FREEDOM

HOW TO INVEST CONFIDENTLY AND LIVE HAPPILY WITHOUT WORRYING ABOUT MONEY, EVEN DURING A MARKET DOWNTURN

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Kanyin™
PUBLICATIONS

Acknowledgements

Thanks to my parents, my wife and my kids for your unconditional support and love.

Thanks to my readers. Your invaluable comments are one of the reasons for the success of this book.

Thanks to Mr. Adrian Kok and Ms Carol Lin for their useful advice on the writing of this book.

Last but not least, special thanks to www.chartnexus.com for permission to use the chart reproduced in this book.

Table of Contents

Introduction

What does FREEDOM mean to you?

Ask yourself this question: What is FREEDOM to you? Having millions of dollars? Buying your dream cars or houses without a second thought? I bet the list goes on. Now, calm down and think again. How would you define FREEDOM, and what does it really mean to you?

In the context of this book, FREEDOM is defined as having adequate **financial resources** to sustain an individual's as well as, where applicable, his dependents' **basic living requirements** without an **active income** and at the same time, being **the owner of his own time**. The definition looks simple but, I believe, not everyone will understand it or know how to achieve this kind of freedom. This book hopes to define what is meant by FREEDOM, and show you how you may, easily, acquire it.

Shall we study the definition? First of all, let us look at the quantitative portion of the definition i.e. financial resources and active income. Why do most people have to wake up and travel early to the office and work non-stop like a machine for a third or more of a day just to ensure work is completed, people are impressed and they are paid a salary at the end of the month? Why do most people have to do this every day even though they may be unwilling to do so? Well, simply because they have to work hard for money. Why do people need money, then? Well, they need it to fulfil their needs and wants in life. The more needs and wants an individual has, the more money he needs. The income that you earn through effort and time is called active income. You are spending your time on working for money. That means that you will have less time for yourself. Sometimes, you do not only sacrifice time but also your health to get that monthly pay cheque. Some of you might even wonder if the endeavour is worth the sacrifice.

FREEDOM is being able to earn an income without having to sacrifice your time, health or anything else that might be precious to you. Change your mindset to bring money to you and to make your money work for you. You do not need to spend time on what you are unwilling to do. Collect enough financial resources to generate inactive income. You may wonder how to get to that stage; I will show you how in this book.

The qualitative portion of the definition consists of two important elements. They are "life requirements" and "free time". We need to define what our ideal lifestyle is in order to live happily without active income. In short, we want to have a more meaningful life. This is very personal and it is totally up to us how we are going to define our "good lifestyle". To me, a good lifestyle should give me more time with family and pursuits I enjoy and less stress so that I can enjoy a tranquil mind and better health. These, I strongly believe, can't be bought by money. What is your ideal lifestyle?

I know that for some of you, your monthly income is simply not enough to cover living expenses, comforts and extras. How will you ever have enough left over for anything else? Well, is that really the case? Do consider again whether your living standard really is in line with your earnings. I have a friend who has been an Account Assistant for 15 years and currently is earning an average monthly salary of $2,200 net, and she keeps complaining that money is not enough. I suggested she read some books to learn how to manage her money. Her response was to ask me how much such a book would cost. Obviously, she had not been to a book shop for a while. I replied that it could be at least $20, probably more. She exclaimed it was too expensive, and besides, she had no time to study. However, a few days later, I noticed that she was holding the latest model of the smart-phone, which costs more than $1,000, in her hand. I wondered how she could spent 45% of her monthly take-home pay on a smart-phone but could not afford a beneficial book that cost only $20. When I asked her if the smart-phone was a necessity, she replied that she had to keep up with the latest technology. Is this the correct mindset towards money management? What, to her, was the value of a $1,000 smart-phone compared with a $20 book on money management? Well, I am not saying that you should not keep up with the latest technology. In this example, the "moral" is that if you keep spending your hard-earned money on non-basic life requirement expenses, you will never have enough money to attain FREEDOM. Think twice before you spend.

