

By **Tho Li Ming**

Getting a windfall — perhaps an annual bonus, profits from disposal of investments or striking the lottery — is always a pleasant surprise. How large the windfall is depends on each individual; some may find RM20,000 to be sizeable while others need five times that sum to start deliberating over what can be done. As long as the sum is significant to you, what the actual sum is is not as important as what you do with it.

We decided on RM20,000 as a sufficiently large amount to explore ways to save, invest or spend surplus cash on hand. Clearly, there is no one-size-fits-all advice on what to do as it varies with on your stage in life and financial circumstances. However, a good rule of thumb is to settle items that affect your financial health, such as high interest-bearing debts before acquiring insurance, saving or investing, says Robert Foo, financial planner and principal consultant of MyFP Services Sdn Bhd. “A large sum of disposable cash allows you to immediately reduce debts and create an emergency fund. This should be done before you start looking at things that require ongoing contributions or payments such as building a portfolio or buying insurance.”

Mike Lee, financial planner and

managing director of CTLA Financial Planners Sdn Bhd, suggests investing in yourself once emergency savings and insurance coverage are deemed to be sufficient. “Keep 20% or RM4,000 as savings for a rainy day, then top up your insurance cover if you need to or buy a new cover for areas that you do not already have protection for, such as critical illness or personal accident. Then, consider investing in relevant training programmes or studies to develop your skills and knowledge to prepare yourself for a promotion or a higher-paying job. As all work and no play makes Jack or Jill a dull person, pamper yourself with a new toy to play with such as an iPhone or other gadgets. Lastly, help someone if you don't need all the money, for example, by making a [tax-deductible] donation to an approved charity,” says Lee.

Handle the necessities

CLEAR DEBILITATING DEBTS

When it comes to settling debts, priority should be given to overdue debts and debts that cause the biggest damage to your financial health, says Foo. In most cases, the first debt that needs to be settled are credit-card debts, which carry a maximum interest of 18% a year.

Let's assume that you have a credit card debt of RM25,000, with a minimum monthly repayment of RM500. You can:

1. Settle the debt with monthly repayments

Time to settle debt: *93 months*

Total paid (interest and initial debt): *RM46,556*

2. Settle the debt with the RM20,000, followed by monthly repayments

Time to settle the debt: *11 months*

Total paid (interest and initial debt): *RM25,458*

Amount saved with lump-sum payment: *RM21,098*

The maths has it. (Calculations done using lump-sum debt reduction calculator at www.money-zine.com)

START AN EMERGENCY FUND

An emergency fund is one of the fundamental building blocks in personal financial planning. Having money set aside for emergencies provides a little financial cushioning if something unfortunate does occur.

The general rule of thumb for emergency funds is an amount that is equal to six months' living expenses. For example, if RM3,500 is needed to settle bills and pay debts every

month, RM21,000 should be set aside in liquid assets to be used only for the unexpected.

"The actual amount set aside can vary. For example, if finding another job takes six months, then use six months as a guide on how much you need. If one is able to find a job easily, say you are an expert in a particular area where the demand is great, two months' living expenses is enough. By doing this, you can make full use of funds to invest. Otherwise, it is locked in assets like fixed deposits, which earns very little and are subject to capital erosion [if inflation exceeds the interest received]," says Lee.

Consider keeping your emergency cash in money market funds, which are more flexible than fixed deposits. "You can invest in a money market fund with as little as RM5,000 or RM10,000. Top-ups and withdrawals can be done with any amount as long as the balance does not fall below the



FOO: A large sum of disposable cash allows you to immediately reduce debts and create an emergency fund



LEE: Keep 20% or RM4,000 as savings for a rainy day, then top up your insurance cover

minimum sum. Withdrawals from money market funds can be easily done as there is no penalty. These funds also pay daily interests and it is possible to switch to equity funds, albeit with a sales charge," says Lee

According to Lipper, the top three money market funds in the market are Opus Cash Extra Fund, AmIncome Plus and Avenue MoneyEXTRA Fund. These funds gave higher returns than



fixed deposits at 4%, 3.36% and 3.09% respectively in the one-year period ended Nov 8, 2010. Many banks offer 12-month fixed deposits at an interest rate of 2.85%, which translates into compounded returns of RM1,156 if RM20,000 were deposited for two years.

