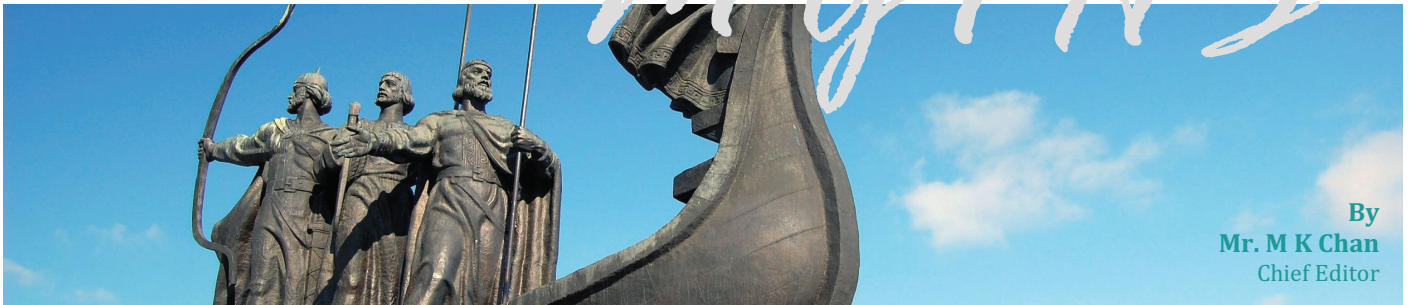


FINANCIAL PLANNING

MYTHS



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Professionals in the financial advisory industry encounter myths about financial planning on a daily basis. Being myths, they exist only in consumers' minds, but they have the effect of influencing action - or non-action. You would be surprised that quite a number of individuals believe in the myths or variants of them. Are you one of them?

Myth #1

I am too young for any financial planning now.

Unfortunately, the opposite, in fact, is true. One is never too young for financial planning.

Budgeting, saving, managing cash flows, investing, insuring, making wills - all these are key elements of financial planning. If you are reading this, you should already have some kind of *relevant* financial plan that includes many - if not all - of these elements, in place. If you don't, please do yourself a favour and get a financial advisor to work it out together.

Time waits for nobody. The day you need to spend money on a big ticket item like a house or education will come. The day you draw on your reserves will come. It is a matter of time. It is a matter of amount. And it is a matter of whether you have the funds to meet that amount when the time comes.

In modern society, using up wealth, ie, spending money, to live is guaranteed. Earning and accumulating wealth - a necessary precursor to spending wealth - however, is not guaranteed. How wonderful it would be if this were reversed! Imagine an ever-flowing tap that deposits wealth on your lap faster than you can use it. But fantasies aside, I am sure you get the point.

The earlier you start, the *more time you have* to accumulate your wealth. Realistically, wealth needs time to grow and accumulate. Your pay cheque comes to you once a month. Your savings need time to generate interest. Your investments need time to get past short term volatility.

It would be unrealistic to expect a windfall to materialise, even if you have prayed for it regularly. If you do obtain wealth from windfall, congratulations, take it as a bonus - and take it as a signal for you to do some additional financial planning with it.

Moreover, the more time you give yourself and your financial plan to take shape, the better you are able to recover from financial shocks.

Two major types of financial shocks are the cessation of your source of wealth, and emergency spending, eg, to save a loved one's life. They are events you don't want to encounter - especially when you are not prepared for them, and you certainly don't want them to hit you at the same time like a tsunami.

When your source of wealth ceases, you look for another one. While you do that, your expenditure does not cease. You may reduce your expenditure somewhat, but you will never be able to avoid

incurring living expenses. You can see how your cash continues to flow out even though the inflow is jammed.

Emergencies have the nastiest habit of striking when you least expect them. However, you can better absorb

their shocks - and recover from them subsequently - if you have some accumulated wealth to counter them.

Get yourself a practical financial plan now. It is fine to start in a small way and enlarge it as you go along, but the bottom line is to get it done now.

Myth #2

Once I have bought some insurance, I'm fully protected.

The scope of insurance coverage that one possesses can be horribly misconstrued if one is not careful.

When you only get to see the headline name, such as "Hospitalisation & Surgical Insurance" or "Critical Illness Insurance", what do you think it covers?

If you don't go any further than the name, your expectation of the coverage will be based on your layman understanding and encounters you may have had with similar insurance. If you purchased the insurance with such less-than-skin-deep understanding, you may be setting yourself up for a rude shock later on when you need to use it.

What's worse, you could be holding on to the policy going, "I think it *should* cover this, and that."

Picture this. You have just bought a brand new umbrella, and the sun has become unbelievably scorching. You open your umbrella, only to realise it is a transparent one meant for use when it rains. (If you are not aware, these transparent umbrellas are very popular in Tokyo!)

What can you do when you realise that the cover you have does not cover you for events you thought it covers? By then, it would have become too late, and turning back the clock is not an option.

No two insurance companies structure their products in exactly the same way, even if the products share the same basic name. The events covered; the claim triggers, including the degree of seriousness of the events covered; the payout manner; the payout limits, etc, could be vastly different between insurance companies. These details are scattered all over the benefits, as well as terms and conditions, of the cover. The names are just names. They offer you no other details, apart from telling you which category they ought to fall under.

The deeper you go beyond the headline, the more you will realise that the scope is much tighter than what you first expected. You pay to get insurance cover for yourself and/or your loved ones, so there is no point in fooling yourself.

Your financial advisor encounters these details a great deal in the course of his/her work, and he/she has a better grasp of how different plans work. Discuss with your advisor on the cover you have, the cover you want and the cover available. At least, if you can, learn the benefits and gaps of your current cover. No insurance plan covers everything completely. Consider plans that complement each other.

Be sure, so that you won't be sorry.

There are many more myths out there related to financial planning. They could be bandied about out of real ignorance or out of resistance to financial planning. However, consumers who believe in them do themselves a great disservice. Ultimately, one's financial planning is about looking after one's interest ♦

