4. Key Needs of Financial Planning

Priority

Cash Flow

Objective

- To have a yearly cash surplus.

Purpose

- Spending within your means.

Principle

- Maintain a yearly minimum cash saving of 3 to 6 months from cash outflow as an emergency fund.
- Maintain a minimum of 10% of total income as savings (exclude EPF).

Items in a Cash Flow

Emergency Funds

How to achieve?

Consider:

- Monthly budget
- Bank savings/ Malaysia savings bond/ Sukuk

Malaysian Sukuk Info

Bonds & Sukuk Market

- Assets invested must be cash equivalent, high liquidity and capital protected.

Timeframe

- Short-term goal is to achieve cash surplus within a year.

Priority

Financial Position

Objective

• To obtain positive net worth.

Purpose

• To increase the assets.

Principle

• Maintain yearly total assets which exceed total liabilities.

• Maintain a yearly maximum of 50% of total liabilities to total assets ratio.

Net Worth Calculator

How to achieve?

• Consider the additional resources for different personal assets such as Unit Trusts, PRS, money market instruments, shares, insurance products and EPF self-contribution - (Pg15).

Items in Assets and Liabilities

Timeframe

• Short-term goal is to achieve positive net worth within a year.

Priority

Debt Management

Objective

• financing needs at the lowest cost in the long term.

Purpose

• Do not over-borrow money.

Principle

• A maximum of 35% of the debt service ratio.

• A maximum of 15% of the non-mortgage debt service ratio.

Explanation on ratios

How to achieve?

• Prioritize paying off high interest debts (e.g., credit card), to avoid high interest charges.

• Consider topping up the loan principal to reduce high interest charges (when cash surplus is available).

• Prioritize low effective annual interest rate for loan, taking into account the effects of compounding.

Timeframe

• Medium-term goal is to meet financing needs at the lowest cost within one to three years.

Priority

Investment Risk Management

Objective

• To identify personal risk tolerance level.

Purpose

• To avoid over-exposure to risks.

Principle

• **Very low risk** profiling with possible asset allocation (Equity: 0%-10%; Fixed Income and Money Market Instruments: 90%-100%).

• **Low risk** profiling with possible asset allocation (Equity: 10%-30%; Fixed Income and Money Market Instruments: 70%-90%).

• **Medium risk** profiling with possible asset allocation (Equity: 40%-60%; Fixed Income and Money Market Instruments: 40%-60%).

• **High risk** profiling with possible asset allocation (Equity: 70%-90%; Fixed Income and Money Market Instruments: 10%-30%).

• **Very high** risk profiling with possible asset allocation (Equity: 90%-100%; Fixed Income and Money Market Instruments: 0%-10%).

Understanding your risk profiling

Understanding Assets Allocation

How to achieve?

• Avoid riskier assets if risk tolerance is low and time horizon is shorter.

Timeframe

• Short-term goal is to identify personal risk profiling within a year.