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INSURANCE AND FINANCIAL PRACTITIONERS ASSOCIATION OF SINGAPORE

TUESDAY TIMES #71

ONE STEP AT A TIME: *SAVING IS A BREEZE*

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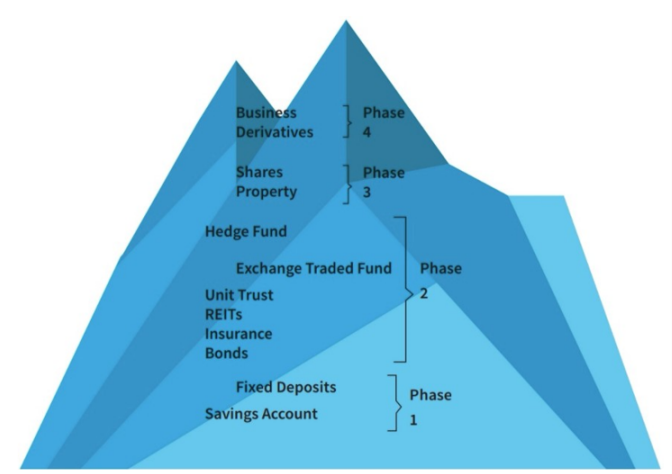
ONE STEP AT A TIME: *SAVING IS A BREEZE*

Is your savings account working as hard as you are at your work?

In hiking, we face more resistance as we move uphill towards higher ground. It is the same with investment.

A desire to earn a higher return for your investment means including some risk-taking as well.



FIRST PHASE- GREAT OAKS GROW FROM LITTLE ACORNS

Every journey of a thousand miles begins with the first step forward. Wealth accumulation in a bank account is the first foundation of Financial Planning.

If we broadly classify investment risk-taking into four different levels, then bank savings, fixed deposit and bonds belong in the lowest one of No Risk or Low Risk. Holding periods can be short, up to 5 years, with annual returns from 0% to 5%, allowing for liquidity to meet needs.

Before one embarks on a plan, one needs to reserve some liquidity for unexpected situations. This recommended emergency fund would be 6 times your monthly expenditure. This should meet living expenses if you are unable to earn income due to an array of reasons.

For example, temporary disablement which renders you unfit to work. For more unfortunate circumstances like contracting critical illness or permanent disability, your insurance coverage can provide you with the financial support.

SECOND PHASE- SLOW AND STEADY WINS THE RACE

Low-risk investment instruments like endowment savings, bonds and REITs funds can be ranked on the second tier of the investment risk-return chart.

Usually, these are meant to be kept over a longer term, like 10 to 25 years, in exchange for reasonable returns of 2% to 5%, without involving excessive risks. These are what we call disciplined saving.

There is always a need for some shift in mindset when one embarks on a higher tier of risk-return investment.

Your financial planning will require more than just stashing cash in a saving accounts. Other than an emergency fund of six months' worth of your estimated monthly expenses, we do not encourage too much cash in bank as they erode in real value due to inflation. So start planning early.

THIRD PHASE- LOOK FAR TOWARDS HIGHER GROUNDS

Hiking up higher grounds requires much more physical energy, but then we will be rewarded with the fantastic view from the mountain top.

After building up our financial portfolio with relatively consistent returns from fixed endowment savings and retirement plan, it is time to tackle this third tier of investment risk-returns.

These investment tools include ETF, Unit Trust Funds, and commodity fund with projected returns ranging from 4% to 10%. The recommended holding period is at least five to 10 years to ride any markets cycles. The upside of these investment tools is that you can withdraw from your investment with relative ease. Do note that there may be losses when closing your position.

These tools are considered medium-liquidity investments and the risk factor is medium risk.

All investments involve some degree of risk and it is important to know your own risk appetite. This investment strategy may not be for you if you are more happy with pursuing zero risk or returns similar to fixed deposit rates.

If you are prepared to accept some risk for higher returns, there are ways to manage investment risks through portfolio diversification, asset allocation and also dollar cost averaging strategy. This technique involves buying a fixed dollar amount of particular investment on a regular schedule, regardless of price.

