Financial Planning

Cambodia Securities Exchange
Securities Depository Department

Do you know him?

- If your salary is 350 dollars, then:
- 1. 150 dollars on daily spending
- 2. 50 dollars on making friends
- 3. 100 dollars on Studying
- 4. 30 dollars on rewarding ourselves
- 5. 70 dollars on Investment

Spend Less, Invest More

- Ways of Consumption in developing countries
- Vs
- Ways of Consumption in developed countries

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- 2. Theories of Consumer Economics
- 3. Why is Financial Planning important?
- 4. 5 basic steps of financial planning
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What is Financial Planning?

- A **financial plan** is a comprehensive evaluation of an individual's current pay and future financial state by using current known variables to predict future income, asset values and withdrawal plans.

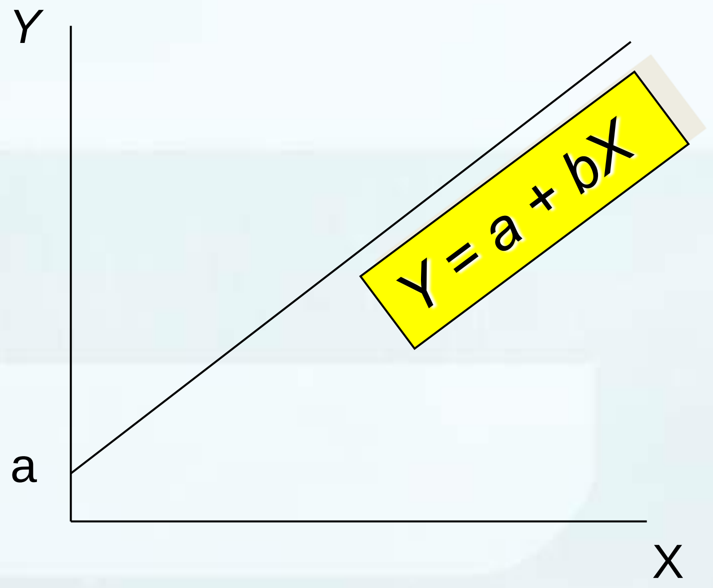
- What are Financial Assets?

- What else can improve ourselves? How to use them?

2. Consumption Economics Theory

- *The Keynesian Consumption:

$$Y=a+bx$$



- a is called autonomous consumption
- b is called marginal propensity to consume

