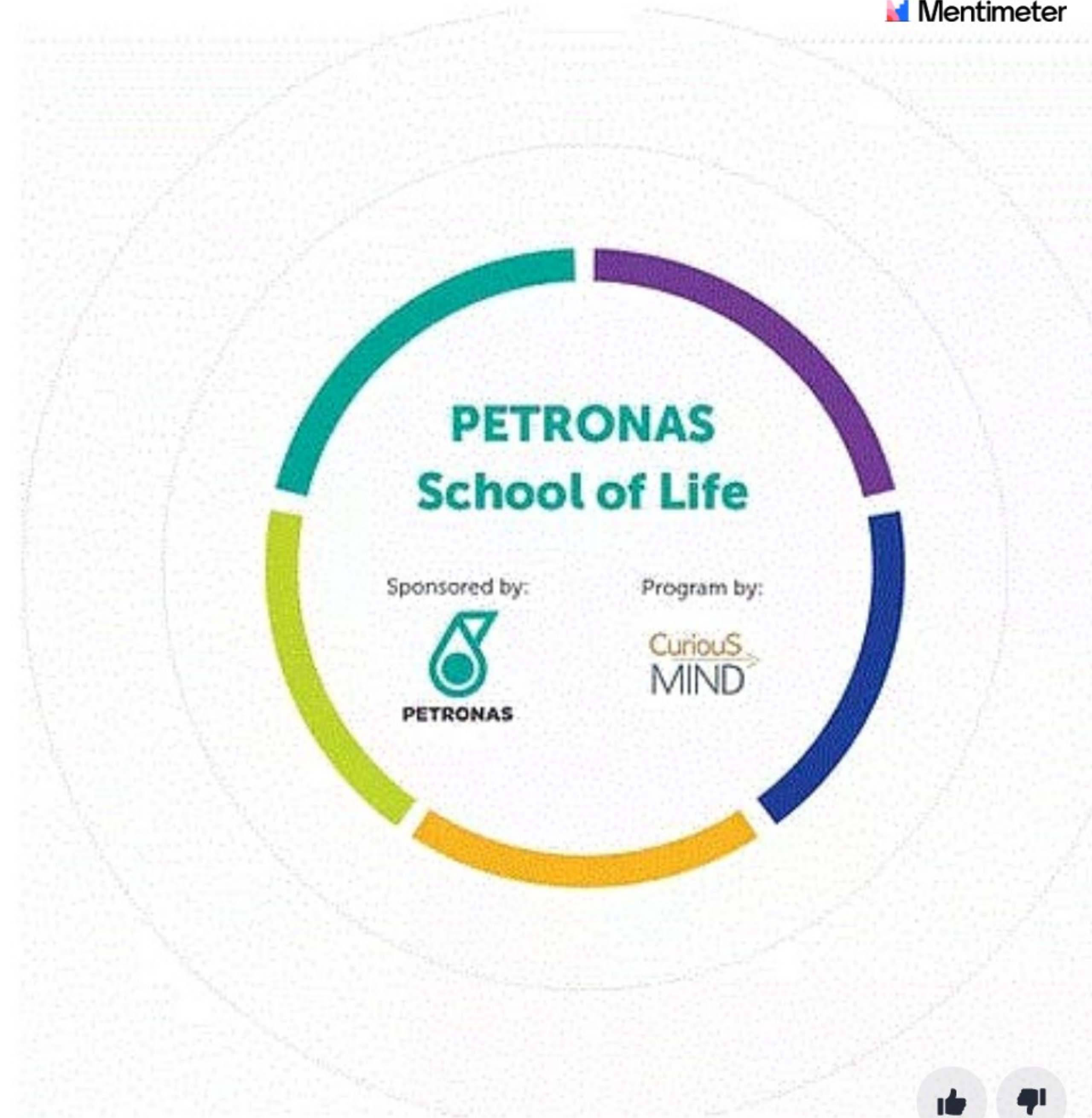


Managing Your Money & Growing Wealth

Petronas School of Life
23 July 2021

Presenter: James Chua



Objective

To develop an awareness of how to better manage your money and eventually your wealth, as you enter the workforce and progress through the different stages of life.



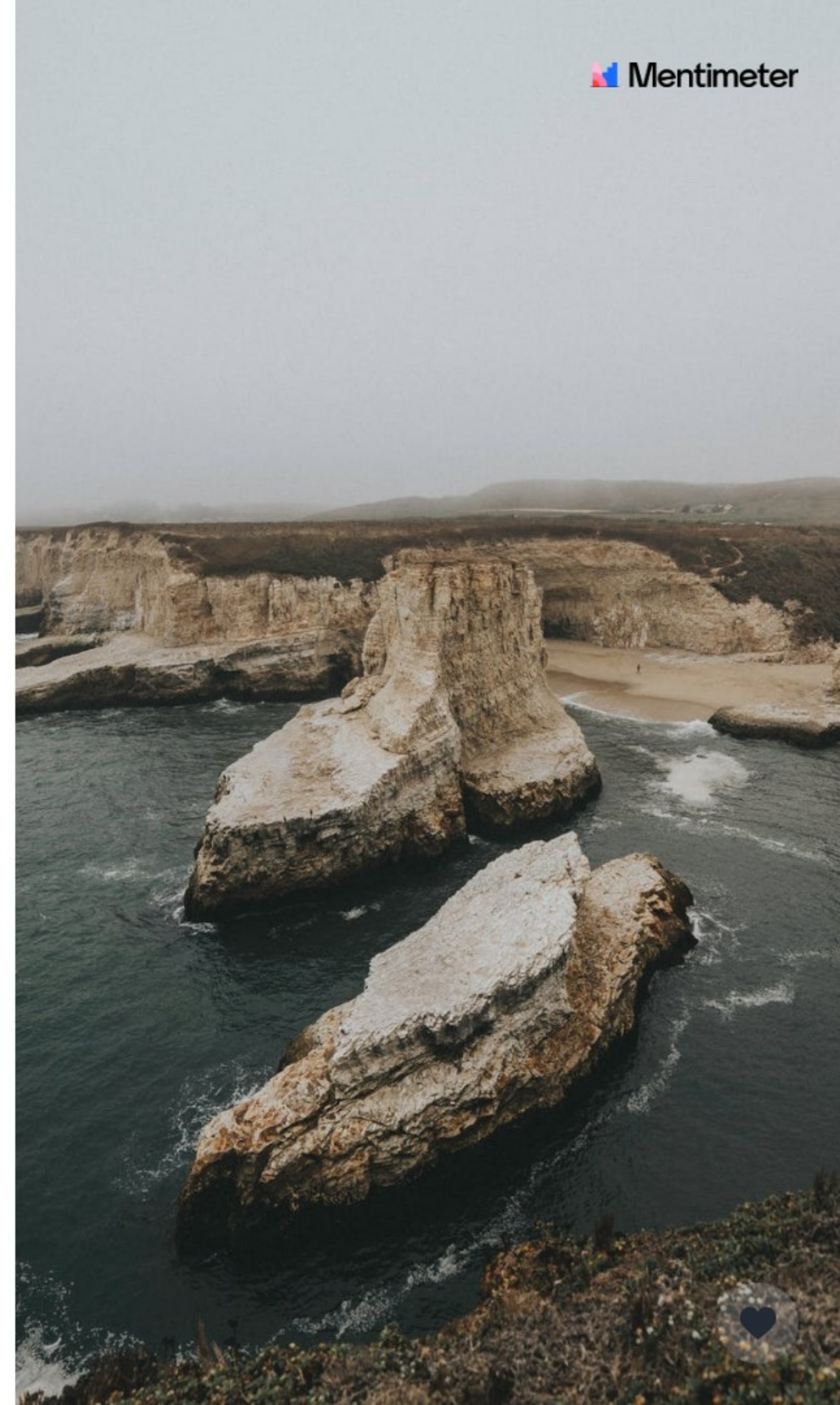
Financial Disclaimer

This is not a program to promote any particular product, lifestyle or way of life.

I am not a certified financial planner.

