at work even when you're fast asleep.



03 What are the risks and why is it essential to be aware of them?

Whether you're traveling by car, going for a walk in the woods or leaving your bike at the station, the risk of suffering damage is an ever-present fact of life. You might have an accident or be the victim of theft, for instance. The level of risk is defined by the likelihood that damage or a loss will occur and the extent of the resulting loss.



Good old folding cash is also faced with risks – so-called monetary risks. For instance, if you were to bet your entire wealth on a single number at the roulette table, it's highly likely that you wouldn't win. The loss you incur would be fatal. Financially, you'd need to start again from scratch and abandon any plans you had for the future, like buying a house.

When it comes to monetary risks, you should bear the following in mind:

Liquidity risk
Before you start thinking about how to invest your wealth optimally in order to achieve the best possible returns, you should ensure that your household always has sufficient funds to cover unexpected costs (e.g. for dental work). This will ensure that you won't run the risk of having to sell long-term financial investments at an inopportune moment.

Risk of inflation
When money loses its value over time, we talk about inflation (see the bread example in Chapter 02). If you put your assets in a savings account, for example, there is always the risk that your money will lose value if the interest you receive on the deposit is lower than the rate of inflation.

Cluster risk
History teaches us that even booming sectors of the economy and the businesses associated with them go through bad times as well as good. It is therefore advisable never to put all your assets in one basket, so to speak, but always to spread the risk. You can find out more in "Diversification" (Chapter 04).

Currency risk
Private investors are often tempted by the high interest rates offered in foreign currencies. Yet you should always be aware of the risk that foreign currencies may lose their value.

In 2000, for instance, many people invested in US dollars due to an exchange rate of 1.80 Swiss francs. Sixteen years later, with the exchange rate at almost 1 : 1, these investors have experienced a currency loss of almost 50 percent.

Risks to life and limb should also be taken into consideration in the asset planning process. In this case, we talk about life risks, or biometric risks. Even though it's not something that most people like to dwell on, occupational disability or death can have massive financial consequences. While state-run and occupational pension schemes might lend a hand, in most cases, this support isn't enough to completely compensate the resulting financial shortfall. So it is important to know how you can protect yourself and your loved ones financially.

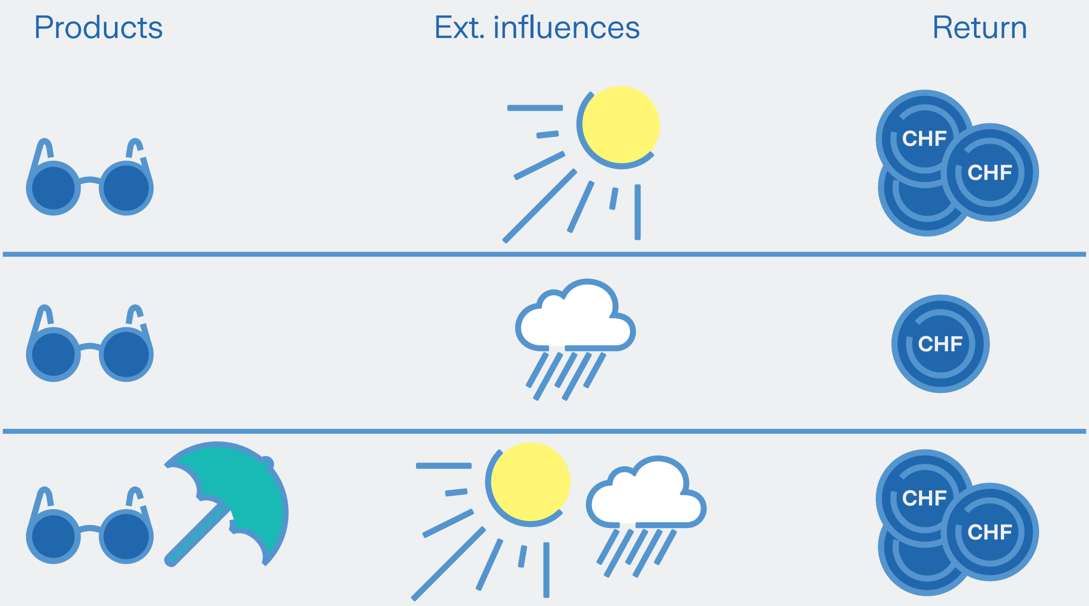
Below we have listed the life risks that you should take into consideration as part of your asset planning.

