

## Knowledge Towards Wealth and Wealth Management

## Chapter Outcomes

- What is wealth?
- Steps toward wealth
- Financial Planning
- Wealth creation

## What is Wealth?

- Wealth is not equal to richness.
- Richness is subjective term which has no definite meaning.
- Wealth is also not equal to income.
- A huge income does not guarantee that it will generate wealth. It is very much dependent on the person consumption habits.

## Wealth is ...

**Incomes – Expenses = Wealth**

**Assets – Liabilities = Equities (Wealth, Net Worth)**

- How much wealth you need?
  - Depends on your goals
- So, more net worth – you can reach financial goals easier

### Types of Incomes

1. Active Income: Work to get
2. Passive Income: Earn from assets (not from work).

## Why Wealth?

Millionaire

Richness                      Billionaire

Financial Freedom

## Financial Freedom

- When you have financial Freedom:
  - You do not have to work for income
  - You can choose whether or not to work and how to spend your time and energy
  - When **Passive income > Expenses**
- Before you can have financial freedom you need to have "**Financial Independence**"
  - Income > Expenses

## Passive Income Example

- Rental property
- Dividend from stocks, bonds and income trusts
- Bank fixed deposits and monthly income schemes
- Royalty from creative works e.g. photographs, books, patents, music, etc.
- Renting out professional or academic qualifications
- Interest earned from deposit accounts, money market accounts or loans
- Pensions

## Let's Check

- Using ratios to check your financial life
  - **Survival ratio:** check your *financial independence*
  - **Wealth ratio:** check your *financial freedom*

## Survival Ratio

$$\text{Survival Ratio} = \frac{\text{Active Income} + \text{Passive Income}}{\text{Expense}}$$

- Meaning:
  - If Survival ratio > 1
    - All income > expense
    - You have *financial independent*.

## Wealth Ratio

$$\text{Wealth Ratio} = \frac{\text{Passive Income}}{\text{Expense}}$$

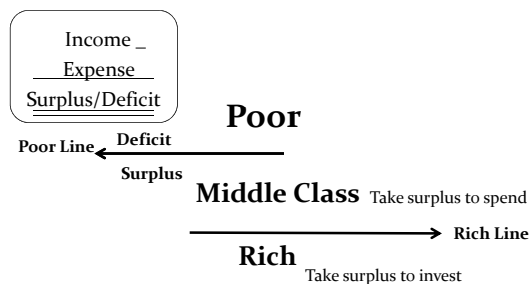
- Meaning:
  - If Survival ratio > 1
    - All income > expense
    - You have *financial Freedom*.

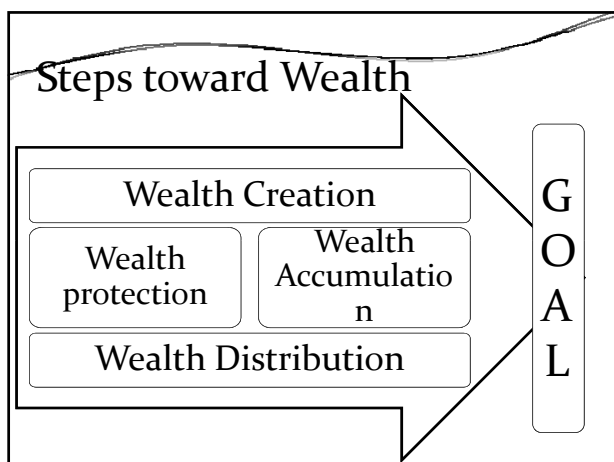
## Exercise

Mr. Adam gets income from work of 50,000 baht per month and income from renting his beach home for 20,000 baht per month. His total expenses per month is 60,000 baht.

1. How much is survival ratio?
2. Is Adam financially independent?
3. Is Adam having financial freedom?

## Line to distinguish between wealthy and poverty





### Wealth Creation

- Wealth creation involves the building of assets by means of careful investment into asset based investments
- Consumption Planning: increases income, and decreases expenses
- Usually over a long period of time so as to achieve an income stream that will ensure a continuation of a high quality lifestyle in the years beyond retirement

### Wealth Protection

- How to protect your wealth
  - **Insurance planning:** protect living and non-living assets
  - **Retirement Planning:** to protect your financial freedom after retirement

