

TIME FOR FINANCIAL HEALTH CHECK

Focus Malaysia (22 December 2018)

By Ismitz Matthew De Alwis

- **Financial** discipline is key to financial stability
- **Staying** clear of debt and having adequate funds for retirement is crucial for everyone



Amid all the last minute rush for the ultimate family vacation during the year-end holidays, there is a high tendency to lose sight of our financial well-being. Among Americans, the biggest driver of their summer overspending has been attributed to the lack of proper budgeting: holiday weekends, graduation parties, vacations, barbecues and family gatherings, summer camp, activities with the kids and back-to-school shopping, among others. Doubtless, financial discipline is key to financial stability; in fact, it's the magic formula in ensuring a clean bill of financial health.

In the short-term, financial health boils down to prioritising clear goals, making periodic adjustments to achieve optimum results and embarking on corrective action to recover from existing financial liabilities. While one need not necessarily be frugal or thrifty during this holiday season, especially with the Christmas and the New Year festivities, proper budgeting on holiday-cum-leisure activities seems a wise step to take. The bottom line is about stretching the value of every ringgit spent that is by booking air tickets or accommodation well in advance to capitalise on cheaper/promotional rate, simply hunting for deals online or watching out for sales instead of embarking on a shopping spree.

RETIREMENT SAVINGS VS DEBT LEVEL

For the longer term, financial health hinges on fulfilling financial commitments with ease, earning more than planned, spending less than necessary, saving as much as possible and investing wisely. Human Resources Minister M. Kulasegaran recently revealed that a large number of Malaysians - more than two-thirds or 68% of Employees Provident Fund (EPF) members who are aged 54 - had less than RM50,000 in EPF savings. While raising the retirement age is an option that the government is contemplating, other means of savings, notably investing (in stocks, bonds, unit trust, gold, currencies, real estate or private retirement schemes) or buying insurance policies are equally vital to ensure a comfortable retirement given today's longer lifespan (and escalating living cost).

In this regard, research by the Social Security Organisation (Socso) found that two in three Malaysians will live with less than RM950 per month until age 75, while seven in 10 will live with RM210 per month until 75 or would have depleted their savings in less than two years. Above all else, the Socso research also noted that a majority of Malaysians have both low salaries and financial literacy regardless if they are professionals or otherwise. Inevitably, the absence of a proper money management skill will continue to be a bane to the so-called Bottom 40% (B40) households with a monthly income of RM3,900 and below. In all

fairness, not all debt is bad debt. But debt with high or variable interest rates can make an individual less secure (i.e. student loan, credit card spending and mortgage balances). Interestingly, the first experience of debt for most people comes from their time in university.

TAX PLANNING

Budget 2019 has introduced a slew of new taxes following the abolishment of the indirect Goods and Services Tax (GST) which is replaced by the Sales and Service Tax (SST). Henceforth, proper tax planning is not only about upholding law-abiding citizenry but more so because tax planning is itself a critical component of financial planning. In essence, tax provisions have an impact on major components of financial planning such as education, retirement or estate planning. Staying ahead of the new government's new tax regime entails in-depth understanding of taxation laws and knowledge which can be rather technical for the layman to decipher. An easy way is to hire a professional accountant to file an income/corporate tax on one's behalf although those who are more adventurous would probably choose the DIY (do-it-yourself) path.

A check on Google Search reveals that many tax specialists are offering compact courses (at affordable fees) for discerning individual business owners who are keen to obtain a better understanding of the existing taxation system. The syllabus covers, among others, small and medium enterprises (SME) tax incentives, small and medium industries (SMI) tax planning, tax relief for individuals, credit system for sales tax deduction to avoid double taxation and lower business costs, updates on SST goods exemption, imposition of real property gains tax, unreported income and incorrect return (remedies relief), methods by the Inland Revenue Board on capital statement to uncover tax evasion and changes in EPF contribution and relief.

STOCK MARKET ENTHUSIASTS

Those who dabble in the stock market should be cautious of their over-dependency on margin loans as this can be a double-edged sword. Two extremes to bear in mind are that one can either rake in massive profits alongside the raging bull or incur massive losses during a long bear market. "Most investors cannot control their emotions. They are egoistic and greedy. When their shareholdings are going up, they would not sell and like to boast to all their friends that they are so clever to have bought them at much lower prices," blogs "super" investor-cum-philanthropist Koon Yew Yin who admittedly over-leveraged margin financing in one counter whose value has plummeted 68% over a period of eight months.

"Now I am eating humble pie while writing this useful lesson for all investors. As much as I hate to expose my own mistake, I consider this lesson to be very useful and essential to all investors." In view of the highly unpredictable nature of the stock market, value investing as advocated by Berkshire Hathaway mogul Warren Buffett is worth considering to reap maximum rewards from one's investment. A cross between technical and fundamental analyses, value investing offers superior risk adjusted returns by focusing on fundamentally sound companies which trade at low earnings multiples and book value as opposed to merely growth prospects per se. Above all else, always ensure that proceeds from one's investments are able to supersede current inflation rates as inflation does not only lower the worth of one's ringgit in the future but also tends to depress the overall returns from one's investment in equities.