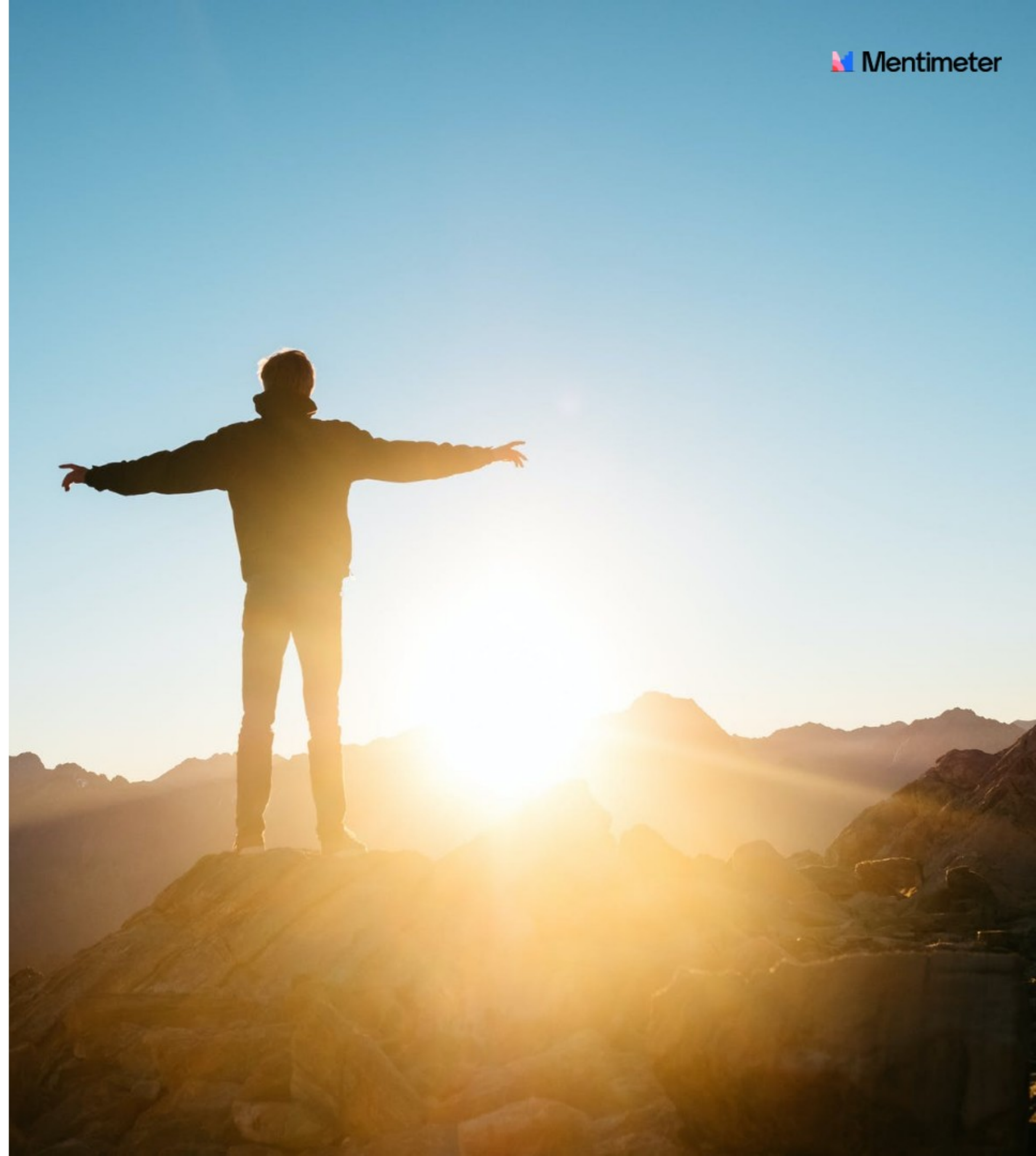
I am not affiliated with any company except for Curious Mind only for the purpose of this Petronas School of Life initiative.

The material and opinions based here are personal.

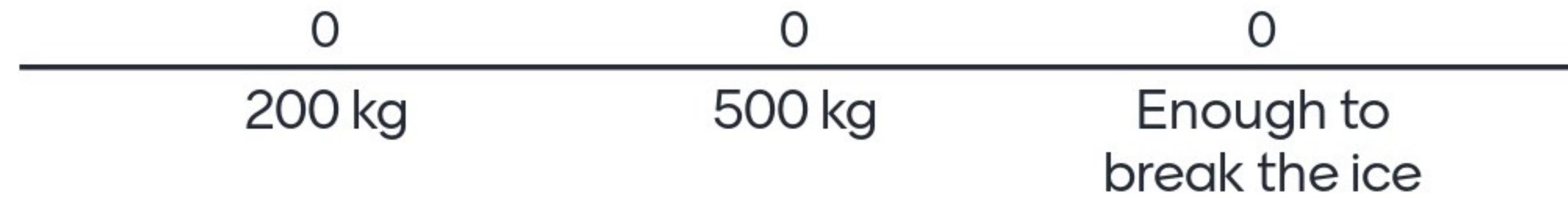


So Who Am I?

- Worked over 20 Years in Banking
- 12 Years with a Global US Bank, 8 Years with an Islamic Bank
- Studied Computer Science & Banking
- Blessed to be financially independent
- Taking time out to be a more hands-on parent and also to help raise overall personal financial education



Ice Breaker: How heavy is a polar bear?



What Do You Want To Learn This Afternoon?

Let me make it worth your time.



What Would You Like To Learn This Afternoon?

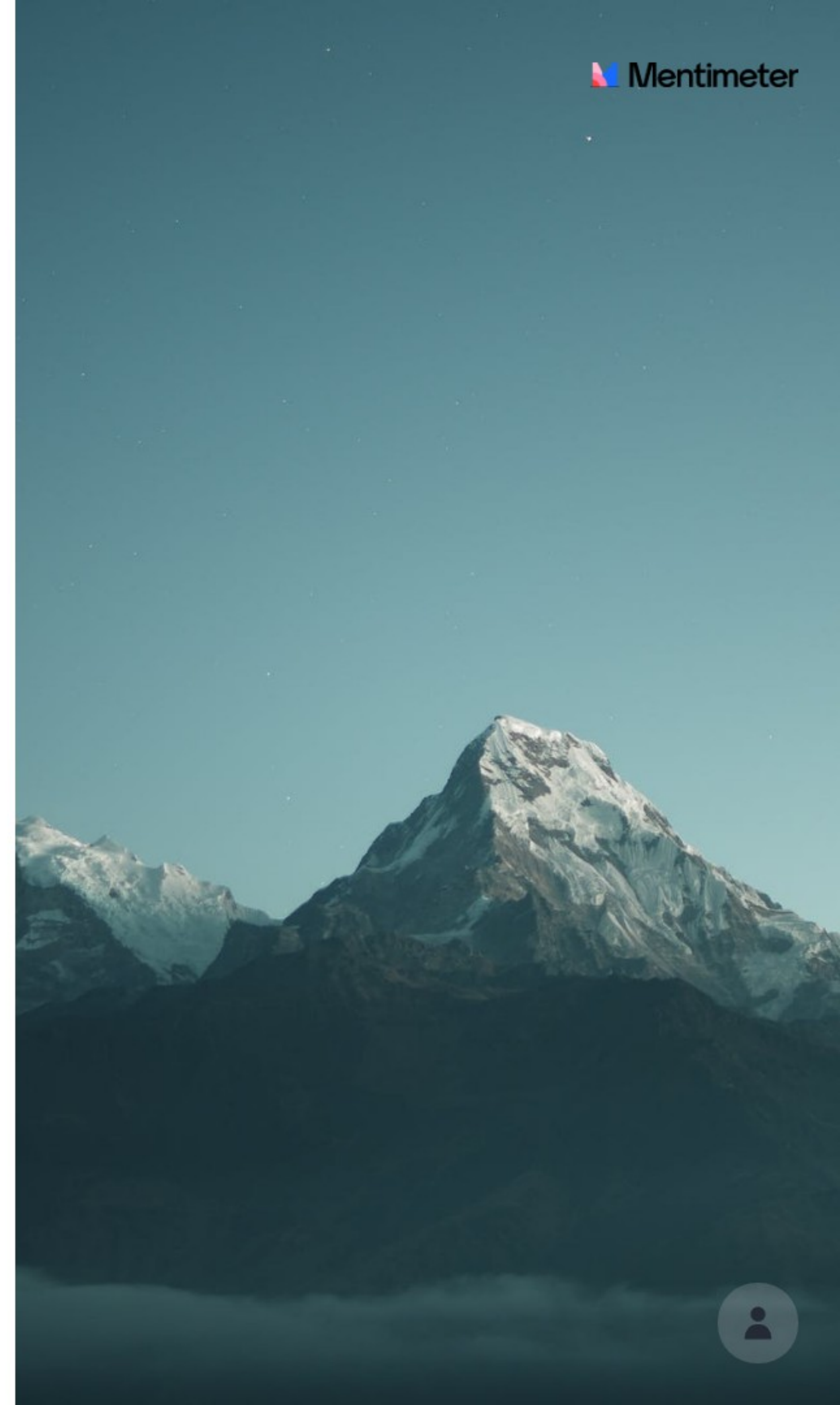
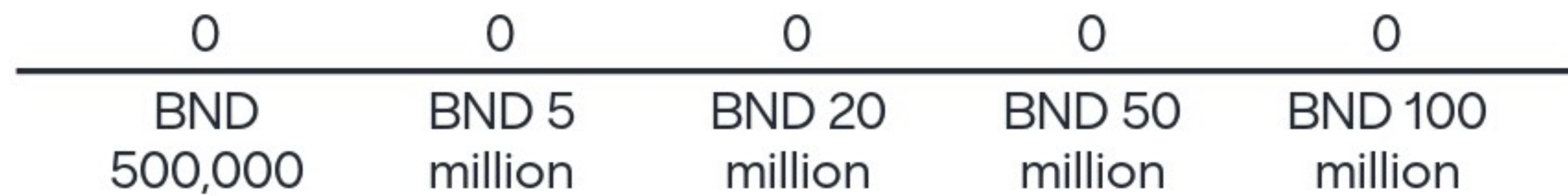


