錢家有道
the Chin family

The importance of Personal Financial Planning

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About The Chin Family

The Chin Family is an independent and impartial financial education platform providing free information, resources and programmes. We help people in Hong Kong plan and manage their finances by making financial learning simple and enjoyable. The Chin Family is managed by the Investor Education Centre, which is supported by the Education Bureau and all four financial regulators.

錢家有道簡介

錢家有道是個獨立及持平公正的金融理財教育平台，免費提供相關的資訊、教育資源及計劃。我們致力令學習金融理財變得簡單有趣，以協助香港市民計劃及管理個人財務。錢家有道由投資者教育中心管理，並獲教育局及四家金融監管機構支持。

What Is Financial Planning?

Financial planning is the process of setting, planning, achieving and reviewing your life goals through the proper management of your finances.

Why do you need a financial plan?

Satisfy today's financial needs

Meet future financial goals

Plan for your retirement

Provide protection

Save for emergencies

Key steps to draw up a basic financial plan

1. Assess your financial situation
2. Create a budget
3. Set your financial goals
4. Know your risk tolerance
5. Work out and implement a basic financial plan
6. Regularly review and adjust your financial plan

Step 1: Assess your financial situation

Asset

Liabilities

Step 1: Assess your financial situation

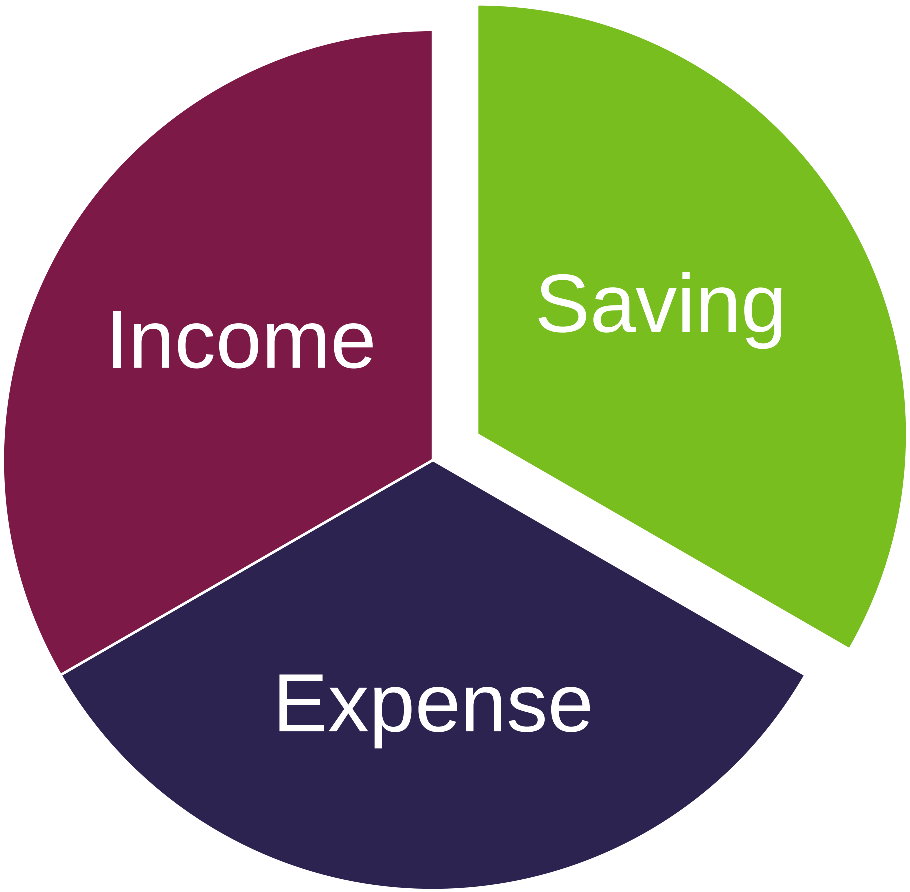
Asset	
Saving	$128,000
Property	$2,300,000
Stocks	$210,800
Bonds	$20,100
Fund	$136,000
Insurance (e.g. Annuity, investment-related)	$320,000
MPF / P-fund	$250,000
Other (e.g. gold)	-
Total Asset	$3,364,900
Liability	
Mortgage	-
Credit	$3,000
Loan	$50,000
Other	-
Total liability	$53,000
Net Asset	$3,311,900