FOURTH PHASE: SUBSTANTIAL COLDNESS ON HIGH GROUND

Sweet is the fruit of one's labour. Standing on the peak and taking in the stunning views does not come easy. There are times you lose monies in investment, and hopefully learn a lesson or two to better your investment skills. But not everyone can have enough capital to create returns. Besides having investment capital, some may need to spend time in learning the ropes.

The fourth tier of investment risk-returns tools includes shares, forwards, futures, options and swaps. Providing potentially higher returns, given the level of risk, these tools are of different liquidity and come with different underlying strategies. Here, engaging professional help is recommended in managing your funds, especially if you do not have the time, knowledge and training.

At this junction, I would like to share about the investment tools from the second investment risk-return tier, using endowment savings as a concept to share on accumulating wealth.

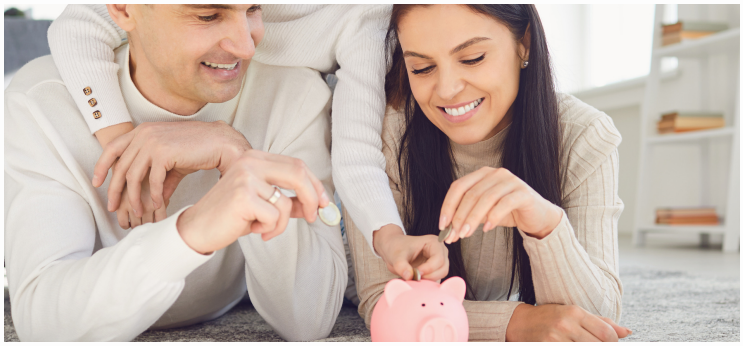
1. SINGLE PREMIUM ENDOWMENT / RETIREMENT INSURANCE

Single premium, one-time premium product, after five years of accumulation period, provides you with continuous income for lifetime. This concept works like a property investment. With an initial down payment and some waiting period, you start receiving rental income from the property. Like ups and downs in the rental market, the plan will be affected by performance of the insurance company. However, you will not face issue in not getting tenants, delay or default in rental payment and the usual property maintenance issue. This insurance will pay out regular fixed benefits so you won't find yourself without any income. The rate of returns is projected to be around 4%, depending on the insurance provider. This plan works well with clients planning for their retirement and would like to set aside cash of $100,000 or more.

2. FIXED PREMIUM TERM SAVING / RETIREMENT PLAN

A fixed period, regular premium plan, with five to 15 years of accumulation period may be followed by receiving 10 to 30 years of fixed saving/ retirement income. People who are not able to commit a lump-sum premium may choose to save on a regular basis. Clients who prefer to start enjoying their benefits in the shortest time can have the pick of insurance products created with premium terms as short as five years.

After a short accumulation period, there are income benefits of 10 to 30 years. For plans with shorter premium terms, and with larger premiums of, say $20,000, the projected returns are about 3.5% to 4.5%.



3. REGULAR SAVINGS INSURANCE

Creating a disciplined regular savings plan, with or without waiting period, to receive a lump sum payment at the end of the term.

Since young, we are rather used to setting aside some money every month. This is how a traditional type of endowment saving works. There is a wide range of plan types offered by insurance companies.

Options include saving 10 years and receiving a maturity sum at the end of the 15th year. Or you can opt for monthly savings for 25 years and receive a maturity. This is a common option for people to take up as their first plan.

What we need for mountain climbing is the combination of stamina, determination and endurance, and it is exactly the same with investment. In investment, we need endurance. Not all investments can let you see the result immediately, so you must constantly remind yourself to let your money continue to multiply into more money and not just let it stay sitting in the bank.

We also need stamina, and this stamina is for withstanding the stress faced by the ups and downs of the investments returns. We all know that our focus is always on the higher levels from where we are currently but before that, you must be able to withstand the fluctuating progress in between before getting to the best outcome.

There are many people who may not be sure or know how best to lay their hands onto the opportunities that are present before them, or perhaps may have concerns about stamina, endurance, as well as determination, and as a result, could miss their own golden investment period. With that said, linger no longer, speak to your trusted financial practitioner and make it happen for you!

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About the Author

Dave Loh Cheng Wei is a licensed financial practitioner and an active IFPAS member.