

Hit your target net worth early

Starting early allows you more time to save and more room to take risks



Jonathan Kwok

Not many students have a grown-up approach to investing – having enough cash for next week’s party is the main priority – but undergraduate Liyann Seet sees it differently.

Ms Seet, 22, has personal finances that already resemble someone who has been working for a few years.

The Singapore Management University finance student has a five-figure stock portfolio thanks to cash she has squirreled away from internships, Internet businesses and modelling since she was 16.

Along the way she developed positive money habits, such as carefully watching her spending and having an emergency fund of cash in case something untoward happens. And her share investments are paying off, returning 40 per cent since she started buying two years ago.

Ms Seet, who starts work later this year, hopes to treble her stock portfolio by the time she is 25. She declined to reveal the exact figures of her portfolio.

“In terms of my future financial planning, my goal is to set aside half of my pay for my ‘stock trust account’. This account will be used to invest in stocks,” she said.

Like Ms Seet, many young people may have dreams of hitting a certain net worth within a few years, whether they are still study-

ing or fresh to the working world.

Here are some basic steps to remember on the way.

Limit your spending

Many young people focus on getting as much income as possible – either from a job or starting their own business – and there is no doubt that earnings play a big part in the path to financial success.

But earning \$10,000 a month would mean nothing for your finances if you splurge every single cent. So it is imperative to develop the habit of prudence from the get-go – to spend less than what you earn.

Advisers say that young people with minimal financial commitments should save at least 20 per cent of their income.

Ms Salena Kanasan, senior financial services manager at AXA Life Insurance Singapore, said they can aim even higher, to save at least 50 of their income.

“When they settle down, when they have a wedding and a house, they will need the money,” she

adds.

When other commitments come in, like car or mortgage repayments, young children or aged parents, the savings rate can then drop to 20 per cent.

Mr Christopher Tan, chief executive of financial advisory firm Provident, provided a less ambitious saving target: People with commitments like a house and children can aim to save at least 10 per cent.

It may also be a good idea to open a separate account for your savings, says Ms Tok Geok Peng, DBS Bank’s senior vice president for consumer deposits.

Get medical insurance

Health insurance, otherwise known as medical coverage, is the most important insurance that everyone should start off with, say financial advisers.

This helps cover medical costs – which can be sky-high in Singapore – in the event of a serious illness.

“We can save a lot of our income, but without insurance, we can spend all of that

5 BUILDING BLOCKS

- 1 Limit spending**
It won’t matter how much you earn if you constantly spend more than you make
- 2 Get medical insurance**
Make sure you can be responsible for your own medical expenses
- 3 Watch your debt**
Make a distinction between good debt and bad debt
- 4 Have an emergency fund**
Have at least six months of income before investing
- 5 Start investing**
With the above four building blocks in place, you can now harness your excess savings for higher returns

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Figure out your finances and expenses



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very quickly with just one illness," says Ms Kanasan.

"It's even worse if we have to stop working and stay at home [after the illness]."

Having taken money from their parents for over two decades, most young graduates would want to be financially independent.

"You won't ever want to turn back to them and say 'sorry mum, I'm sick now, can you pay my bills'," says Ms Kanasan.

Mr Tan adds that medical insurance is "all [the cover] you need" if you have no dependents.

"If you are going to pass on, nobody is going to miss you financially. You need to at least make sure that you can be responsible for your medical expenses if you are unwell."

Watch your debt

Debt and sky-high interest repayments can wreck your financial plans so you should always keep an eye on it.

You also need to make a distinction between good debt – like business or study loans that can reap investment returns in future – and bad debt like a new TV that does not.

While paying off a debt is a priority so as to reduce fees or interest, you should still save some money during the repayment period.

"For instance, if one has 20 per cent left (of income) after deducting monthly expenses, 15 per cent can go towards the repayment of the debt" with the other 5 per cent being saved, says Ms Tok from DBS.

The savings will come in handy on a rainy day.

To prevent the debt from getting worse, debit cards can help maintain financial discipline, adds Ms Tok. Unlike credit cards, debit cards prevent you from spending more than what you have.

Have an emergency fund

It is also prudent to set up an "emergency fund" that can be easily accessed in case you lose your job or face other out-of-the-blue events.

Once you start investing you may not be able to offload your stocks easily or may have to take a large loss on the sale.

Mr Vasu Menon, vice-president for wealth management Singapore at OCBC Bank, recommends setting aside six to 12 months of your monthly expenses in the emergency fund, while American financial adviser and television host Suze Orman suggests at least eight months of expenses.

Mr Menon said: "If you lose your job, the cash can help you to meet your monthly expenses until you find a new job, which may take as long as six months or even more."

Ms Tok advocates calculating the emergency fund in terms of monthly salary – her advice is to have six months of income before exploring ways to invest excess savings and generate higher returns.

Start your investment journey

With all these building blocks in place you can now start investing.

This essentially involves harnessing your savings or excess money to work to generate more cash.

Property and stocks are the most common investment classes in Singapore but a private condominium unit can cost upwards of \$1 million. So, most young people start with shares, which can be had for as little as a few hundred dollars. The stock market has a wide selection of large counters – called blue chips – to medium-sized and smaller companies.

"For young people with a good risk appetite and starting out, they probably can afford to take a long term view of their investments and so they can afford to invest in riskier products with good long term fundamentals," says Mr Menon.

"In this regard, it makes sense for younger people to put their savings to harder work to build up their wealth instead of stashing most of their savings away into bank deposits."

Of course, investing in any stock comes with risk, and you may at some points find your investments in the red.

You can choose to spread out your investments over a basket of shares, so that the portfolio will not be overly affected if one individual stock does badly.

After the building blocks such as medical insurance and the emergency fund are in place, investments will allow your spare cash to grow and finances to take flight. Just ask Ms Seet.