

FOR MORE INFORMATION



LOG ON TO

**[www.bankinginfo.com.my](http://www.bankinginfo.com.my)**

OR VISIT OUR KIOSK AT MOST BANKS

Wealth Management for Small and Medium Enterprises

banking info

INFO PERBANKAN

FINANCIAL  
PLANNING AND YOU

Wealth Management  
for Small and Medium  
Enterprises

A consumer education programme by:



**BANK NEGARA MALAYSIA**  
CENTRAL BANK OF MALAYSIA



PERSATUAN BANK BANK DALAM MALAYSIA  
THE ASSOCIATION OF BANKS IN MALAYSIA

1	Introduction	10	What should be in your plan? Your responsibilities as a client Investing via wealth institutions
2	What is wealth management? How to start?	11	Benefits of wealth management
3	What are the aspects of wealth management?	12	Frequently asked questions
4	Cash flow planning Investment planning and management What are the types of investment products suitable for you?	13	Appendix I - Sample risk profiling
6	Insurance planning Tax planning Retirement and succession planning	15	Appendix II - Sample of an investment plan
9	Estate planning Wealth management institutions	19	Glossary

**Disclaimer**

This document is intended for your general information only. It does not contain exhaustive advice or information relating to the subject matter nor should it be used as a substitute for legal advice.

Date: 1 April 2007



# Wealth management

is not only for individuals  
but is also applicable  
for businesses

## Introduction

You often hear about wealth management for the rich or high net-worth individuals. However, wealth management is not only for individuals but is also applicable for businesses. This booklet provides basic information on aspects of wealth management that may be undertaken by small and medium enterprises (SMEs) in managing their assets to achieve their financial goals.

# Wealth management is about managing your wealth or surplus funds to achieve a financial goal

## WHAT IS WEALTH MANAGEMENT?

Wealth management is about managing your wealth or surplus funds to achieve a financial goal, e.g. to ensure capital invested is kept intact or the investment risks are well managed at all times.

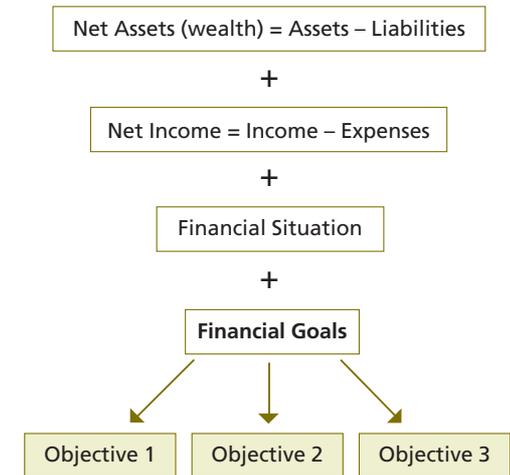
Wealth is defined as your net assets, after deducting your debt (or liabilities).

## HOW TO START?

Before deciding how your money should be managed, you need to determine the financial situation and financial goals for both you and your business. To do this, you need to:

- Understand your business and personal financial goals and constraints
- Analyse your business and personal financial position using net worth and cash flow analysis
- Assess your business risks and personal risk profile

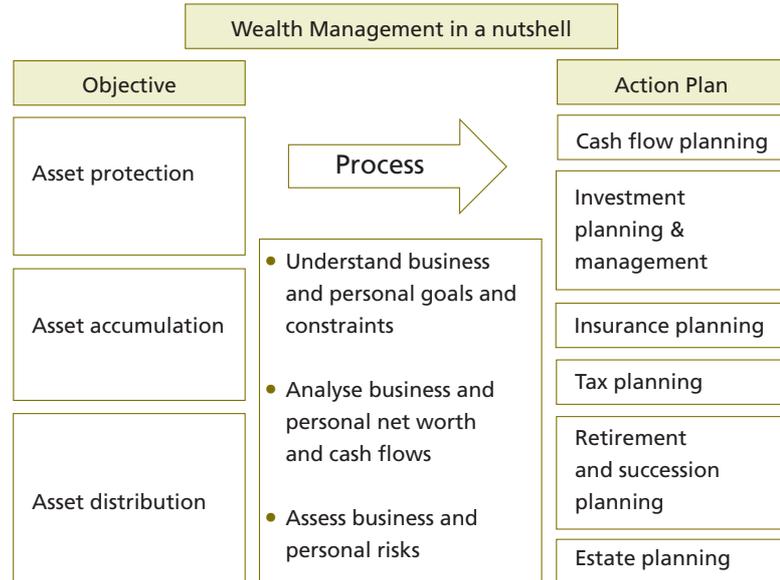
You need to take into account your personal financial situation because as a business owner, your financial situation is closely tied to the state of your business. Once you have determined your net worth and set your goals, you will need to have an action plan to achieve these goals.



