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Amid the backdrop of a beleaguered stock market and challenging economic conditions, it is even more imperative that you manage your wealth well. Financial planner Philip Loh explores 10 common wealth management misconceptions.

More often than not, our wallets are lighter than they should be because of unsound beliefs in how to amass and grow our wealth, such as the following:

1) You cannot lose money with high grade bonds.

With the stock market facing more challenges today, investing in the safety of good grade bonds seems like an excellent idea. However, nothing can be further from the truth. In fact, investing in long-duration bonds or "long bonds" may be one of the greatest investment mistakes of the next decade.

This is because long bonds are effectively IOUs issued by corporate bodies or governments to raise money. They pay a fixed rate of interest over a fixed term, say 10 years. But while the income may be fixed, the price is not. A bond holding bought one year ago, for instance, is likely to be worth a lot less now if interest rates start to surge. In fact, the longer the duration of the bond, the sharper will be the drop in its value when interest rates go up.

2) You can time the market.

A client asked me recently whether it is true that many unit trust investors lose money. There is some truth in this but it is not entirely accurate.

Let us compare the following. The annualised return for the S&P 500 over the last 20 years, with dividend invested, is about 11 per cent a year. Meanwhile, the average investor of unit trusts, investing in S&P 500 companies, earns only 6 per cent per year during the same period. As for the average direct stock investor, he earns a meagre 3 per cent a year during that time.

The only plausible explanation for such great discrepancies is poor timing, which just goes to show that timing the market accurately is an almost impossible task. Most investors are in fact consistently worse off due to the poor timing of their investment.

3) Blue-chip stocks are low-risk.

Remember previously local hot favourites like ACCS, Citiraya and China Aviation Oil? Their rise was meteoric but their fall from grace was equally spectacular. Over in Europe, shares of Northern Rock Bank of the UK are almost worthless. In the US, the collapses of Enron, WorldCom and more recently the plunge in Bear Stearns' share price from $160 to $10 is still fresh in mind. Many top Wall Street banks are now scrambling to raise cash to beef up their depleted reserves from the subprime write-offs.

Many stock market losses may well take more than a generation to recover. For example, the US stock market hit a peak in 1967 and did not cross that mark until 15 years later in 1982. The Japanese stock market reached its secular peak in 1989. Even

today, the Nikkei is trading at less than one-third of its historical high. Many global technology funds are also trading at less than 50% of their all-time highs from 2000.

4) I will start saving when I have enough money.

It is never too early to cultivate a good savings habit, because the sooner you start, the longer the period your money gets to grow. This is my general advice to people of all ages, but young people in their 20s and 30s should take special heed as they tend to overspend.

Despite our grand New Year resolutions to start saving more, many seem to always fall behind their planned saving schedules. It is best that you put money aside in a systematic manner through an insurance plan, a regular saving plan or a recurring investment programme. Start with an amount you feel comfortable with and gradually step it up when you gain more confidence in setting aside the committed amount.

5) I am too young for life insurance.

You may be young, but you are not immortal. As soon as there is someone who depends on you financially, you will need life insurance. That may be a partner whom you share a mortgage with, a spouse, or children – anyone who would struggle for money as a result of your death.

Statistics show that you are five times more likely to suffer a critical illness than you are to die before age 65, as heart attacks and cancer are becoming more survivable than ever before. In fact, most people who contract multiple sclerosis are aged between 20 and 40, and half of all testicular cancer cases show up in men under the age of 40. As such, all Singaporeans should make sure that they have adequate critical illness cover in their life insurance programme.

6) There is no need to teach children about finance.

Ignorance and money are a dangerous combination, so it is very important to help your children understand the value of money. Parents should start discussing the concept of money with their children once they start saying they want something. For a start, you can begin by teaching them that they get things only when they earn them.

As your children get older, you can introduce them to the concept of stocks. You could buy them some Singapore Airlines (SIA) shares and tell them when they fly on an SIA plane that they partly own the plane and the company, so if SIA makes money, so will they too.

This way, they will understand from a young age the importance of saving and investing wisely, so they will be able to take better care of you when you get old.

7) I am changing my car because the new car is better for my cash flow.

