

## Chapter 4: Introduction of personal financial management

**Learning objectives**

- Understand what personal financial planning is;
- Discuss possible financial needs;
- Identify six different life stages in the life cycle of financial planning; and
- Understand three types of common financial products in Hong Kong financial market :



### ACTIVITY 4.1 ---MY FIRST FINANCIAL PLANNING

At different stage of life, you may have different financial goals that help you to actualise the ideal life you dream off. Therefore, we must have a good financial planning by first start to visualise our financial goals and needs.

Use the following financial calculators to

1. calculate how much you need to save regularly for education, wedding, setting up home or saving up for a rainy days etc. in times.

<https://tool-budget.ifec.org.hk/en/saving.html>

|  |           |
|--|-----------|
| Saving goal:                               |           |
| Your saving goal                           | \$        |
| Amount you already have                    | \$        |
| Expected rate of return                    | 5%        |
| Saving period                              | years     |
| <b>How much you need to save per month</b> | <b>\$</b> |



2. Estimate the amount you need to save ensure your maintain your quality of life at retirement stage.

<https://www.mpfa.org.hk/en/calculator/calculator>

|   |              |
|---|--------------|
|   |              |
| Your anticipated monthly expense during retirement (include all cost of living, medical expenses, etc.) (today's value) |              |
| Your current age  | 21 years old |
| Your expected retirement age  |              |
| Your life expectancy (2021 Female life expectancy is 88.1 years old in HK)  |              |



|  |       |
|--|-------|
| Your expected rate of return during retirement (include interests from savings account, or returns from other investments) | 5%    |
| Expected inflation rate  | 2%-3% |
| <b>Saving you need for retirement [A]</b>  |       |
| <b>Projected MPF accrued benefit [B]</b>   |       |
| <b>Projected saving gap [C] =[A]-[B]</b>   |       |

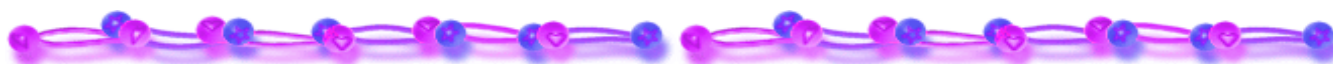
3. What do you observe or learn from the above results?



### Note 4.1 Personal Financial Planning/ Financial Literacy

#### Definitions

- It is concerned with how individuals manage their finances and wealth for themselves and their families.
- It is an ongoing process to evaluate all aspects of an individuals financial needs in order to generate sufficient money to support his/her financial goals in future.
- Regardless of age and income, everyone should start personal financial planning as early as possible to fulfill different financial goals





### Note 4. 2 Possible Financial Needs

**7. Risk management**  
 Any buffer cash for tackling risks?

**6. Estate planning**  
 How will your wealth and assets be arranged after you pass away?

**5. Retirement planning**  
 How much do you have to save to enjoy your preferred lifestyle after retirement?

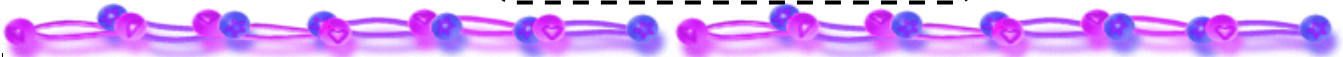


**1. Consumption planning**  
 How much to spend & should save?

**2. Taxation planning**  
 How can we minimise our tax legally?

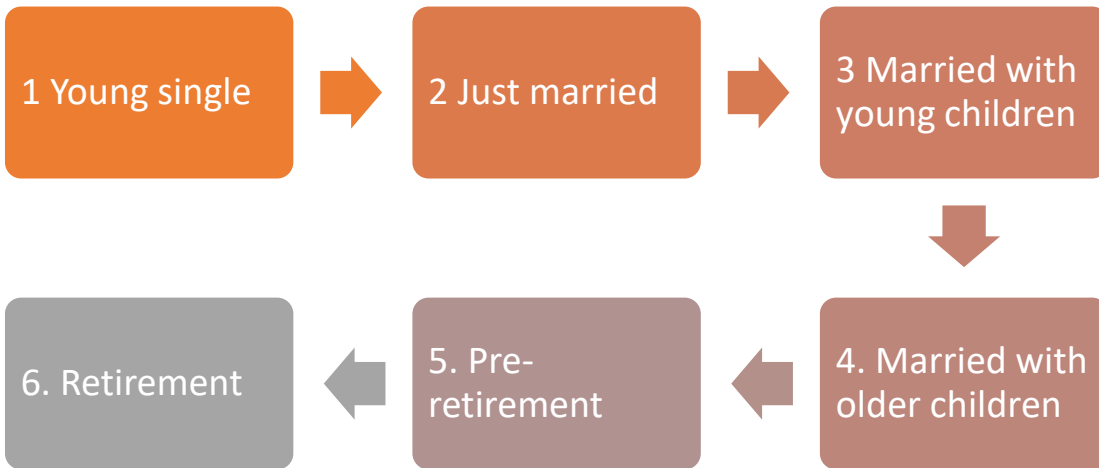
**3. Insurance planning**  
 What insurance products you may need?

