

# INVESTMENT PLANNING

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## TOPIC OF DISCUSSION

- Financial Planning Process
- Savings Strategies
- Accumulation
- Investment Planning
- Investment Alternatives



## TAKING CHARGE OF THE FINANCIAL PLANNING PROCESS (7 STEPS)



- STEP 1: Determine where you are financially
- STEP 2: Set goals
- STEP 3: Develop a plan
- STEP 4: Keep records
- STEP 5: Make an informal budget
- STEP 6: Deal with shortfalls, credit and debt
- STEP 7: Review your progress



## TAKING CHARGE OF THE FINANCIAL PLANNING PROCESS (7 STEPS)



STEP 1: Determine where you are financially

- Calculate your Net Worth

Total Assets – Total Liabilities = NET WORTH

**3 possible outcomes:**

**Assets = Liabilities**

**Assets > Liabilities**

**Liabilities > Assets**



## TAKING CHARGE OF THE FINANCIAL PLANNING PROCESS (7 STEPS)



### STEP 1: Determine where you are financially

- Analyze your Cash Flow  
Income vs. Expenses
  - Indicate your ability to save
  - Size up your standard of living
  - Indicate if you're living within/beyond your means



## TAKING CHARGE OF THE FINANCIAL PLANNING PROCESS (7 STEPS)



### STEP 2: Set Goals

- Identify your Financial Goals
  - To have adequate funds ...
  - To accumulate sufficient assets ...
  - To retire comfortably
- Significant life events
  - Getting married, raising a family, funding children' education, starting a business,...retiring

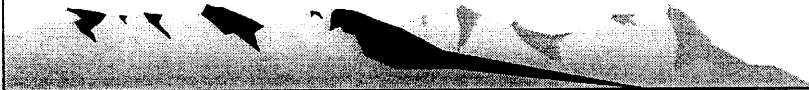


## TAKING CHARGE OF THE FINANCIAL PLANNING PROCESS (7 STEPS)



### STEP 2: Set Goals

- Short-Term – e.g. pay off credit card
- Medium-Term – e.g. start education funds
- Long-term – e.g. retire early



## TAKING CHARGE OF THE FINANCIAL PLANNING PROCESS (7 STEPS)



### STEP 3: Develop a Plan

- Flexibility
- Liquidity
- Minimization of taxes



## TAKING CHARGE OF THE FINANCIAL PLANNING PROCESS (7 STEPS)



### STEP 4: Keep Records

- Accuracy
- Consistency

*Expenditure in relation to:*

- ✓ objective norms (%)*
- ✓ your goals & values - e.g. too much on vacation*



## TAKING CHARGE OF THE FINANCIAL PLANNING PROCESS (7 STEPS)



### STEP 5: Make an Informal Budget

- Foundation to your Budget
  - Is your job secure?
  - Are your other sources of income secure?
  - What degree of financial risk are you assuming?



## TAKING CHARGE OF THE FINANCIAL PLANNING PROCESS (7 STEPS)



### STEP 6: Deals with Shortfalls, Credit & Debt

- The level of debt - *problematic debts (e.g. cc)*
- The interest rate you're paying - *18% p.a.*
- Whether you can liquidate it in the near future

*Gen X, Gen Y, Gen Debt?*  
- See Financial Planners:  
*Credit Counseling & Debt Management Agency*  
- set up by  
BNM

## TAKING CHARGE OF THE FINANCIAL PLANNING PROCESS (7 STEPS)



### STEP 7: Review Your Progress

- Have your financial goals stayed the same?
- Are you meeting your budget?
- Are you earning the investment rates of returns you anticipated?
- To what degree is inflation affecting your finances?



## IMPORTANCE OF SAVINGS



### SET UP A SAVINGS PLAN!

*Unless you inherit a fortune, win the lottery, gain unexpected windfalls, or simply earn so much money that you have all you'll ever need*

FIRST PRIORITY:

*@buffer (3 - 6 months)*

**CREATE AN EMERGENCY FUND** – to manage the unexpected and imponderable.



## ACCUMULATION

**Money allocated in advance for a specific purpose, which you plan to make use of in the future (other than your retirement).**

**Saving your money to meet certain objectives that you have set in advance for yourself and/or your family.**

- Down payment for house or car
- Children's tertiary education
- Family vacations
- Pilgrimage (Hajj)



*strategies for saving:*

*- It's getting harder to save money these days.*

*Accommodation:*

- ✓ Refinancing
- ✓ Scale down or take in a boarder.

