

PREVENTION IS BETTER THAN CURE

Can you spot the symptoms of impending financial ill health? Promiseland's managing director Mr David Choo tells you about the three groups to look out for.



Most of us take this good advice to heart when it concerns our health. We know too well that the price for not heeding this advice can be early death or a long period of suffering from ill health.

But when it comes to financial health, not many pay heed to this advice. The thousands who have to borrow from one credit card to pay outstanding credit card bills are not the only ones who are

financially sick. What about the thousands who are financially doomed for not taking adequate insurance against fortuitous and largely unavoidable risks? For example, medical insurance is a must today given the constant rises in medical expenses but not all have insured themselves adequately.

Is there a way to prevent financial sickness? Are there early symptoms so that cure can be sought before the disease is full blown?

The symptoms of impending financial ill health can be divided

into three groups. To be forewarned is to be forearmed. These are:

- Certain spending habits
- Excessive risk-taking such as gambling, punting, margin trading and unwise borrowing
- Not paying heed to risks or hazards and their financial impacts

SPENDING HABITS

The adage is never spend more than you earn. Actually, this is only general advice as the correct advice is never spend more than your disposable earnings, i.e. after you have taken care of unavoids like rental, utilities, food, etc. and squirreling away your planned savings.

The moment a person starts spending more than his disposable earnings, or worse, does not provide for his unavoidable spending first, is a symptom of impending financial trouble. And overspending leads to debts and more debts, and paying interest on them. Debt management is often promoted as an important skill, but it is more a cure than prevention. What helps to prevent debts is careful budgeting of income and expenditure, and ensuring that money is spent wisely and within budget. Budgeting is a simple process but hard to do because it requires discipline to keep track of income and expenses, and deciding beforehand what to do with your money. But it is a good preventive measure to avoid "cash flow" disease, or worse, being debt-ridden, which is the equivalent of being bed-ridden.

From my experience, overspending is not just a disease which affects the lower income. The higher income often enjoy the good life and become victims of "conspicuous consumption", buying things they do not need to impress people they do not like. Evidence of conspicuous consumption abounds in this age of marketing and advertising. Borrowing to fund such items is a sure symptom of difficulty, no matter how "easy" the credit.

EXCESSIVE RISK-TAKING

Risk is one of the paradoxes of life. It is impossible to live life well, or profit from investment and business ventures, if you do not take risks, and yet, if you take excessive risks, you are likely to end up the loser.

Gambling was in the public eye when the integrated resort and casino matter was widely debated in Parliament and in coffee shops. It was clearly stated that the odds are against gamblers and most will lose, but this does not deter many from gambling – such is the kick or addiction of gambling.

The adage is never gamble with what you cannot afford to lose, but this is easier said than done. Occasional winning at cards, the races, 4D or jackpot machines have a way of getting one hooked and eventually losing big. Shares can be for both "investment" or speculation, and we remember the stories of winners but forget

quickly those who got burnt.

Prudence is important in the matter of investing and business risk-taking for the majority. There are the rare individuals who would be willing to risk all and who may strike it rich. But for the majority, risk-taking has to be tempered by prudence.

LIFE'S HAZARDS

There are many hazards in life which are largely unpreventable – accidents, sickness, natural disasters like earthquakes and tsunamis, premature deaths, fire, kidnapping, robbery, liabilities, etc. Almost all of these hazards have a financial impact and can ruin a person, a family, a business and even a nation. To some extent, prevention is better than cure, and risks prevention seeks to reduce the incidence of these hazards. But most of these events are fortuitous and cannot be totally preventable, thus, the need for risk management techniques, including insurance which is a form of risk transference.

The general rule is that any hazard whose impact is catastrophic must be insured, no matter how low the possibility. There are many ways to reduce or eliminate the financial impact and the cost incurred must be seen to be an unavoidable expense. The importance of protecting assets, lives and potential liability claims cannot be underestimated. Getting a few more percentage points in investment returns will make a nice, but at best, marginal impact on one's financial standing, but losing a breadwinner, a keyman, a big liability suit or big asset can destroy a person, family or business.

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CONCLUSION

Knowing the causes of ill health has only made a small difference in the Singaporean's eating habits, exercising or lack of it, and quitting smoking. Will knowing the symptoms and causes of financial ill health make Singaporeans do any better?

Financial planning and advice is still largely free but the cures (products) do cost something. But the cost is small compared to the gains. I am often asked whether insurance is gambling. My answer is that gambling creates a risk, whereas there was no risk before. On the other hand, insurance takes care of a risk which already exists. The opposite is true – not insuring is gambling. **SI**



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