

Saving For a Rainy Day

— The Smart Way

By Eng Tiang Chuan

This financial crisis has vindicated many age-old axioms, the virtue of “saving for a rainy day” being just one of them. How can this be applied to businesses and members of higher management? We suggest a smart way of doing it.



“The richest people in the world have gotten poorer, just like the rest of us.” reads the start of the Forbes Special Report on the world’s richest men. The headline on The Straits Times goes “Billionaire ranks shrink by 30%”.

Yes, no one is spared in this unprecedented financial tsunami, not even the richest men in the world.

The legendary Warren Buffett, popularly known as the world’s greatest investor and the world’s richest man in 2008, has seen his fortunes “dwindled” to US\$37 Billion from US\$62 Billion, dropping to second place in rankings. The latest richest man in the world is Bill Gates, founder of software giant Microsoft, who has dropped “just” US\$18 Billion to the current US\$40 Billion. Three of Singapore’s billionaires fell off the list.

While the situation the billionaires are in hardly brings a tear to our eyes, it does illustrate vividly the business risk entrepreneurs and corporations are exposed to. Corporate giants like General Motors, Citibank and AIG would have wound up if not for government bail-

outs. The world has re-learned that not only does size matters (when it comes to government bail outs), but the stability of a business is also a function of the risks undertaken. Being conservative seems to have become the new cool and “slow and steady wins the race” the new mantra.

Many businesses are expected to go belly up in this crisis. That would mean a busy time for auditors and lawyers as lawsuits follow. Although a crisis like the current one is rare, the range of issues businesses face can vary from macro economic situations to erroneous business decisions. Unlike the billionaires on the Forbe’s List, business owners on the lower end of the chain may see their entire wealth, along with all their efforts, vanish during a crisis. Families can be easily implicated in such scenarios.

HOW OTHERS HAVE DONE IT

In the wild, many species of animals have thrived in harsh conditions by storing up food reserves during the good times to last them

through the bad ones. Squirrels store up nuts. Artic foxes hide their catch in the snow. Polar bears and whales store up body fat.

Similarly, the Singapore Government has employed the same strategy by building up huge reserves over the years. This has enabled the 2009 budget to incorporate stimulus measures partly funded by the reserves. This simple concept is nothing new and can be found in many financial applications like setting up Emergency Funds and doing periodical rebalancing in investment portfolio management. In the case of the Singapore Government, the reserves have been enhanced with investment returns over the years.

From young, kids are taught the good habit of saving for a rainy day. They are encouraged to open up saving accounts to help them crystallize the practice. But in today's materialistic time of plenty, many have forgotten their lessons in their younger days.

During the start-up phase, most entrepreneurs would have little choice but to utilize most of their available funds and take high risks to build their business. Once the venture has reached a certain degree of stability, business owners would have the option of building up a reserve. High risk can still be optionally maintained in their trade to expand operations.

Like how the animals squirrel away food, business owners or professionals can also replicate the simple strategy by stowing away part of their assets from their usual business. A 'drip-in' approach can also be taken by periodically allocating additional wealth as the business grows. The assets can be cash, stocks, funds or other investments. However, the implementation instrument of choice is important in this strategy. A secure, simple-to-manage yet flexible instrument would be a definite advantage.

PORTFOLIO BOND – THE SMART CHOICE

This platform which offers great flexibility would be an excellent choice as an implementation instrument. Like an empty safe, assets of different class, be it existing or new ones, can be placed within the portfolio bond. The ability to take in a great variety of assets would enable diversification away from the usual trade. For example, in the current climate, many investors have turned cautious and would prefer to just keep cash. However, with the uncertainty surrounding financial institutions, it may be wise to place the deposits in jurisdictions with full government guarantees, with Singapore being one such jurisdiction. With Portfolio Bonds, placing deposits in Singapore

would be a breeze. On the other hand, capital growth can also be targeted to enhance the building up of reserve. The wide range of instruments available offers the investor choice and elasticity in their decisions.

Investors can also enjoy institutional rates in transactional costs and benefits through the platform. The fees and minimum subscription is generally lower than that offered to individual investors due to the volume generated by the platform.

Despite offering so much flexibility, administration is easy and simple through this single platform arrangement. Reports and orders are channeled through a single point of contact. This saves valuable time and effort for the busy business owners.

With corporate failures increasing, business owners and members of higher management may find themselves facing litigators and creditors. The Asian business landscape is getting more litigious. The risk of lawsuits is getting higher even without the financial crisis. Business owners, the management, along with their family members are getting exposed to financial risks. To shield assets from potential creditors, Trusts can be arranged to help ring-fence the assets under the Portfolio Bond.

Mother Nature has taught the animals over the eons that building up reserves during good times could mean a difference between life and death during the harsh times. Such acts have become instinctive. Humans, on the other hand, do not have such good habits. We tend to get carried away with success without consideration of any impending downturn. As the Chinese saying goes "One can sail for ten thousand years by being cautious", it would definitely be helpful to stay cautious and build up some reserves as businesses set sail to greater heights. You never know when you need it. ■

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