Topics We Will Cover

- How To Be Smart With Money?
- How To Budget Your Income & Expenses and Grow Wealth?
- How To Become Financially Independent?
- How To Manage Your Money Through Investments?
- How To Protect Your Wealth & Assets?



Quiz: If you had all your loans (car, house etc) paid off already, how much money would you consider as enough for you?



**Feel free to ask questions
here at anytime.**

**0 questions
0 upvotes**



What Was It Like Before?

- Study hard. Get a diploma or degree. Get a job in the government. Earn a salary. Stay in the job till retirement.
- On the whole, it was probably enough to buy a modest house, buy a car and even save a little aside.
- Education for children was relatively affordable.
- Retire with pension benefits for life.



What Is It Like Now?

- Greater financial pressure. Academic success does not guarantee career success
- Lower average starting salaries with more graduates applying for the same positions
- Job security is harder to come by
- The price of owning a house (& car) are getting higher
- No more pension for life benefits. Reliant on our own savings and on our TAP (Employee Provident Fund).
- Will our TAP be enough?
- Saving is becoming a harder thing to do!



How To Be Smart With Money?

How To Be Smart With Money?

- Have a written game plan. Stick to it.
- Get out of bad debt
- Live on less than you earn.
- Save and invest your money.
- Track and monitor.
- Repeat. Stay focused.





How To Be Smart With Money?

- It's common sense, right? But it can be hard to do. Why? Because 80% of personal finance is behavioural, and 20% is technical.
- We are constantly bombarded by peer pressure and expectations from a consumer-based society
- Being wise with money does not apply only to those who study or work in business or finance.
- You need to be financially disciplined



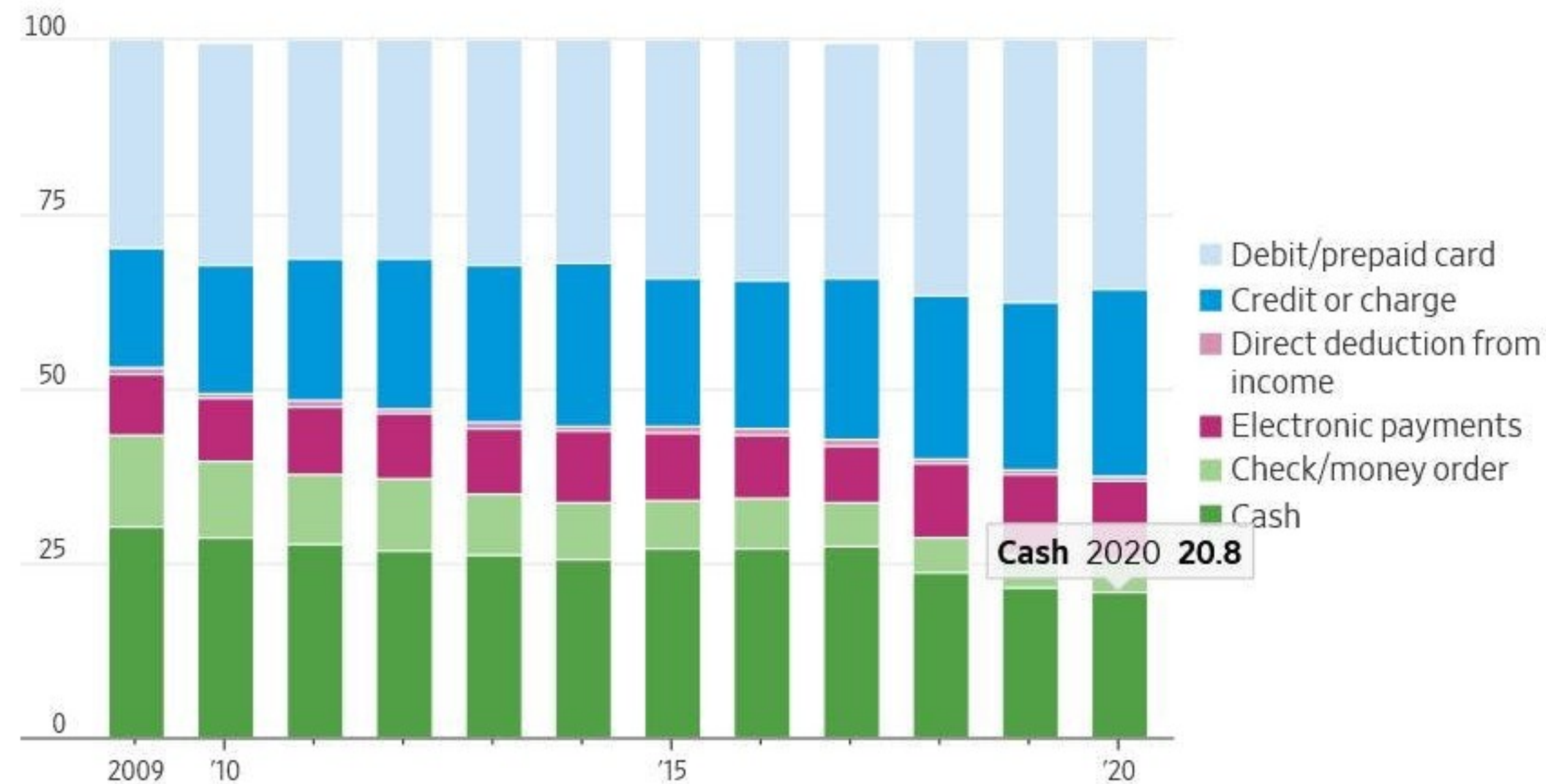
How To Be Smart With Money?

- Learning to budget and sticking to it. Regardless of how much money you have.
Monitor your net worth.
- Knowing how to manage and get out of debt. There is good debt and bad debt but most debt is considered bad. It eats away at your income.
 - Create an emergency fund of 3-6 months of your living expenses. This should be in a savings account or deposit where you can withdraw it easily in an emergency.
 - It's not enough to just save your money in a savings account. But to make your money to work for you, you have to invest.
 - You also need Money EQ to manage your emotions surrounding money. Don't increase your standard of living just because your income goes up.
 - Most financial education is common sense. Yet why do so many people fall into a never ending debt cycle trap?