Step 2: Create a budget

Dining	Transport	Education	Shopping
$	$	$	$

Family	Insurance	Loan	Other
$	$	$	$

Step 2: Create a budget



Step 3: Set your financial goals

- Short-term goal
  (e.g. buy a mobile phone, computer and travelling)
- Medium-term goal (1 to 5 years)
  (e.g. further studies, working holiday, marriage)
- Long-term goal (more than 5 years)
  (e.g. education fund for your children, retirement)

- How to turn your ‘wants’ into financial goals?

Step 3: Set your financial goals
Setting SMART goals

- Example: I need to buy a lightweight laptop for my daily work

- The SMART principles can help you reach your goals step by step

Step 3: Set your financial goals
Setting SMART goals

- Example: I need $8,000 to buy a laptop

- The SMART principles can help you reach your goals step by step

Step 3: Set your financial goals
Setting SMART goals

- Example: I need to save an extra $2,000 each month

- The SMART principles can help you reach your goals step by step

Step 3: Set your financial goals
Setting SMART goals

- Example: I need to reduce the cost of eating-out and entertainment, and work for extra hours so that I can save an extra $2,000 each month

- The SMART principles can help you reach your goals step by step

Step 3: Set your financial goals
Setting SMART goals

- Example: I need 4 months ($2,000 X 4 = $8,000) to reach my goal

- The SMART principles can help you reach your goals step by step

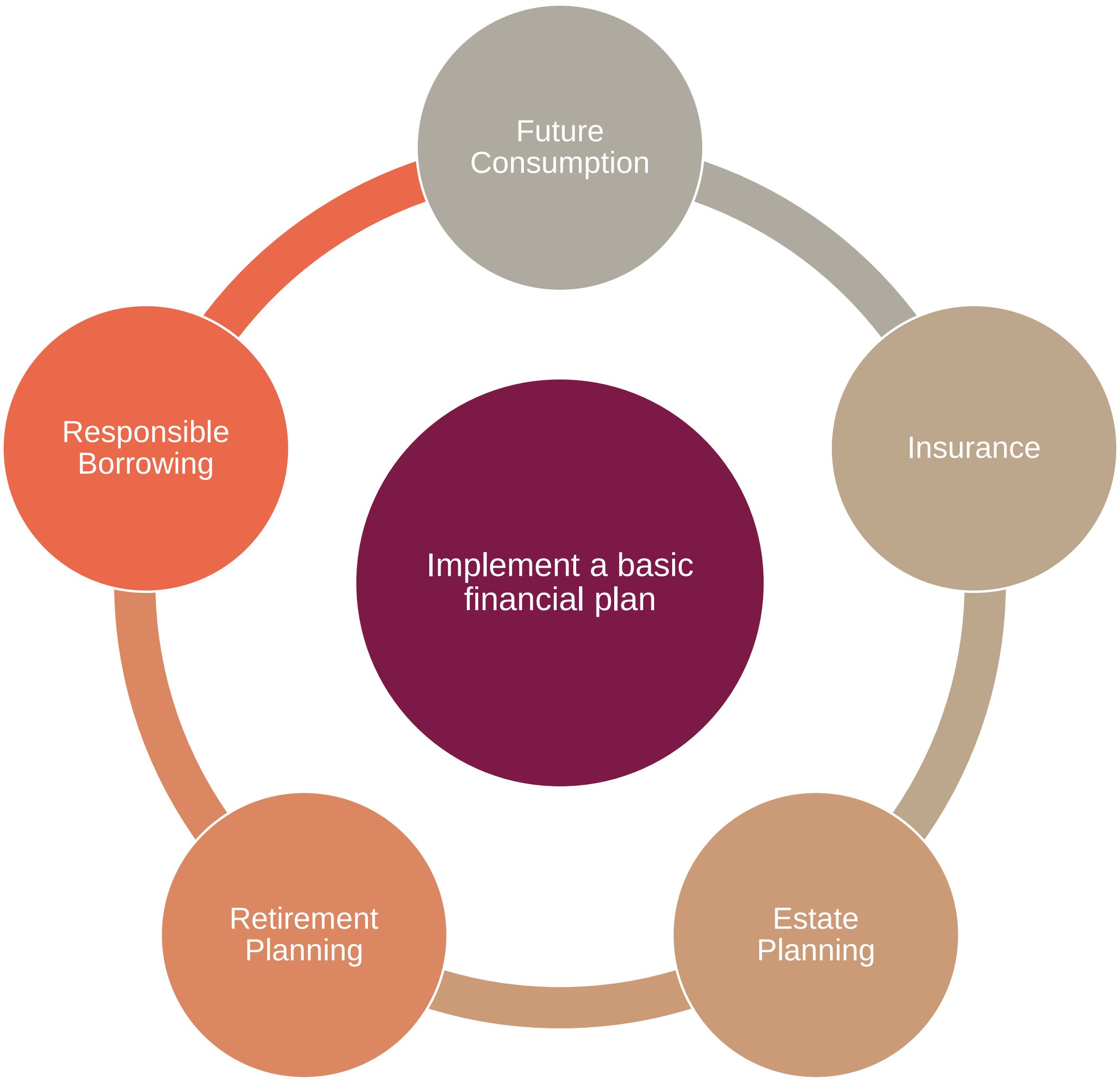
Step 4: Know your risk tolerance

Investment Target

- Expected return?
- Investment horizon?

Factor	Situation	Risk tolerance
Age	↑	↓
Investment horizon	↓	↓
Asset	↓	↓
Financial burden	↑	↓