Risk of disability
Did you know that one in four people in Western Europe will be unable to work for a certain period of time due to illness or an accident at some point in their life? In such cases, state-run and occupational pension schemes only go so far. This makes it all the more crucial for us to plan ahead for ourselves in order to be able to avoid periods of financial difficulty.

Risk of death
In order to ensure that personal grief is not also accompanied by financial hardship, it is important to make sure that you can protect your loved ones in various ways even in the event of your death.

04 Diversification: fewer risks thanks to diversity.

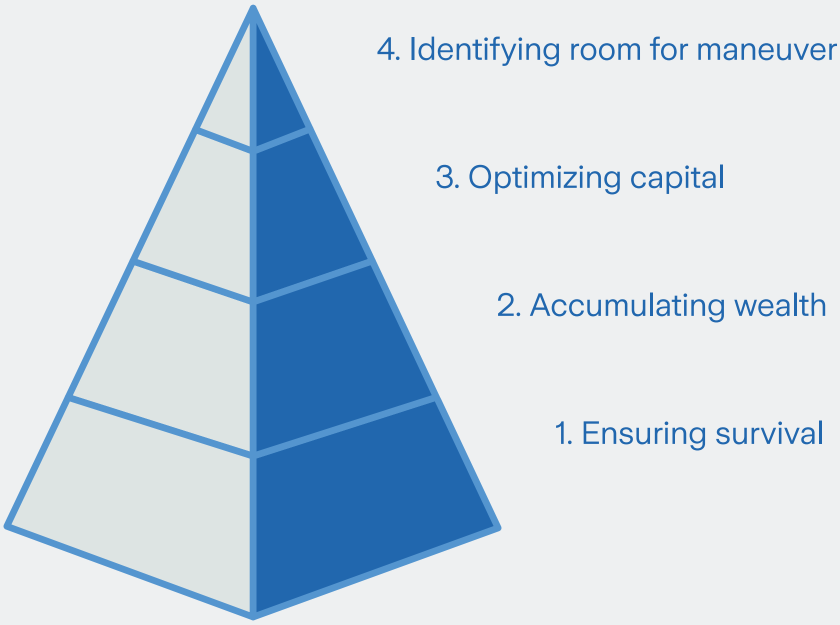
Imagine that you're a beach vendor, and that you've specialized in selling sunglasses. On a good day, this can be lucrative, but if it rains, your earnings are going to be severely restricted. However, if you've expanded your range of goods to include umbrellas, your losses will be smaller. You have therefore spread your risk over several different products. This is what we call diversification.



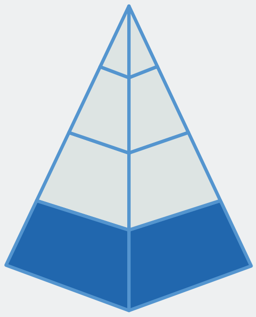
The same principle can also be applied to the allocation of your assets. Of course, the decision of whether to buy shares in one or more companies remains entirely up to you. However, if you decide to invest your assets in just one company, the risk of incurring a total loss is greater than if you were to invest in several firms. The principle of distributing risks, and thus reducing them, also makes investment funds particularly useful. A fund is nothing other than a pot that contains securities of various companies. So if you invest in an equity fund, you're simultaneously participating in the success of different companies, meaning your assets are diversified and the risk of a total loss is minimized.

05 Solid as a pyramid: the structure of your wealth.

The pyramids of Egypt are famous for their solidity and endurance. The fact that they have existed for several millennia is primarily due to the intelligent way in which they were constructed. In order to ensure that the structure of your wealth is as solid as a pyramid, we have to take on the mindset of an architect. Only by doing so can we build and strengthen your assets so they can underpin your life and help you to realize your dreams.



Level 1: Ensuring survival

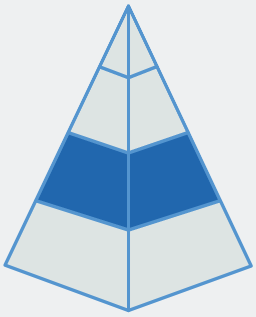


Ensuring survival
State and occupational pension schemes Safeguarding against risks

You can only really feel secure if you're standing on firm ground. The first step is therefore to ensure that your basic income will always be there for you and your family, whatever the circumstances.

