

TUESDAY TIMES

ARE YOU FINANCIALLY FIT?

BY FONG YONG HUI



These days there are more people understanding the importance of regular exercise and keeping fit. Being fit makes us feel healthier and gives us more energy to enjoy our lives with our loved ones.

Just like how physical fitness is a key component of overall health, Financial Fitness plays an important role in our financial health and well-being. When we are financially fit, we feel less stressed over our finances and more confident towards our future.

What is Financial Fitness?

Financial Fitness consists of 3 key metrics

1. Cash Flow
2. Net Worth
3. Risk Management

These 3 metrics are akin to common physical fitness metrics of Cardiovascular Health, Muscular Strength and Flexibility



1. CASH FLOW

Cash flow is like oxygen flow to the body. Just as how we get breathless and giddy when there's a poor flow of oxygen, we get into financial stress and difficulties when there are problems with our cash flow, for example, chalking up excessive debts from overspending or living from paycheck to paycheck.

Cash Flow is about the flow of money in and out of your accounts.

- Cash Inflows generally include salaries or income, interest from savings accounts, dividends from investments, profits from the sale of stocks and bonds etc
- Cash Outflows represents expenses such as rent or mortgage/loan payments, utility bills, groceries, transportation, entertainment etc

When Cash Inflow > Cash Outflow, it means you have a Net Positive Cashflow which is a healthy sign and vice versa. Cultivating good financial management habits is like working out your cardiovascular system so you have a healthy oxygen flow throughout your body.

LET'S DO A QUICK CASH FLOW FITNESS CHECK

- Do you have a personal budget or spending plan? i.e do you know how much you spend each month?
- Do you have a savings account that is separate from the account you use for spending?
- Over the past 6 months, are your average monthly expenses less than your income?
- Do you typically pay your bills in full or have a habit of making minimum payment?
- Do you have investments generating extra cash inflow to you regularly? Eg dividend from stocks or rental income.

If your answers to the above questions are mostly Yes, then congratulations you have healthy cash flow fitness! If no, fret not, here are some tips that can help

HOW TO UP YOUR FINANCIAL FITNESS

1. Be conscious of your spending.

First, become aware of how much and where you are spending on. It can be tempting to spend on things that are nice to have but we don't really need, especially with shopping apps that allows us to shop on the go.

But a little here and there adds up overtime and without tracking you may find that your money seems to "mysteriously disappear", resulting in little savings at the end of the day.

You can download money tracking apps like Spendee or Wallet to track your expenses so you have a clearer picture of where your money goes.

2. Adopt the 50/30/20 budgeting rule.

This is a simple budgeting rule that allows you to have a balanced life without compromising on saving for the future

- Spend 50% on Necessities like mortgage, transportation, utilities, groceries and insurance.
- 20% on Saving for financial priorities like retirement, children's education and debt repayment.
- 30% on Wants and lifestyle choices like cable, internet and phone plans, charitable giving, entertainment, hobbies, personal care, restaurants, shopping and other miscellaneous expenses.

3. Save for the future

Automate it to channel a portion (rule of thumb - 20%) of your income to a savings account every month so you ensure you are saving up for the future. Nowadays there are also higher interest bank savings accounts that you can leverage on to get higher interest on your savings, e.g DBS Multiplier account, UOB One and OCBC 360 account.



HOW TO UP YOUR FINANCIAL FITNESS

4. Only borrow what you can afford

Don't deny yourself, but avoid spending for an outward show or status symbol. Consider the loss to your long-range goals when you choose to spend now. Especially avoid chalking up credit up loans as the interest accumulates at extremely high rates.

5. Increase your cash inflow by investing in instruments that generate passive income.

By investing in instruments like stocks, Real Estate Investment Trusts (REITs), bond funds that can generate dividends or bond coupons, you can increase your cash inflows and improve your overall cashflow health.

#2 . NET WORTH

Think of your Net Worth is like your Financial Muscle. The strength of this muscle represents your level of wealth and determines your ability to take on more opportunities in life e.g buying a car, property and even if you can retire comfortably. In financial terms, Your Net Worth = Your Assets (money/things you own) - Your Liabilities (money you owe). If your Assets is greater than your Liabilities then you have a Positive Net Worth. Assets include liquid assets like bank savings, large assets like property, cars, investments like stock investments, bonds and unit trusts as well as CPF monies for Singaporeans and PRs.

Net Worth Health check

- Do you know how much assets and liabilities you have?
- What's the interest your bank savings are growing at? What is the growth rate of your investments?
- Do you know the interest rate for your outstanding loans/debts?

HOW TO GROW YOUR FINANCIAL MUSCLE AND INCREASE YOUR NET WORTH?

Just like how we work out and lift weights to grow muscles, we also need to make our money work.

Simply keeping our money in low interest bank accounts is akin to us passively sitting on the couch watching Netflix. Just like how our muscles experience atrophy over time if it's not used, the value of our money shrinks over time due to inflation. It's important to invest our money in vehicles that have potential for it to grow and beat inflation. Some options include stocks, bonds and unit trusts.

If you have never worked out your physical muscles before, you can start with lighter weights to condition your body and gradually build your way up.

Similarly, in terms of investing if you have never invested before and find it to be risky, you can start by investing in diversified instruments like unit trusts or opt to invest on regular intervals instead of sinking in a huge chunk of your savings at one go.



#3. RISK MANAGEMENT

Risk Management is about how resilient we are to life's unexpected events like retrenchment, illness or accident happening to ourselves or any of our family members. With proper risk management, we have the flexibility to recover after life throws us one of its many curve balls.

- Do you have an emergency fund set aside? Usually this is 6 months' worth of living expenses set aside to tide you through the expenses in the event of an unexpected job loss.
- Do you have hospitalisation insurance for yourself, your spouse, children and parents?
- Do you have critical illness and disability income protection?
- For your parents, will your family be financially taken care of upon the premature death of the breadwinner(s)?
- Are you protected financially in the event of an accident?
- Have you done up a will and LPA (lasting power of attorney)?

Insurance is a useful tool to help manage life's risk and minimise the financial impact upon illness, accidents or premature death. Make it a point to check that your insurances are up to date and be clear of the coverage amounts, as well as the terms and conditions.

Ensure you have done the necessary nomination of your insurance policies, CPF and also make a will to ensure proper distribution of your assets.

In summary, Just like how having a healthy cardiovascular system, strong muscles and a flexible body makes us physically healthy and fit; maintaining a healthy positive Cashflow, strengthening your Net Worth and ensuring proper Risk Management makes you Financially Fit!

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