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Gen Y Speaks: Learning the value of financial literacy the hard way

One aspect of financial literacy the author says he wished he had known earlier is to plan for retirement early.

The Government announced this month that it will roll out an ungraded financial education module to all polytechnic and Institute of Technical Education (ITE) Year 1 students from next year, as part of its efforts to help younger Singaporeans become more financially literate.

I wish I could turn back time to learn financial literacy at a younger age because I have made some poor financial decisions which have greatly impacted my savings.

It started when I was studying in a polytechnic. As a online shopaholic, I did not think twice about spending more than S$100 in online shopping on one piece of clothing during festive seasons like Chinese New Year on credit without understanding my own financial situation.

I had applied for a student credit card because it was convenient to pay for my clothes without using cash.

As a result, I once ended up with some S$400 in debt without knowing that the bank was charging me a monthly interest of 2.34 per cent for late payments.

I was forced to borrow money from my parents to repay my debts.

If I had known how spending on credit works, I would likely have been more prudent in my expenditure.

Then I started investing in stocks, wrongly believing that this requires little financial knowledge.

I bought my first technology stock (Yuuzoo) at the age of 23 and tried my hand in contra trading, which meant that I need not fork out cash for the stocks purchased as long as I sold them within five days.

This was risky behaviour because I was trading with money that I did not have.

I did research on the stocks I bought, thinking the prices would go up.

But contra trading caused me to lose more than S$1,000 from different trades over a period of two years.

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I then moved on to trading currencies by opening a Contract For Difference account which allows me to trade on margin by borrowing money from my broker to buy and sell currencies.

In this account, I pay as little as 2 per cent of my total investment cost and use the remaining money borrowed from my broker to perform trading.

I aimed for high returns and had no qualms about trading up to S$10,000.

While margin trading amplified my returns, my losses were also magnified.

After two years of trading, I decided to stop because I could not sustain my losses without a proper understanding of how margin trading works and the essential trading risks involved.

From my experience, I realised that successful trading requires intuition, foresight and a good understanding of the financial market.

Given the limited resources that I had, I decided to shift from trading to passive investment where I would put part of my monthly savings into an Exchange Traded Fund (ETF).

ETF is a marketable security that tracks a basket of assets which can be either stocks, bonds or any other financial asset classes.

In my case, I invested in a Straits Times Index ETF which comprises 30 blue chip companies in different industries, thereby allowing me to diversify my portfolio.

Even though diversification is a good thing and a less risky option, it also means that my expected investment return will be lower compared to buying shares in a single company.

Over the years, I have sharpened my financial literacy knowledge by majoring in finance at Singapore Management University (SMU).

Additionally, I have also attended a six-week intensive financial literacy Train-the-trainers program organised by the Citi-SMU Financial Literacy Programme for Young Adults, which covers modules such as financial planning, investment and classroom management.

I have reinforced my financial knowledge by attending workshops, competitions and teaching polytechnic and ITE students financial literacy.

One other aspect of financial literacy I wished I had known earlier is to plan for retirement early.

Many millennials that I know have the misconception that retirement planning is necessary only when they are about to retire.

However, if we understand the concept of time value of money, we can put our money to work today to invest and accumulate returns.

For example, if a 25- year-old wishes to retire at the age of 65 with a million dollars in savings, this person needs to invest S$655.30 per month and achieve a 5 per cent annual return on investment.

However, the monthly investment amount increases to S$1,201.55 should he start his investment journey 10 years later, a significant 83.36 per cent more than the 25-year old.

Still, as the saying goes, it is better late than never.

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I would strongly urge all millennials to learn the different concepts of financial literacy and to be more financially responsible.

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