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Building wealth to fund your retirement

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By Rajen Devadason (/authors/rajen-devadason) - June 17, 2018 @ 2:08pm

Compounding works best for the young, so the ideal time to start planning for your retirement was yesterday, the second best is today!

When I was small I thought retiring at 55, then the o cial retirement age in the country, was the most natural thing in the world. After all, to an eight- or nine-year-old boy anyo old. Furthermore, a future that was more than 45 years away seemed too distant to have any relevance to that shorter, cuter version of me.

Now that I'm 54 years of age, 55 doesn't feel old, especially given the vigour of our almost 93-year-old prime minister! Objectively speaking, even Malaysia's current retiremen by global standards. Much of the world has o cial retirement ages ranging from 62 (Columbia and France, for instance) to 67 (like Israel and Norway).

So, as I'm self-employed and because I love my work as a nancial planner, I'm thankful for two things:

1. Throughout Asia, unlike in the US, for instance, respect for our elders is a part of our culture; and

2. As I run my own nancial planning practice, I can choose to keep working for as long as my clients want me to serve them.

My goal, God willing and health permitting, is to retire at 75, when I'm hopefully at the top of my game. (In one sense, I'd still be retiring 'early' as my late father kept toiling as legal practice in Malacca until one month past his 85th birthday.)

Regardless of how old you are today and when you wish to retire tomorrow, intelligent, patient planning is essential.

Longevity risk

That preparation includes caring for our health and tness, and raising our levels of social engagement and philanthropy. It also requires us growing our wealth during our pe decades to pay for our expenses during our subsequent non-earning years.

Retirement nest eggs should ideally be initiated early in adulthood. We should then stay focused on adding to them for as long as possible. This is because the number 1 risk century retirees is longevity risk.

In layman's terms, longevity risk is the likelihood we will live so long after retirement starts that we run out of money before we run out of life, which would be grim.

Thankfully in blessed, sun-drenched Malaysia, millions of us at least have our EPF money to fall back on in retirement. Some of us will also have our tax-e cient PRS or priva scheme funds to augment future retirement income.

But those who wish to truly prosper in retirement should add income-generating equities into their mix of savings and investments by picking high quality dividend-paying sto dividend-focused unit trust fund to invest in regularly for decades.

This approach works well because a proven risk-on asset class like equities can usually act as an effective hedge against in ation, particularly over investment periods of a d

Whether you select one solid stock or a few, I suggest you work with a reputable remisier or investment adviser to identify fairly valued or, better yet, cheap companies that cu decent dividends that are likely to rise as Malaysia prospers in our new environment of graft-busting.

Or you could just do your own research on listed companies, perhaps with the help of investment newsletters. (In case you're interested, the one I subscribe to is iCapital, pub long-time friend Tan Teng Boo, a pedigreed Malaysian fund manager who was one of my best sources more than 25 years ago when I was a business journalist for Malaysia magazine during the heady investment climate of the early 1990s.)

Alternatively, you could ask your more nancially-savvy friends and relatives for recommendations of trustworthy nancial planners or client-centric unit trust consultants wh on dividend-focused equity unit trust funds that have consistently generated high total returns comprising dividend-fuelled distributions and capital gains.

Cycle of wealth-building

If cash dividends are received from stocks and then reinvested in more shares of great dividend counters, a virtuous cycle of wealth-building will ensue. However, be aware if on, say, on one, two or even three such stocks, a dramatic deterioration in their corporate viability may sneak up on you and destroy your long-term plan to lay pipelines of pas your life.

That's why, even for myself, I augment my targeted dividend-focused stock investing with the same dividend fund I use for most of my clients to help achieve their retirement

Such an income-focused equity fund typically invests in 20 or more different stocks. Its lead fund manager will also constantly be on the lookout for weakening companies to strengthening ones to buy, which eliminates the requirement for normal, busy, often distracted retail investors to expend many hours each week boning up on corporate news trends and global capital ows.

Next week, I'll take you through a few simple do-it-yourself (D-I-Y) steps for calculating the appropriate size of a model retirement funding portfolio that's focused on providin with much needed dividend-derived passive income. Till then, do enjoy Malaysia Baru's excellent post-Hari Raya festivities!

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