As a starting point, we look at how well you and your family are protected against illness or accidents by state social security, your occupational benefits scheme (pension fund), and private insurance arrangements. Benefits from your state social security and occupational pension fund should together cover around 60 percent of your original wages. In order to maintain the standard of living to which you are accustomed, it is vital for us to identify and provide protection against these risks.

Level 2: Accumulating wealth



Accumulating wealth
Liquidity, post-retirement benefits plan and home ownership

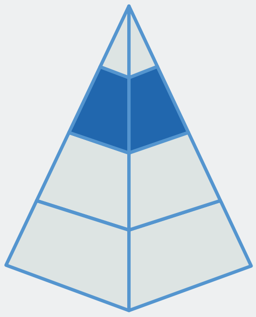
Once your livelihood has been secured, we can move on to the next step and look at how best to allocate your assets. The following three aspects are particularly important in accumulating wealth: liquidity, post-retirement benefits plan and home ownership.

1. Liquidity
Successful investors always hold a sufficient amount of cash or cash equivalents in reserve. So start by listing your income and expenditure. After that, you should accumulate a nest egg of at least three months' salary so that you are prepared for any unforeseen expenses like a car breakdown. In addition, you should also set aside money for expenses that are planned for the foreseeable future (such as renovation work or a new car).

2. Post-retirement benefits plan
As a second step, you should take a closer look at your pension plan for retirement. It is important to err on the side of caution and ensure that you will have liquid funds in your old age in order to cover living costs such as rent or food. Your post-retirement benefits are provided by your state pension scheme together with your occupational pension fund and Pillar 3 a/b savings.

3. Home ownership
Do you want to buy your own home, or do you already have one? In that case, this is likely to be the biggest asset on your personal balance sheet. In order to obtain a precise picture of which of your assets are freely disposable, the financing of your own home also needs to be analyzed.

Level 3: Optimizing capital



Optimizing capital
Investing

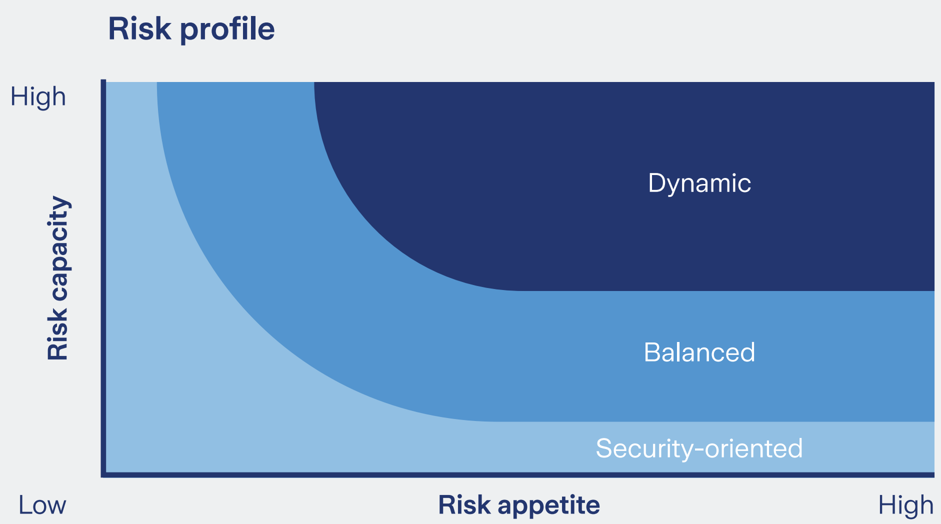
Having addressed levels 1 and 2, we now know the appropriate amount that can and should be invested. However, determining which investment is right for you depends on a number of aspects. The following essentially applies: the greater the risk you are prepared to take on, the higher your chances of making a profit. Yet when you invest your money in a riskier way, your chance of losing it also increases.
Your risk profile depends on two factors: your ability to bear risk and your appetite for risk. Your ability to bear risk (risk capacity) is determined by the following variables:

- **Age**
- **Income**
- **Savings rate**
- **Amount and form of currently invested wealth**
- **Investment horizon**

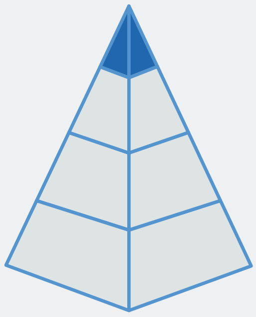
As a general rule, the younger you are and the more assets you have, the greater your risk capacity. However, your risk capacity decreases if you have little in the way of assets and high running costs, such as rent. Your psychological profile is the determining factor for your risk appetite. It is worth asking yourself how well you cope with price fluctuations. For instance, would you still sleep peacefully if your assets were to decrease in value by 20 percent during a crisis?