Step 5: Work out and implement a basic financial plan



Step 5: Work out and implement a basic financial plan

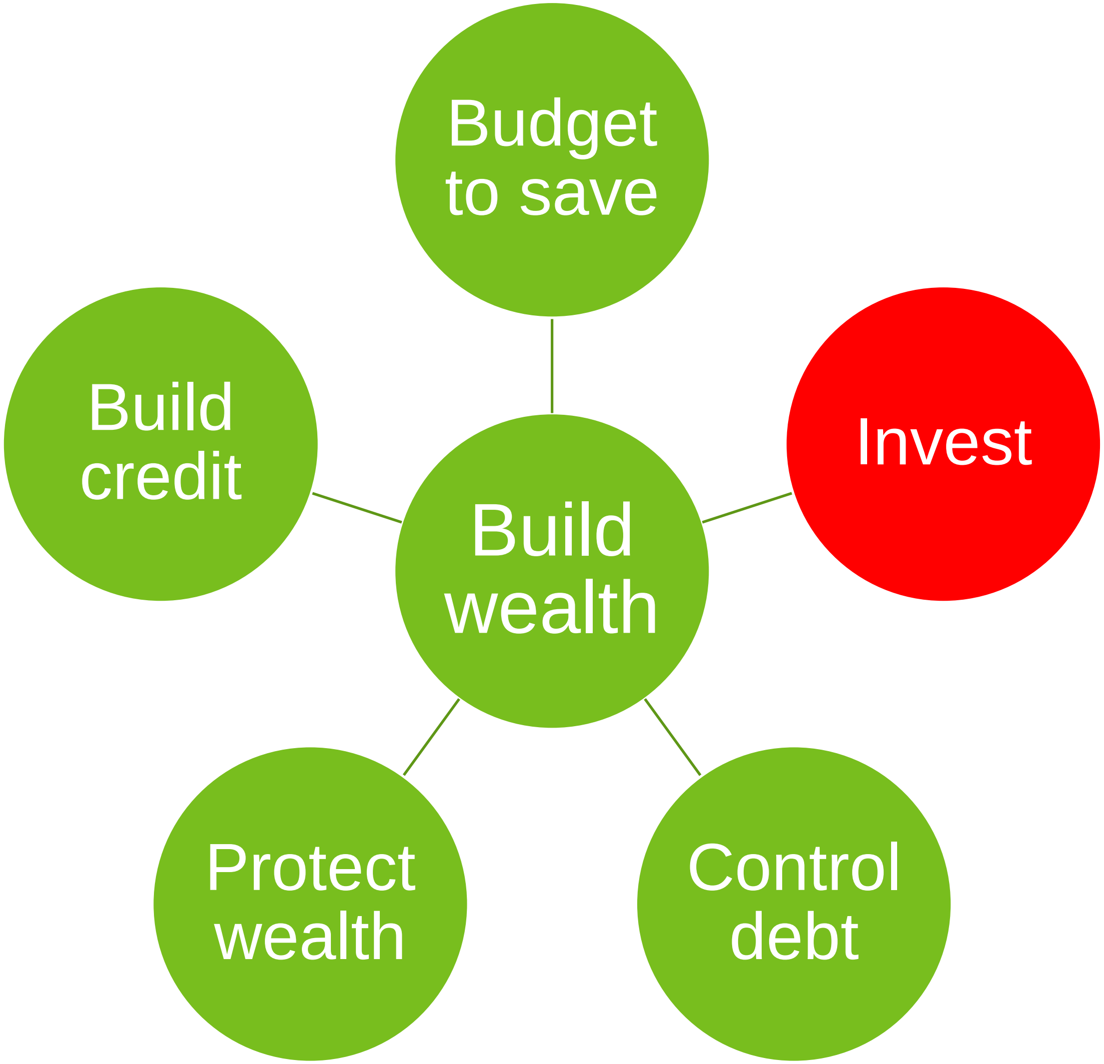
- Prioritization of your needs and targets
- Choose suitable investment products
- Understand consumer rights and responsibilities
- Diversification in investment

Step 6: Regularly review and adjust your financial plan

- Review your existing budget and investment portfolio from time to time
- Review the performance of your portfolio regularly and rebalance your investments when necessary.
- Avoid keeping a portfolio that may over-concentrate on certain asset classes.

Building an investment portfolio and managing risk

How to build wealth?



Are you ready to invest?

- Is your debt under control?
- Do you have enough case for emergencies?
- Do you have adequate insurance protection?
- Do you understand how to invest?

Basic principles

- The power of compounding
- Risk and return
- Dollar cost averaging
- Diversification
- Asset allocation

The power of compounding – Example 1

	Age when saving begin	Number of years for saving	Monthly saving amount	Savings at age 5	Assumer annual interest rate (compounding once a year)	Total principal and interest at age 65
Fiona	25	40	**$1,000**	**$480,000**	6%	**Around $1,857,000**
Kary	35	30	**$1,333**	**$480,000**	6%	**Around $1,265,000**
Jason	35	30	**$1,000**	**$360,000**	6%	**Around $949,000**

