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 (in the event your income is not sufficient, cost of living, 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 monthly 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.

Yuans hype raises spectre of the Asian hot money conundrum

William Pesek Jr

BREATHTAKING speculation that China will value 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 Intelli-<image>

capital and its CEF O'ridinary Account.

Mr T

*including 13-month bonus **from cash savings and CPF balance

MR TAN’S CASH FLOW STATEMENT (S)

<table>
<thead>
<tr>
<th>Monthly Income</th>
<th>Monthly expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary*</td>
<td>Mortgage payment</td>
</tr>
<tr>
<td>Employer’s CPF</td>
<td>Other expenses</td>
</tr>
<tr>
<td>3,792</td>
<td>1,000</td>
</tr>
<tr>
<td>493</td>
<td>1,400</td>
</tr>
<tr>
<td>Interest income*</td>
<td>91</td>
</tr>
</tbody>
</table>

Total 4,376 2,400

Cash flow 1,976

*including 13-month bonus **from cash savings and CPF balance

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

Yuans hype raises spectre of the Asian hot money conundrum

William Pesek Jr

BREATHTAKING speculation that China will value 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 Intelligence 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 con-<image>

Aved to diversify financial systems, reduced foreign-currency debt, improved transparency and made central banks more independent.

Economies also have amassed record currency 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.

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

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.

-- Bloomberg

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