2. Consumption Economics Theory

*Relative Income Hypothesis

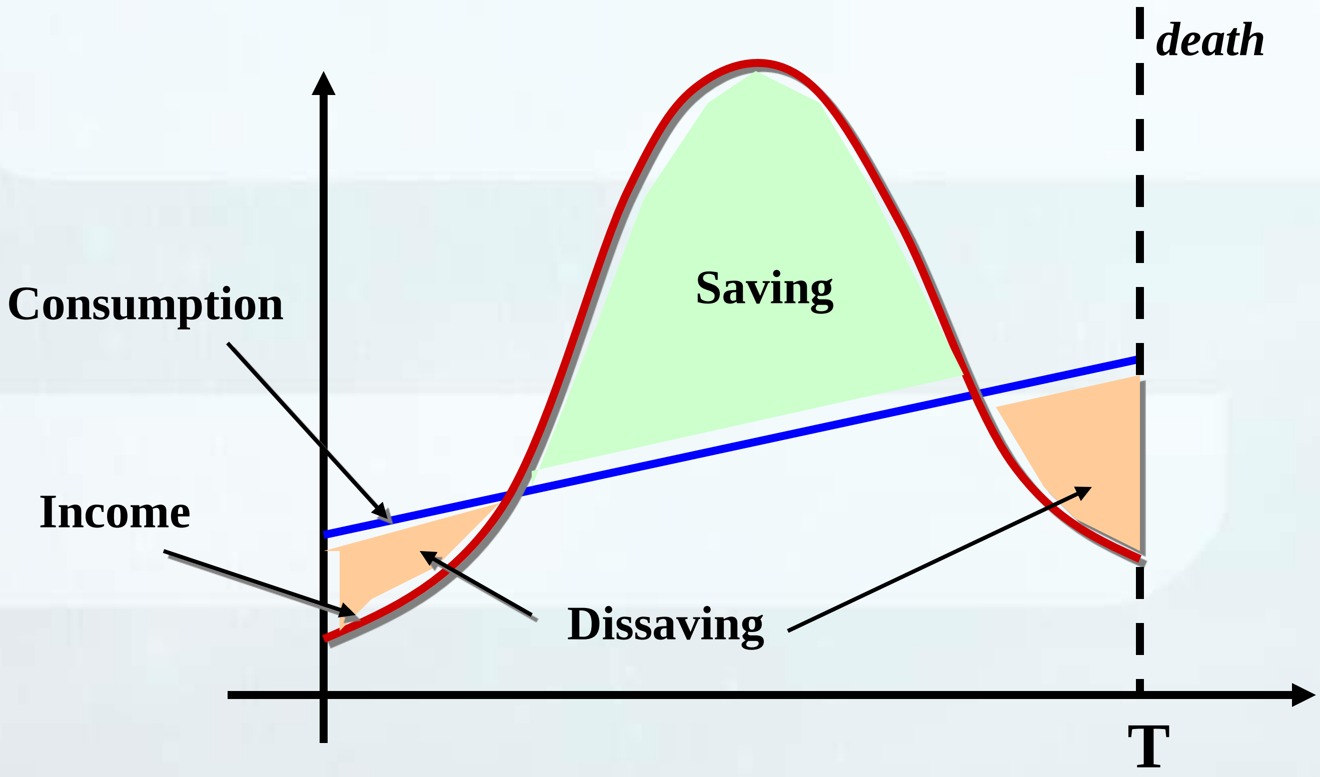
- James Duesenberry believed that consumption is the function of current income and the past highest income.
- Ratchet effect
- Demonstration effect
- Income, Consumption and Saving
- Habit Persistence Theory, Brown's Habit Persistence

2. Consumption Economics Theory

* Life-Cycle Hypothesis:

- Franco Modigliani believed that, current expenditure depends on current income, prediction of future income, assets at the beginning, and age.
- He emphasized that income varies systematically over people's lives and that saving allows consumers to move income from those times in life when income is high to those times when income is low. The consumer smooths consumption expenditure over his/her life, spending $1/T$ of his/her life-time income each period.

Life-Cycle Hypothesis:



2. Consumption Economics Theory

*Permanent Income Hypothesis

- Permanent-income hypothesis emphasizes that people experience random and temporary changes in their incomes from year to year. Friedman suggested that we view current income *Y* as the sum of two components, **permanent income** Y^P and **transitory income** Y^T.

- Lasting income and lasting consumption has a proportional relationship. This proportional depends on interest rate, total asset and lasting income, preference, etc..

2. Consumption Economics Theory

Other Theories:

- 1) Assumption of Income to be affected by Consumption Decisions：
- 2) Assumption of Stock Adjustment of Consumption Goods：
- 3) Random-Walk Hypothesis：
- 4) Liquidity Constraint Theory

3. Why is Financial Planning important?

- Financial Planning Service?
- Financial planning may not help you earn more, but it will help you guide how to use the money you earn to achieve your financial goals.
- Financial problem is a major issue for most people, but finance courses in school do not cover it in most cases.
- When people encounter a financial difficulties, a lack of financial education makes matters worse.
- Financial planning is the first step to forecast your future financial status, which leads you to avoid a serious financial difficulties.