*Household expenses*  
✓ Don't overlook the impact of "cheaper items"

- ✓ Plan shopping
- ✓ Do comparison shops

*✓ Look for ways to telecomm*

Transportation:

- ✓ Downgrade your car
- ✓ look for cheaper parking lots

expenses

- ✓ Do-it-yourself - e.g. maintenance
- ✓ Pay only when necessary - e.g. tuition

Accumulation

Money allocated  
in advance for  
a specific purpose  
- children  
- retirement

## ACCUMULATION PLAN

1) For what purposes or objectives do you need to accumulate?

- Identify objectives
- Create separate accounts for different objectives
- Prioritize your objectives based on urgency & time horizon

**BE SENSIBLE & REALISTIC!**



## ACCUMULATION PLAN

- 2) How much do you need for this purpose?  
&  
3) When do you need this sum of money?

*Time Horizon and Targeted Amount dictate how much you need to set aside from your monthly income*





## ACCUMULATION PLAN

### 4) Where should you invest?

- Short term vs. long-term accumulation goals
- Capital preservation vs. capital appreciation

- Risk profiles
- Handwritten notes:*  
money market (with arrow pointing to Short term vs. long-term accumulation goals)  
return on capital (with arrow pointing to Capital preservation vs. capital appreciation)  
the diff. of capital (with arrow pointing to Risk profiles)  
risk adverse (with arrow pointing to Risk profiles)  
Moderate Aggr. (with arrow pointing to Risk profiles)

## INVESTMENT PLANNING

Investing

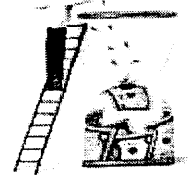


### *Making investment decisions*

- **Age**
- **Risk Tolerance**
- **Objective**
- **Time Horizon**
- **Income**
- **Health**

① CATFS' performance 10 years - inferior <sup>absolute</sup>   
 { poor investment timing   
 " in selection   
 Big portion being invested in Blue Chip

## INVESTMENT PLANNING



### Knowing your investment risks

- Capital Risk
- Inflation Risk
- Interest Rates - is going up now a day
- Liquidity Risk
- Currency Risk
- Market Risk
- Taxation



## INVESTMENT ALTERNATIVES

DOT 001	1.4%	10/01	➤	1.50%
DOT 002	1.3%	10/01	➤	1.50%
DOT 003	1.2%	10/01	➤	1.50%
DOT 004	1.1%	10/01	➤	1.50%
DOT 005	1.0%	10/01	➤	1.50%

### EQUITIES

TMT  
 ↳ Dark  
 ↳ May bank

- Blue-chip stock
- Growth stock
- Income stock - plantation stock
- Cyclical stock - construction ind.
- Defensive stock - e.g.
  - F & Beverage
  - utility



\* During world-cup - Stock Performance ↓

KLCI'S  
1990 +3.8%  
1994 -0.2%  
1998 -17.3%  
2002 -5.0%  
2006

## INVESTMENT ALTERNATIVES

\* spearheading Islamic products

### FIXED-INCOME SECURITIES

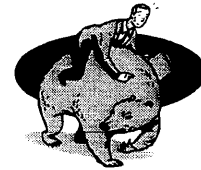


#### Short-Term

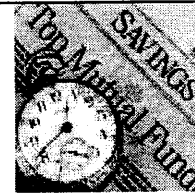
- T-Bills, NCDs, Bankers Acceptance

#### Long-Term

- Government Bonds
- Corporate Bonds



## INVESTMENT ALTERNATIVES



### UNIT TRUST

- collective investment scheme
- similar investment objectives
- professional managers
- above-average returns
- reasonable risks
- Ⓞ medium-to-long term horizon
- diversified portfolio
- Dollar-Cost Averaging =>  
(a disciplined investment approach)

