KDN No:PP 14412/01/2013 (013640) VOLUME 3 2018

financial 1st

Minister of Human Resource

YB TUAN M.KULASEGARAN

SPECIAL FEATURE

Is your Money Save in the Bank ?

SECURITIES COMMISSION

How-to: Match your Unit Trust Investing with your Risk Appetite

SHARIAH FINANCIAL PLANNING:

Shariah Aspects & Practical Approach

How has Financial Planning Changed for Millennials?

By Glorie Low Jhu Mae

Being a millennial myself, I noted that we millennials face similar financial planning issues. We live in a very different time compared to our parents and grandparents. There are many differences to name, but these few stand out for me.

Firstly, we have access to technology at a much faster rate, and it's changing the way we learn about things. Secondly, we now have a better standard of living. Most of us may have been given a head start by our parents in getting at least a tertiary education, and some luckier ones have even been given a down payment for a property or even a car. Thirdly, we live in a very mobile world. With the rise of low-cost airlines, making an overseas trip at least once a year is a must.

In contrast, our parents (the baby boomers), lived quite differently from us. Growing up, they were very careful about their spending and finding a secure job was important to them. They rose up the corporate ladder, had a high savings rate, and very likely invested in property to fund their children's education. On top of that, most of them had to also support their ageing parents. This conservative nature, coupled with the state of the economy back then, is what has shaped their thoughts on how they view wealth.

The simple test to know if the above statement is true is to ask your parents whether they are willing to spend at least 15 ringgit for coffee at Starbucks, or go back to their favourite kopitiam store that now sells the same drink for 3 ringgit (which they would say is still expensive compared to "those days"). For us, we wouldn't even think twice, and just meet our friends at Starbucks or any hipster looking, "instagrammable" café charging 7 to 10 times higher than a kopitiam.

Because times have changed, we need to recognize how it impacts us, and change the way we view money. What are the 5 trends we as millennials see, and what actions can we take right now to be more prepared financially?

1) We find that it's tough trying to save

The biggest problem faced by millennials, be they clients or friends, is that they find it difficult to save. Why is this so? It's simply because there are too many distractions around us. Think about it. We live in an era where information is in the palms of our hands. Any new technological gadgets or fashion trends are made known to us through either social media or Google. It's easy to fall into the trap of overspending simply because technology has made it easy for cash to flow out from our pockets. Think about Apple's App Store or Google's Play Store as well. With just your thumbprint, you can easily purchase movies, music, games or apps. How about online shopping? Just linking your Paypal account to Lazada means you can easily get what you need at the click of a button.

To add to that, Google and Facebook seem to already know what you want to buy, and they do not hesitate at all to keep "reminding" you on sites that you visit often. Online deals on discounted air tickets give us the opportunity to make that "random weekend trip to some island", which we had to go to because #YOLO (You Only Live Once).

Yet, when we make unplanned purchases, this ends up impacting our cashflow. After some time, we begin to ask ourselves: "Where did our money go all these years?". The key to solving this problem is to be disciplined and implement a form of forced savings. Unfortunately, our generation loves short cuts and conveniences, but the truth is that there is NO SHORT CUT to building wealth. You just have to decide on your spending habits and stick to your decided amount.

Secondly, identify a way to create a form of forced savings. You would need to discuss with your financial adviser the strategies available to help you save. It doesn't have to be a big amount, but the key thing is to start off with something. Trust me, your future self in 5 or 10 years will thank you for taking this action.

2) We realize that it's not as easy to own a property

We see some of our peers buying houses, getting married and moving in. While some of us still struggle to save for that huge down payment. Others have just decided that staying with parents is the best option at the moment. Regardless whether you plan to buy or rent, the thing is this: Property is expensive. Gone are the days of your parents when one could buy a double-storey home for 200,000 ringgit. Gone are the days when a million ringgit could get you a huge bungalow.