How To Be Smart With Money?

Number of consumer payments in a typical month, by payment instrument



Source: Federal Reserve Bank of Atlanta, 2020 Survey of Consumer Payment Choice

- Do your best to get out of using debit / credit cards as best possible unless you have a rigorous budget monitoring discipline.

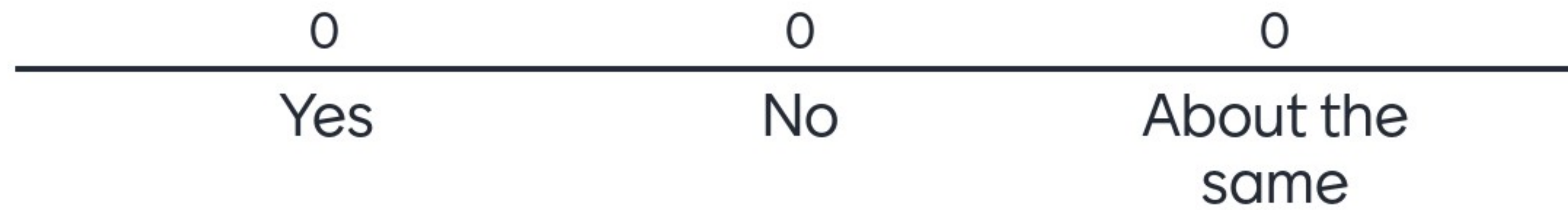
Studies show the use of cards has a different impact to your brain than when you use cash especially in the 'pain' and 'reward' parts of the brain.

<https://www.wsj.com/articles/how-credit-cards-affect-our-brainsand-our-spending-11619888401>

<https://www.nature.com/articles/s41598-021-83488-3>

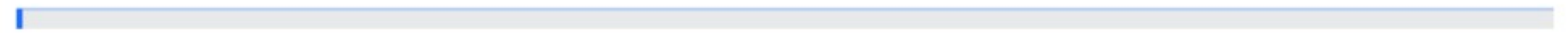


Quiz: Do you feel it is easier to spend more with a credit or debit card than cash?

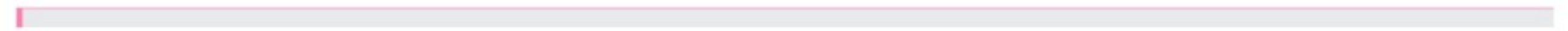


Quiz: Which of these are income generating assets?

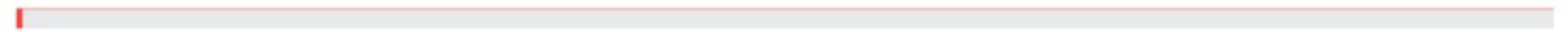
Car



Real Estate



Financial Assets - Bonds & Stocks



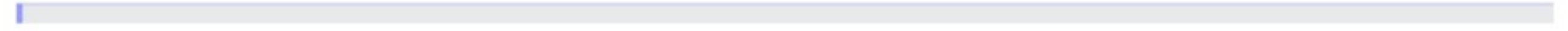
Savings Account / Fixed Deposits



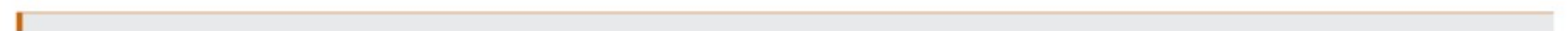
Cryptocurrency (e.g. Bitcoin)



Shoes / Handbags / Watches



Gold



Quiz: Which of these are your most expensive liabilities?

