How to grow your money?

Wealth Management. Ask OCBC.

Are you over-spending?

BEFORE you even think about growing your wealth, you should first take stock of your income and expenses to make sure that you are not over-spending.

We know that it is important to live within our means. However, some of us may not be aware of the total expenses we incur each month and whether these expenses exceed our monthly income.

Getting to grips with your cash flow is critical. If you are over-spending, it means that you are either dipping into your current savings or borrowing to finance your lifestyle.

Both options can have detrimental effects in the long term.

Calculate your cash flow

To find out if you are over-spending, you will first need to determine your monthly expenses. Start by itemising your monthly expenses. For annual expenses like property tax, income tax, TV licence, etc., divide them by 12 to arrive at the monthly proportion.

Add up your monthly expenses to derive your total expenses. If it exceeds your monthly income (after income tax, interest income, etc.), then you are headed for trouble. You will need to rein in your spending.

However, if your income exceeds your expenses, it means that you have a positive cash flow, which can be set aside as savings.

A savings ratio (savings as a percentage of income) of 10 per cent or higher is considered healthy.

An example

Consider Mr Tan, a married man aged 35 who earns a monthly salary of $3,792 (including a 13-month bonus). His wife is not working and they have a newborn child.

He owns an HDB flat worth about $300,000 and the outstanding balance on his housing loan is $200,000. Mr Tan also has $10,000 invested in unit trusts. His savings account balance is $40,000 and he has an equal amount in his CPF Ordinary Account.

Mr Tan’s mortgage payment is currently $1,000. He and his family also incur other expenses which add up to $1,400 per month. His total expenses are therefore $2,400, which is less than his monthly income of $4,376.

Hence, Mr Tan enjoys a positive cash flow of $1,976. His savings ratio is also healthy at 45 per cent ($1,976 divided by $4,376), as it exceeds the recommended 10-per-cent ratio.

Mr Tan also has liquid assets of $40,000 which will be able to cover his monthly expenses for about 16 months, if he loses his job. This is well in excess of the recommended six months.

Mr Tan clearly demonstrates discipline in savings. If he invests his savings regularly, he could grow his wealth at a compounded rate over time, building up a pool of funds to meet his family’s future needs.

In next week’s article, we’ll tell you more about the power of compounding.

Yuán hype raises spectre of the Asian hot money conundrum

William Pesek Jr

BREATHTLESS speculation that China will revalue its currency is drawing capital to Asia.

China and Hong Kong are bearing the brunt of the trend, though markets in Malaysia, Singapore, South Korea and Taiwan are being influenced by the sudden arrival of speculative inflows.

“You’re seeing so much hot money rushing to Asia that it’s hard not to be reminded of the mid-1990s,” said Mr Avinash Persaud, chairman of Intellig-ence Capital of GAM London. “It will be interesting to see how Asia deals with it.”

There are a couple of reasons to wonder if money rushing to Asia today will leave just as quickly.

One scenario would be a move by China to let the yuan rise slightly that may convince markets that another revaluation is not likely.

Another is China doing nothing, frustrating investors hoping to profit from a currency change.

Other risks also come to mind.

What if rumours that large hedge funds are in trouble prove true? Or if global credit markets become even more volatile as central banks like the United States Federal Reserve raise interest rates?

What if the US dollar plunges under the weight of record current-account and budget deficits?

In each case, it is possible that investors will dump Asian assets in favour of ones in more developed economies. After all, markets are being artificially buoyed by inflows of speculative hot money.

While Asia is growing and China’s boom has been a godsend, short-term money that may exit at the slightest disappointment makes the region vulnerable.

However, a 1997-like crisis is highly unlikely. Since then, Asia has strength-ened financial systems, reduced foreign-currency debt, improved transparency and made central banks more independent.

Economies also have amassed record current account reserves to defend against the wrath of global markets.

However, efforts to wean Asia off exports have been far less impressive. The region’s growth rates still live and die by trends in the US and, increasingly, China.

Governments have been too slow to boost domestic growth and their economies will suffer if the world’s biggest ones slow.

Asian markets, meanwhile, are not getting as much long-term institutional investment as they deserve.

Capital inflows related to yuan speculation are no substitute. There is also a risk that rising stocks and falling bond yields in the short run will give governments even less incentive to step up reforms.

Aside from rising stocks, speculators betting that they may rise soon are affecting pegged currencies in Hong Kong and Malaysia.

Hong Kong said that it would prevent its currency from appreciating above 7.75 per US dollar. While all is well now, any surprises from China could send capital out of Asia.

Then, governments may regret not doing more to retool their economies.

It would be better if the region were less reliant on exports. It also would be better if nations were not using the crutch of weak exchange rates to boost growth – instead of boosting entrepreneurship.

Of course, China could do exactly the opposite and not satisfy markets with a revaluation. Amid signs that its domestic economy is cooling, officials in Beijing may be less inclined to take a step that might damage export industries.

Then again, disappointment over Chinese inaction could encourage capital to leave Asia.

If so, investors may finally be able to grade Asia’s post-crisis repair efforts. It is likely to be a mixed report card.

The writer is a Bloomberg columnist. The opinions expressed are his own.