General introduction to investing

Investing revolves around positioning funds in anticipation of obtaining future return.

The purpose may be:
- to amass a fortune
- to protect one's purchasing power against inflation
- to generate an additional source of income

Among the most typical investments are:
- Shares: You buy an equity stake in a company. If the company is successful, your shares may rise in value, and you may receive dividend payments.
- Bonds: You lend money to e.g. a state government or company and receive interest in return. Typically more stable than shares.
- Investment funds: You invest via a fund, which in turn spreads your capital over numerous assets. This reduces the risk and makes it easy to get started.

1. Target group

Investing is for everyone who wants to make their money work and take an active responsibility for their finances. Whether you are a novice or experienced, young or older, have a high income or a small savings pot, there are investment options that suit your circumstances.

Investing is particularly relevant if:
- You will not be needing the invested capital for a long time
- You can tolerate fluctuations in value along the way

The longer the time horizon, the better the chances of evening out fluctuations and yielding an attractive return.

If you invest over a short time horizon, please note that the risk of sustaining a loss is typically higher.

2. Pros and cons

Pros	Cons
Chances of yielding a return that exceeds the interest on your savings account	Markets fluctuate, and you are not guaranteed to get your money back. You may lose all or some of your investment
You may retain or enhance your purchasing power, as returns often exceed inflation over time	Market fluctuations may cause uncertainty and result in decisions based on emotions, such as panic selling
Investing can be adjusted to your goals, e.g. buying a home, pension savings, childrens education or travelling	Some investment products are complex and not quickly or easily sold, if you end up suddenly needing the money

3. Returns

A positive return is generated when the value of the security in which you have invested rises - or when you receive regular income on your investments.

This may derive from:
- Capital gains: The most common type of return. For instance, if you buy a share at a price of DKK 100, which then appreciates to DKK 130, you have gained DKK 30. The price may also fall (depreciate), in which case your investment results in a loss.
- Dividends: Some corporations distribute a portion of their profits to their shareholders. This is called dividend payouts. Some investment funds also pay dividends. If you hold shares in such a company or investment fund, you will typically receive a dividend payout once a year - and the amount will automatically be deposited into your account.
- Interest income: When you invest in bonds, you typically receive interest on the capital that you have lent. This interest may be fixed or floating and is often paid out twice a year - and will be automatically deposited into your account.
- Currency gains: If you invest in foreign assets, you may generate a profit, if the currency appreciates in value as measured against the Danish krone. The exchange rate may also depreciate, in which case your investment results in a loss.

Any expenses you may have in connection with your investment have a negative impact on your return.

Realised vs. unrealised returns
- Unrealised: Gain or loss on a security because its value has changed - but you did not sell it yet.
- Realised: When you sell, and the gain/loss becomes finite.

For some forms of investments, gains are not subject to taxation until realised. However, this is not the case for all forms of investment - for instance, pension savings and share savings accounts.

4. Risk

When you make an investment, the value of this investment may appreciate or depreciate. Return and risk are closely correlated: The higher return you aim to generate, the more risk you must typically be willing to tolerate.

The value of investments that hold a high potential return - such as shares - may fluctuate a lot, which enhances the risk of sustaining a loss. Cash deposits and more stable investment products - such as bonds - typically generate lower, yet more predictable, returns.

The extent of the fluctuations in value depends on which assets you invest in and how you combine your investments.

Types of risk
A number of factors impacts your investment risk:

Company-specific risk
If, for instance, you only invest in one specific share or one specific sector, the risk of sustaining a major loss is higher. Having a broad composition across sectors, countries and asset types reduces the risk.

Market risk
The risk that the value of your investments depreciates, because the overall market declines. This may be due to:

- Financial crises
- Political events
- Changes in interest rates and inflation
- Other general circumstances in the economy

The market risk has a higher impact on risky assets, such as shares and share-based investment funds.

Time horizon
If you have a short time horizon, the risk of sustaining a loss is higher if the market value is low when you need to cash in. A

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longer time horizon provides better chances of evening out fluctuations.

Risk of bankruptcy
If you invest in shares or corporate bonds, there is a risk that the company will go into bankruptcy. In that case, you may lose your entire investment.

- The risk is particularly high for smaller or economically unstable companies/states
- The risk can be reduced by diversifying your investments

Interest-rate risk
Some investment products, e.g. bonds, are sensitive to changes in the level of interest rates.
- If the market rate increases, the value of existing bonds decreases
- If the market rate decreases, the value of existing bonds increases

Currency risk
If you invest in foreign securities, changes in exchange rate may impact your return. Even if shares move higher, you may lose money in DKK if the exchange rate drops. Conversely, a stronger currency (exchange rate) may increase your return.

Inflation risk
If inflation is higher than the return on your investments, you lose purchasing power. The risk is higher in cash and low-interest bonds.

Psychological risk
Many people get nervous in times of market fluctuations. This may cause you to sell in panic when the market dips, or buy at overprice when sentiment is euphoric.

Liquidity risk
Securities with low liquidity may be difficult to sell quickly without accepting a lower price. This applies for certain property investments, unlisted securities, and niche investment funds. This may be a problem if you suddenly need your money.

Sustainability risk
Investments in companies that do not take environment, social issues or governance into account may be more exposed to future regulations, scandals or changed consumer behaviour. Even investments in sustainable companies may pose a risk, if they are dependent on political backup or immature technology.

5. Useful information

Investment strategy
It is vital to have a strategy that matches your goals, time horizon and risk appetite.
- Passive investing: You pick e.g. broad-based investment funds or indices that track the market. This is less time-consuming and often less expensive.
- Active investing: You (or a fund manager) aim to beat the market, for instance by picking single shares or entering positions with a specific timing. This may provide higher returns - but also entails higher risks and expenses.

Your time horizon is of great importance:
- A long-term strategy (e.g. 5-20 years) provides the chance to utilise growth over time.
- A short-term strategy requires more attention and entails a higher risk of sustaining a loss.

You can also choose to buy small portions at a time (e.g. every month) - the average cost formula. This spreads risk over time, gradually builds your portfolio, and removes the need to time the market.

Portfolio
A portfolio is the total pool of your investments - shares, bonds, investment funds, properties or cash. A good portfolio is diversified. Your portfolio should reflect your goals (e.g. pension or home purchase) and when you will need the money. Rebalance periodically to maintain your strategy.

How to buy and sell securities
- Self-service: Log into our mobile app or online banking, find the relevant security, enter desired quantity and price. The deal is executed when your order is matched in the market, and the paper is added to your portfolio.
- Advisory services: You and your relationship manager make a risk profile together with suggestions for suitable investment options. Once you make your choice, your relationship manager can help you execute the deal, or you can do it yourself via online banking.

Custody account and administration
Securities are held in a custody account - typically at your bank. There may be fees involved, and it is essential to stay on top of how your investments are registered.

Automation and reinvestment
Many banks offer the chance to reinvest dividend payouts or fixed monthly investments - a disciplined approach that utilises compounding.

Taxation
Tax rules differ based on how you make your investment (private individual, business, company, pension funds etc.). We only provide general tax advice. For advice based on your specific circumstances, we recommend consulting an auditor.

Costs and expenses
Investing involves costs such as:
- Transaction costs (brokerage fee for purchase/sale)
- Currency exchange fee (for foreign securities)
- Stock exchange or foreign security fee (Dependent on the rules pertaining in the specific country)
- Custody fee (paid to the bank for holding securities)
- Administration and management costs (for investment funds)

Whether you execute deals yourself or via a relationship manager, you will be properly informed about the total costs and expenses. Jyske Banks current prices and fees are available at our website.

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