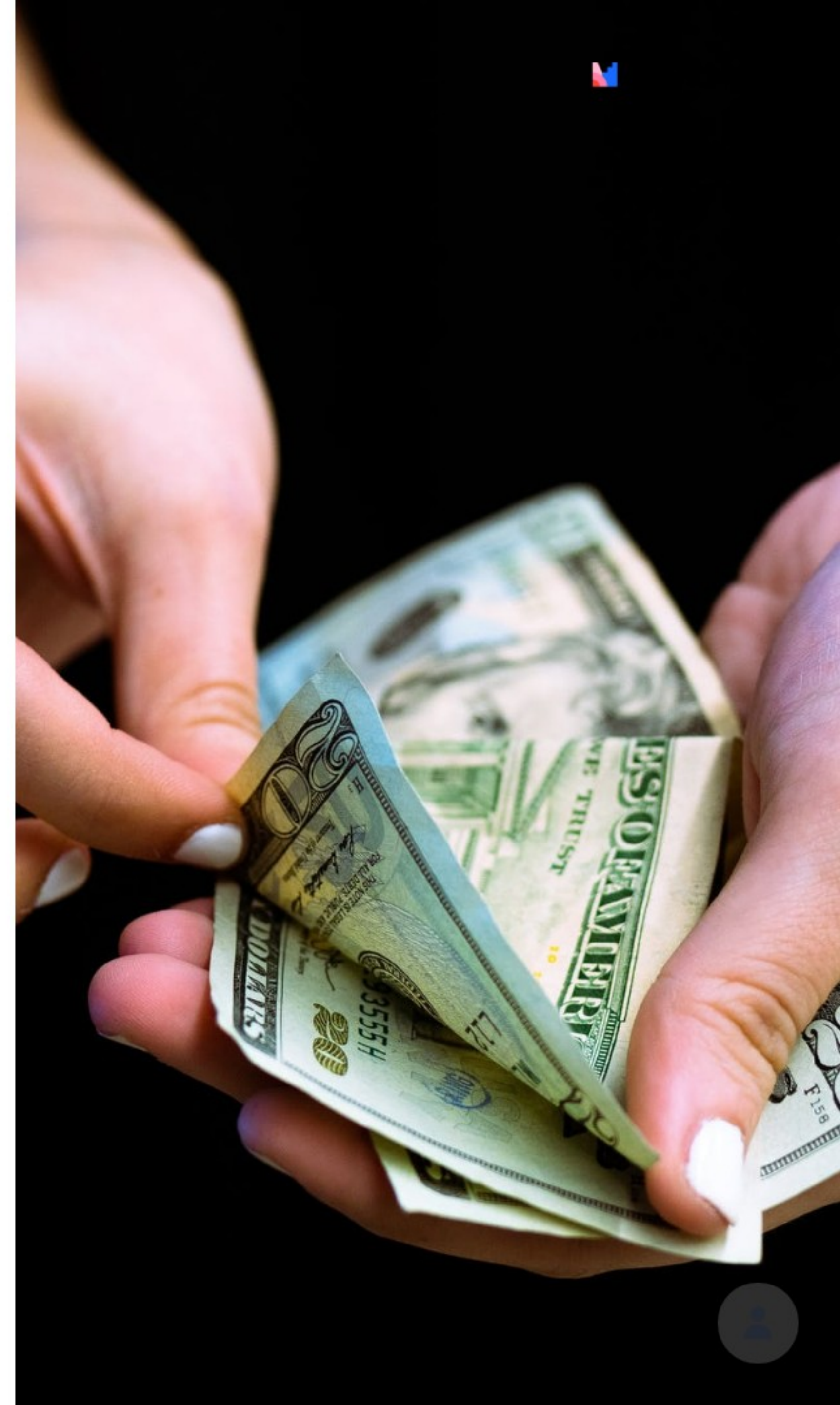
1st | Credit cards

2nd | Current Account
Overdraft / Naqad

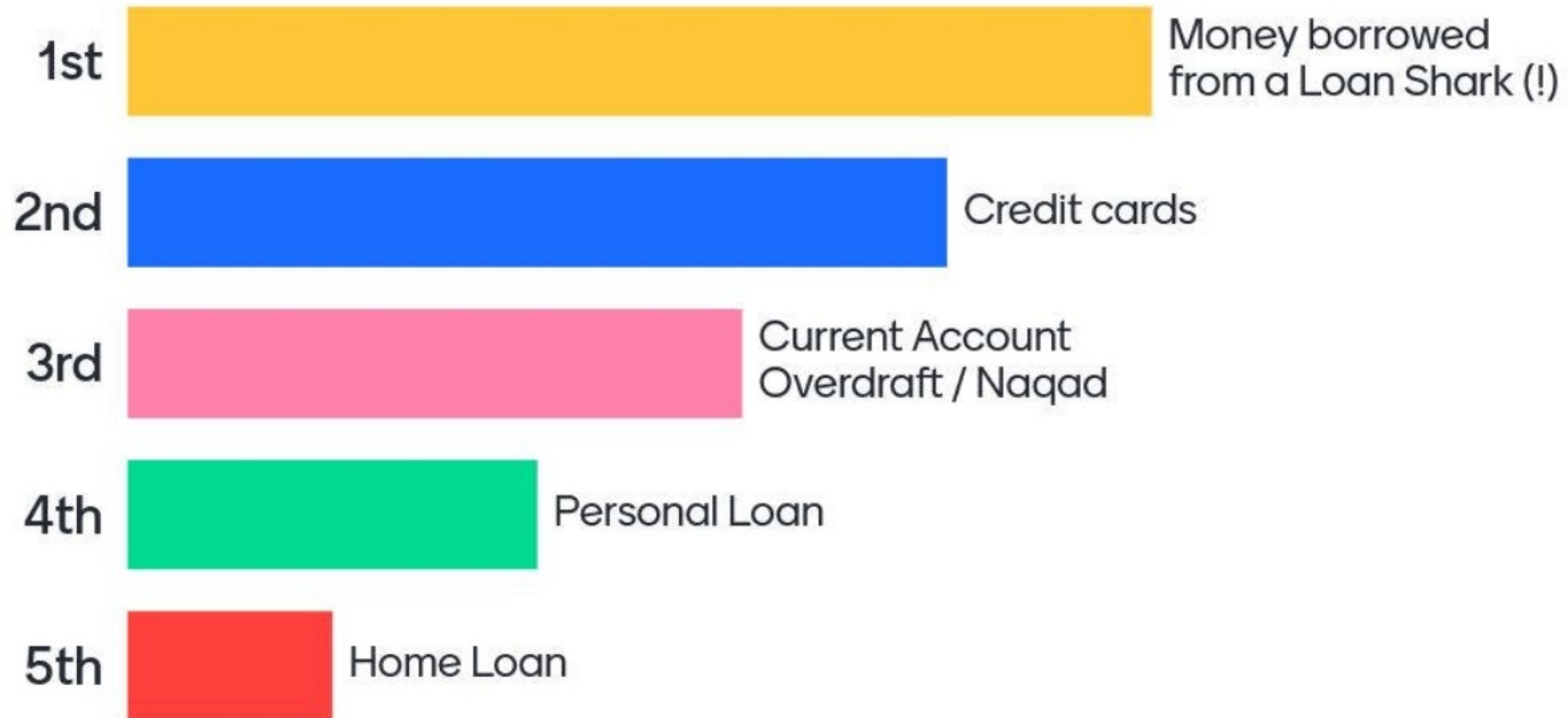
3rd | Home Loan

4th | Money borrowed
from a Loan Shark (!)

5th | Personal Loan



Which of these are your most expensive liabilities?



“Ken’s book will transform your life around money.”

—Jack Canfield, #1 *New York Times* bestselling coauthor of the *Chicken Soup for the Soul* series and *The Success Principles*

happy money

The Japanese Art of
Making Peace with Your Money

ken honda

JAPAN’S BESTSELLING ZEN MILLIONAIRE

What's Your Money Personality Type?

According to Ken Honda's *Happy Money*, your personality type is likely to be formed from your own experience with money, how you were brought up to think of money, possibly through parents, siblings, friends.

Let's explore.



“Ken’s book will transform your life around money.”

—Jack Canfield, #1 *New York Times* bestselling coauthor of the *Chicken Soup for the Soul* series and *The Success Principles*

happy money

*The Japanese Art of
Making Peace with Your Money*

ken honda

JAPAN’S BESTSELLING ZEN MILLIONAIRE

The Various Money Personality Types

- The Compulsive Saver
- The Compulsive Spender
- The Compulsive Moneymaker
- The Indifferent To Money Type
- The Hippie



Quiz: Which Money Personality Do You Think You Are?

“Ken’s book will transform your life around money.”

—Jack Canfield, #1 *New York Times* bestselling coauthor of the *Chicken Soup for the Soul* series and *The Success Principles*

happy money

The Japanese Art of Making Peace with Your Money

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JAPAN’S BESTSELLING ZEN MILLIONAIRE

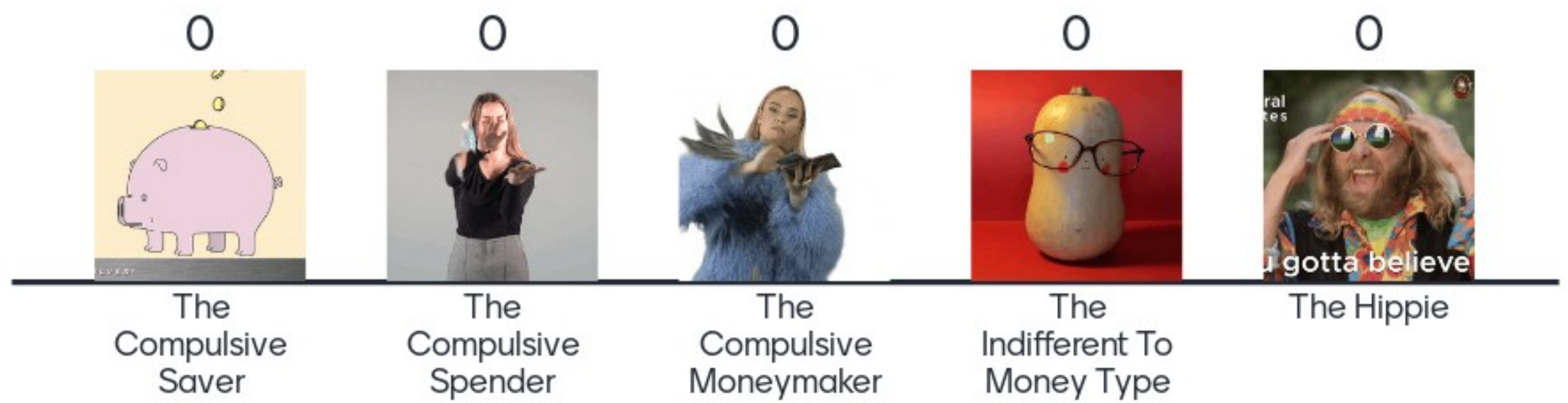
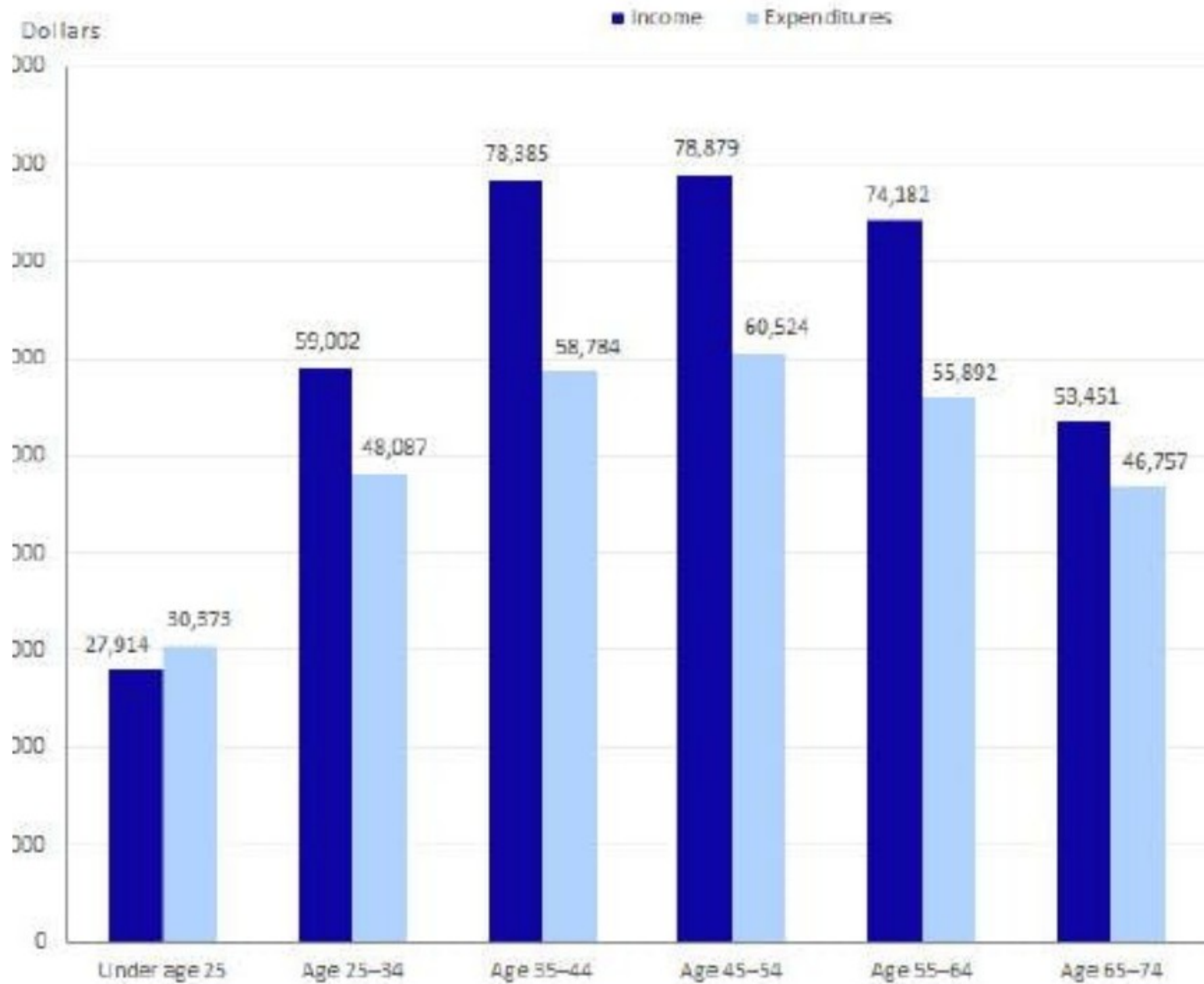


