

5 MAJOR CHALLENGES IN WEALTH ACCUMULATION



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Everyone understands the importance of wealth accumulation. Yet, despite continuous reminders about its significance, many people still fail to achieve it. Everyone dreams of a better life, early retirement, or financial freedom. However, dreams remain unfulfilled without execution and implementation.

There are two major phases in our financial journey: the Wealth Accumulation phase and the Wealth Decumulation phase. The Wealth Accumulation phase begins with regular saving and long-term investments aimed at asset growth. There are various purposes for wealth accumulation, such as establishing a basic and standby emergency fund, retirement fund, child education fund, and many more. In contrast, the Decumulation phase involves gradually spending the wealth accumulated over the years to maintain one's lifestyle, particularly during retirement.

It is easy to spend compared to accumulating wealth. Many people may understand the methods and importance of wealth accumulation, yet still fail to do so. Here, I've summarized five common challenges for your reference.

1. Lack of Clear Financial Objectives/Goals

Having a clear goal is essential. Imagine you are on the road but don't know where you are heading. Are you heading to Penang from KL? Or heading home to PJ? You can't even identify which type of vehicle to use, the risks involved, and the time horizon for traveling if you do not have a clear destination. You might even end up heading nowhere. The same goes for wealth accumulation. Without knowing where you are heading, you may not be able to effectively identify the financial vehicle, time horizon, and risk tolerance needed.

Typically, we may have a higher risk tolerance of market volatility if our investment time horizon is long enough. People with very short time horizons may panic over short-term market movements, while some may become greedy, seeking short-term high returns that could lead to choosing the wrong investment vehicle or falling victim to scams.

Whether you aim to accumulate wealth for retirement, children's education, or to save an upfront deposit to buy a house or a new car, or to achieve any financial target, clarity on what you want to achieve is crucial. This includes understanding how much you can afford as a monthly commitment, how much you can invest monthly, and the duration of your investment.

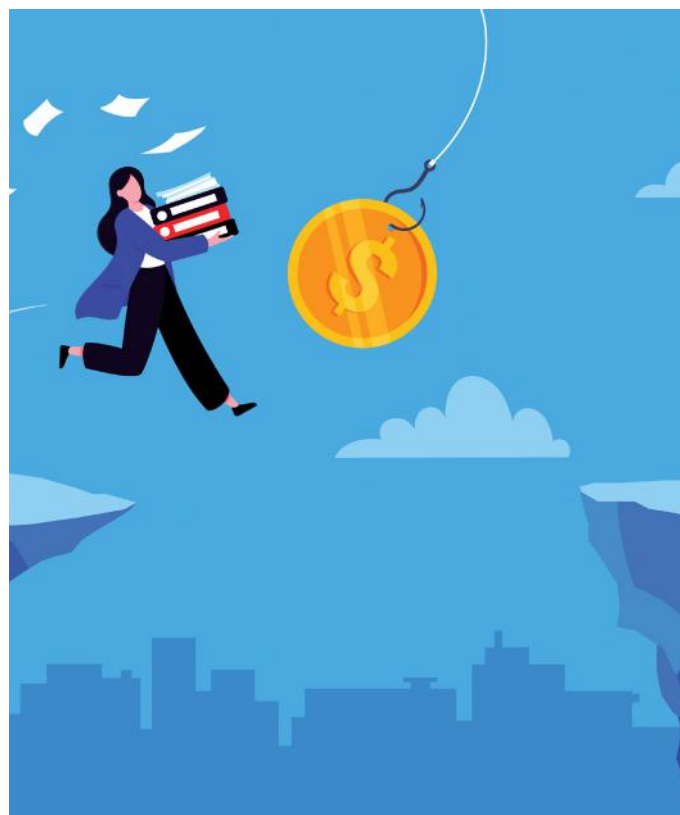
Knowing where you are heading, why and when, where you are now, and starting the journey is very important. A clear goal keeps you focused, improves your chances of success, reduces unnecessary mistakes, and helps you avoid scams.

2. Lack of Sense of Urgency/Danger Leads to Procrastination

Living in the moment, enjoying now, and saving later is a common mindset. Many young people avoid thinking about retirement, believing that retirement is still far away, emergencies won't happen to them in the short term, or their children are still toddlers with a long time before needing tertiary education.

This lack of a sense of urgency—or more accurately, a sense of danger—leads to negligence and procrastination in wealth accumulation. Beliefs shape attitudes, and attitudes lead to actions. A lack of urgency can result in financial struggles when unexpected events occur. The "Tunggu Dulu Lah" procrastination attitude is indeed a serious roadblock to financial success.

In most scenarios, you may need a peer, spouse, or even a professional to hold your hand through the wealth accumulation process. Sometimes you may even feel that they are nagging, but this may be for your own good.



3. Temptation & Distraction vs. Discipline

Advertisements urging you to spend money pop up everywhere, whether on your phone screen, while you are driving, or even while waiting in a lift. There are countless temptations and distractions that lead people to delay their wealth accumulation efforts or disrupt the accumulation process.

Discipline is crucial! Establish your goals, craft your accumulation journey, identify your methods, execute them, and stick to the plan. Discipline helps eliminate unnecessary temptations and ensures steady progress towards financial goals.

4. Inefficient Savings Patterns

Do you spend first or save first? Do you have a system or habit to save for the future? The EPF implements an effective system to accumulate wealth for citizens by deducting contributions before they receive their salary. Implementing a similar habit in personal savings can significantly impact wealth accumulation.

Developing a habit of saving before spending ensures that a portion of income is consistently directed towards future financial security. Save first and spend later. Consistent saving and controlling unnecessary expenses are vital. Achieving wealth accumulation goals requires consistent effort and long-term commitment without unnecessary withdrawals.

5. Insufficient Financial Literacy

Robert G. Allen said it well: “How many millionaires do you know who have become wealthy by investing in savings accounts? I rest my case.”

A lack of knowledge about investment options is a major hurdle. There are various investment products and services in the market, many of which are sophisticated and complicated. Effective asset allocation into listed equities, bonds, real estate, commodities, money market instruments, digital assets etc can help optimize our financial position and hedge against inflation.

Conversely, placing savings into the wrong investment tools or inappropriate asset allocations can lead to financial losses or even insolvency (bankruptcy). Improper gearing on investments or falling into investment scams can also result in financial disasters. Engaging a licensed professional for proper advice and investing only into regulated investment products is essential.

Overall, wealth accumulation is a journey. Investing isn't just about making money; it's about accumulating wealth. If you want to win a race, you may need a mentor to support you. Preparation, equipment, and strategy are all crucial. Engaging a licensed financial planner can help craft a wealth accumulation plan with a clear and systematic route to achieve your goals. A financial plan can serve as a navigator (GPS), essential for both the wealth accumulation and decumulation phases. Remember, the decisions you make today shape your life tomorrow.

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