Publication: The Business Times, p 15
Date: 22 Aug 2016
Headline: What a 20-year-old needs to know about personal finance

What a 20-year-old needs to know about personal finance

Protect your wealth and then generate it through employment and investments

By Lim Ting Zhou and Jason Zeng

ARGUABLY, the 20s is the most crucial life stage. There, a majority will graduate from post-secondary education and set foot into the "real world".

Young people will then assume full responsibility for their finances.

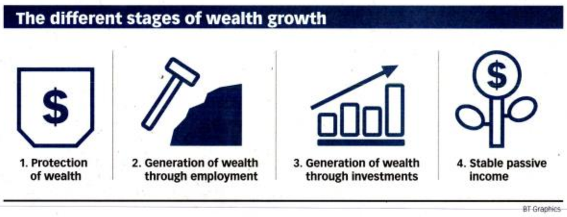
The transition is often daunting for them since most have limited experience in managing their own savings and spending, not to mention income and investments.

If you are in such a situation, we hope you are worried, or at least a bit stressed by it all.

But do not be paralysed by worry. Know that only you can help yourself, and the earlier you start, the better.

Begin by equipping yourself with the relevant knowledge. Through this article, we hope to provide you with a glimpse into how you can start managing your own finances.

We will discuss wealth protection, employment wealth generation, investment wealth generation, and passive income generation.



Protection of wealth

In one episode of US reality TV show "Shark Tank", where entrepreneurs pitched their ideas to investors, businessman Kevin O' Leary referred to his money as soldiers, and investing as conquering other armies to get more soldiers.

A good way to start will be to deploy your soldiers wisely, and that means not wasting too many soldiers on material goods.

Do not get too excited with your first salary and spend it all, like we know basketball star Shaquille O'Neal did. He spent his first million in 45 minutes upon signing his first professional contract!

In addition, you need to make sure that you are protected against untoward events like illnesses and mishaps.

The financial instrument to manage this risk is insurance, such as hospitalisation insurance, accident insurance, and life insurance.

With ever rising medical costs, you must ensure that you do not go into debt because of an accident, which many people may encounter in their lifetime.

It bears repeating that products offered by insurance companies can be complicated, so it is important to know what you are protected for, what the exclusions are, and the different levels of coverage.

For a start, getting hospitalisation insurance does not mean you do not pay anything when hospitalised.

This is due to the deductible and co-insurance clauses.

A deductible is the amount of the bill you have to pay yourself before the insurance company will step in to cover your bills. Co-insurance is the percentage of what the insurance company covers upon stepping in.

Suppose you have a medical bill of S$10,000. The deductible and co-insurance on your plan are S$3,000 and 10 per cent respectively.

The cost that you bear will be S$3,700. This is because the deductible is S$3,000, and co-insurance is S$700 (10 per cent of the difference of the bill and the deductible).

While you are less likely to suffer illnesses at a young age, it is still important to get insurance early.

This is because insurance companies can exclude you from coverage for pre-existing conditions like diabetes, high blood pressure or cyst growths.

Generating wealth through employment

Employment can refer to self-employment or being employed, and this is how most will start to amass their armies.

For working adults, the biggest source of income will most likely come from employment.

To go one step further, if you have extra savings at your disposal which you could spend without affecting your financial stability, do not hesitate to sign up for courses that would help improve your marketability and employability.

For instance, if you plan to work in the finance or wealth management sectors, getting accreditation as a Chartered Financial Analyst (CFA) or Chartered Financial Planner (CFP) could give you an edge in the workplace.

In a fast-paced world, making sure that your skills are relevant could help you secure your job and improve your chances of getting promoted.

Generating wealth through investments

Time to send your army to war and capture more soldiers. The world of investment is bigger than what you can wrap your head around.

Popular asset classes for general investors to get into are stocks, bonds, foreign exchange (forex), real estate and commodities.

The derivatives market is where advanced financial instruments such as futures, options and warrants are transacted.

For derivative products, the risk and complexities involved are very high, and unless you have a crystal clear idea of how the market operates, we strongly suggest that you do not enter.

Many types of investments require a quite substantial amount of capital to begin with.

To invest in the stock, bond or commodities market, usually you would need to purchase at least one board lot of the underlying security as required by the different exchanges. Thus, it is important to have a large enough army when the opportunity arises.

If you think you do not have the time and energy to manage your investment portfolio, you could park your money with professional fund managers who would invest on your behalf.

In unit trusts, also known as mutual funds, many people pool their armies together to fight the investment war.

There are a few things to take note of when investing in collective investment schemes.

Be wary of high management fees. What is considered high has come down through the years, but anything 2-3 per cent and above is considered high now.

Understand the investment objectives of the fund, such as whether it seeks long-term capital appreciation or aims to preserve investors' principal while generating dividend income.

Know which markets or assets the funds are focusing on and investing in.

Lastly, take note of the withdrawal policy, such as whether there are any lock-in periods where your money is committed for fixed periods of time.

If you plan to invest in a mutual fund, it is best to consult a trusted financial consultant who could guide you into investing in a fund that best fits your investment objective.

The most important advice here is the old adage, "Know what you are doing".

When you start sending your soldiers to war, no amount of simulation can prepare you for the mental stress you can potentially go through.

Knowing what you are doing will give you courage, wisdom and fortitude when things go wrong.

Generating passive income

Here you are sending your soldiers to wars that you have a very high chance of winning. But the gains are less attractive.

People usually do this after they have amassed a large sum of money through the years.

Having a stable source of passive income is important as it allows you to have the extra cash flow to deal with unexpected expenses, or to treat yourself and your family to a nice vacation.

To produce passive income, the investment products you choose should be as safe as possible.

For example, bonds issued by governments with good credit ratings would definitely be the safest choice, such as Treasury bills, notes and bonds issued by the US government – the textbook definition of risk-free. In Singapore, the Singapore government is rated AAA, the highest credit rating there is out there.

To conclude, protecting, building, investing and sustaining your wealth are all parts of your personal financial management plan.

If this has whetted your appetite, and you yearn to learn more, join us at our Financial Literacy Symposium: Young Investors – Time is on Your Side, as well as post-symposium workshops, to be held on Sept 17, 2016.

Find out more about wealth and investment management from our exceptional line-up of speakers. Get inspirations from the past and prepare ourselves to seize opportunities of the future. See you there!

■ Lim Ting Zhou is a student with Singapore Management University's School of Accountancy and Jason Zeng Zhihui is a student with SMU's Lee Kong Chian School of Business. Both are student trainers in the Citi-SMU Financial Literacy Programme for Young Adults.

Jointly launched by Citi Singapore and SMU in April 2012, the programme is Singapore's first structured financial literacy programme for young adults. It aims to equip those aged 17 to 30 with essential personal finance knowledge and skills to give them a firm foundation in managing their money, and a financial headstart early in their working lives

student trainer (Batch 2014)
■ Fakkah Fuzz, stand-up comedian, singer/songwriter

Post-symposium workshops include:
■ Fundamentals to Equity Valuation
■ Financial Planning Begins Now – Measuring Your Financial Fitness
■ My CPF and Me
■ Buying Your First Flat
■ Credit Card: Friend or Foe?

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