Chart 1. Income and expenditures, by age of reference person, 2013




Source: U.S. Bureau of Labor Statistics.

A Glimpse of Your Possible Future Income & Expense

- There will be key stages in your life that will affect your income and expenses.
- Income will go up with age. But will also decrease
- Expenses will go up with age. But decreases by less
- Work as hard as you can in your job. From about 40 onwards, your salary income level may tend to flatline.



How To Budget Your Income and Expenses & Grow Wealth?



So now you hopefully have a job that pays you well... Congratulations!

What do you do with all that salary? Do you suddenly feel rich?

Do you load up on debt? Credit cards, personal loans, car loans?

We are fortunate here that a lot of students are not crippled with expensive student debt but perhaps you could tell me.





How To Budget Your Income & Expenses and Grow Wealth?

- Imagine you get a well deserved bonus or increment at the end of the year.
- Do you spend it all because you feel you deserve it as you have worked hard?
- Or do you think sensibly about it. Perhaps you want to spend based on a pre-defined ratio. Say 10 or 30% of your annual bonus.
- Ratios are important as they keep things in perspective.
- If you get a promotion and your salary goes up 10%, that extra say \$200 a month may not be best all spent on paying for a holiday.





How To Budget Your Income & Expenses and Build Wealth?

- Don't let your expenses rise at the same pace as your income or faster.
- Don't let your toys get more and more expensive (latest car, latest smartphone, latest designer bag or shoes).
- It's hard to adjust to a lower standard of living if you need to. Especially harder when it's family involved in that adjustment too (school, home)
- If you keep chasing the latest gadgets and trends (it's a consumer based society), no amount of income and money will be enough.
- *If you are one of the above, do you use money or does money use you?*





Does having a high income job earning \$10k a month make you wealthy? What if you lost that job the next day, would you still feel rich?

– Anonymous





How To Budget Your Income & Expenses and Grow Wealth?

What's more, since you have a job and a steady income, the banks will quite readily provide you a cash advance facility in the form of credit cards / loans (personal loan, car loan, house loan)..



So how about a getting a car financing or loan?

Let's walk through an example





You want to get a brand new car

- It costs \$24,000 at the local dealership
- Your salary is BND 2,000 a month
- You approach a bank here for a loan to be paid over 7 years (84 months).
- Let's see the numbers!



Category
Choose one

 CONSUMER PRODUCT

 VEHICLES

Documentation fees \$0
Select One

New Car \$0

Used Car \$120

Transfer Ownership \$220

Price of goods \$ 24000

0 \$500,000

Down Payment \$ 0

0 100,000

Financing Amount \$ 24000

Profit Rate 4.25%
Select One

New Car 4.25%

Used Car 4.75%

Financing Period 84 months

6 84

CALCULATE

Your estimated instalment amount is BND 370.71

A Car Financing Website Calculator

Mortgage amount		Monthly Payments	
<input type="text" value="\$ 24,000"/>		\$ 370.73	
Mortgage term in years		Total Principal Paid	\$24,000
<input type="text" value="7"/>		Total Interest Paid	\$7,141.31
Or		TODAY'S RATES	
Term in months		Show amortization schedule	
<input type="text" value="84"/>			
Interest rate per year			
<input type="text" value="7.72"/> %	<input type="button" value="CALCULATE"/>		

How much are you actually paying for the brand new car?

- \$24,000 plus \$7,141.31 in interest over 7 years
- Be aware the 4.25% is the simple annual rate.
- The effective annual interest rate is 7.72%
- Whether investing and borrowing, it is better to look at annual interest rate for an apples to apples comparison
- Did you know that almost 10% of the value of a car is wiped out once it leaves the showroom and a further 10% by the end of the first year?
- Don't ask "How Much Per Month?" rather "How Much Is The Interest Rate?"



So what options do I have?

- Paying for part of the car with cash will reduce your monthly repayment.
- Reduce the number of years of repayment. (e.g. 7 to 4 years)
- The car may feel \$24,000 when it is brand new. What about in 7 years time?
- Look for promotion periods (e.g. Hari Raya) where the rates can go down from 4.5% to 3.5%
- What about buying a good condition used car instead?
- Your car loan repayment should not be more than your home loan

B



So what about a new home loan?

Let's walk through an example





You want to get a brand new house

- It costs \$250,000
- Your salary is BND 4,000 a month
- You approach a bank here for a loan to be paid over 25 years
- The bank will probably loan you at best 90% of the house value.
- That means a bank loan of BND 225,000.00 @ 4.5% interest rate
- Let's see the numbers!



<p>Loan amount</p> <input type="text" value="\$ 225,000"/> <p>Loan term in years</p> <input type="text" value="25"/> <p>Or</p> <p>Loan term in months</p> <input type="text" value="300"/> <p>Interest rate per year</p> <input type="text" value="4.5"/> %	<p>Monthly Payments</p> <p>\$ 1,250.62</p> <table border="1"> <tr> <td>Total Principal Paid</td> <td>\$225,000</td> </tr> <tr> <td>Total Interest Paid</td> <td>\$150,186.92</td> </tr> </table> <p>COMPARE LOAN RATES</p> <p>Hide amortization schedule</p>	Total Principal Paid	\$225,000	Total Interest Paid	\$150,186.92
Total Principal Paid	\$225,000				
Total Interest Paid	\$150,186.92				
<p>CALCULATE</p>					

<p>Loan amount</p> <input type="text" value="\$ 225,000"/> <p>Loan term in years</p> <input type="text" value="25"/> <p>Or</p> <p>Loan term in months</p> <input type="text" value="300"/> <p>Interest rate per year</p> <input type="text" value="4.0"/> %	<p>Monthly Payments</p> <p>\$ 1,187.63</p> <table border="1"> <tr> <td>Total Principal Paid</td> <td>\$225,000</td> </tr> <tr> <td>Total Interest Paid</td> <td>\$131,289.87</td> </tr> </table> <p>COMPARE LOAN RATES</p> <p>Hide amortization schedule</p>	Total Principal Paid	\$225,000	Total Interest Paid	\$131,289.87
Total Principal Paid	\$225,000				
Total Interest Paid	\$131,289.87				
<p>CALCULATE</p>					

How much are you actually paying for the brand new home?