## WHAT ARE THE ASPECTS OF WEALTH MANAGEMENT?

Currently, many businesses practise some forms of wealth management through insurance and investment. A comprehensive wealth management plan should generally include ways to maintain, grow and distribute assets which would involve the following:

- Debt / cashflow planning to enable efficient and optimum use of credit for the business
- Investment planning and management to maintain wealth and ensure adequate returns
- Insurance planning for business protection (e.g. fire, theft, marine or key-man insurance) and personal protection (death, disability, critical illnesses and household)
- Tax planning to minimise unnecessary cash outflows and ensure efficient cashflow management
- Retirement and welfare planning for employees to ensure retention of key staff for business continuity



- Retirement and succession planning to ensure that the business can continue to operate smoothly when the business owner leaves the business
- Estate planning to ensure efficient wealth transfer to successors / beneficiaries

## **CASH FLOW PLANNING**

Managing cash inflows and outflows is the first step to have a better understanding of your financial position. Proper management of your cash flow would allow you to utilise any surplus funds to your benefit based on their availability over the short, medium or long term and also allow you to meet your obligations as they become due.

## **INVESTMENT PLANNING AND MANAGEMENT**

Your investment plan would depend on your goals and your willingness to take risks. You need to monitor and perform regular review on the performance of your investments to ensure that you are on track to achieving your goals. Your investment plan may be modified based on the performance of your investments or changing market conditions.

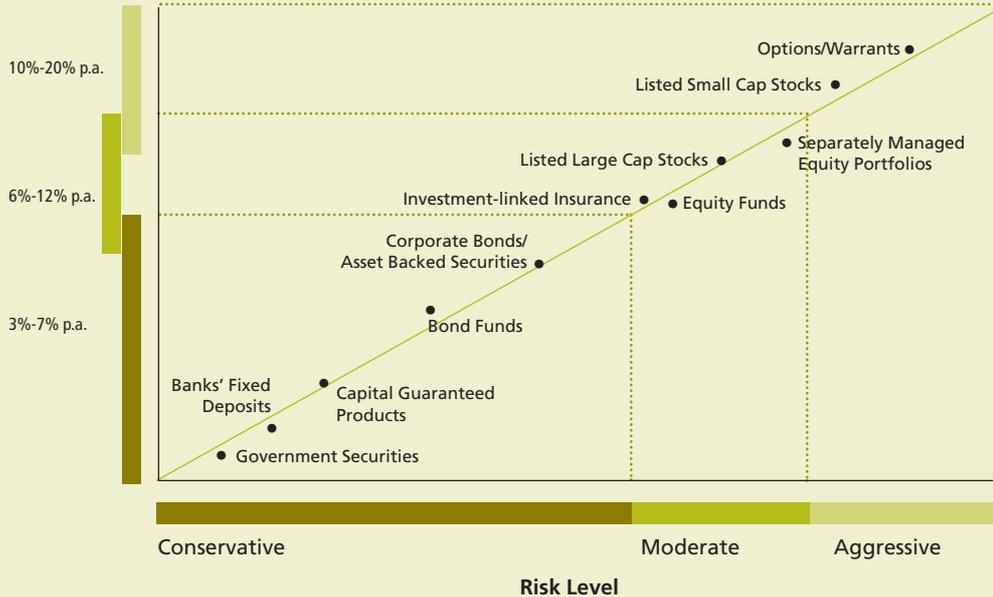
In designing an investment plan, you need to consider:

- Your investment objectives
- An asset allocation strategy to meet the investment objectives
- The types of investment products to meet your goals

## **WHAT ARE THE TYPES OF INVESTMENT PRODUCTS SUITABLE FOR YOU?**

It is important to understand the product before you invest as different investment products have different risk levels and time period for the product to provide the best yield. The chart on page 5 illustrates the risk and potential return of the common types of investment products.