Once you have determined your risk capacity and your risk appetite, you can create your risk profile, which in turn forms the basis for your investment strategy (see Chapter 07) and how your capital can be invested optimally. Essentially, there are three types of risk profile:

“Security-oriented,” “balanced,” and “dynamic”



Level 4: Identifying room for maneuver



Identifying room for maneuver
Opportunities

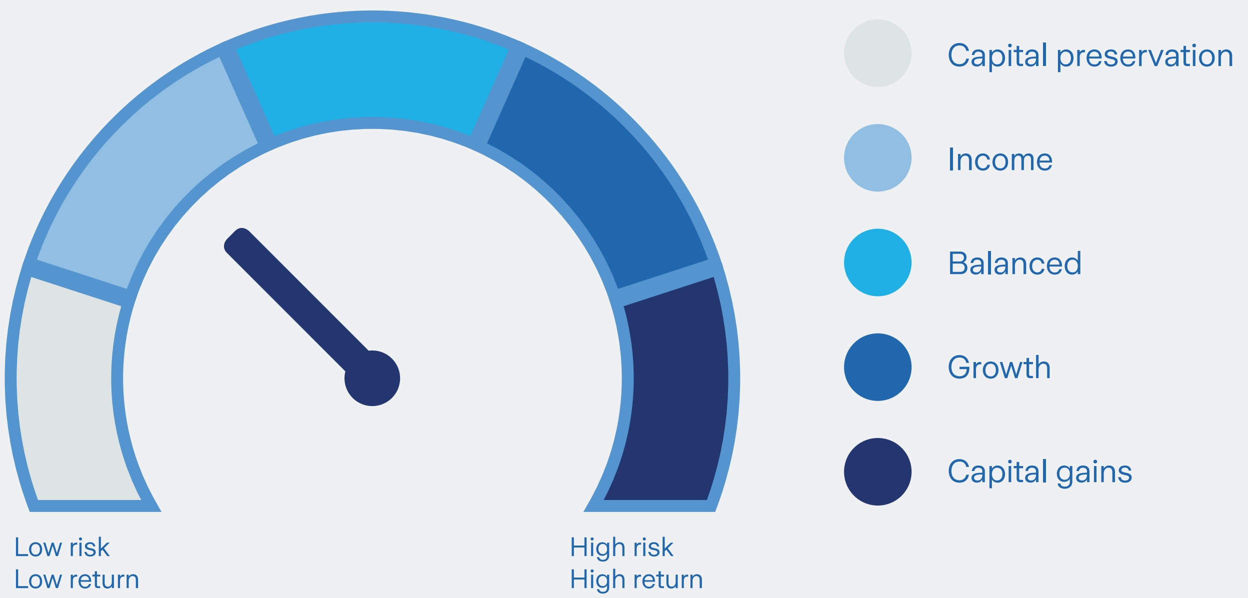
Once the amount of investable capital and optimal investment strategy have been determined, you may still have assets available that give you some extra room for maneuver.

Many investors tend to opt not only for structured products (a mix of bonds and, usually, options – see Chapter 06), but also for physical investments like a vintage car or a holiday home. Please note: it is always worth bearing in mind that investments at the top of the pyramid are usually based on emotions rather than a specific strategy.

