Finding solace in a new financial climate

There's an even greater need now for good financial habits, argues EUGENE SAY

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AVING is often underestimated. Youths today are more excited about learning investing tips than listening to their parents go on about keeping to their budget. The act of saving money is the most fundamental financial discipline everyone should master, regardless of age and financial status.

A survey conducted in 2010 by Wealth Management Asia Consultants, which conducts financial literacy programmes, showed that many Singapore youths do not set aside savings before spending or end up not saving any money at all. One in two youths plans to start saving only when they start working.

These youths are likely to carry these spending habits into their adulthood. Those who do not consciously think about their spending habits will not be prepared for unforeseen events in their life because of their lack of self-discipline.

Saving money is thus the first step in a long and possibly arduous journey of self-discipline. The act of saving allows one to first accumulate funds, before being able to make any financial decisions, such as investing and purchasing.

It is the shadow of their parents’ habits. youths today are neither exposed to any financial independence. No one taught them how to handle their money. Many Singaporeans are trapped in the trap of living beyond their income than they can handle. They have the ability to undertake credit wisely or poorly, and are the new breed of car owners. Many Singaporeans fall into the trap of buying larger credit loans than they can handle. They have the ability to undertake credit wisely or poorly, and are the new breed of car owners.

However, borrowing on credit is not a zero-sum game of setting aside part of one’s cash flow to repay debts. It requires discipline and commitment to constantly repay debts as intelligently as possible.

Such a responsibility is the price of living on future money to enjoy benefits today. Some would even doom the usage of credit cards to be the destruction of “weapons of mass financial destruction”, the high interest rates charged for not paying on time could ruin one’s finances.

Facing up to reality

Realities today further drive home the need for the young Singaporean to save and spend wisely.

For younger Singaporeans starting out in the workforce, the aspiration of building a comfortable life has become more distant than imagined. This, after spending more than a decade pursuing academic qualifications.

A diploma-holder earns a starting pay of about $2,000 while a university graduate earns $2,800 on average. Using current interest rates for paying a 30-year house loan and a four-year car loan, a $500,000 four-room HDB flat and a $130,000 Toyota Corolla would require a monthly instalment payment of around $2,400.

And that is only if couples moderate their expenses and buy a build-to-order (BTO) HDB flat in a five-floor block.

A resale HDB flat in a mature estate would cost much more, let alone suburban condominiums. In the fourth quarter of 2012, the median price of a five-room flat in Ang Mo Kio, with cash-over-valuation (COV) above market price, was $640,000. This means that half of what they transacted above the primary rate. The median price of a resale flat in an outgoing area like Punggol is already $515,000.

The numbers speak for themselves. In such a climate of high housing and car costs, raising a child becomes an even tougher financial decision to make.

Online parenting magazine Thetot.com found last year estimated the cost of raising a child from infancy to 21 years of age to be at least $340,000. This account for medical fees incurred during pregnancy and delivery, infant care, education, entertainment activities, education costs from pre-school to university, basic food and shopping, not including inflation or domestic help.

We should redefine what we mean by happiness. Looking their balance sheets, the weather will always seem stormy if we focus only on the dark clouds.

Encouragingly, Singaporeans are shifting their focus towards intangibles defined by non-monetary values.

A survey by OCBC Bank last year highlighted a shift from the conventional 5Cs of car, music, condominium, country club and credit card, to a new set of 5Cs which conveyed the importance of intangible values.

Some 65 per cent of the 2,100 respondents surveyed rated the “new 5Cs” of culture, confidence, community, Can Do Spirit and Career as more important than the old ones.

This finding shows that Singaporeans are seeking beyond their balance sheets to define what is important to them. Breaking away from the pursuit of material possessions unshackles a new mindset that transcends things in terms of innovating and happiness.

According to the survey, 53 per cent of respondents find enjoyment in travelling, 12 per cent want to own a luxury car, and just 4 per cent want a country-club membership.

It is intriguing that Singaporean youths are looking at spending in terms of achieving meaning and happiness rather than accumulating material possessions.

And as they spend, Singaporeans must look at what they have and buy within their means.

Beyond that, there should be a paradigm shift from the pursuit of material goods to the pursuit of simplicity. After all, the best things in life are free.

The key to finding some comfort and peace in today’s environment is to adopt the habit of saving, together with a way to live content but well.

This would be possible only by reinforcing good decision-making skills when it comes to one’s finances.

The weather forecast may be uncertain, but let’s do our best and dance in the rain.

Headline: Finding solace in a new financial climate

Publication: The Business Times, p 12
Date: 11 March 2013
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