Your motive for purchasing a property should be clear. Why are you doing so? If you are told that it is for investment, think twice. Will you be guaranteed rental income throughout your loan term? Is your rental income going to be higher than your interest to ensure you get some extra cash flowing in? Also, if you are buying to one day sell for capital gains, you will need to consider your risk appetite and your holding power. In the event the market falls when you need to sell your property, are you able to wait until the price goes up? If you are buying for your own stay, take into account that buying a home itself is only the first step. You would need to consider renovation costs, maintenance of property, stamp duty and so on.

Again, this is where your financial adviser will need to conduct a fact find to identify your current financial standing, goals and resources. This will help you to make a better decision.

3) We realize that insurance is no longer a taboo topic for discussion

In the past, insurance, being a sensitive topic due to cultural influences, was something not to be discussed. Over time, with education and awareness, that the basis of financial planning is through risk management i.e. insurance has become better understood. Most millennials I've talked to have the awareness of getting themselves medical insurance. In fact, the key action plan that I get my millennial clients to do before we even discuss anything else, is to ensure they have a proper medical insurance plan in place.

However, medical insurance is only one portion of it. We need to be clear that the other element as important as medical insurance is to have proper income protection coverage, better known as critical illness coverage.

The last thing we want to do is to burden our parents or our partner with our living expenses if we lose our job due to an illness or disability. Making money is always an excitement for our generation, but protecting it is equally important. This gives us confidence to live our lives fully, travel the world, start a business knowing that we have a back-up plan. This is just in case things don't go as planned. Once again, you would need to sit with your adviser to see if your current insurance programmes are suited to your needs. He or she would be able to advise you as to if what you currently have is sufficient in relation to your income.

4) We know we need to invest; but we either don't have enough, or don't know where to start

Clients who tell me that they have excess amounts to save find themselves in a dilemma. They don't know where to put their money. So far, I have commonly heard is that they have saved some amount in fixed deposits, mutual funds, or through insurance. If you are already doing one or a few of the above, well done! The fact is that you have made a decision to start saving and investing in a financial instrument.

There are no right or wrong investments, only suitable ones according to your needs. Whenever I ask a millennial "What do you expect from your investment returns?", more often than not, their reply is: "I want at least 8 to 10% returns within a year" or "I want to take out my money after a few months" see returns immediately".

There's nothing wrong with these statement, but then I add: "Are you also willing to take the risk that this money may potentially lose value because of the market risks involved?" 10 out of 10 would tell me: "NO". Well, the thing is there is no perfect investment. When you opt for high return investments in a short period of time, you are taking a gamble. Perhaps it was luck that the stock market was in your favour and you managed to sell at the right time. Investments need time to grow. This is the mindset that we millennials need. We do need a diversified investment portfolio for our wealth to grow.

Not everything can be gained in an instant. Just like a plant that needs to be watered and nurtured, our investment needs time to grow and it still boils down to our habit of saving. Talking to an adviser to explore investment options available would help you to see what can be done to best suit your time frame and risk appetite.

You will also need to be sure that you differentiate between short-term savings and long-term investments. Short-term savings are always something you expect to use very soon, e.g. when getting married within the next year, or taking your family for a vacation. A long-term investment recognizes that even with market movements, you are able to hold and wait for it to appreciate.

5) We have the option of packing our bags and leaving for another country

Due to the vast opportunities of where our work can take us, it is common nowadays to hear that our friends or family members have moved to different countries to work. Having this flexibility in moving around means we also have to be honest and ask ourselves this: "Will I plan to move back to Malaysia, and if so when?"

Depending on your answer, some issues to think about are: 1) How do I manage the wealth accumulated in the country I am residing in, as well as in Malaysia? 2) What happens to my assets if I pass away overseas? 3) What if I lose my job and decide to return to Malaysia?

My suggestion to clients is to always ensure there are some forms of savings, investments and insurance in your home country. The thing about mobility is that you would always want to have a base to return to, if plans change along the way. Being aware of this fact would mean re-looking into our finances and planning for the future.

In conclusion, there are many areas to look at, and still many issues that will change along the way. It is important to review these changes with your adviser to see the available strategies to put in place.