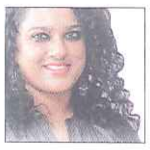
Time to trust robo-advisers? – 32

Making your child a future millionaire

- **Provide** your child with a million ringgit nest egg with just RM1,700 a month
- **Shares**, unit trusts and property investments are the preferred choice of investments



by **Sonia Ramachandran**

PROVIDING for their child's future is what many parents dream of doing and most of the time this comes in the form of huge education fees to ensure a career for the child in adulthood.

But what if you can provide a nest egg for your child that ensures he is a future millionaire?

Apart from meeting his education needs, this could also give him a head start in business or other ventures.

Achieving such a goal is possible, say financial planners, by just investing around RM1,700 a month.

"Let's take a 20-year time frame. To accumulate RM1 mil in 20 years, a monthly investment of RM1,700 in unit trust products with 8% annual returns can easily achieve that.

"There are 37 funds that achieved 8% annualised returns or more in the past 10 years. Other ways are through property, stock and alternative investments," Money Sense Advisory Sdn Bhd chief operations officer Chris Yap tells *FocusM*.

Blueprint Planning Sdn Bhd licensed financial planner Peter Jose agrees this is possible. He says there are various investment vehicles that cater to people with different risk appetites in the market.

He points out that the objective of the investment is a key consideration. "Is it for education, to purchase a house or for a wedding fund?

"The duration of the investment is another important factor," he adds.

That said, Jose says it is best to consult a licensed financial planner for a comprehensive financial plan to get a holistic view of a person's finances as there are many other factors to consider.

AY Success Advisory founder Alex Yeoh, who is also a licensed financial planner, says Malaysians prefer shares, unit trusts and property investments which he says are all effective ways to ensure their child is a future millionaire.

However, he feels that cultivating a good mindset for the child should be the priority. "That is why many parents send their children to pre-schools and expensive tertiary education," he points out.

"Parents without much to spare each month for investments should consult financial planners for help." – Yap

Not having enough

What about parents who cannot set much aside?

Yeoh's advice is: "Do not procrastinate. Start small, rather than late.

"Time is money and let your small amount of money grow with time," he says.

Money Sense's Yap advises parents who do not have much to spare each month on investments for their children to consult financial planners. They will help assess their financial standing such as current net worth, cash flow, mortgage, investment and insurance.

"Trade-offs might be required if necessary. The situation is always different as everyone has different financial goals and priorities," he says.

AY Success's Yeoh also feels that RM1,700 a month for 20 years with a 8% annual return is ideal.

However, he says that parents who do not have that much to spare can start with a RM250 monthly investment and then increase the amount by RM250 per month every subsequent year.

"This means that parents can start with RM250 for example, and increase it to RM500 monthly after one year and to RM750 thereafter, and continue with the same quantum [increase] subsequently.

"Your child can still be a millionaire after 20 years this way," he adds.

Blueprint's Jose says parents in this category can leverage their investments by using property, especially in funding the education of their children.

"Property can be used as a hedge against inflation and will appreciate over time if it is at a reasonably good location.

"Property can also be used to fund the education of their children," he says.

However, Jose warns that the downside is that it might take time to sell the property if market conditions at that time are not favourable.

Thus, he advises parents who want to do this to liquidate the property two years prior to the usage of the funds.

Jose says the minimum parents have to set aside monthly would depend on what the money is being used for.

"If the parents intend to send their children overseas for studies, the amount to be set aside will be more as they need to allocate for living expenses and tuition fees which are subject to currency fluctuations.

"Affordability and inflation have to be considered as well. Whatever amount required today will be much more in 15 years because of inflation," says Jose.

Tax relief

In the US, there is a Individual Retirement Arrangement (ROTH IRA) which is a retirement plan that generally offers tax-free growth and tax-free withdrawals in retirement.

Parents can invest in this for their children as the principal and earnings are tax-exempt when withdrawn decades later.

AY Success's Yeoh says there are no tax reliefs for investments for children, unless it is an endowment plan which has criteria to be fulfilled. It also has to be approved by the Inland Revenue Board.