Do note that a clear definition itself will not bring you FREEDOM: freedom requires ACTION. You need to eat when you are hungry. You just can't satisfy your need for food by imagining that you are eating but not actually eating anything.

Ask yourself what your New Year resolutions were a year ago. How many of them did you achieve, and why? Accept the fact that most failures are the result of:

1. NOT HAVING AN ACTION PLAN: You know you want to be your own master but don't know how to realize this. Thinking about it but not having a proper action plan will take you nowhere. It is the same if you wanted to drive from Kuala Lumpur to Bangkok: you would need a road map or GPS to give you the directions that would take you there. Otherwise, you would never reach your destination. To acquire the FREEDOM you desire, you will need a "road map" that shows you how to arrive at your destination. You will also need follow-up action (as highlighted in point 3 later) that will ensure that you are on the right track.

2. LACK OF STRONG BELIEF/SELF-CONFIDENCE AND DISCIPLINE: If you keep telling yourself that you will not be able to attain FREEDOM, you never will. Believe me, strong belief will give you power to generate an action plan. Never underestimate the power of self-belief. Having confidence in you is a very important element to achieving success.

3. NOT REVIEWING YOUR PROGRESS AGAINST YOUR ACTION PLAN: Without reviewing your progress against your action plan, you might not have an idea of where you are at present, and therefore, the chances of you giving up are very high. Why do schools need to give students regular assessments? Simply because they have

to chart the progress of their students and where necessary, make adjustments to their teaching strategy. This is part of the process of monitoring and following up. To attain FREEDOM, you have to regularly monitor your progress against your action plan and make the necessary adjustments if you see that your progress is not in line with your plan.

There is another important point I would like to highlight here: do not fall victim to the myth that only people who earn a lot of money are rich, or only people who drive expensive cars and live in big mansions are rich. Quite often, this is not the case. Yes, they are high earners. But some of them are also big spenders and, sometimes, big borrowers as well. The key towards FREEDOM is not a matter of how much you earn but how much you can save and how well you can make your savings work for you. In others words, how much you are worth is more important than how much you own as what you "own" might not be 100% "owned" by you. Get the picture?

From reading this book, you may also come to realize that to acquire FREEDOM you may not require millions of dollars. There is absolutely nothing wrong with keeping a frugal lifestyle that allows you to achieve FREEDOM although you might only have a few hundred thousand dollars and not millions of dollars. More importantly, we need to have a clear vision of what we mean by a "good life", and make it the goal towards which we work. Without a clear goal in mind, you will blindly follow others and try to reach their goals rather than yours. Only you know your needs. So, set your goals for a "good life" now, and do all you can to achieve them.

My Route to FREEDOM

I am not a financial planner or a stock broker. I am neither an insurance nor a unit trust agent. I am a normal person who used to work for a living who now finds that having a full-time job is just an option, not a necessity.

I recall the time when I first had this idea way back in the year 2002; I had no idea how to begin as I did not have a clear "road map". I read many books and attended many seminars and talks. However, I realized that the more I knew, the more confused I became. The fact was those so-called "Professionals" dumped tons of "information", "facts", "truths", "advice" and whatever else on me, and I found everything they said very hard to understand. After every talk, I see many people rushing to the organizer's counter to sign up their services. I always wonder if I should be doing so as well.

Fortunately, I did not follow the crowd simply because I do not believe everything I hear until I have tested its truth. After attending talks, I would look into the suggestions given. For instance, if I had attended a talk on stock investment, I would monitor the performance of funds or other investment methods after that to validate what I had been told. Each time, however, I was disappointed. Sometimes, I even asked myself, was I just wasting time? Still, something kept me wanting to learn more; at least when I lost money I gained experience.

Therefore, instead of just listening, I started to participate. I became an insurance agent as well as a unit trust agent. My purpose was not to sell the products but to learn from the process. My in-depth understanding of these products has really helped me in gaining financial success. Of course, as my purpose in becoming an agent was to enhance my understanding and knowledge of these financial products, I quitted a year later as I had a number of disagreements with my up-line. Despite this disappointment, I learnt the approaches and techniques which most agents use to close sales. I know what the drawbacks are and how to filter them out in order to make the right decision.