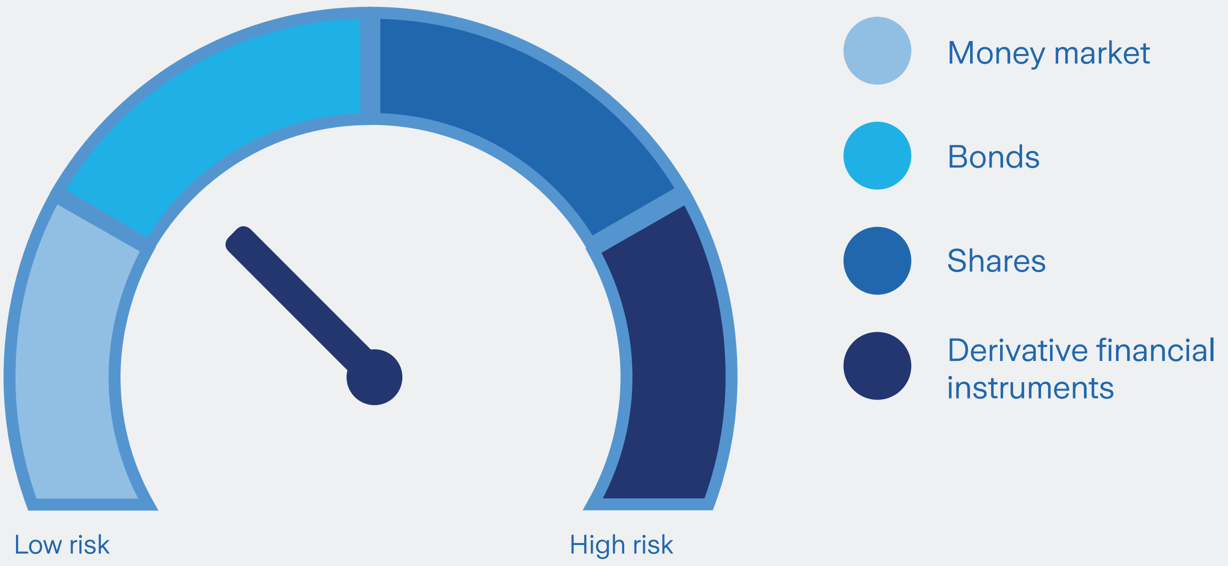
06 Applying a strategy to achieve your goal.

Have you already analyzed your asset pyramid and gone through your investor profile in detail? Have you defined how much risk you are willing and able to accept when investing money? Once you have completed these steps, there's nothing standing in the way of defining your investment strategy.

A basic distinction is drawn between five different investment strategies.



The five investment strategies differ mainly in terms of their exposure to high-risk financial instruments, with the financial instruments themselves having different risk profiles.



Money market
Money market investments are fixed-interest capital commitments with a maximum duration of twelve months. As the investment is made only for a very short, predetermined period of time, the risk is almost negligible. If the term to maturity exceeds twelve months, we talk about a capital market investment.

Bonds
Although bonds are considered to be riskier than savings accounts, they are less risky than shares. With a bond, you essentially lend money to a company and the amount is repaid in full after a specified period of time. You receive periodic interest payments on this "loan." Bonds may be subject to price fluctuations; however, this volatility is generally lower than with shares.

Shares

By investing in shares you become a co-owner of a company and share directly in its success. A distinction is made between higher-risk shares (shares in a start-up company, for example) and lower-risk shares (such as those in large and stable companies like Nestlé or Novartis). The value of each share is subject to price fluctuations that are dependent on the success of the company as well as on general market developments such as interest rate changes or political events. In addition to potential capital gains, the dividends paid on many stocks (i.e. a partial distribution of the company's profits) can also increase your wealth.

Derivative financial instruments

The value of a derivative financial instrument always depends on the price of an underlying asset, for example a specific stock or index. Options on shares are the most familiar form of derivative financial instrument – they give you the right to buy (call option) or sell (put option) a specified number of shares at a predetermined price during a specified period of time. Derivative instruments are highly complex. Essentially, you should only invest money in such instruments if you have a solid understanding of their characteristics and are consciously willing and able to run the risks associated with them.

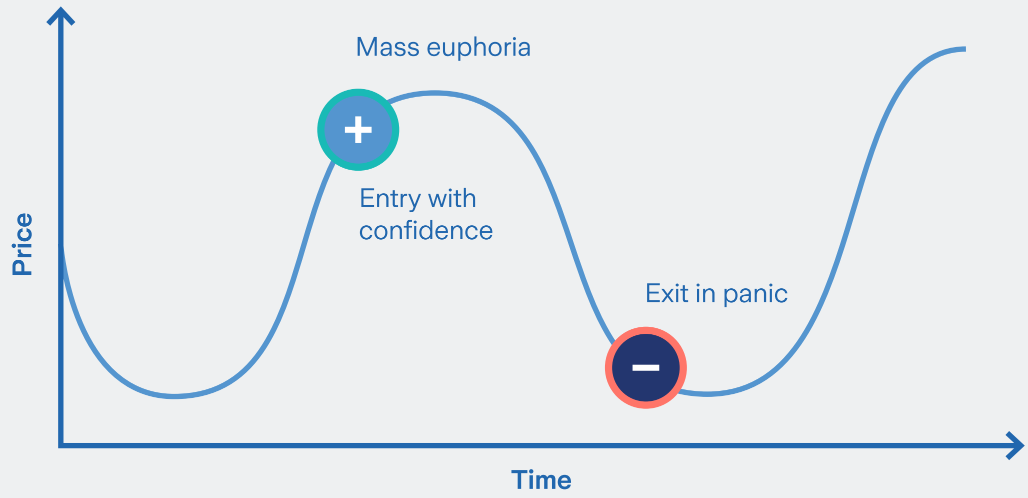
07 Reason rather than emotion.