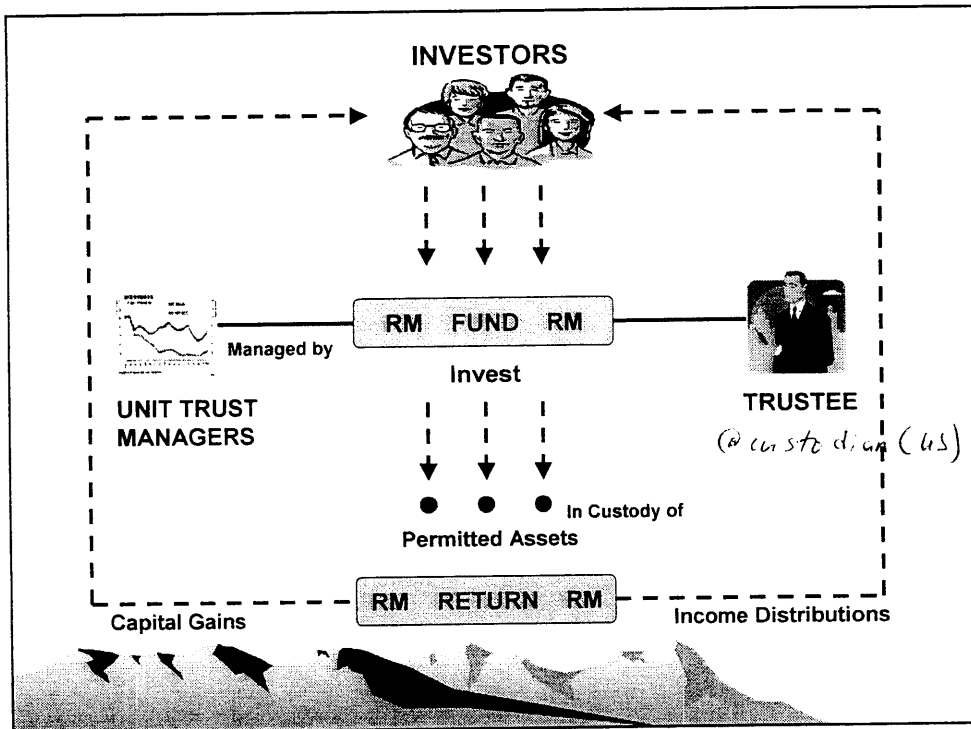
Fidelity  
**Accumulation  
of Units**

Dividend = share cash  
units

Mu

"A wonderful invention..."

Peter L...



## INVESTMENT ALTERNATIVES

### ADVANTAGES OF UNIT TRUST



- Diversification – minimize risk
- Liquidity – may redeem all or partial units
- Affordability – low minimum investment
- Expertise and Experience – professional managers
- Ease of Transactions – Not complicated procedures
- Safety – Deed & stringent guidelines
- Competitive Returns? – Capital gains & distributions

*That's why we should go for long term*

## INVESTMENT PLANNING

### DISADVANTAGES OF UNIT TRUST

- No guarantee
  - meeting performance expectations
- Loss of control over investment
  - for financial savvy investors
- Lack of liquidity
  - time gap in redemption
- Lack of volatility
  - "boring" vs. direct investment



## *Common* TYPES OF FUNDS

### Growth Fund

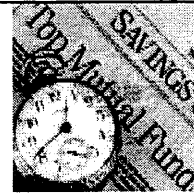
- Invest primarily in high-growth common stocks or companies that offer good prospects of growth.

### Income Fund

- Strive to provide a stable income by investing in high dividend yielding portfolio of stocks and fixed-income securities.

### Balanced Fund

- Invest in a balanced portfolio of equity securities with capital growth prospects and high income yielding fixed income securities.



KLSE  
Market cap - RM 700,000,000

① Microsoft alone is larger than KLSE's market cap!

## INVESTMENT ALTERNATIVES



### TYPES OF UNIT TRUST

- Equity funds – value, growth, blend, income & market cap
- Fixed-income funds
- Money market funds
- Balanced funds
- Islamic/Syariah-compliant funds
- Specialty funds – Ethical & Sector – Maybank (ethical fund)
- Capital guaranteed funds –
- Index funds –
- Country funds – e.g. Foreign Fund
- Pension and Retirement funds – IRRA
- Real Estate Investment Trusts (REITs) – "new kids on the block!"
- Fund of funds – invest in another funds e.g. Arab

## INVESTMENT ALTERNATIVE

### REAL ESTATE/PROPERTY INVESTMENT

- Purpose: Own occupation vs. rental
- Types of properties
  - Landed vs. Non-landed
  - Freehold & Leasehold
- Property Trends and Cycles
- Direct vs. Indirect Investment (REITs)



Rank of UT:

- P. Mutual
- Am Invest.
- SBS Mutual
- Prudential Mut
- CIMB

## INVESTMENT ALTERNATIVES

### DERIVATIVES

- Futures & Options
  - Financial & commodity based
- Structured Products - you enhance the yield while protecting your...
- Hedge Funds - it just like MF or UF  
obj -> make money in either directions (bullish or bearish)

## OTHER INVESTMENT ALTERNATIVES

### GOLD

Gold investments may add some shine to your portfolio

- Gold jewellery - 24 carat
- Gold bullion
- Gold passbook account
- Gold stock - positive correlation stock
- Gold funds



To buy real prop. -> (1) Location, Location, Location

Consider these factors

- (1) Physical C
- (2) Accessibility
- (3) Neighbourhood
- (4) Orientation
- (5) Other factors

## OTHER INVESTMENT ALTERNATIVES

### PRECIOUS METALS

- ❖ Silver, platinum, palladium, rhodium
- ❖ Diamonds, sapphires, rubies, emeralds



## OTHER INVESTMENT ALTERNATIVES

### COLLECTIBLES

- Rare coins
- Works of arts
- Antiques
- Stamps
- Rare books
- Sports memorabilia
- Rugs
- Chinese ceramics
- Paintings