My "road map" towards my ultimate financial objective becomes clearer via a number of practical actions taken, and I would like to share my experience with my readers. As I am just like you, I believe my experience will definitely provide you with a clear and straightforward guide to expedite your progress towards your financial objectives. After reading this book, you will find that my methods are actually quite conservative.

As you may know, the outcome of any work you concentrate on fully will always be impressive. The meaning of full concentration is that you are able to focus on what needs to be done without allowing yourself to be distracted in any way. However, life is full of uncertainty. Distractions such as limited resources and an unforeseeable future might swerve your attention away from your goal and lead you to an unfavourable ending. Therefore, this book intends to help you arrive at peace of mind first.

I would like you to know that you DO NOT NEED:

1. to accumulate a substantial retirement fund to fulfil your financial objectives as the "professionals" might have told you;

2. a big sum assured from your insurance coverage as some insurance agents might have told you;

3. to invest aggressively to make big bucks for early retirement as some financial planners or stock brokers might have told you.

What you actually need to do is to:

1. know your actual commitment before deciding on a sum for insurance coverage (covered in Chapter 7) to avoid paying too much as this will lead to your having less money for an investment fund;

2. know how much you need in a retirement fund, and work towards this (covered in Chapter 8);

3. know how to invest in stocks successfully and confidently via different media to meet your financial needs (covered in Chapters 9, 10 and 11).

4. protect your investment against market fluctuation which (covered in Chapter 12).

In short, this book will tell you how to stretch your dollar to the maximum in order to have more investment funds available to attain your investment objectives with peace of mind. In addition, I will show you how to remain successful in investment even during a market downturn. To maximize the power of the investment techniques shown in this book, I strongly suggest you to read it along with my previous book, “Infinite Wealth”.

If you are a fresh graduate or young working adult, this book is for you; take advantage of the tips to plan early to attain financial success. Those who are middle-aged or retirement age may use my “low-risk” investment approach to deal with financial burdens and/or enjoy your retirement sooner rather than later. I have succeeded using these methods, and I want to show you how easy it is for any working individual to fulfil his financial dreams. Let us begin our journey to FREEDOM.

Chapter 1: This Is Life

I was not born into a wealthy family. My father was a tailor and my mother was his assistant. My parents came to Johor Bahru during the late 1960s from their hometown, Tanjung Sepat. The children who came later added to their burdens. They used to rent an extremely small shop-lot near Jalan Wong Ah Fook to earn a living. Business was slow and they did not earn much. But they did have a lot of time to spend with us. Yes, maybe we were still too young to understand what financial burden meant, but we definitely felt happy whenever our parents were with us. After years of hard work, when I was six years old, my parents finally managed to own a shop-lot in a new commercial complex where they continued with their tailor business.

New and comfortable business surroundings did not cause their tailoring business to flourish, and they definitely needed more money for their fast growing children. When I was nine years old, my parents decided to give up tailoring and open a coffee shop instead.

Now they earned a higher income, but this was only through hard work and hours spent on getting the business to take off. That, of course, meant that my parents could not spend as much time with us as they used to. My parents used to take us for picnics and outings like to the zoo; they used to be an activity every Sunday, and it made us very happy. The scenario, however, gradually disappeared when they had to work on Sundays, which turned out to be the busiest day of the week for coffee shops.

Every day, my younger brothers and I had to finish our lunch after school and do our homework in the noisy coffee shop. Our mother no longer had time to check our school work. We had to take care of ourselves. Fortunately, we were all strongly motivated to do well in school, and this kept us at the top of the class. All of us made it to Chinese independent secondary school.

However, as we grew older, we did wish for someone who could be there to guide us. In the late 1980's, we used our peers as role models, and dressed as our schoolmates did and copied their behaviour. We wore fluffy clothes, took up roller-skating and hung out at snooker centres after school. We began to pay less attention to our school work. The more we attached ourselves to our friends, the worse our school results were.