GET INSURED

If you are not insured, use part of your windfall for protection. Consider keeping your investments and insurance separate (in different products) as insurance-only products are much cheaper than those that offer both coverage and returns.

“When buying insurance, only buy protection. This is much cheaper than insurance products that bundle investments or savings with coverage. This includes participating plans that give you returns or has a cash value and investment-linked products. Once you have pure protection, then invest the rest of your money into specific investment-only instruments,” advises Foo.

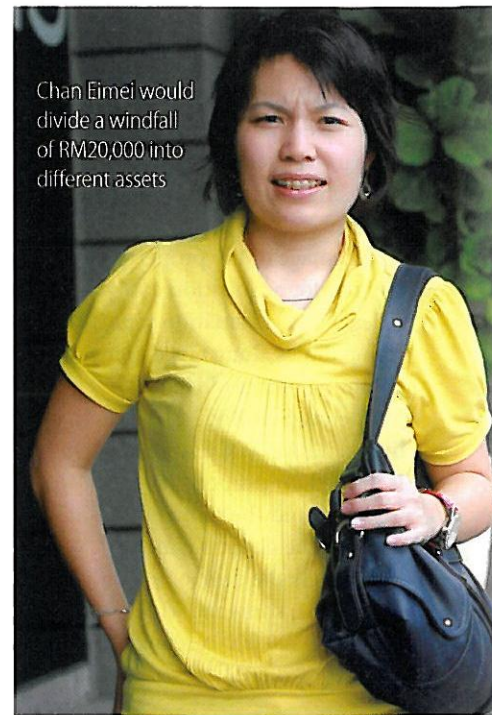
Let's assume that you are a 35-year-old male with a family of five. Adrian Ng, an insurance agent with Prudential Assurance Malaysia Bhd, says you can buy standard protection policies for yourself and your family for a year with RM20,000. “A 35-year old man with a 33-year-old wife and three young children will pay an average of RM250 per person in insurance premiums every month. This is equivalent to RM15,000 in insurance premiums for the entire year. A cheaper alternative is term insurance, which costs RM1,800 per person per year. Here, RM20,000 will enable him to pay for two years' worth of insurance premiums,” says Ng.

Chan Eimei, a 30-year-old banker, says she would divide a windfall of RM20,000 into different assets, starting with a five-year insurance retirement plan that earns guaranteed 4% to 5% returns after the sixth year with a cash bonus given after 20 years. “Returns from this insurance plan are higher than those from fixed deposits. I would also invest in a gold account as it is a good hedge against rising inflation and a weakening US dollar. The remainder will be invested in a money market or bond fund, which will provide a steady stream of returns. Using the ringgit-cost-averaging approach will help maximise my ringgit and make it work harder,” says Chan.

REDUCE A MORTGAGE

Depending on the amount outstanding on your housing loan, a lump-sum repayment of RM20,000 can save you a significant amount of interest and reduce the number of years needed to settle the loan. For example, if you have a 30-year mortgage of RM300,000 with an interest of 4.5%, a lump-sum payment of RM20,000 made in the fifth year will save you RM37,343.97 in interest and reduce the duration of this loan by three years and a month.

Those who are serving two mortgages should check how their banks are calculating interest accrued on the outstanding balance. When deciding which to par down (decrease gradually or bit by bit), mortgages using a daily rest basis should take precedence over those based on a monthly rest, says Adrian Un, marketing director of Mortgage Broker Sdn Bhd. “This way generates more savings because, after the lump-



Chan Eimei would divide a windfall of RM20,000 into different assets

sum payment, the loan is adjusted on the day [the payment is received], while the loan using a monthly rest offsets the amount at month-end.”