"However, the government does encourage us to save for the education of children via a RM3,000 tax relief [under medical and education] and RM12,000 tax relief for the National Education

Compound interest calculator

(For parents who can't afford to invest RM1,700 a month)

Principal amount	0	
Deposit	RM250	Monthly
Holding period	240	Months
Deposit period	240	Months
Annual increase	RM250	Amount
Interest rate %	8%	Annually
Annual inflation %	0	
Compounding annually		
Total principal: RM630,000		
Interest amount: RM520,609.68		
Maturity value: RM1,150,609.68		
Annual percentage yield: 8%		

Source: AY Success Advisory

"There are various investment vehicles that are catered to people with different risk appetites in the market." – Jose

"Those who can't spare much can start with a RM250 monthly investment and increase the amount by RM250 monthly every subsequent year." – Yeoh

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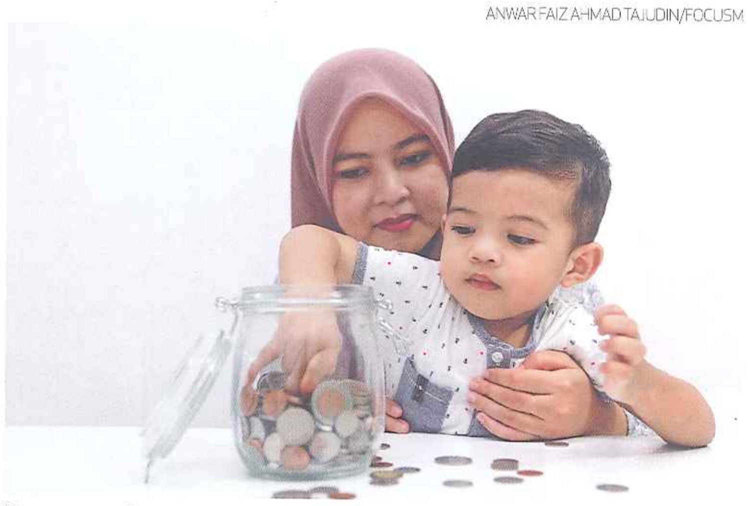


Parents can leverage their investments by using property, especially in funding the education of their children

Savings Scheme [SSPN] savings.

"One is an insurance plan [RM6,000 tax relief] and the other is a savings account [RM6,000 tax relief] under the SSPN-i Plus, which only gives us around 4% interest per annum.

"Obviously that does not help much either," he says.

Yeoh feels the government should do more in this area and suggests dishing out tax reliefs for approved education investment funds similar to private retirement schemes.

Over-educating?

Most parents think that a good education is a ticket to a stable future for their children.

As such, they are willing to fork out huge sums to ensure their children get the best they can afford in terms of education. But is this always the best way to go?

Some schools of thought feel an advanced degree may confer a higher salary but it comes at a high cost too as it includes tuition fees, often financed by borrowings, plus a year or more of lost earnings.

For example, Laurence Kotlikoff, an economist who studies earning and consumption patterns, compares a hypothetical doctor and plumber's earnings.

His hypothetical doctor doesn't finish her residency until 11 years out of high school and spends a lot of money on tuition, student loan interest and income taxes.

In the end there is a few thousand dollars' difference between the plumber's spending money and that of the doctor.

The article in US business magazine *Forbes* quotes Kotlikoff's advice to pursue academics only if you love hitting the books and not for the money. The article suggests it is a fallacy that degrees from prestigious universities are particularly valuable.

AY Success's Yeoh, however, does not quite agree. "We cannot say that an advanced degree is no good or a failed "investment" in our child. This is because it does provide a very good platform for them to learn from the world's best educators and towards a good career later.

"However, the important part is whether our child can pick up the necessary knowledge and skills to succeed in their life later," he says.

Blueprint's Jose says parents should balance what they spend for their child's tertiary education versus their personal goals and objectives.

"For example, if the parents are struggling and they fund their child's tertiary education at the expense of their own retirement, then they better hope their child will support them during their golden years.

"It is wiser to plan for their retirement needs first so as to not depend on others later on. Ultimately it is a personal choice for parents on what they want for their child," he says.

Property investments

Is buying property one of the "better" investments towards making one's child a future millionaire?

AY Success's Yeoh says given the "affordability-advantage", parents can consider property investment for the children.

However, he says that whether it is a better choice or not, would depend on a few factors.

"Buy and hold for long term? Where is the location? Would it be troublesome to collect rental and maintain the property? Are you able to service the loan over a long-term period?

"If you have considered the above questions and are comfortable with it, then property investment could be a good choice for you."

Alternatively, he says, you can consider investing in real estate investment trusts to get yourself involved in property investment that is managed by professionals.

Blueprint's Jose feels proper asset allocation has to be done according to a person's risk profile. "A percentage of the person's assets can be held in property," he says.

However, Jose feels parents should not just buy or transfer property outright to their children.