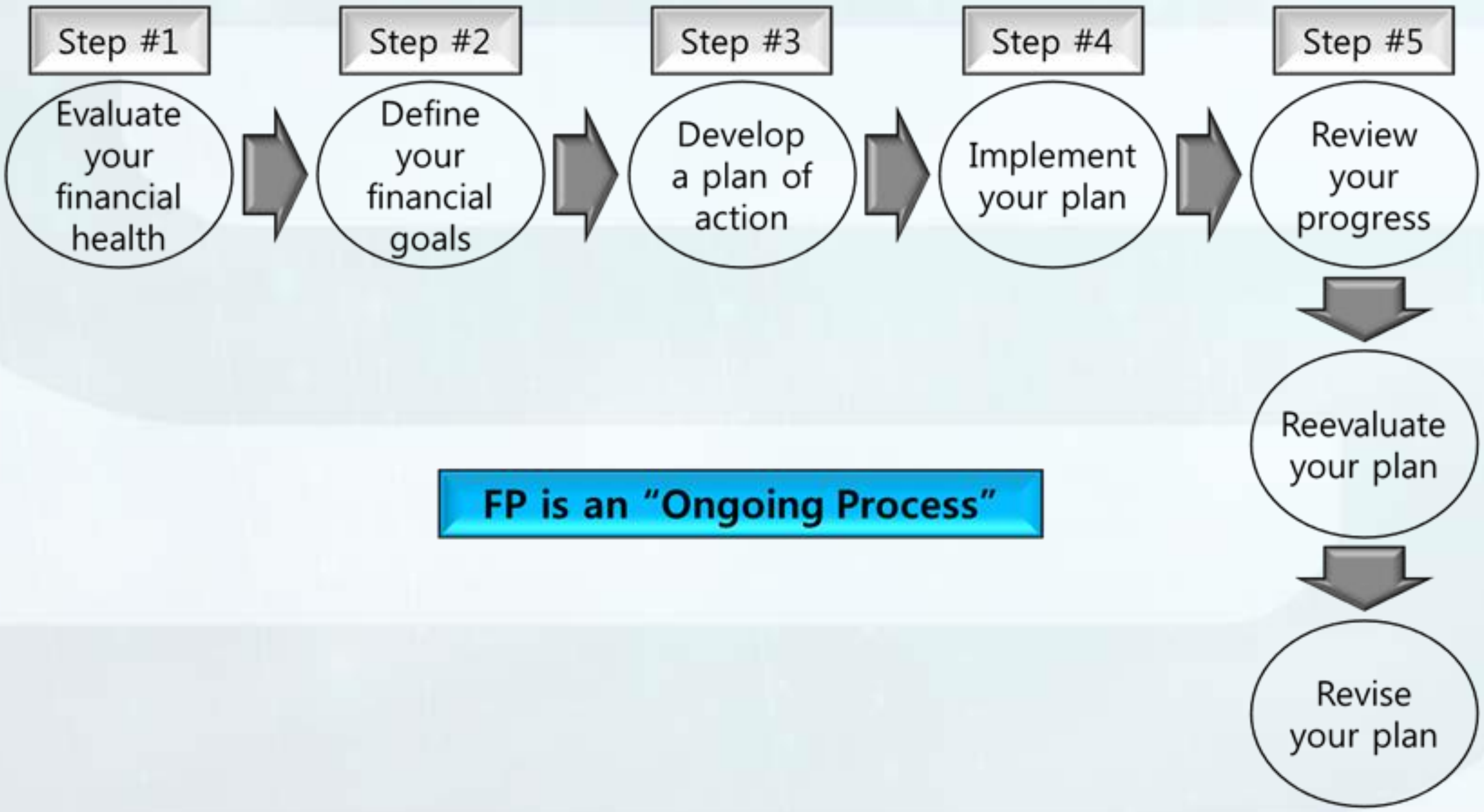
3. Why is Financial Planning important?

- Manage income to accumulate wealth for special expenses:
- Invest Intelligently:
- Family Securities:
- Minimize your taxes:
- Save for retirement:

Investment Opportunities

- **1. Real Assets**
  - **Real Estate, Painting, Precious Mentals, Gemstone, Machine...**
  - **Business (Goods, Service, …)**
- **2. Financial Assets**
  - **Bank Deposit, Bond, Stock, Certificate, Commodities, Derivative,…**
- **3. Financial Institutions (Fund, Crowdfunding,…)**

4. 5 basic steps of financial planning



Step #1: Determine Your Current Financial Situation

- Setting your financial goal is the first step for the financial investment. Start by understanding your current financial situation. We have four check points.
- What you own: List all your assets.
- What you owe: Total up your debts.
- What you earn: Figure out your total income
- What you spend: Track how much money you spend every month.

Step #2: Develop Financial Goals

- Investment time horizon is often a key thing to consider when making a financial investment. The more time you have, the more risk you can usually take. The more risk you take, the more potential for making more money.

- Defining your goals includes writing down or formalizing your financial goals, attaching costs to them, and determining when you will spend the cost.