## Potential Return



**A comprehensive**  
wealth management plan  
should generally include  
ways to maintain, grow  
and distribute assets

Your  
**investment  
plan** would  
depend on your  
goal and willingness  
to take risks

There is a trade-off between risk and return. The higher the potential return, the higher the potential risk. It is advisable that you invest only in products that are consistent with your risk appetite. For more information on factors to consider before investing and the do's and don'ts on investment, refer to the BankingInfo booklet on "Investing Your Money".

#### **INSURANCE PLANNING**

An insurance programme should be part of your plan to protect against the risk of unexpected financial losses. This will include protection for losses from fire, flood and other risks to your business and the purchase of health and life insurance for yourself and your employees. The amount of insurance depends on your needs, the circumstances as well as the objectives. Insurance protection should be reviewed regularly to ensure that the protection is adequate based on your current situation.

#### **TAX PLANNING**

The goal of tax planning is to manage your financial affairs to minimise your tax payable. The amount of tax payable will affect your decisions on the following:

- Investment
- Borrowing
- Savings

You may refer to the Income Tax Act 1965 for further information on the types and amount of taxes that are levied on different types of income and the types of expenses which are deductible from your income. Alternatively, you may also seek advice from a tax consultant or a financial adviser.

#### **RETIREMENT AND SUCCESSION PLANNING**

Retirement planning is an essential aspect of wealth management. As a business owner, you will need to consider the following issues:

- The timing of your retirement
- The amount of money you need to continue your current lifestyle
- The succession plan as to who and how the business will be run after you retire. This is to ensure that there is a plan in place which will maximise the selling price of your business or enable the business to continue with minor disruption

Factors to consider when developing a retirement plan are:

- Future retirement needs
- Current living standard / style and future expenses
- Total funds accumulated (investment & savings) taking into account inflation, insurance and taxation
- Family circumstances (number of dependants, age, education needs, etc.)





With a **succession plan**,  
you can minimise the risk of family  
disputes and business disruption

Succession planning allows business owners to deal with their businesses in an organised manner in the event of premature death, total and permanent disablement or retirement. The sudden loss of a business owner without proper succession planning will affect the goodwill of the business and may cause liquidity problems. It is even more important if the family members have no knowledge, expertise or interest in continuing the business. As a business owner, you should begin succession planning early to ensure an orderly and efficient transfer. With a succession plan, you can:

- Minimise the risk of family disputes and business disruption
- Retain shareholdings of the business within the family or transfer it to persons of your choice
- Plan your exit from the business

## ESTATE PLANNING

Estate planning is the process of making proper arrangements for the disposition and management of one's estate at death. This can also avoid legal and administrative complications that may arise. Benefits of estate planning include:

- Smooth and efficient transfer of wealth to family members or loved ones (taking into account legal complications and timely action)
- Proper management and / or distribution of wealth / business
- Avoidance of disputes / legal tussles over the distribution of wealth

Wills, trusts and foundations are common tools used for estate planning.

## WEALTH MANAGEMENT INSTITUTIONS

As wealth management involves various aspects, you may want to seek professional advice. There are many institutions offering wealth management services, such as commercial banks, merchant banks,

unit trust agencies or entities specialising in financial planning. However, not all institutions offer a full range of wealth management services. You should check around, assess their reputation and find out their credentials before you make your selection. For example, financial advisers should be licensed either by the Securities Commission for providing advice on securities or by Bank Negara Malaysia for financial advice relating to insurance products and services.