Although most loans impose no penalty for making lump-sum payments, watch out for the few that do. Also, check whether a limit has been imposed on the number of lump-sum prepayments that can be made. “Ninety per cent of loans in the market allow you to make lump-sum payments without any penalty, with the exception of those taken out for properties under construction. For these type of loans, where the amount is progressively released as the building is being constructed, a 1% to 2% administration fee on the loan value will be charged if a lump-sum payment is made during this period. For example, a charge of 1% to 2% will be imposed if you use RM20,000 to reduce a RM150,000 loan on a

Look at assets

ACQUIRE REAL ESTATE

A windfall allows you to take advantage of one of real-estate's primary virtues: leverage. Taking a housing loan requires the buyer to make a down payment, which is a percentage of the property price, and pay for acquisition costs such as legal fees, a valuation report and stamp duties. Tang Chee Meng, chief operating officer of Henry Butcher Marketing Sdn Bhd, estimates that between RM5,000 and RM10,000 is needed for property-acquisition expenses and the remainder can be used for the down payment.

"Unless the developer absorbs these costs, someone with a lump sum of RM20,000 can buy only a



TAN: Improving the appearance of a property can increase its value by 2% to 5% of the existing market rate



TANG: The cash allows you to repaint your house... and perhaps install kitchen cabinets and built-in wardrobes

property priced between RM100,000 and RM150,000. Properties within that price range tend to be located farther away from the city centre and are usually smaller apartments,"

says Tang. "Properties located in the Klang Valley that are currently selling within this price range are: 700 sq ft apartments in Suria Kinrara, Puchong; 725 sq ft serviced residences in Plaza Sinar Segambut, Kepong; 850 sq ft apartments in Lagoon Perdana, Bandar Sunway; single-storey linkhouses in Bandar Puncak Alam, Shah Alam; and two-storey terraced houses in Taman Sri Muda, Shah Alam," he adds.

James Tan, associate director of Raine & Horne International Zaki + Partners Sdn Bhd, says for RM200,000, investors can get medium-range apartments and smaller houses in Kinrara, Puchong, Section 9, Shah Alam, and SS17 and SS19 Subang Jaya.

It is possible to acquire a higher-value property by looking for developers that offer mortgage packers that require only a 5% down payment. Tang says such arrangements allow someone with RM20,000 to afford a property valued at RM400,000. "Some developers offer attractive financing arrangements where the purchaser only needs to pay 5% of the purchase price and the balance, including legal fees on the sale and purchase agreement and loan interest during the construction stage, are borne by the developer."

Says Tang, properties priced between RM300,000 and RM400,000 include 1,300 sq ft condominiums in Desa Kiara, which is off the Sprint Highway in Petaling Jaya; 750 sq ft SOHOs in Pantai Hillpark; condo of between 750 and 1,100 sq ft in Mont'Kiara; 1,300 sq ft condo in Kelana Jaya; 725 sq ft serviced residences in Tropicana City; a single-storey terraced house in Sri



Petaling; and double-storey houses in Seri Kembangan or Taman Seri Rampai and Taman Putra Prima in Puchong.

RENOVATE A PROPERTY

Whether it's your residential property or a property that is rented out, you can put the RM20,000 into improving its aesthetics, which can also increase its value. The cash allows you to repaint the house, fix damaged windows, doors and ceiling boards and perhaps install kitchen cabinets and built-in wardrobes, says Tang.

"It will be a mild makeover.

Painting a terraced house costs RM5,000 to RM10,000 these days. The remainder of the money can go towards basic maintenance such as the changing of floor tiles. Any surplus cash after this can be used for furniture. Improving the appearance of a property can increase its value by 2% to 5% of the existing market rate," says Tan.

BUILD AN INVESTMENT PORTFOLIO

With RM20,000, you can start or enhance an investing portfolio that consists of several asset classes. Allocation to each asset class is largely dependent on personal risk appetites; the general guideline is that younger investors can afford to take on more risks.

"There is little difference between an investor aged 25 and another aged 35. Both are considered young and 80% of their portfolios can be in equities while the rest can be in fixed-income investments. The portfolio of a 45-year-old should be more cautious, with an equity-to-fixed-income allocation of 60:40. As one grows older, this is further reduced to

equal allocations to equity and fixed income. Over time, the allocation to fixed income investments should increase," says Lee of CTLA Financial Planners Sdn Bhd (see table on next page).

While RM20,000 is sufficient to start a portfolio, avoid making small investments in many assets in a bid to seek vertical diversification (different types of assets) and horizontal diversification (different investments in the same asset class). With a small amount invested in each vehicle, possible gains made could be less than the trading fees incurred. Once a portfolio is established, future investments can be made for diversification purposes.