- Very few people actually have their financial goals. Although it is not difficult to make financial goals, it is easy to put off.

- Be specific and realistic

Step #3: Develop a plan of action

- Flexibility: flexible enough to respond to changes in your life and unexpected events
- Liquidity: means the accessibility to your money whenever you need it.

    - Unexpected events (illness, losing a job, etc.) require more than just flexibility.
- Protection

    - Know your risk tolerate; insurance is not free
- Minimization of Taxes

Choose your investment strategies

Step #4: Implement your financial action plan

- Although it's important to make a careful and thoughtful financial plan, it is also important to actually stick to that plan.
- You will need to track income and spending
- it is a tool to achieve your goals.
- In effect, think of your financial plan not as punishment but as a road map
- Your destination may change, and you may get lost, but if your map is good enough, you'll always find your way again.

Step #5: Reevaluate and revise your plan

- As time passes - maybe you get married or have children - you must review your progress and reexamine your plan.
- As things change – you may need to invest in new targets
- If necessary, you must be prepared to get a new plan.

Develop an investment policy statement

- 1. specify your investment goals and objectives,
- 2. describe the strategies that will help you meet your objectives,
- 3. describe your return expectations and time horizon,
- 4. include detailed information about how much risk you're willing to take,
- 5. include guidelines on the types of investments that make up your portfolio, and how accessible your money needs to be,
- 6. specify how your portfolio will be monitored, and when or why it should be rebalanced.

A. FP Process at a Glance

Throughout Your Lifetime

Young → **Financial Planning** → Old

Money-related Goals

- Getting Married
- Supporting Parents
- Taking a Vacation
- Preparing Retirement
- Buying a House
- Estate Planning
- Educating Children
- Others

Goals	Time frame
Short-term Goals	Within 1 year
Mid-term Goals	1~10 years
Long-term Goals	10 years & Plus

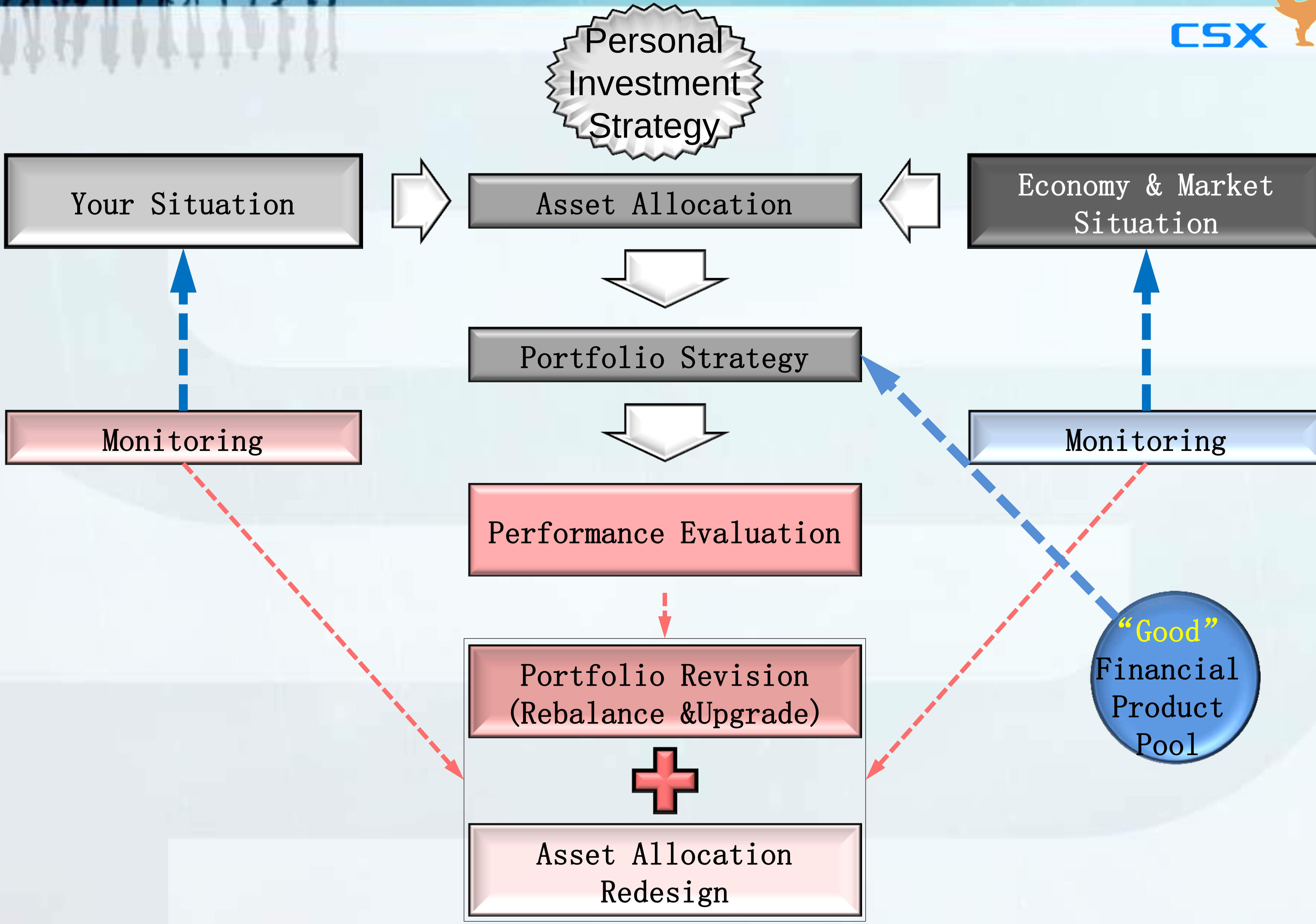
How much is needed for each goal?