The criteria you should consider include:

- The range of wealth management products and services provided
- The quality of the wealth management officers, whether the institution has professionals who are knowledgeable
- The reputation of the institution. Look for one with a good track record



### WHAT SHOULD BE IN YOUR PLAN?

Your wealth management institution will normally give you a written plan based on the information provided by you. Ensure that all facts and figures are accurate and that the strategies and recommendations meet your goals. The plan should:

- Outline your current financial position and financial goals
- Explain the overall strategy to achieve your goals
- Recommend investments and other strategies to manage your money
- Describe how the investments and strategies recommended will achieve your goals
- Discuss the risks associated with each investment choice
- Disclose all fees and commissions

### YOUR RESPONSIBILITIES AS A CLIENT

As a client, you will be asked by your wealth management institution to give a fair amount of information about your company and the owners, i.e. yourself and your business partners. This is to enable the wealth management institution to draw up a financial plan that fits your financial goals and to comply with the requirements of the Anti-Money Laundering Act 2001.

### INVESTING VIA WEALTH MANAGEMENT INSTITUTIONS

Most wealth management institutions impose a minimum amount for investment. This ranges from RM50,000 to RM1 million. These funds could be invested in various investments such as fixed deposits, listed equities, corporate bonds, unit trusts or structured products.

Before recommending any product to you, the wealth management institution will need to determine your risk profile. Different wealth management institutions adopt different risk profiling tools to assess the clients' risk appetites. The most common method used is questionnaire approach. A sample of the risk profiling questions and sample plan for an investment plan are given in Appendices I and II.

Before signing up with a wealth management institution, you should:

- Ensure that it has clearly explained all information regarding its services
- Seek clarification if needed
- Confirm the fees and charges that are applicable to your account

After signing up as a client, you should:

- Obtain timely statements for all the transactions that were made on your behalf

- Obtain monthly statements that summarised your investment portfolio and the transactions made during the month
- Review the performance of your investments over time by comparing the Time Weighted Rate of Return (TWRR) of your portfolio against fixed deposit rates (for conservative investors) or Kuala Lumpur Composite Index (KLCI) (for aggressive investors)

#### **BENEFITS OF WEALTH MANAGEMENT**

Benefits of wealth management include:

- Better utilisation of free funds
- Minimising tax on investment
- Maximising return on investment on a given risk appetite

**Ensure** that all facts and figures are accurate and the strategies and recommendations meet your goals

## FREQUENTLY ASKED QUESTIONS

### **Why should I consider wealth management?**

Wealth management is designed to help you maintain and grow your wealth during your lifetime and beyond. It starts with an in-depth analysis of your financial situation and investment objectives. Thereafter, an investment strategy is recommended and proactively managed to meet those objectives.

### **Why do SMEs need succession planning?**

One of the most difficult issue you may face as SME is how to divide your business among your next-of-kin. It is a sensitive issue and an early planning can help avoid the problems that may arise later. According to statistics collected by the Family Firm Institute of Brooklyn, Massachusetts, "nearly 70% of all family firms fail before reaching the 2nd generation, and 88% fail before the 3rd generation; only about 3% of all family enterprises survive to the 4th generation and beyond."

### **What is asset allocation?**

Asset allocation is the process of allocating the proportion of your money into different investment classes such as stocks, bonds, money market, and other investments (e.g. real estate). Your asset allocation will depend on your investment time frame, your savings goal, and how much risks you are willing to take to achieve that goal.

### **Why is an investment plan useful?**

An investment plan outlines your objectives and ensures the investments you hold are appropriate for you. It provides clarity and direction to your investing decisions. The investment plan would determine how your assets should be invested based on your investment experience, tolerance for risks and objectives.

## APPENDIX I

### Sample risk profiling

1. Investments with higher returns are normally associated with higher risks, i.e. the unpredictability in achieving return. For example, although investment portfolio D below achieved a 14% average annual return over a 10-year period, it gained 86% in its best year but lost 25% in its worst year. Among the following investment portfolios, which one would you prefer to invest in?

Investment Portfolio	Return over 10 years		
	Best year	Worst year	Average return
A	7%	3%	4%
B	10%	-2%	6%
C	25%	-8%	12%
D	86%	-25%	14%
E	120%	-50%	18%

2. Consider the below two investment products, A and B and their average annual return with their associated risks. If you were to choose between products A and B, how would you invest?

