



ECFH Financially Speaking

East Caribbean Financial Holding Company Limited

This week we continue our focus on investment with yet another term. Our term for this week is: **Capital Asset Pricing Model (CAPM)**.

The **Capital Asset Pricing Model (CAPM)** is used to determine a theoretically appropriate required rate of return of an asset (securities, stocks). The model is applied if that asset is to be added to an already well-diversified portfolio. The model takes into account the asset's sensitivity to market risk. The general idea behind **CAPM** is that investors need to be compensated in two ways: time value of money and risk.

What does this mean for you?

Investment experts utilize **CAPM** to establish whether the return expected on an investment for example in a stock or security is worth the risk. Using **CAPM**, your investment adviser is better able to forecast whether a security/stock is worth investing in. It is one of the tools that your investment advisor may propose to you when discussing your investment options and how to allocate your funds in the best possible way. Therefore, it is advisable that you understand what **CAPM** refers to and its implications for your investment portfolio. For more information on **CAPM**, and how it is used, feel free to call Bank of Saint Lucia's Wealth & Asset Management Division (WAM) at 456-6104 or ECFH Global Investment Solutions at 457-7233.