Nadir Mehadji worked as an investment banker in London and Singapore for over 10 years. He holds a MSc. in Management with a specialisation in finance from HEC Paris.

He is also a published photographer and has worked in the field of strategic design and innovation. He has facilitated workshops about Design Thinking to help organisations improve their innovation processes.

Nadir decided to write *The Cat & the Banker* when he realised the gap of understanding between the industry he comes from – investment banking – and friends who work in other industries. Everyone needs to make investment decisions. Yet, not everyone has solid financial literacy. Nadir wanted to make the complex and unnecessarily confusing subject of investing simple and accessible.

Being at the intersection of the worlds of money and creativity has given him unique insights into how to bridge the gap of understanding between investment professionals and the general public.

LEARN HOW TO THINK ABOUT MONEY

- WANT TO INVEST, BUT DON'T KNOW WHERE TO START?
- WORRIED ABOUT WHAT TO INVEST IN?
- DON'T HAVE TIME TO READ A BOOK ABOUT FINANCE, BUT NEED TO MAKE IMPORTANT DECISIONS?

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WARNING: NO RECIPES, BUT GET READY TO BE SERIOUSLY EMPOWERED, SO YOU CAN DO THINGS YOUR WAY.

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ISBN 978-981-4794-44-2

NADIR MEHADJI THE CAT & THE BANKER Marshall Cavendish Business

THE CAT & THE BANKER

HOW TO GET STARTED WITH INVESTING: AN ILLUSTRATED STORY

NADIR MEHADJI

A SERIOUS BOOK ABOUT INVESTING THAT READS LIKE A STORY!

FUN AND CLEAR ILLUSTRATIONS MAKE COMPLEX IDEAS SIMPLE.

"THE CAT & THE BANKER" ADDRESSES AN OVERLOOKED BUT COMMON HURDLE: HOW TO GET STARTED!

The Cat & The Banker

How to Get Started with Investing: An Illustrated Story

Nadir Mehadji

Marshall Cavendish Business

Cover design by Marcel Heijnen

Reprinted 2018, 2020

Published by Marshall Cavendish Business
An imprint of Marshall Cavendish International

A member of the
Times Publishing Group

Other Marshall Cavendish Offices:
Marshall Cavendish Corporation, 99 White Plains Road, Tarrytown NY 10591-9001, USA • Marshall Cavendish International (Thailand) Co Ltd, 253 Asoke, 12th Flr, Sukhumvit 21 Road, Klongtoey Nua, Wattana, Bangkok 10110, Thailand • Marshall Cavendish (Malaysia) Sdn Bhd, Times Subang, Lot 46, Subang Hi-Tech Industrial Park, Batu Tiga, 40000 Shah Alam, Selangor Darul Ehsan, Malaysia.

National Library Board, Singapore Cataloguing in Publication Data

Name(s): Mehadji, Nadir.
Title: The cat & the banker : how to get started with investing : an illustrated story / Nadir Mehadji.
Other title(s): Cat and the banker : how to get started with investing | How to get started with investing : an illustrated story
Description: Singapore : Marshall Cavendish Business, 2017. | The ampersand in the title is outlined to represent a cat.
Identifier(s): OCN 1008623326 | ISBN 978-981-4794-44-2 (paperback)
Subject(s): LCSH: Investments--Popular works. | Portfolio management--Popular works. | Finance, Personal--Popular works.
Classification: DDC 332.678--dc23

Printed in Singapore

TO ECHO

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INTRO:

HOUSTON, WE HAVE A PROBLEM

Socrates Cat rolled over onto his belly as the *ping* of a message notification took him out of his slumber. He opened one eye and saw the message flashing: “LAST WARNING. Spending limit exceeded. AGAIN. Get your act together. NOW.” He pondered the thought for a second and dozed off again.

A year earlier, Socrates’ life had changed dramatically when he received inheritance money from his uncle Apollo. Both of them had always been close. A successful technologist, Apollo had invented the Catbot, an artificially intelligent device that spoke Meowsic. The Catbot allowed felines to interact with their phones without having to type; a revolution in Catland and a major upgrade from Bluefang technology. Catland, despite being a small country, had a thriving economy, although its ballooning banking sector was a cause for concern. With his invention, Apollo acquired instant fame. He also made good money, incidentally.