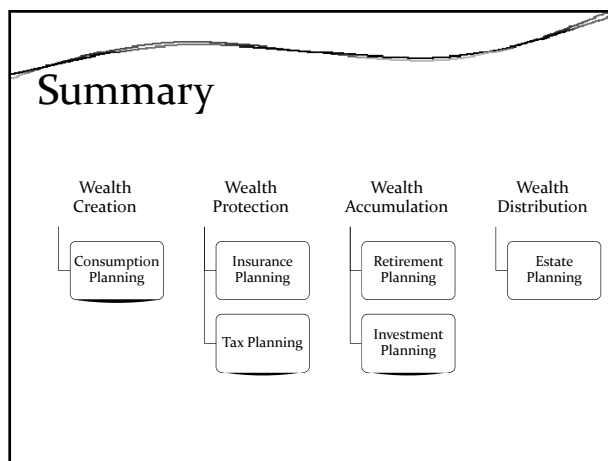
### Wealth Accumulation

- Wealth Accumulation can be achieved by
  - **Investment Planning:** in order to create more money in money and capital market under risk acceptance
  - **Tax Planning Strategies:** use legitimate method to reduce tax burden
    - Tax avoidance: The use of legitimate methods to reduce one's taxes.
    - Tax evasion: The use of illegal actions to reduce one's taxes

### Wealth Distribution

To transfer wealth

- **Estate Planning:** A definite plan for the administration and disposition of one's property during one's lifetime and at one's death



## Financial Planning

1. Check your financial health
2. Identify your financial goal
3. Build your financial plan
4. Act according to the plan
5. Review and revise your plan to achieve the goal

### 1. Check Your Financial Health

Check  
Financial  
Health

- To understand spending attitude and behavior

Build Personal  
Financial  
Statement

- To understand financial status and wealthiness

### 2. Identify Your Financial Goal

- Estimate your wants
- Differentiate between WANTS and NEEDS
- People have different wants and needs
- Start your plan with the NEEDS
- Prioritize all your goals

### 2. Identify Your Financial Goal (2)

Short Term (< 1 year)	Intermediate Term (1-5 years)	Long Term (> 5 years)
<ul style="list-style-type: none"> <li>• To satisfy your convenience in the near future</li> </ul>	<ul style="list-style-type: none"> <li>• To make you and your family live comfortably and happily</li> </ul>	<ul style="list-style-type: none"> <li>• To ensure the wealth and prosperity of you and your family</li> </ul>

### 3. Build your financial plan

#### Smart Plan

- S : Specific
- M : Measurable
- A : Accountable
- R : Realistic
- T : Time Bound

### 3. Build your financial plan (2)

Your plan need to cover these:

Consumption  
Planning

Insurance  
Planning

Tax  
Planning

Retirement  
Planning

Investment  
Planning

Estate  
Planning

### 4. Act According to the Plan

### 5. Review and revise your plan to achieve the goal

- Regularly review and revise your plan every 6 months
- Make sure the plan is conform with the reality and realistic

### Wealth Creation

- 4 Hows toward wealth
- Save First Rich First

### 4 Hows Toward Wealth

### How to earn

- Knowing how to use your ability (Human assets) to generate income from different channels both from work and investment

<b>Employee</b> • Salary • Bonus • Commission	<b>Business Owner</b> • Profit from business	<b>Investment</b> • Interest • Dividend • Capital Gain
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### How to save

Knowing how to save and build saving discipline to expand saving base for the increasing future earning. *[Pay yourself first: Save before spend]*

<b>Minus Ten Strategy</b> Deduct 10% of earning to save before spending	<b>Plus Ten strategy</b> Add 10% of spending to saving
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## How to spend

Knowing how to spend on needed items not to all wanted items in order to build more saving

### Smart Buy

- Buy needed items
- Choose cheaper price per unit with good quality

### Smart Use

- Use items with care
- Saving in different ways

### Smart Life

- Value is not about price

## How to invest

Understand how to invest your saving on various types of investment in order to diversify risk and gain appropriate return.

Study different types of investment risk-return

Select appropriate types of investment that fit for your risk return preference

Invest to build your wealth

## Save First Rich First

### • Why Saving?

Reasons:

- Saving is security
- Changing in life cycle

## Saving is Security

- For emergency use
- For further education, personal business, making purchase of items you want
- For building life security while you still work
- For better future of yourself and your family
- For retirement
- For your children to inherit

## Changing in Life Cycle

- Nowadays, higher education is common and it requires money
- People start working late but retire sooner; therefore, lessor time to work and earn income
- People get married and have kid late in life. They depend on themselves and need more money.
- Life expectancy is longer; therefore, higher saving needed for spending after retirement.