
Large Capital Outlay Ahead for Young Graduates

Contributed by Wilfred Ling
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Some people asked me why I encourage young graduates to save aggressively to saving accounts and fixed deposits. This is contrary to advice given by financial advisers that given the long time horizon, investing into a higher risk portfolio could yield better returns on a long-run.

Firstly, many financial advisers do not do financial planning and so they will just use the textbook answer that a person with long-term horizon tends to do better in investing. These are "textbook financial advisers."

Secondly, due to vested interest, a financial adviser must get clients to buy an investment product otherwise there is no commission to earn. Investment products can be in a plain vanilla unit trust, ILPs, etc.

Thirdly, I have seen countless young people investing at an early age. What I found is that almost everyone goes through similar life cycle in the first 5-10 years of their career. Many people would get themselves attached, get married, go for honeymoon and purchase a property. These are usually done within 5-10 years after they finish school. These require very large capital outlay.

If a young person would to channel his monthly surpluses to investment, two things will happen:

a) When capital is required to finance the honeymoon, marriage or property purchase, they will look towards liquidating their investments. Therefore, their time horizon is actually very short. By "Murphy's law", these investments would be making a loss. It will be making a loss because almost everyone starts their first investment at the peak of the market cycle. Have you heard of anyone who starts his first investment when the economy is having a major recession? Likely the answer is no because there is no job and hence no monthly income to invest anyway.

b) If a person doesn't want to liquidate these investments, the capital required will have to be financed through borrowing. That's why many people would borrow the maximum loan allowed for their property. Maximizing your loan means paying a higher interest amount.

How much would a young person be expected to spend on marriage, honeymoon and property purchase for the next few years? Here are some figures to consider:

Marriage dinner: \$20,000

Less "ang-paos": (\$10,000)

Add honeymoon: \$5,000

Down payment for property: \$80,000 (based on 20% of \$400,000)

Renovation: \$10,000

Pregnancy & delivery: \$4,000 (assuming two children and no complication)

Total: \$109,000

(Relating to honeymoon, never assume you just need a “simple” honeymoon just to save cost. For guys, you will regret for many decades if you did not provide a “proper” honeymoon.)

However, I do think that young people can start investing at a “token” amount every month to self-educate himself on investments. What better way to learn about investment other than to have some hands-on experience.

Nevertheless, I advise that it will perhaps be more appropriate to start investing for retirement around mid-thirties. The time horizon is still very long. Assuming the life expectancy of a person is 80 years old, the time horizon is $80 - 35 = 45$ years. To me, that’s good enough.

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