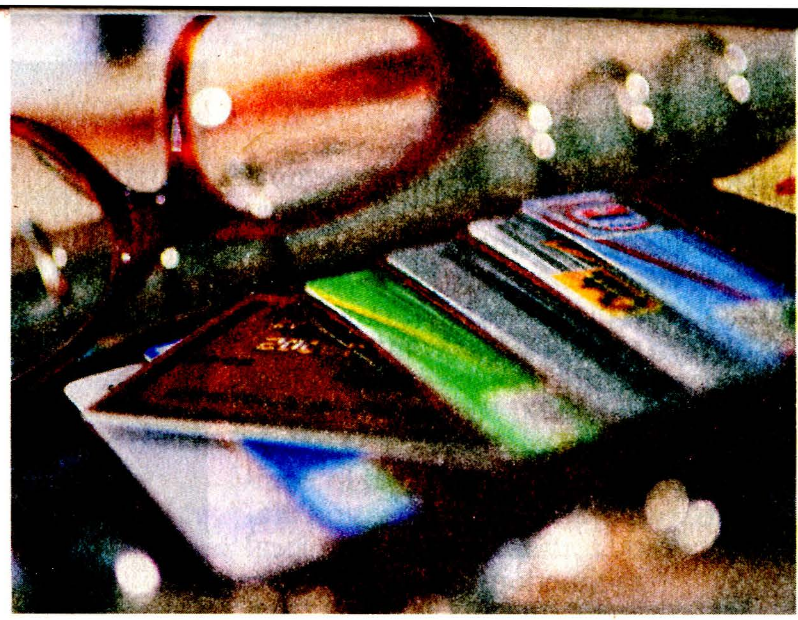
Publication: The Sunday Times, Classified, p C20
Date: 9 November 2014
Headline: All you want to ask about your money

THE LAST WORD

Dr Larry Haverkamp
lhaverkamp@smu.edu.sg

All you want to ask about your money



Over the years, I have received a lot of questions about money. Here are some of the best:

Question: What is the key to career success?

Answer: First, try to get a good education, preferably in a field where there are lots of jobs. That way if you don't like your employer, you can switch to a new one. In a way, that makes you the boss. Examples are careers like engineering, accounting and teaching.

Q: But I want to pursue my passion!

A: Passion is good but it has two problems: First, some people haven't yet found it yet and many never will. As a back-up, choose a practical career. You may be surprised that the passion will develop. You can love any job as long as you get a sense of accomplishment from it.

Second, many passions are not practical. Take music. Everyone loves music, but it is hard to make a living from it. The same for art. Only a few great artists ever hit the big time. It's true for acting too. And sports. Those are wonderful jobs if you reach the top, but all these fields have more supply than demand, so you'll need a practical skill as a backup.

Q: Are there any tips for saving money once I start working?

A: Yes. Don't spend it! It isn't as hard as you may think. See if you can follow the 1/3, 1/3, 1/3 rule. It means save the first 1/3 of your income to your CPF account. That happens automatically so you don't have to do anything. The second 1/3 is saving part of your take-home pay, which will probably involve sacrifices. As for the final 1/3, spend away. Live it up!

Q: How can I avoid debt?

A: Don't avoid it. Take it on. Contrary to popular opinion, debt can help your credit rating. Most lenders prefer to see borrowers who have been able to manage debt. So, a history of borrowing and repaying can help when you later apply for a big loan to buy a home or a car.

Credit cards can help, but pay them when due since a credit card loan costs an incredible 26.8 per cent per year. Consider a personal loan instead, which can be a term loan or line of credit. I like lines of credit since you can reduce the interest to zero by paying them off temporarily. Then re-borrow the money when you need it again.

Q: Should I invest all my money?

A: I would say, "No." For the first $10,000, just stay liquid. Keep your money in a low-interest fixed deposit so you can withdraw to use for emergencies. (Early withdrawal penalties are not much.) After that, you can go for higher risk/return investments.

> *Quick***Quote**
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> **"In theory, there is no difference between theory and practice. But in practice, there is."**
>
> Jan L. A. van de Snepscheut (1953 – 1994), computer scientist and educator

CPF rules follow this strategy too. They require that you keep the first $20,000 in your ordinary account before you use it for investments (although you can still use it for home loan payments). This rule may work to your benefit since you will earn a risk-free 2.5 per cent interest plus 1 per cent bonus on the first $20,000 in your OA. That's 3.5 per cent compared to a return of around 1 per cent for bank fixed deposits.

Q: Should I make investments?

A: Yes, if your money is going to grow, you'll need to invest. Your first and best investment is likely to be your home. It gives high returns with low risk and you can live in it. (You can't live in your shares!)

Since it is such a good deal, go big and buy as much as you can afford, although that has been reduced by new lending rules. Unless you have high income and savings, you will have to settle for a smaller home than, say, five years ago.

Q: What is your home buying advice?

A: My advice is to go for older estates, built before 1997. That's when HDB flats were larger and estates were less squeezy. Now, an older 4-room flat is almost as large as a new 5-room. And covered car parks in the new estates mean the blocks can be built closer together. That's not a problem in many older estates which still use ground level parking.

Q: What about shares? Do you recommend them?

A: Yes! I recommend them even though they are higher risk but remember, "Higher risk, higher returns". To get these returns, you only need to "buy and hold". Most people with a steady income can do that.

What if you have a sudden emergency and need to sell? Sorry but the market may be in a down phase and you'll have to sell at a loss. While this this could happen, the chances are less than 50-50 due to the market's long-run "up" momentum of 8 to 10 per cent per year. If you're not a Nervous Nellie, you can handle the volatility without your heart skipping a beat!

Q: How to pick the best shares?

A: Don't. Unless you have insider information, which most of us don't, you cannot out-perform the market. Your best bet is to diversify by buying all the shares. A great way to do this is to buy an Exchange Traded Fund. The trouble is, most are traded in US dollars which makes them difficult to buy because of new trading restrictions.

There are some easy ways around this which I will tell you next time.

Dr Haverkamp is an economist and adjunct faculty member at Singapore Management University. In his weekly column, he shares simple tips on how you can make money work harder for you.