



KonMari Your Financial Life

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Keeping it Simple

These days it's all about minimalism. Tidiness and clean-up guru Marie Kondo has become a global phenomenon with her hit Netflix show, capturing the cultural zeitgeist with her philosophy on organising and decluttering. But can the same set of ethos also be applied to tidying up one's financial life and money management skills?

As financial products become increasingly commoditised, consumers are bound to pick-up all sorts of investment schemes or insurance policies that offer very little or almost no differentiation. Kenny Suen, a licensed financial planner who is also Chief Marketing

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Chief Marketing Officer
Bill Morrisons Wealth Management

Officer of Bill Morrisons Wealth Management thinks one is more susceptible towards cluttering up their finances especially at the wealth accumulation stage of the financial life cycle.

"I think clients haven't really put a thought to this because they're so busy at this point working hard at their jobs and building their wealth. It's like going shopping and you end up buying all sorts of products and policies along the way. If you don't do a proper housekeeping, you won't have a complete picture of your finances. Worse still you misplace them and end up forgetting all about it," Kenny observes.

"It should all start from a clear financial blueprint that sets out key milestones and what you want to achieve. Ideally, this

blueprint should have both long-term and short-term objectives. It needs to be practical and tailored to your own circumstances such as your current income, career and lifestyle that you have and desire. That way, you can ask yourself how these [financial products] fit into your needs, so you don't make abrupt decisions from information that isn't thorough to begin with from sales or agents."

Categorising is a big part of the KonMari method which advocates tidying up and separating items by category. For someone who say owns over 10 different insurance policies, categorising may be a good way to start by digging up old term plans and organising them by the type of coverage it provides.

This is echoed by Phang Kar Yew, Executive Director of wealth management firm Harveston Financial Group who adds, "One needs to do a complete summary of their entire insurance policies and categorise them whether it's by healthcare, hospitalisation, critical illness, life or a personal accident plan. A review would provide a conclusive way of determining if it's still relevant to their needs or if it is obsolete. For example you may find certain policies containing outdated terms or clauses."

"Clients tend to generalise plans as all of the same, but I always say **buy protection not policies**. There may be endowment plans out there in the market that may look attractive, but does not offer adequate coverage. A general rule-of-thumb is to set your policy coverage equivalent to 10 times the amount of your annual salary in the event of a workplace accident or disability. This would help ease your family's financial burden in the interim and also buy you sufficient recovery time before going back into the job market."

Both recommend a thorough financial clean-up at least biannually which may reveal duplicates or gaps in their coverage or investment. But during this financial spring cleaning flurry, one should also be cautious of not throwing the baby out together with the bathwater.

Outthink. Outperform.

Kenny says that it is important to think about your finances as part of the larger family unit. “Whether it’s a new addition in the family, looking after a retired spouse or sending your kids to college, one should be mindful about disposing everything without thinking about the future needs of each family member,” Kenny continues.

Diversify Not Diworsify

When it comes to investments, the industry tends to harp on about diversification. But the term has been so loosely thrown around that its intended objective as a risk management tool has probably been muddled along the way.

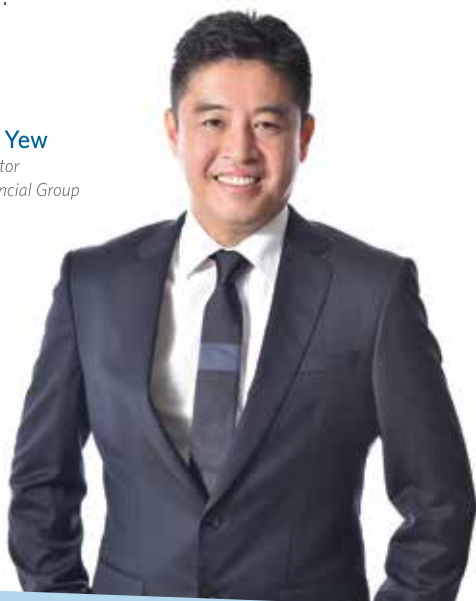
Some investors may fall into the trap of buying every fund/investment that becomes the ‘flavour’ of the month and end up accumulating assets that don’t really fit their needs. Modern portfolio theory refers to this as over-diversifying or ‘diworsification’.

The term was first coined by legendary investor Peter Lynch in his seminal book ‘One Up on Wall Street’ (1989) to describe massive business conglomerates that diversify too much to the point it becomes unwieldy and loses focus. This same concept has since been extended to large portfolios composed of too many inefficient investments that are positively correlated with each other.

“I have clients who come to me with more than 15 to 18 type of funds, but the net return is flattish or down. Investors should assess the correlation between the different funds in their portfolio and also consider where we are in the current market cycle, as different funds may perform better depending on which cycle,” says Kenny.

While the aim of diversification is to offset losses from one asset class in a portfolio from gains by another, there is a danger that an investor may overdo so. This could lead to a portfolio that does not lose much but also does not gain much over the long-term says Kenny.