Investment Planning

Tax Planning

Insurance Planning

A. FP Process at a Glance



5. Analysis of Investment Decision

- Economy
- Industry
- Company
- SWOT
- Business Cycle

Fundamental Analysis

What is Fundamental Analysis?

- Fundamental analysis is a technique to determine a security value by focusing on the factors that affect a company's actual business and its future prospects.
- Fundamental analysis is a method of evaluating a security to measure its intrinsic stock value by examining related economic, financial and other qualitative and quantitative factors.
- Fundamental analysts is to examine everything that can affect the security's value, including:
  - macroeconomic factors,
  - industry factors,
  - and company factors.

Fundamental Analysis

Importance of Fundamental Analysis

- Fundamental analysis answers the following question:
  - Is the company's revenue(sales) growing?
  - Is it actually making a profit?
  - Is it in a position strong-enough to outrun its competitors in the future?
  - Is it able to repay its debts?
  - Is management trying to manipulate the account books?

Fundamental Analysis

TOP- DOWN APPROACH

Global Economy, International Political Situation

Nations Economy, Macroeconomic Policy, GDP, Inflation, exchange rate, BoP, Interest rate

Industrial sectoral Trends. e.g competitve Market Structure, Government Industrial Policy

Refined Sectoral Trends e.g. competitor Product Development, Market Share, Product Position, competitive Adavantage

Regional/Local Market Trends

Company Specific Analysis (Management, Market Capabilities, Resource Availability, Ratio Analysis, Expanion Plans, Growth)

BOTTOM-UP APPROACH

2. Economy Analysis

Economic Indicators

- The first step to the fundamental analysis includes looking at the macroeconomic situation.
  - Business Cycle(Growth Rate)
  - Interest rates
  - Money Supply
  - Price Index(Inflation)
  - Exchange Rates
  - International Raw Materials
  - Foreign Investors
  - Balance of Payments(BoP)
  - Others (GDP etc.)

3. Industrial Analysis

- Industry Analysis looks at:
  - Past sales and earning performance
  - Labor condition within the industry
  - Attitude of government towards industry
  - Competitive condition
  - Stock prices of firm in the industry

Michael Porter's 5 Forces Analysis

Porter's Five Forces of Competitive Position

New Market Entrants, eg:

- entry ease/barriers
- geographical factors
- incumbents resistance
- new entrant strategy
- routes to market

Supplier Power, eg:

- brand reputation
- geographical coverage
- product/service level quality
- relationships with customers
- bidding processes/capabilities

Competitive Rivalry, eg:

- number and size of firms
- industry size and trends
- fixed v variable cost bases
- product/service ranges
- differentiation, strategy

