Money matters for young graduates

FINDINGS in a survey by the Credit Counselling and Debt Management Agency showed that one out of three Malaysians are not comfortable with their financial knowledge, while half of those surveyed (52%) said they face difficulties in raising even RM1,000 for emergencies. One in five working adults said they did not save in the past six months.

It has become increasingly important for today's youth to have adequate financial literacy and awareness on managing their finances wisely early on.

If you are a fresh graduate about to enter full-time employment, you need to know more about managing your money and starting your financial journey on the right track.

Here are some tips to get you on the right track!

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Set and prioritise financial goals

Start with an end in mind. At what age would you like to retire? How much money would you need to retire comfortably? Work backwards from there to determine how much time you have and how aggressive you must be in your financial planning to achieve your goals.

Start with setting short-term, mid-term and long-term goals. Think about what you want and why.

Then, assess your current financial condition and determine what you need to do to accomplish those goals and rank them based on order of importance. These goals should be "smart" – specific, measurable, achievable, realistic and time-bound.

Learn basic financial planning and money management tips

Nowadays it is not difficult to source useful articles and books on personal finance tips that can help anyone gain knowledge on financial planning and manage cash wisely.

Educating yourself is the key to becoming financially secure. Learn practical methods to achieve total financial freedom and understand investment terms like compound interest and ringgit-cost averaging.

Prepare a budget and develop self-control

Set a budget and keep track of all your expenses. Take time to record and review items and amounts you spend on a daily basis. This improves your spending habits and enables better self-control on your purchases. Avoid impulse purchases and always follow your budget strictly.

Start a savings plan

A well-known personal finance quote by Warren Buffett says "Do not save what is left after spending, but spend what is left after saving". Save 20%-30% of your employment income. Be disciplined – you can contribute more if you have extra cash. Automate transferring a portion of your salary to your savings account on a monthly basis and review your financial net worth regularly. This helps you to visualise where you are financially.

Have an emergency fund

Get prepared for unexpected situations that may require you to spend more than usual.

An emergency fund allows you to prepare for rainy days. Pay yourself first by setting aside a portion of your income towards your emergency fund. Start with a three-month financial buffer target and grow it into a six-month financial buffer in your second year of employment.

Pay off your debt

If you still have a study loan, make your loan payments on time. Avoid taking on unnecessary debt. This is a common mistake most people make. Although personal loans and credit cards allow you to have more purchasing power, they could end up being a burden with their high interest rates. Use your credit card as an alternative for cash you do have instead of cash you do not have and make it a habit to pay off your monthly bills in full.

Getting out of debt means you will have full control over your income and you have more money to fulfil your other financial goals like planning for an early retirement.

Develop a positive credit score

Having an excellent credit score means you have a better chance of getting a loan from banks with more competitive interest rates. Pay your bills, credit card expenditure and loan instalments on time to help you achieve this.

Invest in life insurance early

Many ignore life insurance as a financial management tool as they think it is expensive and unnecessary. Life insurance provides financial coverage against possible critical illnesses, disability and even accidental death. Just because you are young, it does not mean you are immune to health risks and accidents. It is advisable to have life insurance as early as possible because insurance premiums cost more as you get older and when you are likely to develop health issues.

There are many protection plans to choose from and your insurance application has a higher chance of approval by insurance companies when you are young and healthy. With online research, you are able to obtain speedy quotes, and compare insurance plans and premiums which suit your budget.

Invest early: Make time your best friend

Make your money work for you. Take advantage of time – now is the best time to invest as you have a long way to go before retirement. There are many investment instruments you can explore in the market such as unit trust. A licensed financial advisor can help you determine ideal investment instruments and proper steps to meet your desired goals effectively. Maximise the power of compounding interest – when you invest regularly, you are able to make your money grow faster.

Managing finances effectively at the beginning of your career is challenging for young graduates to master. It starts with awareness and effort to obtain adequate financial guidance and to develop achievable financial goals. Having strong self-discipline to follow every step in your financial plan is a key success factor in this journey. Good luck, young graduates!

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5G play showing progress towards realisation

THE GREEN EQUILIBRIUM