

MY REFLECTIONS: THE YEAR 2009 IN REVIEW

The Crisis Shows The Need For Us To Take Control Over Our Finances And Find Suitable Ways To Manage Our Portfolio Efficiently **By Carol Yip**



The 2008-2009 financial crisis and global economic downturn did not originate in Asia, and, indeed, Asian countries in structural terms are generally in good shape. Nonetheless, we in Asia felt the impact of the crisis.

Some of us suffered because of job losses or investment failures. While there was an overall loss of confidence of the financial markets, some businesses went bankrupt and others actually flourished. Some took the opportunity to profit when the stock market dipped and recovered during the first half of the year.

In short, we have seen that it is about knowing what to do at the right time in the midst of a crisis. We need to know how to manage the 5 aspects of money

management: generate income, save money, pay expenses, invest money wisely and settle loans and debts. During this crisis, many are juggling these 5 different aspects of money management based on psychological influences, which can be emotional or irrational thinking, skills and knowledge. Their failures or successes are very much dependent on their personal perceptions, expectations and experiences.

Real People Real Stories

The last 12 months have been an experience for me. It has given me an opportunity to understand deeper how the crisis has impacted people's lives and has provided further evidence to me that financial literacy is truly important in today's society. But sadly, many of us are living in a rat race situation, caught up with daily issues.

We prefer to look for quick solutions and instant results - investing time to become financially educated is not our top priority.

Gaining financial literacy does not happen overnight. While we are learning the textbook theories and concepts on personal finances, we also experience and encounter actual financial impacts, which can sometimes hint that the theories might be wrong. Other times we find it difficult to apply the textbook theories or concepts because of personal situations and our own economic stresses.

For example, we all face inflationary pressure in the midst of financial crisis. It is getting expensive to eat out - even at a coffee shop. Either the price has gone up or the portion of the serving seems reduced. (And we end up ordering more dishes because it is not enough to satisfy our hunger or habitual eating.) But our income earning ability or salary increment is not increasing at the same rate with the real inflation rate. Many of us do not even have a salary increment or a bonus, specifically because of this crisis.

On the business front, I have a client who has been working from home since the middle of the year in order to lower the cost of his business operations. He specialises in export trading and often needs to travel overseas for trade shows to meet buyers. He has suffered revenue losses due to crisis-driven cancellations of sales orders from US buyers. It has been a tough 12 months for him, having to juggle his business issues and making ends meet. His financial commitments - living expenses, loan

repayments and insurance premiums - got the better of him.

A retiree in his late 50s with 3 children pursuing their undergraduate degrees provides another example. He is not negatively impacted by the crisis because he has been frugal with his retirement fund. He is, however, experiencing difficulties in finding investment opportunities that will give him double-digit growth to meet his financial commitments for his children's education and living expenses.

Yet life goes on as normal. Certain life obligations have to be fulfilled in the midst of financial crisis. I have a friend who shared with me his financial grievances, realising that his monthly income is not enough to pay for planned wedding expenses and renovation of the new matrimonial home. He has no choice but to find ways to make more money beyond his 9 to 5 job. Many times, he was tempted to apply for another credit card or borrow from friends, short of going to "Ah Long" for money. Thanks to his strong principles in life, knowing that he mustn't start married life in debt, he managed to resist the temptation. It required a lot of communication with his wife-to-be and parents to find creative ways to reduce their wedding expenses.

Another group of people who I have great concern for are the university students. I have a group of final year university students who seek career and financial coaching. Even if, as graduates, they are frugal, they need to know that their salary may not always be enough to pay for room rental, transit or car costs, eating out and lifestyle spending. Unwisely, they could let credit cards become their financial means to pay for essentials. Hence, early coaching and educating them in good money management is important before they graduate into the challenging real world, with temptations and peer pressure.

We Are Only Human

There are plenty of warnings from media, Internet and friends to avoid financial

scams. Yet every day, people fall into these financial traps. Keep this in mind: If something looks too good to be true, then perhaps it isn't.

Not everyone is out of the financial woods yet. Some still live in denial, with excuses of no time or maybe there are too many issues and problems to handle.

Although there may be a desire to learn to manage our finances, sometimes a lack of patience and our short-term memories are our worst enemies. Many prefer the quick fix approach to making money and pursue investments promising the shortest route to the largest profits.

While we get endless economic forecasts and financial sentiment reports, and government reports, budgets and policies designed to improve the situation, these often are ignoring the root cause of the problems. Globalisation has made us vulnerable to other countries' excesses and weaknesses. Amongst the bitter experiences, many have lost faith and trust in the financial system. Some are even more cynical than before and fear to invest in the stock market or with the financial institutions even though investing now may seem most attractive. We now harbour doubts that the experts and professionals have the ability to resolve the issues and implement long term effective solutions.

Financial institutions have become more cautious. Tighter measures and controls are put in place. It still boils down to the fact that the financial institutions have to be careful not to over-expose their financial position. They have to safe guard their financial bottom line.

The Big Picture

Thank goodness that this crisis has taught us valuable lessons - we have to look after our financial nest eggs ourselves. Simply because we are the keepers of our personal money, the result of it directly impacts us. The proof of the pudding is in the eating. Our personal experience of this crisis for the last 12 months speaks the truth of how

much we know individually about our personal money management skill level.

Year 2009 has been a wake-up call - experiencing the results of the crisis, 'fire fighting' to control the financial damages and internalising what can be improved to strengthen our financial system.

Year 2010 will be the year of healing financial wounds for those who have suffered financially. For individuals who have not done their financial planning, don't procrastinate. A financial crisis can happen without warning; you may be the next victim. Seek financial help if you do not know what to do. Seek advice from trusted financial experts who know how to analysis your financial situation. Find the root cause of the financial problems, if you have any, with right diagnosis and treatment methods. Use these to help you craft your desired financial vision of the future with a practical and achievable action plan.

Year 2010 should also be the year of effective implementation of structured financial education with comprehensive syllabus in our school education system and at workplace. We must not delay this any longer. When you, our children and I gain appropriate financially education, we will be better off as a society because we have the confidence to make intelligent financial decisions. We will also influence the market forces to improve the overall financial morals and ethics in the financial system. When we know how to ask intelligent questions and demand for quality financial products, the reward will be paid in terms of healthy financial returns. Not to mention that we will be in a better position to navigate our personal financial course with a much better sense of control during the next financial storm. **SI**



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