The above example is for discussion only

The power of compounding – Example 2

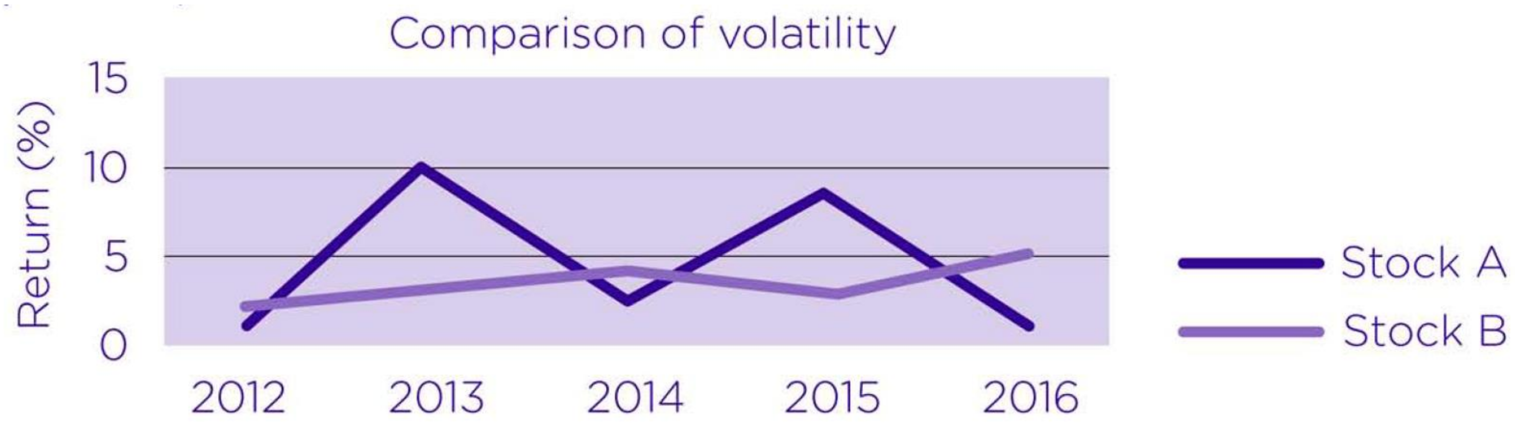
	Assumed annual interest rate (compounding once a year)	Monthly savings/ investment from age 25 – 45	Monthly savings/ investment from age 45 – 65	Total principal and interest at age 65
Kenus	6%	$1,000 (a total of $240,000 in 20 years)	$0	Around $1,416,000
Matthew	6%	$ 0	$1,000 (a total of $240,000 in 20 years)	Around $441,000