In life it is often useful to rely on your gut feeling about things, be it when you're trying to choose the right job or looking for a partner. When investing money, however, this is not advisable. All too frequently, investors feel compelled to buy or sell assets based on movements in the markets and thereby abandon their original strategy.

When market fluctuations occur, it is common to see the following behavior: As prices rise, more and more investors are attracted to the stock market. They allow themselves to be swept along on a wave of mass euphoria and upbeat reports in the media. However, they are overlooking the fact that at this point the great news is already reflected in the current share prices. In other words, they are paying dearly in order to be part of the action.

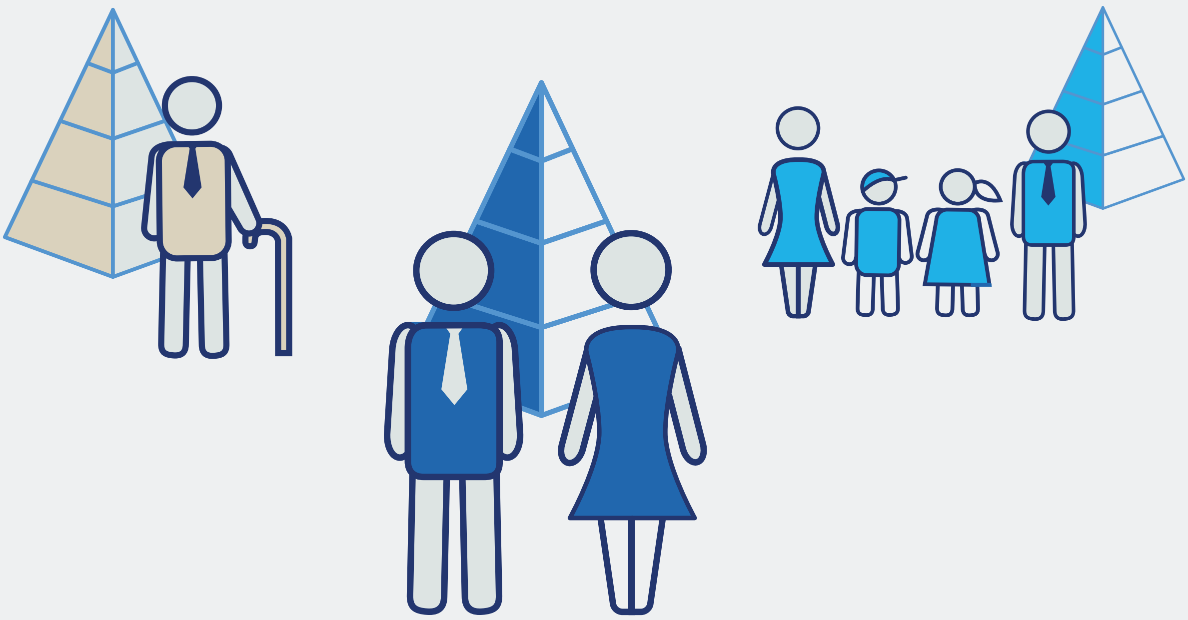
If a sharp price correction sets in, investors tend to sell their shares out of fear of incurring even bigger losses should the markets fall further, and alas sometimes even when the price decline is just about to bottom out. Ultimately, their overall result is a loss. If these investors had simply stuck to their own investment strategy, it is highly likely that they would have been able to avoid this regrettable situation.

Whatever the case, it is crucial not to deviate from your carefully chosen strategy. Rely on your own common sense and don’t let yourself be talked into knee-jerk reactions by the press or friends and colleagues.



