

# STRATEGIES TO HANDLE TODAY'S GLOBAL CRISIS

As everyone should know by now, the outlook for the economy is grim. Many have compared the current financial crisis, or financial tsunami as others have called it, to the Great Depression. Unprecedented global coordinated efforts by the various governments have been taken to deal with the crisis. Against this backdrop of a bleak outlook, what should you do now?

A few challenges have surfaced in the area of personal financial planning. Some of the issues are:

- Cashflow Management
- Hedging against the risk of retrenchment
- Reducing debt to avoid high interest rates
- Protection Portfolio Management
- Reviewing Protection Portfolio to ensure adequate coverage
- Saving on insurance premiums to reduce costs
- Investment Management
- Stay in cash?
- What and how to invest

The following illustrates some strategies that you can take to meet the coming challenges.

## Cashflow Management

### Set up an Emergency Fund

Set aside a sum of money to meet emergencies like hospitalization bills and retrenchments. It will also help avoid the need to liquidate investments in such depressed markets and rely less on credit. The amount can be 6 to 12 months of expenses.

### Refinance/Reduce your debts

Typical credit card interest rates are at 24%/annum. For those with good credit history, a loan can be made from other credit cards on low promotional interest rates to reduce the one with higher interest rates.

Alternatively, a policy loan can be made for those with Participating Policies with cash values. Take note however that an interest would be charged.

## Protection Portfolio Management

### Get Medical Insurance

Losing your job would mean losing the company hospitalization benefit (non-portable type). Get a shield plan paying by Medisave to hedge against medical fees. An optional rider paid using cash can be purchased to cover the Deductible and/or Co-Insurance.

A dreaded event now would be disastrous for the family – A review of the Protection Portfolio should be done to ensure proper protection and that you are not overpaying or under-insured.

### Remove Unnecessary / Overlapping Riders / Policies

Unnecessary or overlapping riders or policies could have been introduced into your Protection Portfolio over the years. A “spring cleaning” can be done through a review and premium savings may be achieved.

## Investment Management

### Inflation Risk

Inflation will reduce the purchasing power of your cash holdings. The deposit rates have been trending down since 1983 and over the past 5 years, has hovered at less than 1% for 12 month fixed deposit, and around 0.25% for saving deposits. On the other hand, inflation rate has ranged from 0.5% to 6.5% over the last 5 years. Your money would have been shrinking even if you were to leave it with the bank. Holding too much cash may not be a good idea.

### Invest according to your Risk Profile and Investment Horizon

After building up your Protection Portfolio and Emergency Fund, you can consider the following options:

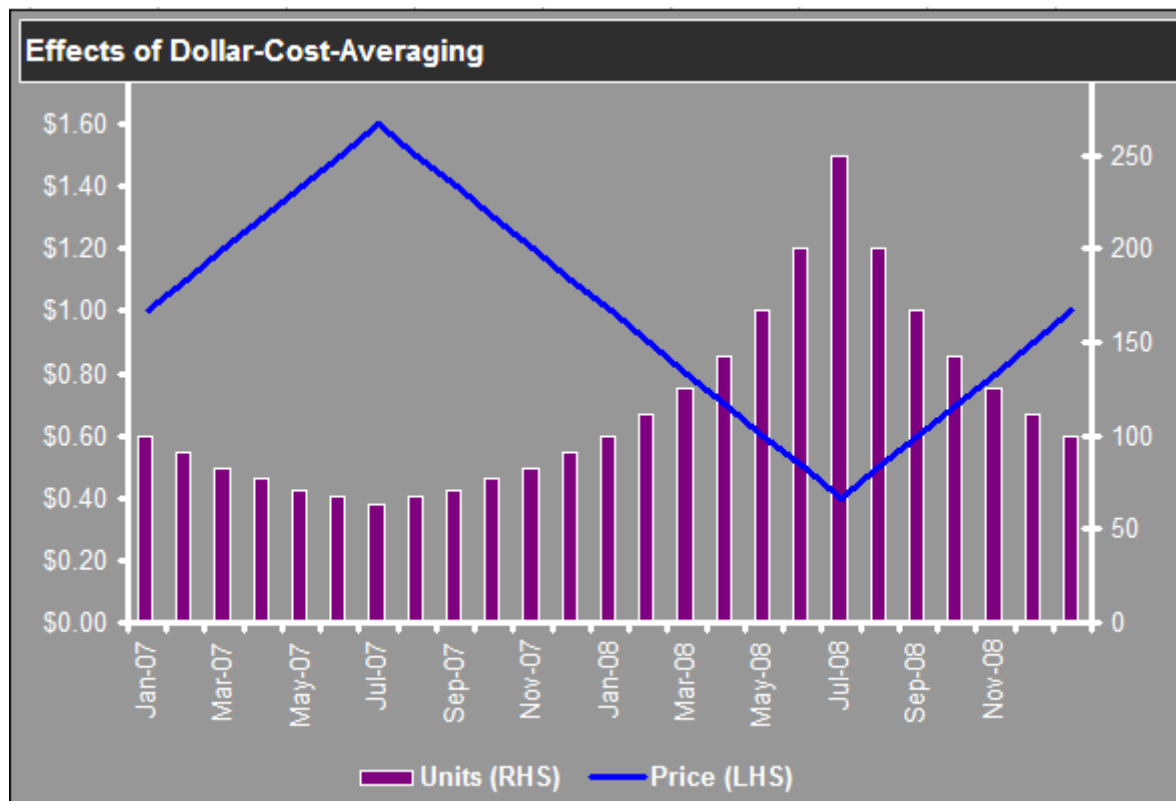
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For the conservative investor, a 5 year single premium Endowment plan can be considered. Shorter tenure plans may be launched from time to time.

For those with higher risk profiles, a Dollar-Cost-Average (DCA) approach may be taken. Regular-Saving-Plans (RSP) is a form of DCA. RSP is a fixed amount investment at a fixed interval. Such an approach reduces the risk of investing at the market peak.

Consider the following scenario:

You have \$2,500 to invest in a fund at \$1.00/unit which equates to 2500 units (assuming no cost). The fund moves up to \$1.60 and then down to \$0.40 and finally moves back to \$1.00. You still have \$2,500 in the investment. The following graph illustrates the situation if the investment is done in a \$100/month RSP instead.



If RSP is adopted, the investments will be worth \$2,882 instead of \$2,500! In the current volatile market, a RSP could be a better approach than a lump sum investment.

Moving forward, there are still many unknowns in the economy and investment market. With such uncertainty, taking stock of your current situation and employing strategies to overcome inadequacies would be a positive step. Taking a proactive approach to meeting the challenges could prove to be invaluable.

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