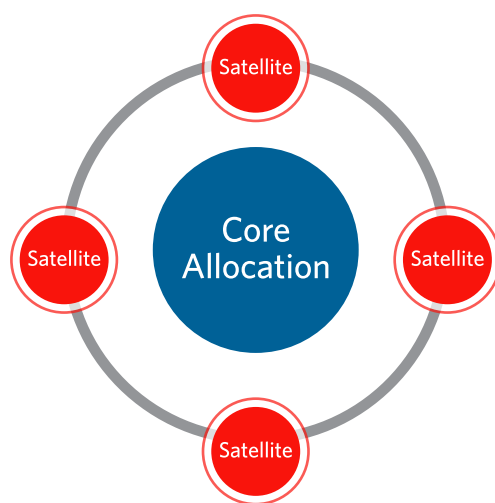
Phang Kar Yew
Executive Director
Harveston Financial Group



“In the end, your portfolio doesn’t grow and your wealth stays stagnant. It’s all about finding the optimal weightage and blend of assets that suits you. There is of course no optimal number of funds to have. But if it’s more than you can handle, you should definitely consider trimming.”

The best time to assess your holdings is at the rebalancing stage to reset your asset allocation (e.g. equity, fixed income, alternatives) back to its target weightage. Besides just considering fund performance, Kenny also recommends that an investor check if there has been a change in the fund strategy, replacement of the manager or an increase in the management-expense ratio (MER).

But for investors who do like certain thematic-plays in the market (e.g. healthcare, emerging market bonds, small-cap) and want to be a bit more tactical without running the risk of over-diversifying, Phang’s advice is for investors to have distinct **core and satellite holdings**.



“Your core holdings would be the foundation of your portfolio composed of a mixture of growth and defensive assets. Satellite holdings are reserved for more tactical-plays or alternatives. For a risk-moderate investor, your satellite holdings could reach up to 15%. But, the core should still make up the bulk of the portfolio,” Phang says.

“The problem is when investors don’t stay disciplined and forget to rebalance resulting in portfolio drifts that deviate from the original weightage. This can result in your satellite holdings becoming larger than your core. Ideally, the gains that you lock-in from your satellite holdings should feed back into your core. That way you stay on track and your portfolio does not grow disproportionately and lead to a risk mismatch.

“My advice is for investors to also set some cash aside. Investors forget about the importance of liquidity and it serves two important purposes. First, it becomes useful for the opportunist investor looking to enhance short-term returns and deploy. And as a last resort, cash also serves as a buffer for your portfolio especially in more volatile market conditions. So, you have a safety net and some play-money set aside also. Don’t liquidate your core holdings for cash,” he says.

Achieving Ikigai

Learning to let go is a recurring theme that runs through each episode of Marie Kondo's Netflix show as participants go through heap of their belongings and asking themselves if it 'sparks joy'. If the answer is no, then it goes into the trash bin.

Deciding when to dispose a well-loved stock or investment can be an emotional affair for some investors. A particular stock may hold certain sentimental value and they would stubbornly hold on to them with the belief that it will continue to perform, despite red-flags pointing otherwise.

Kenny suggests that investors take a step back to look at their entire portfolio holdings objectively and find ways to consolidate. "Sometimes, it's difficult when investors are in too fast and too deep in their position and they can't get out. This is where a dollar cost averaging approach can come in handy to not only recoup back losses but also allow them to stay invested."

Kenny recalls during the 2008 subprime crisis when he bought into a particular China fund which plunged to a net asset value (NAV) of RM0.28 per unit from its height of RM0.60 per unit. "I continued to dollar cost average and invest regularly even as it dropped in value. After 5 to 6 years the fund was still hovering around the RM0.40 mid-range, but by then I've already broke even and managed to book some small gains. In the end, the average cost came to RM0.33 per unit, as I would have accumulated a higher volume of stocks at a lower price which would bring down the overall cost of investment. If I had done nothing, I'd probably be worse off instead today. This is what we emphasise to clients to stay navigated and stay invested."

Taking a more philosophical turn, Phang brought up the age-old Japanese concept of Ikigai that roughly translates to "reason for being." An adage to striving for balance in life, locating one's Ikigai can be found at the intersection of 4 dimensions. This is the perfect centre located between what you love, what the world needs, what you're good at and what you can be paid for.



Recalling conversations he had with clients on helping them simplify and make sense of their finances, Phang believes that it's all a balancing act and finding ways to maximise resources at different stages in life. "I always tell my clients there are 3 stages. First is surviving, next is living and finally self-actualising. Before you are independent, you are interdependent. You are living hand to mouth and you are relying on the power of one [yourself]. That is why wealth protection is so important at this stage to protect yourself first."

The importance of gratitude is also emphasised strongly by Marie Kondo to show appreciation to the possessions you own and what meaning they bring to your life. This is a concept not lost to Phang when dealing with clients in their chase for wealth. "Money on its own has no meaning. It's what value we ascribe to it and how we can find purpose. Otherwise it just becomes stuff or numbers in your bank account. Life on its own has to be enriching," Phang ends emphatically.

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