08 How does my own pyramid look?

The optimal approach for investing your wealth depends on many personal factors and is ultimately a matter for each individual to decide. As such, there is no single asset pyramid to use as a template.



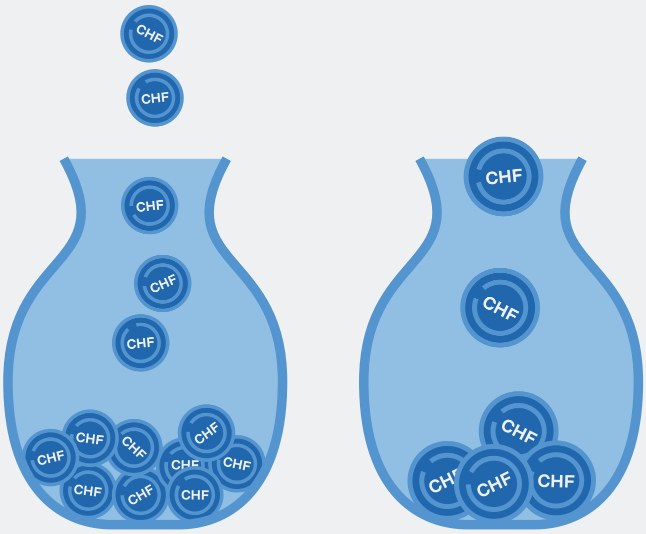
Just as everyone has a different appearance, no one asset pyramid is similar to another. A pyramid expresses an individual's personality and is formed by their life circum-stances and goals for the future. A person with a family, for instance, will want to ensure the safety of completely different things than a single person. An individual›s marital status also plays an important role in their ability and willingness to accept risk. Perhaps you're not yet aware of it, but you already have a pyramid. Take a closer look at it; examine its structure. Make sure that it is stable enough and has the right composition to make your dreams and goals a reality.

09 Planning for tomorrow…today!…pays off.

Now is the right time to begin your wealth planning. The sooner you can start saving, the more it will pay off.

Savings goal: CHF 100'000
Period: 30 years
Payment per month: CHF 155.50

Savings goal: CHF 100'000
Period: 10 years
Payment per month: CHF 688.10



With an assumed yield of 3.75 percent and a savings goal of 100'000 Swiss francs, a person who only started saving 10 years ago would have had to put aside 688.10 Swiss francs per month. Had this person started saving 30 years ago, he or she would have only needed to put 155.50 Swiss francs into their savings each month. As such, the second person not only had to put aside less money every month, but also ultimately has a significantly larger return due to the effect of compound interest.

Along with choosing the right point in time, it is also vitally important to follow your defined strategy, as this is the only way of achieving your investment goals and high returns. As a rule of thumb, good performance is attributable 20 percent to entry timing and 80 percent to proper strategy.

10

Listen to your money.

In order to ensure that your assets can meet all of your goals, it's advisable to respond to the needs of your money right from the start. This is the only way to accumulate wealth successfully over the long term.

Dear Owner,

- ✓ Please invest only the part of me that you will not need today or tomorrow.
- ✓ Think long and hard about what you could achieve with me and what expenses you are likely to be faced with in the future.
- ✓ Be sure to also bear in mind your post-retirement benefit schemes. If you don't, a time may come when I'm not there to help you.
- ✓ Please be honest with yourself and think about what kind of investor you are.
- ✓ Choose an investment strategy and stick to it, even in tough times.
- ✓ Please work out exactly when you will need me for buying the necessities of life, and choose the right investment horizon.

Here's to our successful collaboration!
Your money

11 Insurance-related investment advice.

Insurers must always be in a position to cover potential claims by their customers and claims in the event of damage. Thus careful planning and an eye towards the long term are crucial factors in asset management. Our advisors are held to making only those investment proposals that offer sustained success while covering risks at the same time. With Zurich, you have a single-source solution to all of these challenges. We offer a wide range of insurance products as well as attractive investment options. What's more, Zurich manages the assets of private customers and institutional investors (e.g. pension funds) alike, so as a customer you will also benefit from particularly favorable terms.

Our experts will be happy to provide you with personal advice. Find out more about our products and services on our website or contact us directly by phone or e-mail.

Zurich Insurance Company Ltd
Zurich Life Insurance Company Ltd
Zurich Invest Ltd
Hagenholzstrasse 60, 8050 Zurich
Phone 0800 80 80 80
www.zurich.ch

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