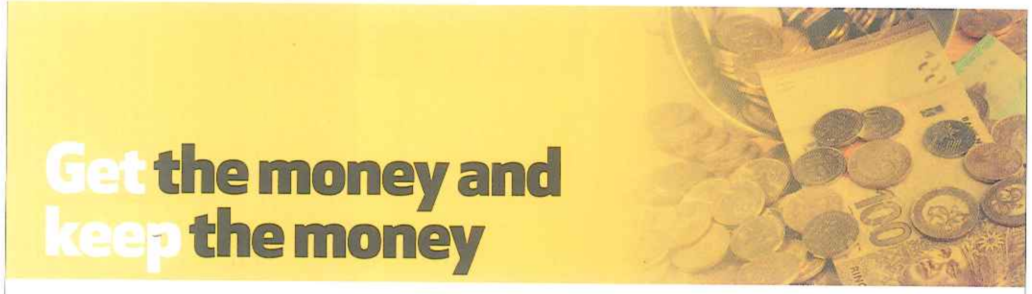
"Parents can help their child with the downpayment of the property but have an agreement for the child to pay it back when they have the means.

"This is to instil discipline in personal finances and to build character," he says.

Jose suggests parents refinance their own property to cash out and let their children continue the repayments.

"This might be a better option instead of just transferring the property to their child's name.

"There is no free lunch in this world," he says. FocusM



Get the money and keep the money

ONCE you have ensured that your child is a future millionaire by providing a nest egg for him, how do you then guarantee that he does not squander it away?

Then there is also the fact that a million ringgit 20 years down the road may not be worth what it is today. The child must also know how to add to and manage that nest egg provided.

One of the most important things parents need to do to increase the chances of their child being a future millionaire is to provide them with financial education or financial literacy.

"My personal thoughts are that there is no amount of investments [in money] that a parent can make for their children to 'make' them millionaires," says Wong Yu Vee, chief operations officer of MoneyTree, a financial literacy education company for children and teenagers.

"While you may be able to give him or her a million dollars, ultimately it is not about how much you give them.

"It is about whether or not they have the mindset, habits and attitude to ensure that they remain millionaires," he says.

Wong's view is that it is not the job of parents to ensure the child is a millionaire when he or she becomes an adult.

"The job of the parent is to provide the financial education/literacy to their children to learn how to become a millionaire when they grow up.

"Give the child a fish a day and he will be dependent on you for the rest of his life. Teach him or her how to fish and you will have a child who has the skills to become whatever he or she decides to be," he adds.

He feels that parents should invest in their children's financial education instead of setting aside money each month so that the child can become a millionaire.

Wong says that parents should set aside between RM400 to RM500 per month per child for this purpose.

He feels that it is a personal choice on whether parents should spend less on their children's higher education and more on investments that the child can touch upon adulthood.

"I personally will not give my children 'money' as I believe that would do more harm to them than it would help.

"I may provide financial assistance to them to get them started off in life but that would definitely not be to the tune of a million dollars," he says.

Wong also does not believe in buying property as investments for the children.

"I personally would not do that. I feel that by doing so, I would be denying them the chance to truly learn life's lessons and experiences – to work hard [and smart], to struggle a little, to go through the ups and downs and to find their way around.

"I believe this would make them better and stronger people. This, to me, is a gift that parents should not deny their children of," he says.

Wong advises parents who want to provide a nest egg for their children but at the same time ensure they do not end up materialistic or lazy to "not let them know you have set aside a nest egg for them."

He says parents should only let the children know of the "nest egg" when they feel the children are ready to know.

Setting up a trust

AY Success Advisory founder Alex Yeoh feels parents could consider setting up a trust which holds the money/assets instead of giving it to the child straight away.

"A trust is even more crucial if the parents pass away when their children are still minors. Through the trust, parents can set certain criteria to be fulfilled by their children before they can take the money.

"For example, they can stipulate that the child must have a job in order to get the monthly allowance from the trust or to have a business before the child can withdraw RM100,000 as seed money," he says.

Yeoh acknowledges that setting up a trust is not cheap and advises parents without the means to do so to teach their children the value of money early on.

"They could bring their children out shopping and teach them the value of money by looking at price tags.

"Instead of buying expensive birthday presents, how about buying shares and units trusts? Get your children excited about 'their' investments and let them learn from there," he says.

Money Sense Advisory Sdn Bhd chief operations officer Chris Yap says parents should be a good role model for their children, as "children learn the most from parents."

"Perhaps, the most important thing is to not fulfil every single request of the children and to let them understand that parents only provide the basic [what they need].

"They should find ways for other things [what they want]," he says.

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"One of the most important things parents must do to is to provide their child with financial education/financial literacy." – Wong