Also, avoid building a foreign portfolio with RM20,000, as exchange rates limit the number of foreign assets that can be acquired. "With RM20,000, an investing portfolio is confined to local assets," observes Foo of MyFP Services Sdn Bhd.

Recommended local equity investments that can be acquired include soft and hard commodity unit trust funds (soft commodities generally refer to plantation and agriculture while hard commodities refer to precious and industrial metals) and funds invested in consumer products. Commodities and consumer products are favoured industries as they are poised to benefit from the global economic recovery. Lee also suggests real-estate investment trusts (REITs) and high-dividend-yield stocks.

Although the local stock market has been bullish and prices of local stocks have peaked, certain sectors such as property and local stock-broking firms still have potential to increase, says Alex Lu, a broker

with Kenanga Investment Bank Bhd. "For those starting out, RM20,000 is not going to give you much diversification in terms of stocks. However, seasoned stock investors will be able to consider at least five types. Some stocks to look at are property companies such as E&O Property Development Bhd and Mah Sing Group Bhd and financial firms such as HwangDBS Investment Management Bhd," says Lu.

Another option is to buy a stock index through an exchange-traded fund (ETF) such as the ABF Malaysia Bond Index Fund (trading at RM1.06) and FBM KLCI etf (trading at RM1.51), which have generated returns of 2.87% and 17.26% respectively (returns from Dec 31, 2009 to Oct 29, 2010).

Gold is currently a "hot" investment and has enjoyed a bullish run, hitting an all-time high of US\$1,424.30 an ounce on Nov 9. There are different ways to invest in gold, including gold bullion and coins, gold and precious metal funds, gold passbook accounts, gold ETFs, structured products based on gold or shares of gold-mining companies. With RM20,000, you can also buy up to 120g of gold bars from jewellers such as Poh Kong Jewellers (100g bar: RM15,600 and 20g bar: RM3,320) or Public Fine Gold International Sdn Bhd (100g bar: RM15,759 and 20g bar: RM3,182).

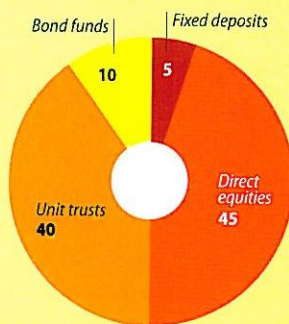
Another option is to invest in gold through a bank. Twenty thousand ringgit can buy 140g worth of gold using Maybank Bhd's gold savings account at a rate of RM142.82 a gram, or 139g worth of gold with Public Bank's gold investment account at RM143.40 per gram (prices are as at Nov 11).

SAMPLE ASSET ALLOCATION PORTFOLIOS

A portfolio with at least four different asset classes can be constructed with RM20,000. Below, Mike Lee, financial planner and managing director of CTLA Financial Planners Sdn Bhd, offers several asset allocation samples for a 35-year-old investor. These suggestions are based on different risks profiles and the underlying assumption is that the equity market will remain bullish. "During a market recovery, even a conservative investor should take some risk by investing 30% of his portfolio in equities and unit trust funds," says Lee.

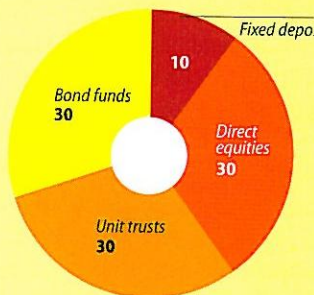
Use these suggestions as a guide when constructing or rebalancing your own investment portfolio.