Investment product	Average annual return	Risk of losing principal
A	6%	minimal
B	11%	potential loss 20%

- a. 100% in Investment A and 0% in Investment B
- b. 70% in Investment A and 30% in Investment B
- c. 30% in Investment A and 70% in Investment B
- d. 20% in Investment A and 80% in Investment B
- e. 0% in Investment A and 100% in Investment B

3. Which of the following scenario best describes your reaction when there is a steep decline in your investments over a few months?

- a) I would liquidate all my investments immediately
- b) I would liquidate some of my investments and switch to other investments which are less volatile
- c) Do nothing. I would just leave the investments alone but monitor them closely, since the investments are meant for the long term
- d) I would buy more investments to average out the cost
- e) I would consider it as a great buying opportunity as it was a good investment before and it is even better now with the drop in price

4. Which of the following best describes your attitude towards investment decisions?

- a) I am very concerned about the preservation of my wealth and prefer to avoid risky investments in order to minimise the risk of losing my money
- b) I am worried about losing my money, but if I leave it in cash, I cannot preserve it from inflation. In this case, I will leave it to an established fund manager to manage my money
- c) I read research reports from stockbrokers and analyse the stocks thoroughly. In addition, I also read daily economic updates from my dealers and make my own decisions in investing
- d) I like to discuss with my friends and brokers on the latest "market news and stories" and will invest based on their "recommendations" and on the current market "trend"
- e) I trade actively in stocks and I believe I have better knowledge about investments than my brokers. My stock selections are very good and I make my own investment decisions.

## APPENDIX II

### Sample of an investment plan for ABC Co

#### A. Investment Objectives

An overview of your investment objectives will assist you in formulating your asset allocation and investment strategies. In this respect, please state your investment objectives and prioritise them accordingly, with 1 being the highest priority

---

#### Investment Objectives

To achieve a return of 8%, net of management fees and other incidental fees.

---

#### B. Investment Time Horizon

The investment time horizon is an important factor in designing a strategic asset

	less than 1 year
	1 to 3 years
X	4 to 7 years
	8 to 10 years
	more than 10 years

**Initial Investment Amount RM4,000,000**

### C. Net Worth / Cash Flow Analysis

#### i. Net worth position

Assets	(RM)	Liabilities	(RM)
<b>Cash Assets</b>		<b>Current Liabilities</b>	
Fixed deposit	2,000,000	Accrued rent	500,000
Savings account/ Current account	<u>2,000,000</u>	Accrued wages	<u>500,000</u>
	4,000,000		1,000,000
<b>Property</b>		<b>Long Term Liabilities</b>	
Plant	2,000,000	Bonds	2,000,000
Others	<u>1,000,000</u>	Bank loan	<u>500,000</u>
	3,000,000		2,500,000
<b>Investment</b>		<b>Overdraft</b>	1,500,000
Unit trusts	800,000		
Managed bonds	300,000		
Direct bonds	0		
Stocks	<u>600,000</u>		
	1,700,000		
<b>Investment in Associate</b>	1,000,000		
<b>Accrued Revenue</b>	700,000		
<b>Total Assets</b>	<b>10,400,000</b>	<b>Total Liabilities</b>	<b>5,000,000</b>
<b>Total Investible Fund</b>	<b>5,700,000</b>	<b>Net Worth</b>	<b>5,400,000</b>

ii. Cash flow position

<b>Cash Inflow</b>	<b>Annual (RM)</b>	<b>Cash Outflow</b>	<b>Annual (RM)</b>
Cash revenue	1,200,000	Employees EPF contribution	160,000
Proceeds from plant disposal	1,050,000	Corporate tax	400,000
Proceeds from share issuance	100,000	Cash paid for goods sold	500,000
Dividend	800,000	Repayment of bank loan	100,000
Interest	500,000	Bond coupon payment	100,000
Rental income	100,000	Other cash expenses	900,000
<b>Total Inflow</b>	<b>3,750,000</b>	<b>Total Outflow</b>	<b>2,160,000</b>
		<b>Net Cash Flow</b>	<b>1,590,000</b>