Buyer Power, eg:

- buyer choice
- buyers size/number
- change cost/frequency
- product/service importance
- volumes, JIT scheduling

Product and Technology Development, eg:

- alternatives price/quality
- market distribution changes
- fashion and trends
- legislative effects

Company Analysis

- History, Promotors, and Management
- Technology, Facilities, and Production
- Product range, Marketing, Selling and Distribution
- Industrial relation, Productivity and Personnel
- Environment

PEST Analysis for External Environments

Political
- ✓ Political Stability
- ✓ Proper laws and legal framework
- ✓ Proper IPR protection
- ✓ Government policies
- ✓ Favorable tax policies
- ✓ Favorable labor laws
- ✓ Favorable policies for foreign investment
- ✓ Proper Security

Technological
- ✓ Technological Development
- ✓ Innovation
- ✓ R&D
- ✓ Skilled resources
- ✓ Easier acceptance of new technologies
- ✓ Information and Communication

PEST

Economical
- ✓ Economic Industrial Growth
- ✓ GDP Per Capita
- ✓ Purchasing Power Parity
- ✓ Number of Consumers
- ✓ Interest and Inflation rate
- ✓ Exchange rate and currency stability
- ✓ Unemployment rate
- ✓ Investment Opportunity
- ✓ Trade Balance

Social
- ✓ Demographic including growth rate, sex ratio, age distribution, Population density etc.
- ✓ Social culture and lifestyle
- ✓ Basic and Higher Education
- ✓ Human Development index
- ✓ Social safety and benefits

SWOT Analysis

	Strengths	Weakness
Internal	Latest Technology Lower delivered Cost Established products Committed manpower Advantageous location Strong finances Committed manpower Well-known brand names	Loose controls Untrained labor force Strained cash flows Poor product quality Family funds Poor public image
	Opportunities	**Threats**
External	Growing domestic demand Expanding export markets Cheap labor Booming capital markets Low interest rates	Price War Intensive Competition Undependable components Suppliers Infrastructure bottlenecks Power cuts

Business cycle

- The business cycle is the fluctuation in economic activity that an economy experiences over a period of time. A business cycle is basically defined in terms of periods of expansion or recession.

- Market structure

- Market trend

6. Asset allocation

– Asset allocation is the implementation of an investment strategy that attempts to balance risk versus reward by adjusting the percentage of each asset in investment portfolio according to the investors' risk tolerance, goals, and investment time frame.

- Why Diversify?
  - The market is Volatile!
  - Can you beat it? (Efficient Market Hypothesis)
  - Then, Do Diversify

- Factors to Consider

6. Asset allocation (Implementation)

1. Set up the performance target

- Think about for what you are going to use the fund later. Ex) living cost after retirement, house purchase, education expenditure of children

- Details of the performance target: time horizon, risk tolerance level (how much loss you can accept), tax rate, expecting performance target.

6. Asset allocation (Implementation)

2. Select target assets

- Rules of selection: 1) Diversification – there should be many different kinds of individual assets in the asset group, 2) Independence – one asset group should be independent from another asset group in terms of risk.

- High risk High return, Low risk Low return: Typical asset groups are bank deposit, bond, stock, etc. Among the three, bank deposit is the safest asset group with lowest expecting performance, while stock is the most risky asset group with highest expecting performance.

6. Asset allocation (Implementation)

3. Expected performance

- Expected performance is most possibly realizing performance.
- Bank time deposit is so easy to get the expected performance. However, stock is not easy, because the performance is affected by so many factors such as the global/domestic economy, the relevant industry, the company, etc.
- The best practice to get the expected performance of stock is to estimate by using the historical data, and possible scenario in the future.

6. Asset allocation (Implementation)

4. Risk

- Risk is caused by the future uncertainty.
- Risk is thought to be the difference between the expected return and the actual return.
- If the expected return is higher than the actual return, it is called downside risk. If the expected return is lower, it is upside risk.
- Many investors more focuses to avoid the downside risk.
- The other concept of Risk is fluctuation itself.

6. Asset allocation (Implementation)

5. Selection of the assets

- Select the lowest risk asset when the assets have the same expected return.
- Select the highest expected return asset when the assets have the same risk.