INVESTOR WITH HIGH RISK



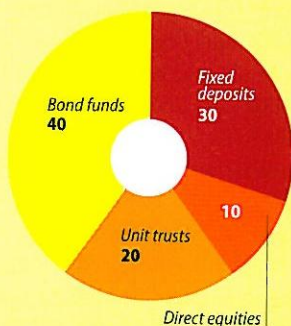
INVESTMENTS	TYPE	RISK	AMOUNT TO BE INVESTED (RM)	POTENTIAL RETURN (%)	WEIGHTED AVERAGE (%)
Maximum of three stocks with potential for high earnings	Growth stocks	High	9,000	15	6.75
Unit trusts	Equity growth	High	8,000	10	4.00
Bond funds	Fixed income	Low	2,000	5	0.50
Fixed deposits	Cash	Low	1,000	2	0.10
Total			20,000		11.35

INVESTOR WITH MODERATE RISK



INVESTMENTS	TYPE	RISK	AMOUNT TO BE INVESTED (RM)	POTENTIAL RETURN (%)	WEIGHTED AVERAGE (%)
Maximum of two high-dividend stocks	High-dividend stock	High	6,000	15	4.5
Unit trusts	Balanced	Moderate to high	6,000	8	2.4
Bond funds	Fixed income	Low	6,000	5	1.5
Fixed deposits	Cash	Low	2,000	2	0.2
Total			20,000		8.6

INVESTOR WITH LOW RISK



INVESTMENTS	TYPE	RISK	AMOUNT TO BE INVESTED (RM)	POTENTIAL RETURN (%)	WEIGHTED AVERAGE (%)
One high-dividend-yield stock	High-dividend stock	High	2,000	15	1.5
Unit trusts	Income/Balanced	Low to moderate	4,000	6	1.2
Bond funds	Fixed income	Low	8,000	5	2.0
Fixed deposits	Cash	Low	6,000	2	0.6
Total			20,000		5.3

Invest in yourself

GET CHECKED

Get a medical check-up. Healthcare screening package prices vary according to the types of tests done and their levels of comprehensiveness. For example, a clinic in Petaling Jaya offers a standard test to check for cholesterol, liver function, kidney function, full blood count, glucose test, blood group, thyroid function, hepatitis B, hepatitis A and level of iron at RM109.

A more comprehensive screening for ladies below 40 years of age, which includes additional tests for cancer markers, venereal disease and iron deficiency, costs about RM140. Women above 40 can opt for additional osteoporosis screening, increasing the cost to about RM150.

Both men and women can get a full medical check-up at HealthScan Malaysia, a medical centre for health screenings based in Kuala Lumpur. For RM950, the premier medical check-up includes medical, cardiologist and dietician consultation, c-reactive protein test (CRP), electrocardiogram (ECG), chest x-ray, body fat analysis, lung function test, stress test and ultrasound for upper abdomen as well as a cardiovascular risk score. More comprehensive packages that cost RM3,000 will include cardiac evaluation with a CT coronary angiography to assess coronary plaque, the degree of narrowing, stents, bypass grafts and congenital anomalies in the heart (prices based the centre's website).