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All the last-minute rush for the ultimate family vacation during the year-end holidays, there is a high tendency to lose sight of one's financial well-being.

Among Americans, the biggest stress of their income management has been attributed to the lack of proper budgeting. Budgeting includes vacations, groceries, parties, vacations, hobbies and family gatherings, consumer items, activities with friends and kids, school shopping, among others.

Financial discipline is key to financial stability. In fact, it's the magic formula to ensuring a clean bill of financial health.

In the short term, financial health boils down to prioritising other goals, making periodic adjustments to achieve optimum results and exhibiting a constructive action to recover from existing financial liabilities.

While we need not necessarily be afraid or fearful during this holiday season, especially with the Christmas and the New Year holidays, proper budgeting and holiday expense selection are the necessary step to take.

The bottom line is about stretching the value of every single spend, that is, by looking for tickets or accommodations well in advance to capitalise on cheaper promotional rates, online booking for deals and/or watching out for sales instead of rushing or a stopping agent.

Retirement savings vs debt level

For the longer term, financial health hinges on fulfilling financial commitments with reasonable more than planned, spending less than necessary, saving as much as possible and investing wisely.

Recent surveys conducted by independent research revealed that 75% large number of Millennials view their financial or net worth of Millennials as 10% of the average household net worth.

While saving for retirement is important, that the government is encouraging, other means of savings, such as investing in stocks, bonds, and bank, gold, currencies, real estate or private retirement schemes or

buying insurance policies are equally vital to ensure a credit-worthy retirement plan today's longer lifespan (average last remaining living year).

In this regard, research by the Social Security Administration (SSA) found that two in three Millennials will live with less than \$100,000 net worth (total net worth) while seven in 10 will live with \$100,000 net worth, still 10% or would have dependent their savings in retirement investments.

More tellingly, the SSA research also noted that a majority of Millennials have both low savings and financial literacy. Millennials are professionals or otherwise. However, the absence of a proper money management skill will continue to be a danger to the so-called bottom 90% of households, with a monthly income of \$1,000 and below.

In all fairness, not all debt is bad debt. Bad debt still holds or could be interest rates can make an individual less secure (ie, credit card, credit card spreading and mortgage) balances. Interestingly, the best experience of debt-free people comes from their late-in-a-career.

Tax planning

Budget 2018 has introduced a slew of new taxes following the abolition of the Individual Income Tax (IIT) which is replaced by the Sales and Service Tax (SST).

It is worth to prepare by planning to take advantage of existing tax-allowing facilities, but more so because tax planning is itself a critical component of financial planning. In essence, tax practitioners have an impact on major components of financial planning such as education, retirement or estate planning.

Moving ahead of the new government's new tax regime entails in-depth understanding of product lines and knowledge which can be utilised to plan for the future to enlighten. In particular, it is to have a professional assessment of the tax implications on one's net worth, although those who are not advisers would probably choose the DIY (do-it-yourself) route.

A check on Google search revealed many tax specialists are offering online courses on affordable fees for educating individual business owners who are keen to obtain a better understanding of the existing tax system.

The syllabus covers, among others, small and medium enterprises (SME) tax incentives, small



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and another industries (SME) tax planning, tax relief for individuals, credit scores for sales and distribution to avoid double taxation and lower business cost, updates on 501(c)(3) grants, execution, disposition of real property (gains tax, imputed income and unearned interest) remedies relief, methods to the latest revenue based on capital structure to ensure tax evasion and changes in RFP contributions and relief.

Stock market enthusiasts

Those who thrive in the stock market should be cautious of their over-dependence on margin loans as this can be a double-edged sword. Two extremes to fear in retail are that one can either take in unearned profits through the margin, but at some point, losses during a bear market.

"Most investors cannot control their emotions. They are egoistic and greedy. When their shareholdings are going up, they would not sell and like to hold to all their friends that they are so clever or have bought them at much lower prices," says "Super" investor, anti-fundamentalist, Ken Lim, the author of the best-selling book "The 100 Most Powerful Stocks in the World" (2014).

over a period of eight months. "You can earn enough per day while writing this article lesson for all investors, as much as I like to repeat my own mistakes, I consider this lesson to be very useful and essential to all investors."

In view of the highly unpredictable nature of the stock market, value investing is advocated by Berkshire Hathaway mogul Warren Buffett in terms of avoiding to reap maximum rewards from one's investment.

A time between technical and fundamental analysis, value investing offers superior risk-adjusted returns by focusing on fundamentally sound companies which trade at low earnings multiples and book value, as opposed to overly-growth prospects (eg, etc).

There are other strategies that provide from one's investments are able to provide superior inflation rates, as inflation does not only lower the worth of one's savings in the future but also tends to depress the overall returns from one's investment in equities. **Ken**

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