The above example is for discussion only

Risk and return

What is risk?

- The chance that you may get lower return than expected, zero return or even negative return
- Risk is also about volatility. The possibility that your investment will fluctuate (go up or down).



Risk and return

What is return?

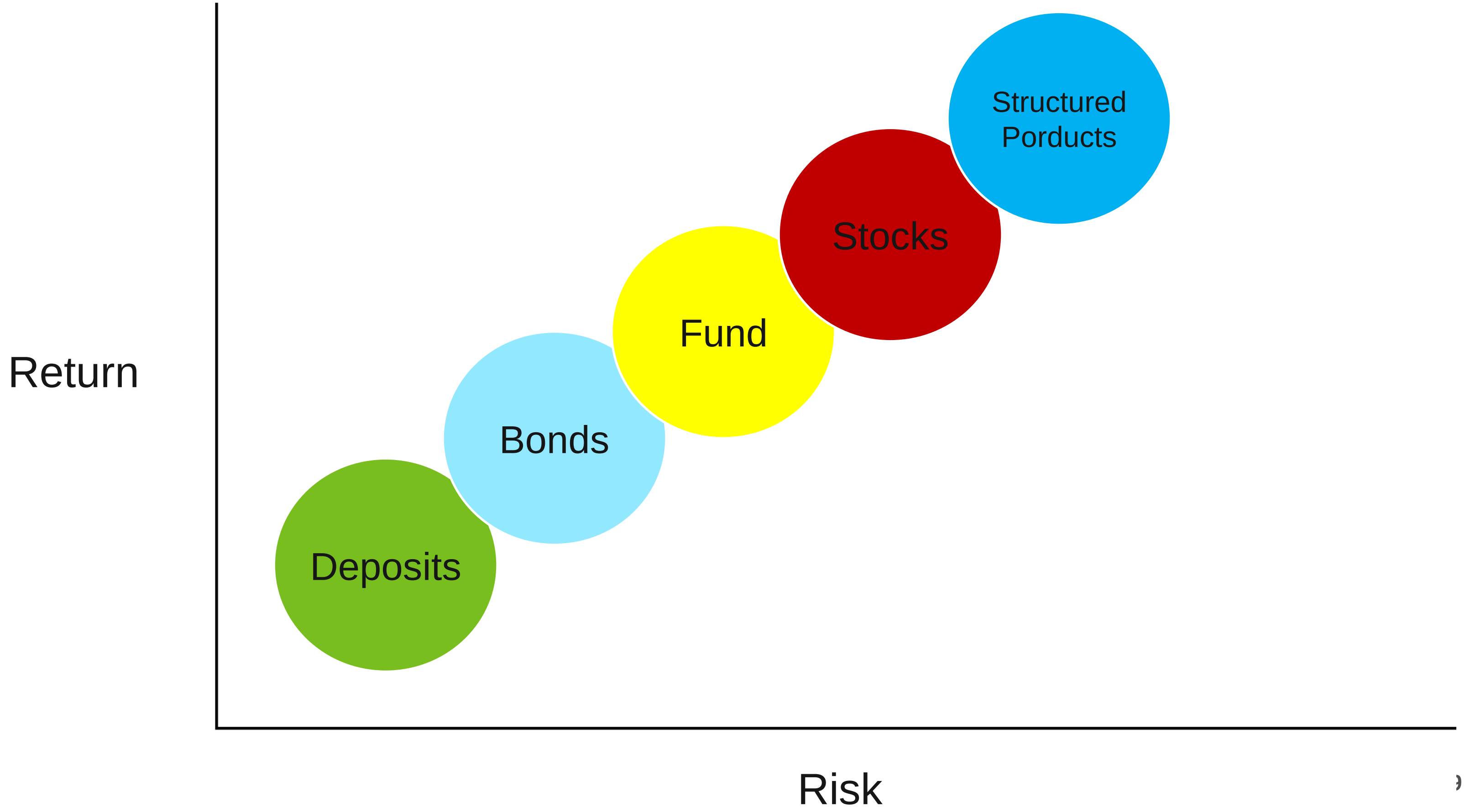
Interest/ dividend + Value appreciation or depreciation = Total return