**4. Investment planning**  
 (Buying stocks, properties, bonds or mutual)

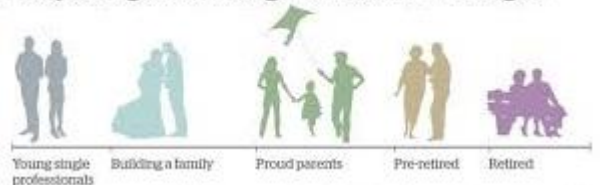


### Note 4. 3 Life cycle of financial planning

We can segment our life into six different life stages with significant life event.



Everyone goes through different life stages





## Note 4. 4 Common financial products in Hong Kong

### Note 4. 4.1 Bank Deposit

#### Definitions

- A minimum balance is usually required.
- Money may be deposited in HK dollars and or foreign currencies
- Usually it is interest-bearing



#### Saving deposit

- They can be withdrawn at any time but the interest earned is comparatively low/high.

#### Fixed/Time deposit

- They can/cannot be withdrawn until the saving term (e.g three months, half-year) has ended.
- Interest earned on a term deposit is comparatively low/high.



### ACTIVITY 4.2 ---DIFFERENT TYPES OF BANK DEPOSIT

Besides saving deposit and time deposit, can you name other types of bank deposit that is available in the market?

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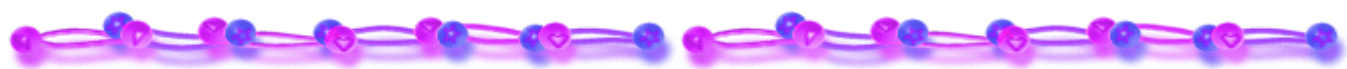
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## Note 4. 4.2 Shares

### Definitions

- It is share in the **ownership** of a company. You can have the **voting right** in AGM.
- You may gain in the following ways:
  - ✧ **Capital gain**: When there is a rise in the market value of the share price (higher worth than the purchase price)
  - ✧ **Dividend income**: The company may reward shareholders by distributing a portion of company's earnings.



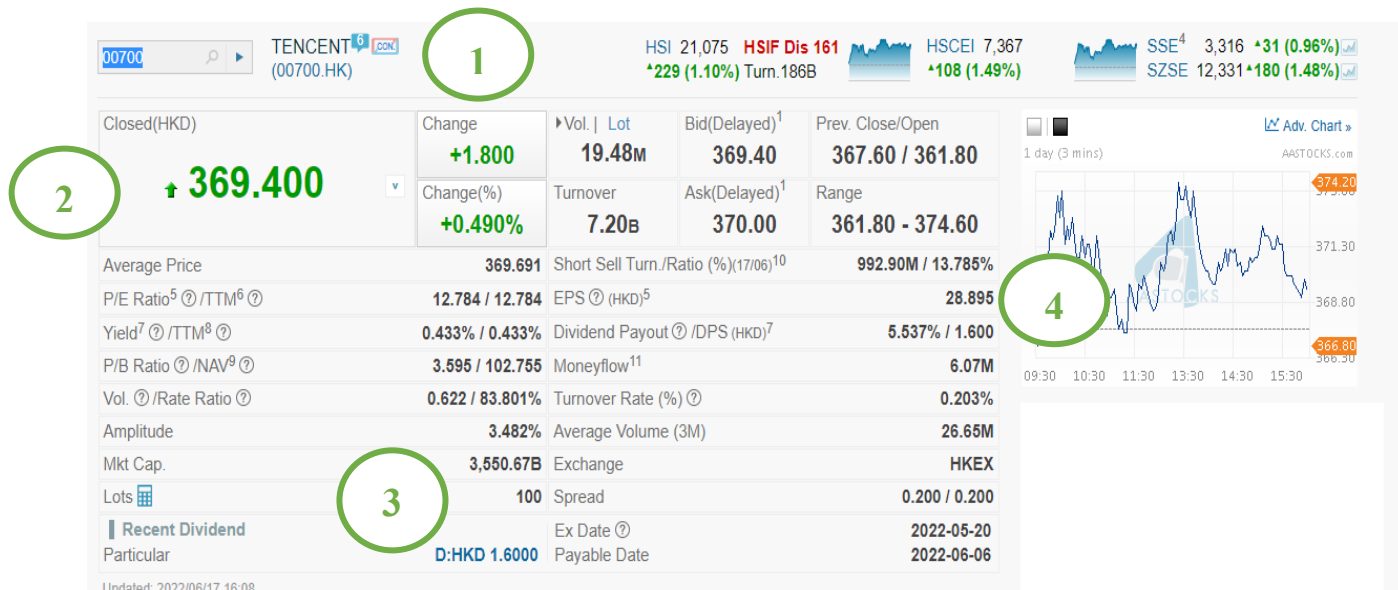
### Blue-chip( 藍籌股)

- Its' share price is comparably cheap /expensive
- Its' a share with a large, well-established and financially sound company
- Its' company operates for many years.