This is one of the silliest notions I keep hearing over and over again from clients. To be fair to the salesperson, we, the buyer, want to believe him. Most sane judgmental ability would have been obscured by our innate desire for that flashy piece of metal. We figure that life is going to be much easier when we are the object of envy among friends, colleagues and relatives.

The moment a new car is out of the showroom, its resale value would already be much lower. Also, you would have to take a huge loss when you sell off your old vehicle. Lower maintenance costs of a new car is largely an illusion, as most Japanese or European cars are made to last for at least 10 years without major problems. Although the monthly loan financing of the new car may be lower, this is usually because you are stretching your loan repayment period and you have also ignored the par value of your current car in your calculation.

Nevertheless, this remains largely a lifestyle decision, and if your income can support it, it is really no great sin to spend some money for that extra attention. Only to me, I am too much of a miser to consider it.

8) I should pay off my mortgage as soon as possible.

Liquidity should be the number one consideration in any prudent investment. Many Singaporeans believe that home equity (defined as the excess of your property valuation over your remaining mortgage) is a convenient nest egg which they can tap on when they are in financial trouble. The opposite is true instead.

You see, banks are income lenders, not collateral lenders. They associate assets with liens, but their first requirement is that you must show your ability to repay your loan. The irony is that you almost have to prove that you don't need the money before they loan it to you.

But note that what I am advocating is not piling up excessive debt, but the proper management and utility of debt to enhance your wealth. In fact, most people do not realise that mortgage interest can be used to offset their rental income in their income tax computation, thus reducing their effective borrowing cost for a rental property.

9) A shortage of land in Singapore means property prices cannot fall.

It is true that land may be scarce in Singapore but it is mathematically impossible for residential prices to appreciate faster than income over long periods of time. Think about it. If home prices go up more than income over time, nobody would be able to buy a place to live in, apart from inheriting one.

Other common property-related myths include:

Prime properties never fall in price.
During the last property market correction in Singapore from 2001 to 2005, property across the entire spectrum of the market was affected, regardless of whether it was high- or low-end. Remember, there is a difference between high prices and increasing prices. Prices may be high, but they may not be increasing.

House prices do not fall to zero like stock prices, so it is safer to invest in real estate.
It is true that house prices do not fall to zero, but your equity in a house can easily fall to zero and even below that. It just takes a fall of 30 per cent to completely wipe out people who only have 25 per cent equity in their house. This means that house price crashes may actually be worse than stock crashes. Singaporeans should take note

especially since most of their retirement funds are locked in their property, and the money may be leveraged.

10) I do not know why I always overspend.

The cause may appear unclear initially but actually the following are some of the common reasons why people spend beyond their means:

a. Buying happiness – This is an easy trap to fall into, since most advertisements go to great lengths to associate a product with happiness. They lead you to purchase things by persuading you that doing so will make your life better. While the purchase itself may give you pleasure, the feeling is fleeting. You will end up having to purchase something else to find more "happiness".

b. Keeping up with the Joneses – Spending to bolster your image is dangerous. In many cases, the Joneses are doing exactly the same thing to keep up with you.

c. Embarrassment – Often it is hard to admit to friends that you do not have the money to take part in certain activities, so you play along instead and pay for things that you cannot afford. These could be anything ranging from a weekly dinner at a fancy restaurant to regular golfing sessions.

d. Lack of patience – Some people want instant gratification. When they see something they fancy, they want it immediately, regardless of whether they can really afford it.

e. Laziness – Instead of doing some research, looking for deals and spending their money wisely, they often pay much too much for things. When bargaining, a sure-fire technique is to ask dispassionately, “What is lowest you can go?” even if you feel that the price is already very good and you really want that item. Often, the seller will give you a better offer.

f. Hopeless optimism – Many people spend with the expectation they will earn more money soon as a result of a pay raise or bonus; but if the bonus or raise does not work out as expected, there will be a lot of debt to account for.

g. Charge and charge – Some people who do not have the cash in hand see credit cards as real money. This, of course, can get them into a lot of financial trouble.

These are just a few reasons behind overspending – some people may be motivated by a combination of several reasons. Whatever your reasons, understanding the motivating forces behind overspending can help you address the issue and get a new “lease of life”, financially-speaking.