UP YOUR SKILLS

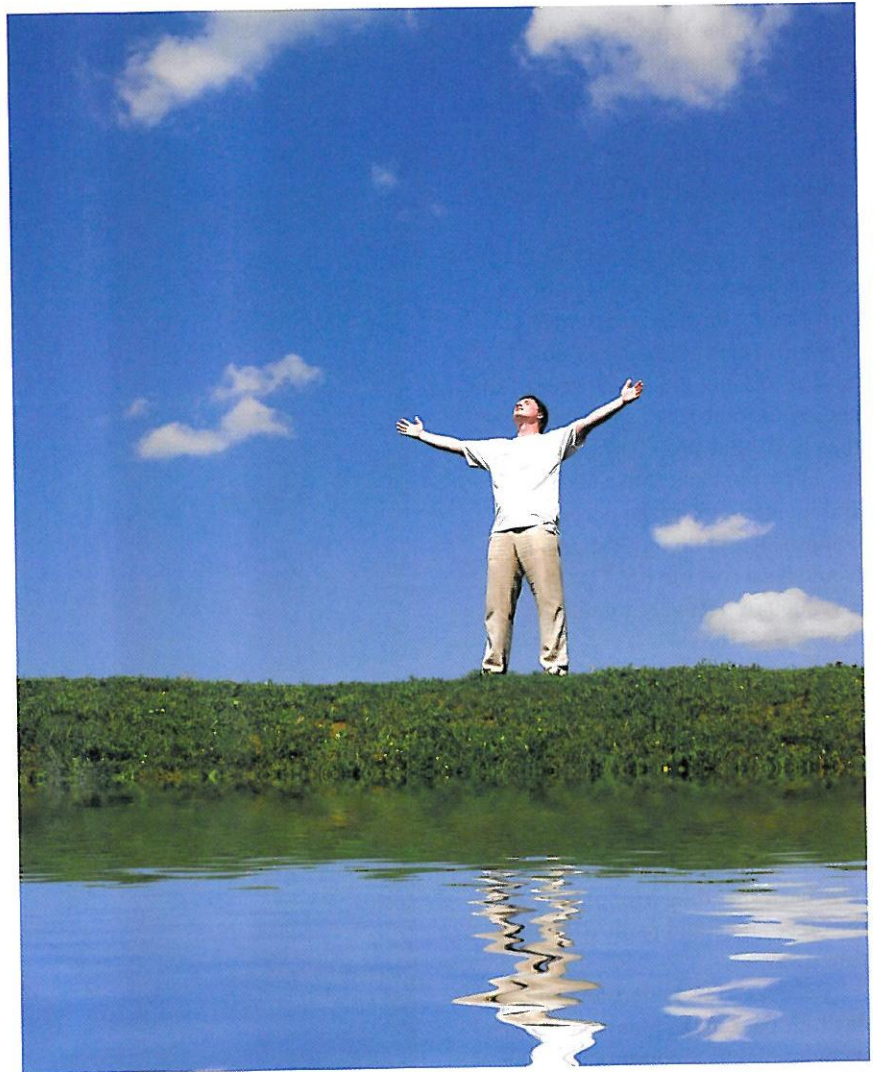
Learning a new skill will not just boost your self-esteem and self-worth but can also increase your salary. Those willing to take a year off from work can consider a postgraduate course such as a Masters in

Business Administration. University Malaya charges RM25,566 for this programme, while University Putra Malaysia charges RM25,900.

Or you can learn a new language. Inter-Cultural Language School in Kuala Lumpur offers Japanese courses for RM280 for 20 lessons running for 1½ hours each. Those who prefer to learn Italian can expect to pay about RM240 for a private lesson of two hours, after committing to a total of 10 sessions.

START A BUSINESS

Although RM20,000 seems like a small sum to start a business with, business owners such as Danny Sim have succeeded in doing so. He started his catering business from home with RM15,000. "The bulk of my capital went to buying an oven, a fridge and some utensils. As my business is based at home, I save on rental and renovations. On top of that, I buy ingredients only when I receive orders, so there is no wastage involved."



The 46-year-old decided to venture into the baking and catering business in 2005. "I started experimenting and gave the extra food to my neighbours. When they complimented me on my food and suggested that they buy from me, I decided to start my own business. Income from my catering business exceeds what I earn at my day job," says Sim, who supervises a bistro at night.

Aspiring business owners can acquire a franchise with RM20,000. A senior professional estate planner and senior professional will writer started his Rockwills business two-years ago with RM2,788, which included franchise fees, professional indemnity, teaching materials and courses.

"Since I operated from home and marketing and legal support is provided by the headquarters in Old Klang Road, Petaling Jaya, I didn't have to fork out much. However, I did check out some retail space in Klang that cost about RM3,000 a month for a first-floor space in a shoplot, and if I were to buy the necessary equipment and do renovations, it would have cost me RM3,000 and RM9,000 respectively, totalling almost RM18,000."

SPEND A LITTLE

While it is responsible to plan ahead and cover your future needs, do not ignore yourself and your loved ones. The end of the year is a good time for a family vacation, especially if you have been spending a lot of time at the office and could really use some time away.

Reliance Travel offers an eight-day tour package to Mauritius, which includes flights, accommodation in

a four-star hotel and a half-day city tour, at about RM6,090 a person. Five nights in an executive suite on a cruise from Singapore to Phuket and Langkawi will set you back RM12,610 a person.

Thinking of upgrading your car? You can take advantage of the government's waiving of the

excise and import duties on hybrid vehicles, as announced in 2011 Budget. The price of the Honda Civic Hybrid has been reduced by RM21,000 to RM108,980. With a down payment of RM20,000, you can get a five-year loan at a rate of 3% a year, with monthly instalments of RM1,599. ■



Danny Sim started his catering business from home with RM15,000