Income + Capital gain or loss = Total return

	Interest / Dividend/ other	Capital gain/ loss
HKD Saving	✓	✗
Stocks	✓ / ✗	✓
Bond	✓ *	✓
Property	✗	✓
Lease	✓	✓
Gold	✗	✓
Foreign Currency	✓	✓

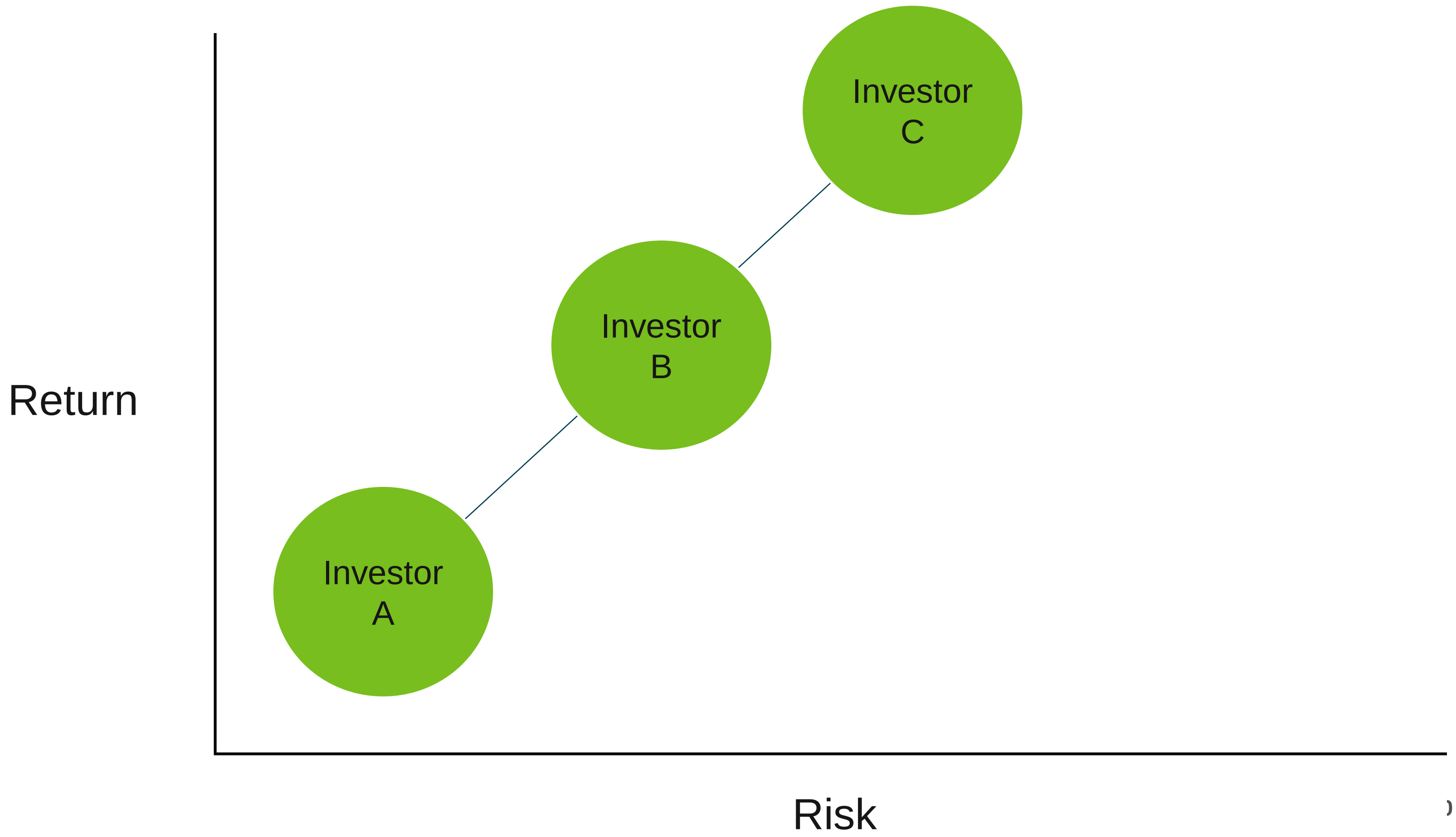
Risk and return of different asset classes

- Different investment products have different degrees of risk



Risk and return

- People who can tolerate lower risks tend to employ more conservative investment strategy



Risk and return

Risk tolerance	Low	High
Investment horizon	Short	Long
Age	Old	Young
Demand for liquid assets	Strong	Weak
Financial resources	Limited	Abundant
Financial burden	Heavy	Light

Dollar cost averaging

Month	Amount invested	Price per share	Number of shares
January	$500	$50	50
February	$500	$5	100
March	$500	$4	125
April	$500	$5	100
May	$500	$10	50
June	$500	$12.5	40
Total	$3000	$6.45	465 units