#### D. Proposed strategy

Your Investment Time Horizon is 4 to 7 years

Total Investible Fund **RM5,700,000**

Asset Allocation					
Asset Class	Return	Risk = Volatility	By Risk Profile	Your Choice	RM
Cash	2.50%	0%	10%	10%	570,000
Managed fixed income	7.00%	3%	20%	20%	1,140,000
Direct fixed income	10.00%	4%	25%	25%	1,425,000
Managed equities	12.00%	18%	25%	25%	1,425,000
Direct equities	15.00%	30%	20%	20%	1,140,000
<b>Portfolio Return</b>			<b>10.2%</b>	<b>10.2%</b>	
<b>Portfolio Risk</b>			<b>12.1%</b>	<b>12.1%</b>	

Asset Class	Product
Cash	Money market
Managed fixed income	Funds
Direct fixed income	Bond placement
Managed equities	Equities funds
Direct equities	Shares

## **GLOSSARY**

### **Asset**

Any item of economic value owned by an individual or a corporation. Examples are cash, securities, accounts receivables, stocks, office equipment, houses, cars, and other properties.

### **Fixed deposit**

Money placed with banking institutions for a fixed tenure, e.g. 1, 3, 6, 9, or 12 months to earn interest.

### **Bond fund**

An investment fund that invests primarily in bonds or other debt securities.

### **Capital guaranteed product**

A product that provides a return while at the same time provide capital guarantee at the end of maturity.

### **Corporate bond**

A debt instrument for a loan which is issued by a borrower to an investor who is the buyer of the bond and lender of the money. In return for the money, the issuer agrees to pay regular interest to the bondholder for the term of the loan and the principal sum borrowed upon maturity.

### **Equity fund**

An investment fund that invests primarily in shares.

### **Investment linked insurance**

A life insurance plan that combines investment and protection. The premiums paid will partly be used to pay for life insurance cover and partly for investment in specific investment funds of the policyholder's choice.

### **Liability**

A financial obligation or the cash outlay that must be made at a specific time to satisfy the contractual terms of such an obligation.

**Listed large capital stock**

Companies whose shares are listed on Bursa Malaysia Securities Berhad with market capitalisation of generally above RM2 billion.

**Listed small capital stock**

Companies whose shares are listed on Bursa Malaysia Securities Berhad with market capitalisation of generally below RM750 million.

**Net worth analysis**

A method to determine one's net assets by comparing total assets against total liabilities.

**Option/warrant**

An instrument that gives the holder the right but not the obligation, to subscribe for a particular instrument, e.g. new ordinary shares, at a pre-determined exercise price within a stipulated validity time frame (exercise period). The warrant becomes worthless after the expiry of the exercise period.

**Separately managed equity portfolio**

A portfolio managed by fund manager where investors own the securities individually.

**Time weighted rate of return**

A measure of compound rate of growth in a portfolio.

**Unit trusts**

Pools of money managed by an investment company. They offer investors a variety of choice, depending on the fund and its investment objective.

# March Expense Summary

DATE	MEALS	HOTEL	TRANSPORTATION	PHONE	ENTERTAINMENT	PURPOSE (Who, What, Where)	MISC.	DAILY TOTAL
1					37.00	GIFT / CLIENT		
2								
3	17.69							24.82
4	21.34							
5								
6								
7								

YOUR RECEIPT  
THANK YOU

01-14-96  
\*1-0000  
1 4-95 HI  
0-38 HI  
5-33 H  
10-00 U  
4-67 S  
001  
17-45 045

SAMPLE

SAMPLE

Summary

PURPOSE (Who, What, Where)

MISC.

DAILY TOTAL

DATE

MEALS

HOTEL

TRANSPORTATION

PHONE

ENTERTAINMENT

PURPOSE (Who, What, Where)

GIFT / CLIENT

MISC.

DAILY TOTAL

W/CLIENT

TOW/L.A.

52.00

432

0115

0110

M+

ON

CE/C

M-

+/-

MR

%

MC

3

+