- \$225,000 plus \$150,186.92 in interest over 25 years
- The effective annual interest rate is 4.50% in first example
- If you can get it reduced to 4.0% you save interest cost of almost B\$19k. So shop around.
- Get a floating rate loan instead of a fixed rate loan unless global interest rates are almost close to zero, in which case get a fixed rate loan.





So what other factors should I think about?

- This is possibly the largest single item that you will buy in your life time. So don't feel rushed into it.
- There are times especially when you are just starting out that it will be too heavy a burden to buy a house just yet.
- Renting may be a good interim solution and as things improve and your situation stabilizes, owning a house is a good thing.
- Maintain a good repayment as this helps maintain your credit scoring (FICO).
- Your monthly loan repayment on home should not be more than 30% of your take home income (before repayment) to give room for saving for investing. etc



Growing Your Wealth

The key word is growing.... why?

Growing Your Wealth

Growing wealth takes time.

And that is what exactly young people like you, have. Time. It enables the simple concept of compound interest to work its magic.

It's something that no one else older than you has. The asset of having time on your hands. So use it wisely.



Initial deposit
\$1

Monthly contribution:
\$1000

Over a period of:
15 Months Years

APY
5%



Growing Your Wealth

- \$1000 per month
- For 15 years
- Assume a conservative annualized return of 5%



Initial deposit: \$1

Monthly contribution: \$1000

Over a period of: 25 Months

APY: 5%



Growing Your Wealth

- \$1000 per month
- For 25 years
- Assume a conservative annualized return of 5%



Initial deposit

Monthly contribution:

Over a period of:

APY

%



Growing Your Wealth

- \$1000 per month
- For 35 years
- Assume a conservative annualized return of 5%



Quiz: Which is your preferred path to financial independence?

0

Save and invest
\$1k a month for
15 years and
retire with a BND
265k nest egg

0

Save and invest
\$1k a month for
25 years and
retire with a BND
585k nest egg

0

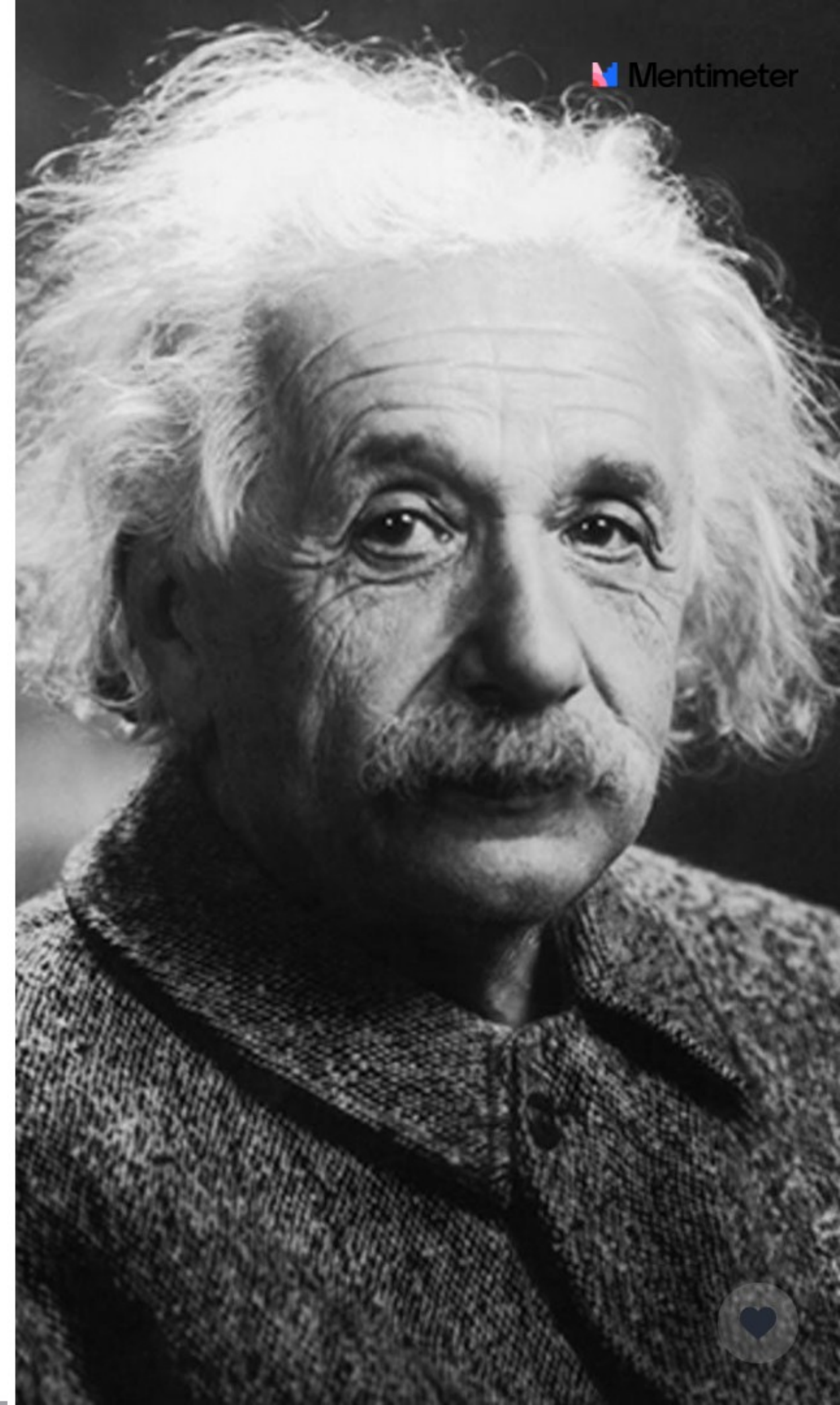
Save \$1k a
month for 35
years and retire
with BND 1.1
million nest egg



“

Compound interest is the eighth wonder of the world. He who understands it, earns it... he who doesn't, pays it.

– Albert Einstein



Growing Your Wealth (1/2)

- Growing wealth takes time. Stick to your goals.
- Get a financial coach or buddy who can be emotionally detached to provide guidance
- Don't be greedy. 99.95% of the time, it takes time.
- Know your risk appetite. Can you stomach market volatility?