Apollo's will stated that he would hand down his possessions to his nephew Socrates, his closest family. That's how Socrates inherited the small fortune of C$150,000, the catdollar (C$) being the local currency in Catland. Socrates' life changed overnight. He had been working as a freelance designer until then and freelancing had been a rough ride. Now, fat fish, mouse mousse and milk nectar were his diet on lean days.

But all wasn't rosy. When Socrates finally got up, he reluctantly looked at his finances. The graph showing his savings looked like a sinking ship. The thing is Socrates did enjoy the good life; he was a cat after all. He thought of former pawgilist champion Cat Tyson, who had squandered a larger fortune and now lived like a stray cat in his old days. Not the way to go. Socrates knew that he had to do things differently if he wanted a comfortable future. He needed to make his money grow.

As Socrates took his wallet, a photo slipped out. It was a picture of him and his uncle that had been placed with the will. As the photo lay face down on the floor, Socrates noticed a small note on the back. He'd missed it before. "Don't blow the money, invest it," Apollo had written. "And call PiggyBank," he had underscored, "the only bank with a half-decent reputation. Make an appointment with a financial catviser."

"Is that it…?!" Socrates thought.

Socrates called the bank and explained that he was considering investing a sum of money. The clerk replied that they'd be delighted to discuss his circumstances.

This was how cat Socrates embarked on his investment odyssey. He was scheduled to meet with PiggyBank the next day.

A GIFT TO MICE

INFLATION

Socrates received a warm welcome at PiggyBank. He was ushered into a meeting room bathed in natural light. A tall bottle of branded milk stood on the table.

Socrates had stopped by the grocery store to buy a couple of cans of fish on his way to the bank. He placed his groceries on the seat next to him.

“It is a pleasure to meet you, Mr Cat,” the banker said with poise as he entered the room. “How should I address you?”

“You can call me Socrates.”

“I’m Catsby.”

Catsby was an unusual sight in Catland. He was a lion. “I understand that you would like to make investments,” he said.

“I’d like to invest C$100,000 or so. But I have limited knowledge. I’m not sure how to approach investing. I don’t know where to start. I was hoping you could help me.”

“I’m glad you came,” Catsby said. “You know Socrates, there was a time when I wasn’t much of an investor myself. But I became a good investor after I understood the six different types of investments and when to invest in them. We will talk about that as I teach you the ropes.

But first things first. Everyone has their own objectives when it comes to what they want to achieve with money.

My role is to try and understand what your objectives are and to help you make investment decisions that you are comfortable with.

Generally cats who come here seek one of three things, or a combination of them.

The first is to preserve the value of their wealth.

The second is to generate regular income.

The third thing is to grow their wealth.

You will need to think about which of these you want to achieve. So tell me, how does having money make you feel?"

"It gives me peace of mind," Socrates replied.

"Money makes us feel safe, doesn't it? It is tempting to keep it in a stash close to us. You know, hidden in a cardboard box, or in a ball of wool, or in a bank account. But if we don't invest our money, it tends to lose value over time."

"How could I lose money by putting it in a safe place?" Socrates asked.

Catsby pointed at the grocery bag on the chair. He could see its contents. "May I ask how much you paid for the cans of fish?"

"C$2 a can," Socrates replied.

"How much do you think a can cost five years ago?"

“Around C$1?”

“Sounds like a fair guess. So the obvious thing would be to say that the price went up, right?”

Socrates nodded.

“Another way to see it is that the value of a can hasn’t changed. A can of fish is still worth a can of fish.

Your money however is now worth twice as little. The same dollar today only buys you half a can. In other words, the value of the catdollar has shrunk.”

Socrates hadn’t quite realised the implication until now.

“There is a word to describe the phenomenon of prices rising. It is called inflation. And just as inflation measures how fast prices are going up, inflation also measures the pace at which the value of your money depreciates.”

Socrates looked concerned. “How do you measure inflation?” he asked.