Towards the end of the year, when we realized our unfavourable school results might put us into detention class for another year, we stepped on the "emergency break" and began to pay attention to school work again. We had to sacrifice leisure activities and hit the books urgently in order to get our school results back on track.

After I completed secondary school, I pursued a pre-university course in Subang Jaya. I really enjoyed my study life far away from home. I enjoyed my "freedom" but did not let go of my studies. College fees were high, and I really did not want to waste my parents' hard-earned money and get nothing out of it at the end.

Time passed really fast, and it was the time for me to choose a university for further study. My pre-university scores were sound and, I was offered seats by three Australian universities. I selected the one located in Perth as the travelling time from KL to Perth would be the shortest.

I flew to Western Australia in 1992, about five thousand kilometres away from home. I was not as worried about myself as I was about my parents back home. Maybe I was used to taking care of myself when my parents had been too busy to do so in my growing-up years.

Studying in Australia was really costly. Besides the university tuition fees, there were my daily living needs to take care of. The living standard in Australia was very much higher, and I had to carefully plan my spending to ensure I lived within the available funds.

My university degree was a double-major in "Finance and Marketing". I really enjoyed studying finance as it taught me the time-value of money. It has helped lead me to my financial success now. I returned from Australia in 1995 after my graduation.

My parents retired in 2002 after having worked for more than 35 years. I really appreciate all my parents did for me and my brothers. They tried hard to ensure that their three children obtained a good education and had sent us to study in Australian universities. The cost of having sent three children to study abroad, I believe, was about $1 million back then. Let's put it in another way: if they had not sent us overseas, they would have been multi-millionaires. Despite this, they were still able to retire with sufficient retirement funds. So, what is their secret? Well, they have always been good savers. By the time all three of us had graduated, they had saved more than 70% of what they had earned with good control on living cost. They had no knowledge about stocks, bonds or unit trust investment; all they knew was that they had to save. I really can't imagine how wealthy they might be if they had known how to invest.

More Time

Just like in the good old days with my parents, when they spent so much time with us, I really want to have more time with my family, especially with my children. I believe if I miss the chance to be with them when they are young, they might no longer want to be with their parents when they are older.

I also really want to have more time to do what I love doing when I am still able to. The average life expectancy of a Malaysian male is about 72 years. If you work hard, really hard, from age 19 to the retirement age of 55, you only have 17 years left to enjoy the fruits of your labour after having worked so hard for 37 years. But, to enjoy your retirement years, you need to still be healthy. When you are ready to retire, you might be plagued by diseases because you never had the time to take good care of your body during the 37 years of your working life. Money will be required to have your doctor extend your life to the age of 72. You might not survive without medicines and doctors. By then, you might also find that all your savings have been spent not as you had planned originally but on doctors and medicines. You no longer have enough money to fulfil your dream. A pity, isn't it?

Even though I cannot guarantee that anyone can escape 100% from sickness by retiring early, I would say that long-term happiness is an effective way to keep you healthy along the way. So, the idea here is to be financially free as soon as possible to stay happy. Based on financial time value calculation, the sooner I start, the earlier I can achieve this target. I officially started to work at age 24 after graduation. Therefore, technically, I have earned less by at least five years than those who started work at age 19. However, what I studied and learnt in those five years have allowed me to catch up in terms of earnings.

To me, FREEDOM has many expressions. It can mean:

1. having the time to study your field of interest
2. spending more time on your hobbies
3. starting your own business
4. having the option to do nothing at all
5. travelling around the world
6. sharing your love by helping others

and much more!

Of course, what my expression of FREEDOM looks like is very much subject to my desired lifestyle. If I opt for a high living standard, I would definitely need to accumulate more wealth before leaving my job. In this case, my current earning power will also decide how early I can attain my FREEDOM.

Therefore, with a mind clear about what you desire, you should next look at the discrepancy between your current financial resources and the financial resources you require to reach your target, and generate a plan to narrow down the gap. When generating your plan, you should consider four elements: available resources, time, inflation and returns.

Four Elements that Affect Your Route to Freedom

Here are the four elements that you need to carefully consider when generating your road map.