### Third liners (三線股)

- It's share price is comparably cheap /expensive
- Its' share price fluctuate greatly
- It's financially returns can be higher but again they are also riskier.
- A share with a company having poor financial result or even making a loss.

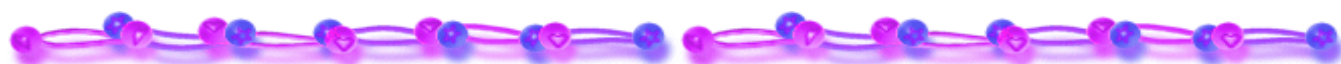
Example of blue-chip share listed in Hong Kong stock exchange



**ACTIVITY 4.3 --- FIND OUT THE MEANING**

Besides saving deposit and time deposit, can you name other types of bank deposit that is available in the market?

- 1. Stock code**  
 Every company that publicly lists shares on a stock exchange has a **unique stock symbol** to identify it.
- 2. Closed price**  
 The closing price is the **last price** at which a security traded during the **regular trading day**. A security's closing price is the standard benchmark used by investors to track its performance over time.
- 3. Lots**  
 A lot is the **number of units** of a financial instrument that is traded on an exchange. For stocks, a round lot is 100 share units, but they can also be traded in any number of shares.
- 4. Dividend pay out**  
 The dividend payout ratio is the ratio of the **total amount of dividends paid out to shareholders relative to the net income of the company**. It is the percentage of earnings paid to shareholders via dividends.



## Note 4. 4. 3 Bonds/ Debentures

### Definitions

- It is a **debt** instruments/ agreements to repay **capital** plus **interest** on set dates/ maturity date.
- They are issued by **companies** (corporate bonds) or **governments** (government bonds) to raise money.
- As an investor, you are **lending** money to a company or government.
- If bonds are listed on the stock exchange, you can trade them like shares.
- Some investors have bonds to earn a steady income/ debenture interest. Others try to profit by trading them.
- Their key risk for bonds is **credit risk**.

[https://www.cmu.org.hk/cmupbb\\_ws/eng/page/wmp0100/wmp010001.aspx](https://www.cmu.org.hk/cmupbb_ws/eng/page/wmp0100/wmp010001.aspx)

### Example of government bonds listed in Hong Kong

| Product name / product code  | Type / currency    | Coupon rate | Minimum purchase amount | Product risk level | Credit rating (Moody's / S&P) | Maturity date / remaining tenor (in years and months) |
|--|--------------------|-------------|-------------------------|--------------------|-------------------------------|---|
| <a href="#">ALIBABA GROUP HOLDING 2.125 2/9/2031 USD BOND</a><br>US01609WAX02 Comm | Corporate bond USD | 2.125%      | 200,000                 | 3                  | --<br>--                      | 09 Feb 2031<br>8Y 8M                                  |
| <a href="#">Amazon.com Inc 1% 12May2026 USD</a><br>US023135BX34 Comm               | Corporate bond USD | 1.000%      | 71,000                  | 3                  | A1<br>AA                      | 12 May 2026<br>3Y 11M                                 |
| <a href="#">Amazon.com Inc 1.65% 12May2028 USD</a><br>US023135BY17 Comm            | Corporate bond USD | 1.650%      | 71,000                  | 3                  | A1<br>AA                      | 12 May 2028<br>5Y 11M                                 |
| <a href="#">Amazon.com Inc 2.1% 12May2031 USD</a><br>US023135BZ81 Comm             | Corporate bond USD | 2.100%      | 71,000                  | 3                  | A1<br>AA                      | 12 May 2031<br>8Y 11M                                 |
| <a href="#">BAIDU INC 14May2024 USD 4.375000%</a><br>US056752AM06 Comm             | Corporate bond USD | 4.375%      | 200,000                 | 3                  | A3<br>--                      | 14 May 2024<br>1Y 11M                                 |
| <a href="#">CVS HEALTH CORP 4.3% 3/25/2028 USD BOND</a><br>US176650CX67 Comm       | Corporate bond USD | 4.300%      | 71,000                  | 4                  | Baa2<br>BBB                   | 25 Mar 2028<br>5Y 9M                                  |





## Vocabulary

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