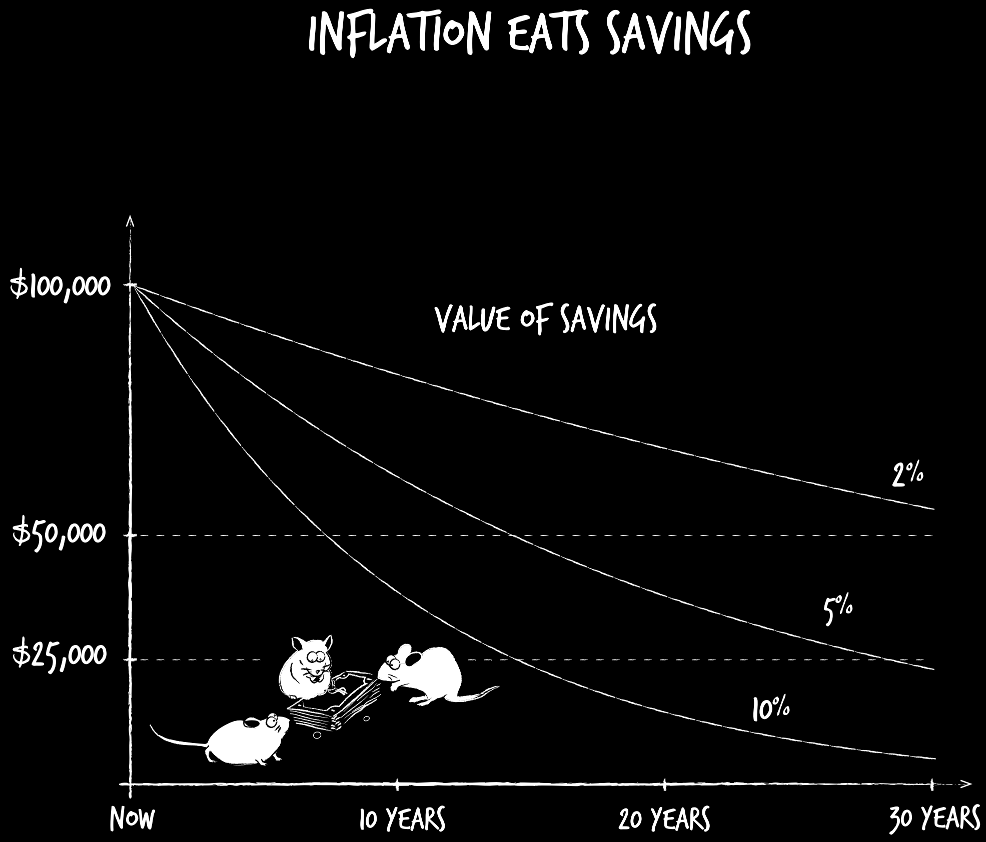
“Inflation in Catland ran at 2% last year. It means that the price of things are on average 2% more expensive than they were a year ago. What it really means for you though, as you have savings, is that inflation makes you poorer as time goes by.”

Catsby took a notepad and drew a chart. “The bite of inflation can be nasty. If you do nothing about your money, at a 2% annual inflation rate, in 10 years, your C$100,000 will have the same value as $82,000 only. If inflation runs faster still, at 5%, your $100,000 will be worth about $60,000 in 10 years. And at 10%, your $100,000 will have less value than $40,000 then.

Inflation may be silent. But its impact is real. Holding onto money in times of inflation is not a good idea.”

“Losing money to inflation sounds treacherous,” Socrates said. “It’s like giving money to mice to nibble. I want my savings to grow, not dwindle!”

“Then we need to find ways to make your money grow by at least the future rate of inflation, just to preserve the value of the savings that you currently have. We need to find better stores of value than just holding onto catdollars.”


INFLATION EATS SAVINGS
VALUE OF SAVINGS
$100,000
$50,000
$25,000
2%
5%
10%
NOW
10 YEARS
20 YEARS
30 YEARS

Socrates was pensive. He was pondering the issues of money for the first time. Now that he had savings, he had to worry about seeing them evaporate...

"Let's meet again tomorrow if you like," Catsby said.

HOW TO START INVESTING
- JOURNEY MAP -

1. UNDERSTAND YOUR OWN OBJECTIVES & CIRCUMSTANCES

2. UNDERSTAND HOW THE BUILDING BLOCKS OF INVESTING WORK & WHAT THEY DO

3. UNDERSTAND HOW THE BUILDING BLOCKS REACT TO EXPECTATIONS FOR THE ECONOMY & HOW THEY FIT WITH YOUR OWN OBJECTIVES

4. START SMALL. EXPERIMENT. FIND OUT WHAT YOU ARE COMFORTABLE WITH, SO YOU CAN DO IT YOUR WAY

(NO WORRIES... CATSBY WILL HELP YOU WITH THESE STEPS)

Volatile Bonds

Bond Prices & Yields

“Like other investments, bonds carry risks,” Catsby went on. “Should we sell a bond before its maturity date, we would find out that a bond behaves like a stock. Its price fluctuates.

