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Fatty Loh
vs Fatty Loh



FOCUS

Time to splurge or save?

More companies are making profits this year and rewarding their employees with bonuses and salary adjustments. *Sunday Star* speaks to financial experts who say that apart from pampering oneself, it's important to save for a rainy day.

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IT'S bonus time! After a "barren" 2009, N. Sheila is looking forward to the one month bonus that has been bandied about through her company's grapevines.

In the past, the 28-year-old engineer would splurge on a new wardrobe but this year, she intends to settle her credit card debts first.

"The money will come in handy," she says, adding that recent hard times have taught her the value of money. If there's extra cash to spare, she intends to spend it on a short holiday in Bali next year instead of a more expensive destination.

According to the Malaysian Employers Federation (MEF), an estimated 4.68 million private sector employees are due for bonuses over the next few weeks, while 4.4 million workers will benefit from salary increments.

Based on MEF's latest survey, companies will pay up to an average of two-month bonuses.

"Generally speaking, things are looking much brighter," MEF executive director Shamsuddin Bardan says.

Firms are doing much better this time around, he notes, referring to the economy that was previously affected by the global financial crisis.

Shamsuddin says their survey shows that the capacity for companies to pay out yearly bonuses has increased from 50% in 2009 to 80% this year.

Credit Counselling and Debt Management Agency (AKPK) CEO Akwal Sultan points out that bonuses given by companies are either contractual or performance-based, adding that the bulk will be based on the latter.

Akwal advises those who get contractual bonuses to plan their spending early on.

Rajen Devadason, a Securities Commission-licensed financial planner with MAAKL Mutual Bhd, believes that not all bonuses will be paid out this year-end, but at various points throughout 2011.

Regardless of when these bonuses are paid out, Devadason says it is imperative that working adults base their household budgets and cash flow projections on confirmed monthly income.

He believes the average Malaysian may end up squandering his or her bonus money.

"Three months after receiving the bonus, they will find it difficult to tell how exactly their lives improved.

"On the other hand, there are those who will wisely use the extra money to strike a balance between enjoying some short-term benefits and securing greater long-term financial strength through judicious saving and investing," he adds.

Devadason says it would be unwise for people to use their year-end bonus to make up for cash shortfalls during the year.

Buy new car



Pay credit card



Money that flows into their bank accounts in the form of contractual and especially ex-gratia bonuses should be treated with extra care and respect, as it will allow for significant long-term financial improvement.

1. Settle high-interest debts

Whitman Independent Advisors Sdn Bhd managing director Yap Ming Hui's advice is for all credit card debts to be settled first because of the high interest rates for payments that range from 13% to 18%.

"It is not easy to get the same rates on any investment," he adds.

Akwal concurs, saying that unpaid credit cards cause debts of individuals, especially youngsters, to pile up. He says people will start paying the minimum amount, leading to higher compounding effects.

Once credit card payments are paid off, we should look at settling personal and housing loans so that principal and daily interest are lowered, he adds.

2. Money in reserve

The general rule of thumb is to always have at least six months of living expenses in reserves, says Yap. For instance, if your cost of living is RM3,000 monthly, you should have at least a RM18,000 buffer.

"If there is an emergency, you will still have cash and won't have to sell anything off," Yap explains.

Akwal says that these savings could be in the form of saving accounts, unit trusts or even a gold investment account.

"The important thing is that you can

withdraw quickly in an emergency."

MIDF Research's chief economist Anthony Dass, meanwhile, suggests a portion or 30% of the extra cash inflow be saved. One can also invest in inflation hedging instruments, given the expectation of higher inflation in 2011.

3. Treat yourself

Akwal believes everyone deserves a treat and depending on how much you get, this could be in the form of a holiday or a meal.

"This will be the last sum you get in the year and some part of it should be used to pamper yourself," he says.

"If you can't afford that overseas holiday, then bring your family to our local destinations. They are just as beautiful, and it will support our tourism industry."

4. Give to charity

If you think times are hard, then spare a thought for charitable organisations that usually work on tight budgets. In uncertain times, individuals and companies generally cut down donations, making it more difficult for charities to operate.

In Malaysia, there are many charities and NGOs that require assistance in cash and kind.

"It is good for the soul to be generous towards those less fortunate. Well-chosen charities should be selected to receive anything between 1-10%, of the net bonus," Devadason suggests.

5. Repairs

That car of yours badly needs a touch-

up? Or your house pipes are leaking? This would be the best time to do those repairs says Akwal.

6. Understand your investment

Those without investing experience or time should consult a professional financial adviser licensed by the Securities Commission or Bank Negara.

Whether you plan on investing in the property market, stock market, unit trusts, gold futures, you should always know how it works, says Yap.

"The most important thing is that you know how the investment operates and the risks involved."

Yap points out that there are some risky get-rich-quick schemes that promise high returns where the methods of how the income is generated is not explained.

"Be cautious, especially if the returns are high," he says, adding that many people have been stuck in quandaries despite the constant reminders on such schemes.

Akwal's advice is to invest in something familiar and not because someone tells you to invest in it.

"Many people have lost money this way," he cautions.

7. Investment

The golden rule of investing is to never put all eggs in one basket, says Akwal.

"People should diversify their investments - whether it's in the stock market, investing in property or unit trusts."

"For instance, if investing in the stock market, spread out the investments into different portfolios such as agriculture, plantation and the construction sectors." Anthony also suggests investments in the form of forced savings like EPF, insurance, unit trust, equities or even properties to take advantage of assets inflation.

Devadason says it would make sense to flow a portion of your bonus into short-term bank fixed deposits of say one-month on auto-renewal, to catch any potential overnight policy rate (OPR) hikes by Bank Negara in the coming year.

Another portion, he adds, can be used as ad-hoc injection into existing equity unit trust funds (of good pedigree), which might currently show losses to significantly lower the average cost of your units and increase the chances of making larger percentage gains in the future when greater equity recovery kicks in.

More sophisticated investors can broaden the asset class exposure of their personal retirement portfolios by adding international equity funds to diversify away from excessive Malaysia-centric equity exposure.

One can also include carefully chosen money market and bond funds to add stability to those vital long-term portfolios.

"Those willing to do additional homework might consider increasing both agricultural and precious metals exposure in their portfolios," he says.