1. Available resources: We need to know where we are now. This information can be obtained from our personal Net Worth Statement, which will be discussed in detail in Chapter 4. Our Net Worth Statement clearly indicates what assets and liabilities we are holding as well as our net worth. Also, we need to look into our personal cash flow

statement (Chapter 5) to understand our fund movement as well as cash availability. In other words, we are actually collecting information about our financial strengths and weaknesses. Of course, what we need to do at this stage is to enhance our strengths and overcome our weaknesses while having a clear goal in mind.

2. Time: Without time, no financial plan will work unless you are lucky enough to win the lottery! Of course, the more practical and certain way to achieve FREEDOM would be to fully utilize the full potential of your money and time to work for you. The power of mathematical multiplication will help you with the time factor. For example, if you invest $100,000 in year 1 with an annual return of 6% p.a., you will double your money in 12 years.

3. Inflation: It is a hidden and terrible force that is able to take away your purchase power at any time. We will discuss this in detail in Chapter 8.

4. Return: With consideration of available resources, time and inflation, we should seek the best possible rate of return on investment to attain our investment objectives. Keep these points in mind :

a. The higher the ROI (Return on Investment), the shorter the time required. Assume you have an initial investment capital of $1,000. You only need eight years in order to double it with an ROI of 10% per annum while you would require 15 years should your ROI be only 5% a year.

Case	Initial Capital	ROI	Years of Investment	Final Amount
A	$1,000	10%	8	$2,144
B	$1,000	5%	15	$2,079

Table 1-1

b. Higher availability of initial resources means a lower ROI (Return on Investment) is required and vice versa. For example, with only an initial capital investment of $1,000, you will be able to double your fund to $2,000 in eight years if your ROI is 10% per annum. What is the ROI required if you have an initial outlay of only $500 while variables remain constant? You will need a mighty ROI of 20% per annum. Of course, a higher ROI can translate into higher risk.

Case	Initial Capital	ROI	Years of Investment	Final Amount
A	$1,000	10%	8	$2,144
B	$500	20%	8	$2,150

Table 1-2

c. A longer investment time-frame means a lower ROI is required and vice versa. Let us assume that you have an initial investment capital of $1,000 with an investment time frame of eight years in order for your fund to double. In this case you may need an average yearly ROI of 10% to attain your target. On the other hand, assume that your investment time-frame is 15 years. You need an average annual ROI of only 5% to achieve your target. In this case, you have the options of investing in a relatively lower risk investment vehicle.

Case	Initial Capital	ROI	Years of Investment	Final Amount
A	$1,000	10%	8	$2,144
B	$1,000	5%	15	$2,079

Table 1-3

d. A lower inflation rate means a lower ROI is required and vice versa. As highlighted earlier, inflation is our enemy because it eats into our purchasing power. In other words, our ROI will shrink if we factor in our personal inflation rate but our return cannot give us its full value in terms of our purchasing power. So, the critical part here is to consider how we are going to beat our inflation rate so that our purchasing power, at least, is maintained. Let's assume that you have an initial investment capital of $1,000, with a personal inflation rate of 5% and an annual ROI of 10%; you will need 15 years to double your funds. However, you only need an 8% ROI if your personal inflation rate is 3%. See the difference?

Case	Initial Capital	ROI	Inflation	Years of Investment	Final Amount
A	$1,000	10%	5%	15	$2,079
B	$1,000	8%	3%	15	$2,079

Table 1-4

You should be able to see clearly now how these factors directly affect your ROI. Taking these factors into consideration, a lower ROI requirement may translate into less pressure in life on the back of less risk exposure. You will be happier as you are confident that you are on the way to financial freedom.

So, start to invest now. Start as early as possible. Let time and mathematical multiplication work for you. There is one last reminder I would like to give: structure your investment in such a way as to generate a return that is higher than your personal inflation rate. Otherwise, achieving FREEDOM will be quite impossible.

In subsequent chapters, I will show you how easy it is to attain your investment objectives without exposing yourself to high risk. Can't wait? Shall we begin?