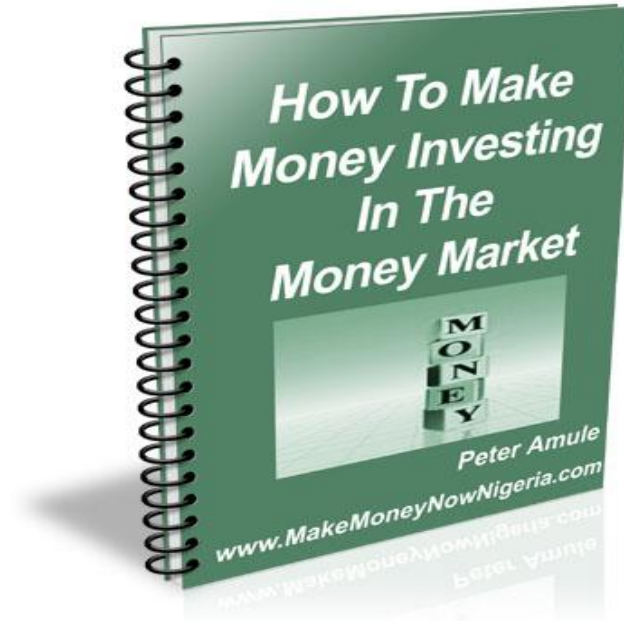


HOW TO MAKE MONEY INVESTING IN THE MONEY MARKET

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BY

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Investments in the money market are fixed income securities; they help generate a steady stream of income.

INVESTMENT OPTIONS IN THE MONEY MARKET

Nigerian Treasury Bills (NTBs)

Treasury bills are government guaranteed debt instruments issued by the Central Bank of Nigeria (CBN). When you buy Treasury bills, you lend to the Federal government. Treasury bills are considered risk-free because they are government-guaranteed debt instruments. Usual tenors are 91 days, 182 days and 364 days. Individuals like you, as well as institutions like banks, discount houses, fund managers, can invest in Treasury bills. Interest received on Treasury bills is not subjected to withholding tax and it can be used as collaterals for loans and other credit facilities. Interest on Treasury bills is payable upfront, giving higher effective yield. Other benefits of investing in Treasury bills are its high liquidity, and the associated risk of loss of value is relatively lower. To invest in Treasury bills, please visit your bank. The minimum bill amount issued by the CBN, as at today, is ₦50,000 and in multiples of ₦1,000, thereafter.

Bankers Acceptances (BAs)

Bankers Acceptances (BAs) is a short-term investment instrument. It is an avenue for corporate and individual investors to invest surplus funds. BA is an instrument created by a company and accepted by a bank. The company draws a draft and instructs the bank to pay a certain sum of money to a specified person at a stated date. When the bank accepts this draft by stamping and signing it, it becomes an obligation of the bank to pay a third party who has invested in it even if the company is unable to repay the draft. BAs are sold at a discount which means investors pay the discounted value and receive the full value at maturity. Interest is

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payable upfront. The rates are higher than NTBs and bank deposits. Tenor ranges from 31 days, 91 days 182days and 364 days. Bankers Acceptances is secure investment because of the bank's guarantee. You can only lose your money if the bank goes under and with the current level of capitalization of Nigerian banks that is unlikely to happen. Bankers Acceptances are sold by bank, to invest in it, contact your bank.

Commercial Papers

A Commercial Paper (CP) is an unsecured promissory note issued by a company as an evidence of borrowing from the public. Unlike Bankers Acceptances, Commercial Paper is not guaranteed by the bank it is a direct indebtedness of the company to the investor thereby making it unsecured. CP is highly liquid and the returns are high. It is cheaper than other sources of funds. The note offered depends on how much the issuer wants to borrow, money market rates & credit rating of the issuer. Most firms use the funds to finance short-term working capital. Tenor ranges from 31 days, 91 days and 364 days. CPs are arranged by the Bank to provide facilities to customers, in addition to the more familiar bank overdrafts. CPs are issued at a discount like NTBs and BAs have higher interest rate than them. If you invest N1,000,000 at the rate of 20%, you actually pay N800,000 and you receive a note to be paid N1,000,000 at maturity. Interest received is not subject to withholding tax. What you should look at when investing in CP is the credit-worthiness of the company. Contact your bank to invest in CP.

Certificate of Deposit

You leave money with a bank and a certificate issued by the bank. The bank is indebted to you because you are lending the bank the money. Interest is paid at maturity and you are not expected to withdraw the money before maturity. If there is need for you to withdraw the money before maturity, then the bank will pay you.

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penal charges on the interest already accrued on the money. Tenors are 30, 60, 90, 120, 180 or 365 days. Interest received is subject to 10% withholding tax.

Call Deposit

If you have idle funds that you can invest for a short time, you can leave it with the bank as Call Deposit. Call Deposit gives you the advantage of withdrawing your money with a short notice to your bank. Call Deposit has the lowest interest rate in the money market. The interest is subject to withholding tax.

Bond

A bond is a debt security, similar to an I.O.U. When you buy a bond, you are lending money to a government or corporation, federal agency or other entity known as the issuer. In return for the loan, the issuer promises to pay you a specified rate of interest during the life of the bond and to repay the face value of the bond (the principal) when it “matures,” or comes due. Bonds enable the issuer to finance long-term investments with external funds.

There are different types of bonds issued for trading by different organizations and governments. Corporate bonds are issued by private and public corporations. Municipal and Government bonds are bonds issued by states, local governments and other government entities. Municipal bonds are exempted from federal, state and local taxes. Foreign bonds are issued by companies outside its country of domiciliation. Asset-backed bonds are bonds backed by pools of assets.

Benefits of investing in bonds include safety and reliability, dependable income, liquidity good yields. Investors in bonds include large financial institutions, such as banks, insurance, managed funds, pension funds, endowments, and mutual funds.

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Also Individuals, including low and high-income earners can also invest in bonds.

Maturity date is the date on which the issuer has to repay the nominal amount and how long he can expect to receive interest payments. Maturity period is divided into three categories as follows:

- Short-term with maturities of up to 5 years
- Medium-term with maturities of between 5 and 12 years.
- Long term with maturity of above 12 years.

The three types of interest rates available in bond market are:

- Fixed-rate which are payable at regular intervals
- Floating rate with interest adjusted periodically according to an index tied to short-term Treasury bills or money markets. Federal Government bonds in Nigeria are adjusted periodically using the Minimum Rediscount Rate (MMR) as the yardstick.
- Zero-coupon have no periodic interest payments. They are sold at discount to face value and redeemed at maturity for the full face value. Tax must be paid on the accrued interest every year even though no interest is received.

CHOICE OF INVESTMENT INSTRUMENT

Each investor is at liberty to decide which investment instrument to invest his money in but the choice is largely determined by available funds, security of the instrument and rate of returns. NTBs are considered safest, being Federal Government indebtedness, followed by Certificate of Deposit being direct indebtedness of the bank, followed by BAs because they are guaranteed by the bank. Commercial Papers come last, being the direct indebtedness of companies. Interest rates on these

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instruments depend on the bank, tenor and the amount involved. In most cases you can negotiate the interest especially if the amount involved is much. So negotiate the rate and also shop around to get the best rate for your investment.

Remain Blessed.

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