Average cost per share$6.45

Diversification

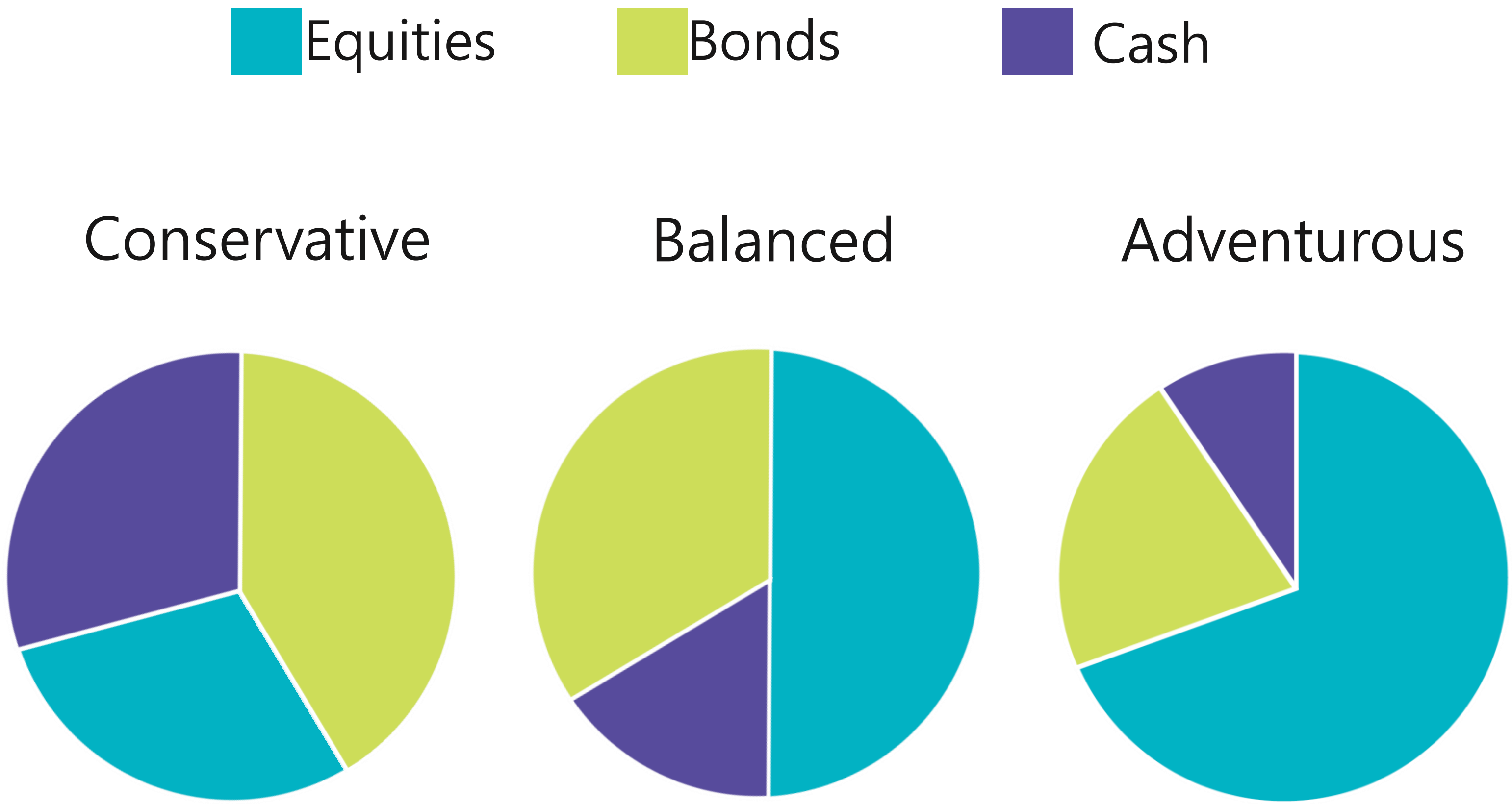
WHY

- Each type of investment tends to respond differently to economic factors and market events
- It is unusual for all asset classes to perform badly at the same time

Asset allocation

- The process of deciding what share of your investable should be invested in what asset class
- How much was invested in each asset class
- Asset allocation decision is the main deciding factor for a portfolio returns and risks
- Asset classes
  - Currency
  - Stocks
  - Bonds
  - Commodity
  - Property

Asset allocation



- For illustration purposes only. They are not a replacement for financial advice.

Diversification – spread your risk

Benefits

- Spread the investment over a range of different investment asset classes
- Don’t put all your eggs in the one basket

How

- Invest in different types of investments
- Invest in different companies/ industries / countries within a type of investment

Diversification – spread your risk

Which portfolio is the most diversified?

Portfolio 1		Portfolio 2		Portfolio 3	
Items	Value	Items	Value	Items	Value
China Bank A	$30,000	Global equities fund	$50,000	Global equities fund	$30,000
HK Bank B	$20,000	China equities fund	$40,000	iBond	$30,000
RMB Bonds	$20,000	HK stocks	$10,000	RMB Deposit	$20,000
RMB Deposit	$30,000			Euro Deposit	$20,000

Diversification – spread your risk

Consider

- Asset classes
- Geographical location
- Industry

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Thank You!