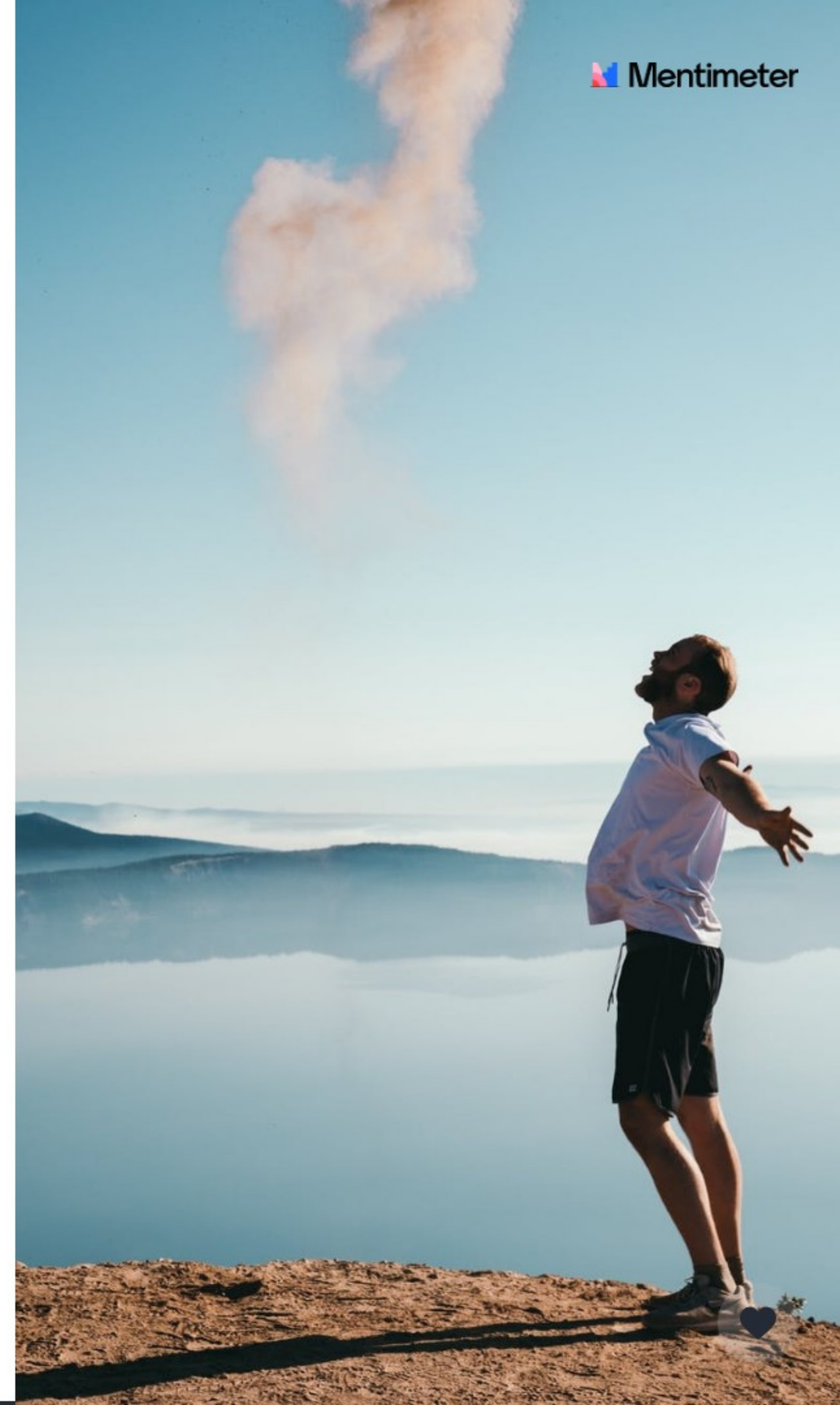
Growing Your Wealth (2/2)

- Know what you are investing in be it in real estate, stocks, bonds, businesses. If you don't understand, ask someone who does.
- If you want to speculate in cryptocurrency, understand it properly and with no more than 5% of your total net worth.
- Don't buy into something just because a friend gave you a hot tip. If it sounds too good to be true, it probably is.
- Consult a qualified financial advisor when you have a decent sized investment portfolio

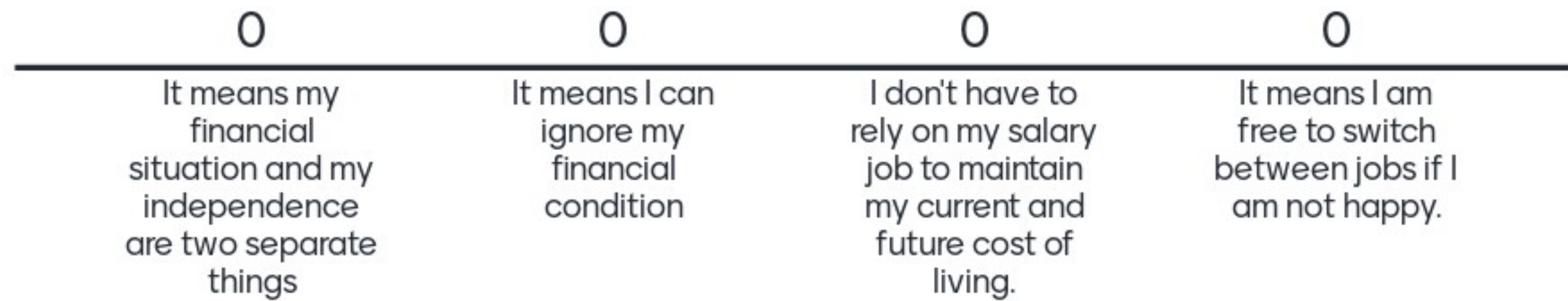


Financial Independence

How do I achieve it?



Quiz: What do you think financial independence means?



Financial independence

is achieved when your passive income is greater than your active income to cover current and future expenses without having to be dependent on others (e.g. parents).

So what is *active* and *passive* income?



Active Income

Active income is income earned for a service rendered or goods produced.

Sources of active income include monies earned from salaries, commissions, tips and hourly wages, freelance and consulting services etc. It is payment that directly materializes from work done. With this type of income, time which is valuable, is traded or exchanged for money.



Passive Income

Passive income refers to monies earned from investments, assets and work done previously that continues to yield more funds with little or no effort added (e.g. royalties).

It goes without saying that passive income is more satisfying and profitable than active income. However, it comes from earning actively that creates the foundation for passive income.

Passive income takes time to build, and is often a product of active income.



Exercise: Categorize these activities into active or passive income

Active Income

Income from a bank teller working from 9-5pm

Income from a doctor seeing his patients

Income from renting your house out

Income from royalties earned from your songs being played over Spotify (imagine you are Billie Elish)

Income from dividends from your investments of stocks and bonds

Passive Income



So where do I start? Track your income and expenses

- Get a handle on your monthly expenses.
- Keep tracking this diligently for 6-12 months.
- See where you are spending the most (e.g. internet, car, clothes, rental etc)
- Which expenses are controllable vs uncontrollable?
- Track your income too - salary, commission, gig based, business, dividends
- You can use an app (e.g. Money Manager) to help with this
- Decide how much you want to save aside (% or amount)
- Spend less than you earn!
- **STAY FOCUSED!**



Get out or reduce your level of [bad] debt

- Look at your loan obligations (e.g. personal, car, home, credit cards, etc)
- Pay off the smallest debt first (which is usually the most expensive like credit cards debt).
- And work your way up to the bigger debts



Save and invest the rest

into financial or tangible assets



Managing your wealth through investments

You don't need to be Warren Buffett





We don't have to be smarter
than the rest.

We just have to be more
disciplined than the rest.

– Warren Buffett



What Can I Invest In?

- Cash
- Bonds
- Stocks and Shares
- Exchange Traded Funds (ETFs) and Mutual Funds / Unit Trusts
- Real Estate





S&P 500 Historical Chart (1928 to June 2021)



Managing Your Money Through Investing

- Why invest? Inflation. The value of your money buys less in the future if you keep it stagnant
- To make your money work for you. After all, you worked so hard to earn it.
- Know what type of financial personality you are.
- Get a financial coach especially with the emotional aspect of investing
- Know and understand your risks. If you don't understand it, don't enter into it.
- Some may not be able to handle the ups and downs of the markets
- Understand that investing is for the long term. Not short term. That's speculation.



How do you protect your wealth and assets?



How do you protect your wealth and assets?

- Don't put all your eggs in one basket
- Have a mixture of financial and tangible assets (e.g. land, real estate), intellectual property.
- Diversifying won't protect you completely from financial markets turmoil but can limit the impact
- Holding your assets all in cash does not protect it from currency risk, inflation risk that can eat away at the real value of your money in time.
- Diversify not just your assets but your sources of income.



Have I said too much?

Here are 7 pieces of financial advice for New Graduates by Morningstar

(by Christine Benz, published May 7 2021)



Seven Pieces of Financial Advice for New Graduates

1. Step Away From Comparison
2. Always Have A Safety Net
3. Let Return On Investment (ROI) Light The Way
4. Get Started On Long Term Investing
5. Play The Long Game
6. Invest In Human Capital Earlier Rather Than Later
7. Keep In Mind The Big Picture Allocation



And lastly some final thoughts from me...

After all is said and done, know that luck does play a role too in how things will turn out. So arrange your financial life in a way that a bad investment here and a missed financial goal there will not wipe you out so you can keep playing the game of life until the odds fall in your favor. It also keeps you humble and grounded.

If you can, share and give back, in terms of money or time. Find your security not in money but in yourself and your relationships, be it in family or the community.



Thank you for spending your Friday afternoon here.

I hope it time well spent for you.

Feel free to reach out to me if you have any questions.



How helpful was today's session on How To Be Smart With Money?



3 - Yes. I learned a lot today!



2 - It was good. Wish we could cover more next time



1 - It was alright. I know most of this already.



0 - This session was not for me.