6. Asset allocation Vs Fund

- What is Fund? Fund is the act of providing resources, usually in form of money, or other values such as effort or time, for a project, a person, a business, or any other private or public institutions.

- Mutual Fund is a professionally managed investment fund that pools money from many investors to purchase securities.

- Why invest in fund? It is the first step of success.

Funds

- Professional Management
- Low Fee
- Diversification
- Low Cost of Entry
- Audited Performance Records and Expenses
- Flexibility

11 Ways TO SUCCESS

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SMILE

while others are frowning.

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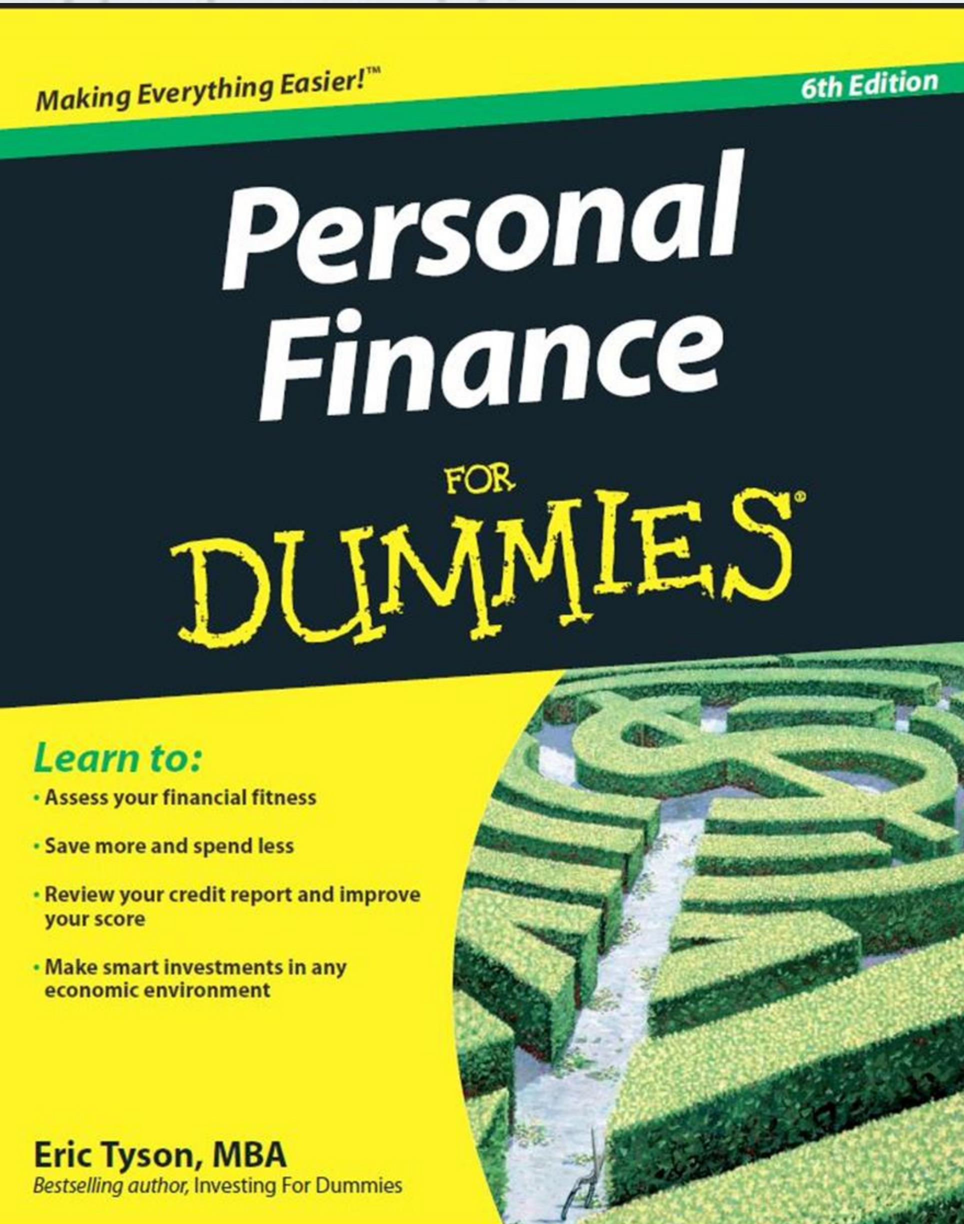
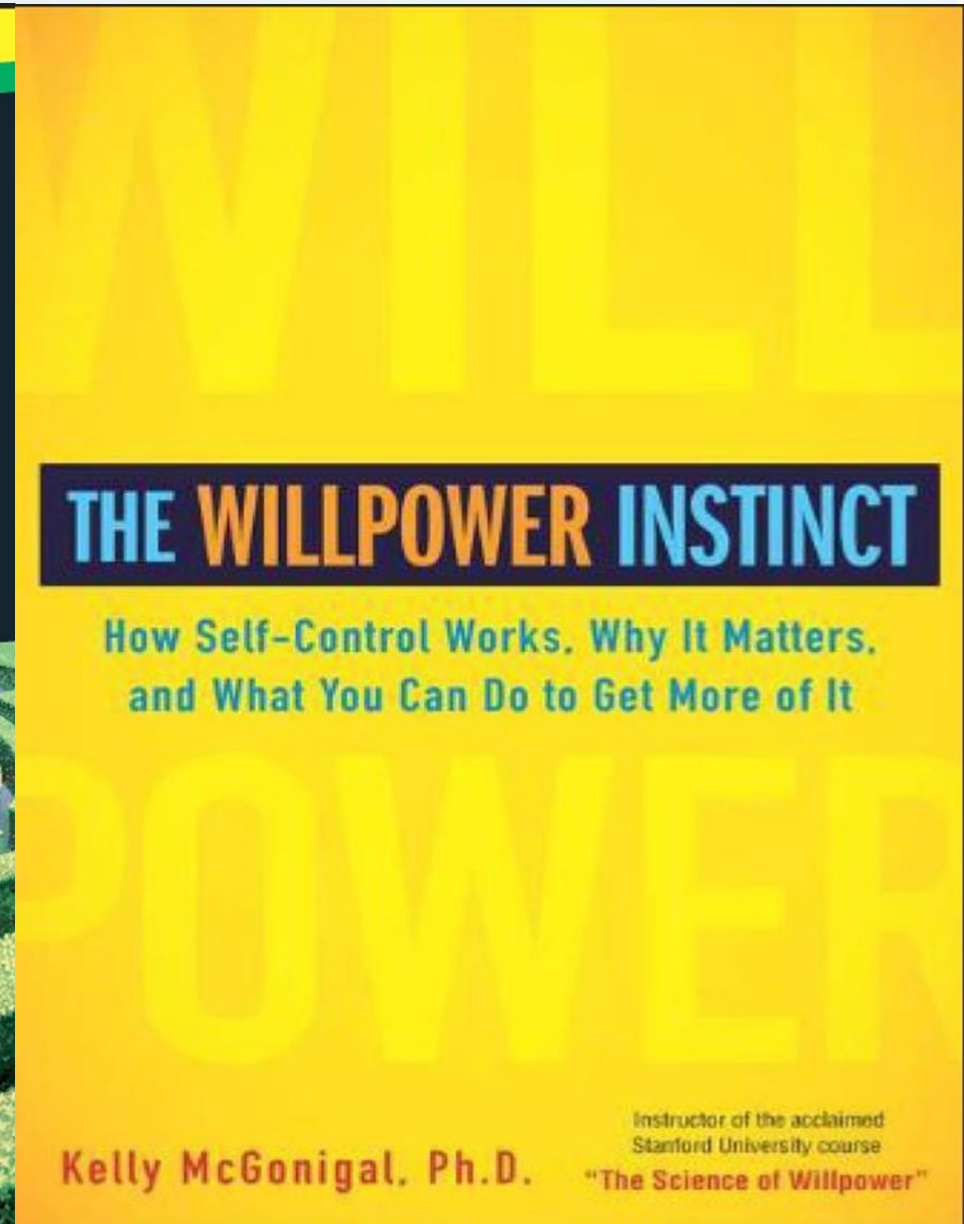
7. Financial Planning- real case

- Whole life financial planning
- How much to spend?
- How to earn that much money?

Recommended





Thank You!