It means that in some circumstances we could make a profit by selling a bond early. Other times though, we could only sell it at a lower price than we initially paid for.”

“But… you said that bonds offered predictable income,” Socrates said.

“Income, yes. Bonds do pay regular coupons at known dates.

What is unpredictable however is the resale value of the bond if the bond is sold early."

"What happens then?"

"You see, every bond has a price. And the price of a bond is expressed as a percentage of its redemption value, the amount of money that the borrower promises to pay back at maturity.

For instance, the 5-year-maturity bond that Catland issued last month promises to pay back C$100 after 5 years: C$100 is its redemption value. But C$100 is not always what a buyer would pay for the bond. The price will be determined by the market."

"Although you said that each investor who subscribed to Catland bonds at issuance gave $100 to the government for every bond they bought?"

"That's right. When a bond is first issued, it is generally issued at a price equal to its redemption value. So C$100 is the price at which the first bondholders bought the recently-issued Catland bonds. But if one of the first bondholders decided to sell a bond, the next investor would not necessarily pay C$100 for it. He might pay more, or less."

“Why is that? The bond still promises to repay the same $100 at the end,” Socrates pointed out.

“Fair remark. But other factors matter too. I will explain why. Would you allow me to introduce the notion of ‘yield’ before that? It will help us understand why bond prices move.

When financiers talk about bonds, they do not talk about them in terms of price. Instead, they talk about returns. And the annual return of a bond is called the yield. OK?

The yield of a bond is the annual return that the bond promises to pay if the bondholder keeps the bond until maturity.

If you had bought the 5-year Catland bond at C$100 on the day it was issued, your yield would be 3.5%, the coupon rate. That’s the annual return that you would get for owning the bond.

The reason why financiers prefer to talk in terms of yield rather than prices is because comparing the prices of two bonds is not straightforward. Every bond has slightly different features: different borrowers, different maturities, different coupons.

But yields make for an easy comparison between bonds. At a glance, anyone can compare how much various bonds promise to return. For the bonds we mentioned: it was 3.5% and 4% for Catland bonds against 6% for Fat Fish and 9% for Skinny Fish when they were first issued. Simple. Yields are a common feature across bonds. So comparing bond yields instead of bond prices is closer to comparing apples with apples."

Catsby carried on: "Now let's consider the issuance of a bond from the point of view of an investor.

When a bond is first issued, the yield of the bond, the return it promises, represents the interest rate that investors demand in order to lend money to the borrower until the bond matures."

Socrates thought for a moment. "So this means that when Catland issued a 5-year bond with a coupon of 3.5% last month, 3.5% was the interest rate at which, at that particular moment, investors were willing to lend to the government over 5 years?"

"Exactly right," Catsby said.

"And then what happens next?" Socrates asked.

"An investor could hold the bond and earn a 3.5% annual return until it matures. Or, if he decided to sell the bond, the investor would notice that the interest rate at which the government can borrow changes over time: interest rates reflect the price of money at which borrowers and lenders agree to do business.

Today for instance, investors would not lend to Catland over 5 years for 3.5% any more. Circumstances have changed and investors now have different anticipations about the future. They wouldn't lend unless the government paid a higher interest rate of 4%. So this week, when Catland issued a new 5-year bond, they issued it with a higher coupon of 4%."

"Did this new bond impact the old bond?"

"Let me ask you this question. Would you still want to buy an old Catland bond with a coupon of 3.5% at C$100 if you could get a comparable brand new Catland bond with a coupon of 4% for the same price?"

"No! I would prefer the bond with the higher return."

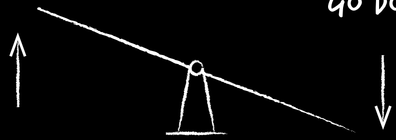
"So you would agree that the price of the 3.5%-coupon bond would need to drop to make the old bond attractive again? You wouldn't want to buy the 3.5%-coupon bond unless the old bond offered at least the same overall return as the new bond."

"Correct."

BOND PRICES FLUCTUATE...

1

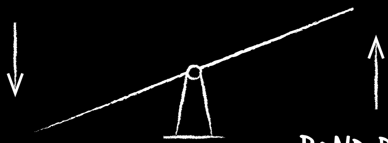
BOND PRICES
GO DOWN



WHEN INTEREST RATES
GO UP

2

WHEN INTEREST RATES
GO DOWN



BOND PRICES
GO UP

BOND PRICES & BOND YIELDS MOVE IN OPPOSITE DIRECTIONS