krungsri Asset Management

A member of MUFG a global financial group

3

The highest risk is ignorance ...

so we need to know about risks.

The highest risk is ignorance...

so we need to know about risks.

03

Each crisis resulted in a great deal of loss because we did not know that it would happen and we did not prepare ourselves to deal with it. If we know and understand that a crisis can happen any time, then we will be able to manage it to mitigate loss or can even identify opportunities from it. It can be said that "our life" is full of "risks," and that "risks" always involve "returns."

Risk: Risk... is all around.

In general, most people tend to look at "risks" in a negative way – "getting less and more slowly than expected." This results in a not-so-positive feeling about "risks." In fact, in finance, there is a word "volatility," whose meaning is close to "risk." It indicates the likelihood for you to receive "a return" that is not as expected. "Volatility" is not only the chance for "loss" but also for "profit" from investment, which is also considered to be a risk but a positive risk, but is often not mentioned.

The significant issue is how we can deal with volatility or risks in order to achieve the objectives we have defined while being able to accept risks and not to be sensitive to the fear of loss for merely a short time. Psychologically, when we are sensitive to a situation that seems to jeopardize our safety or security, our brain will order us to correct what is happening. However, this may not be necessary if we understand and are aware of potential risks that we have planned to prevent. So, let's learn a bit more about risks.

"Risk" – Negative

"Getting less and more slowly than expected."

Risks come many aspects:
Capture them in the right way.

1

Risk type 1

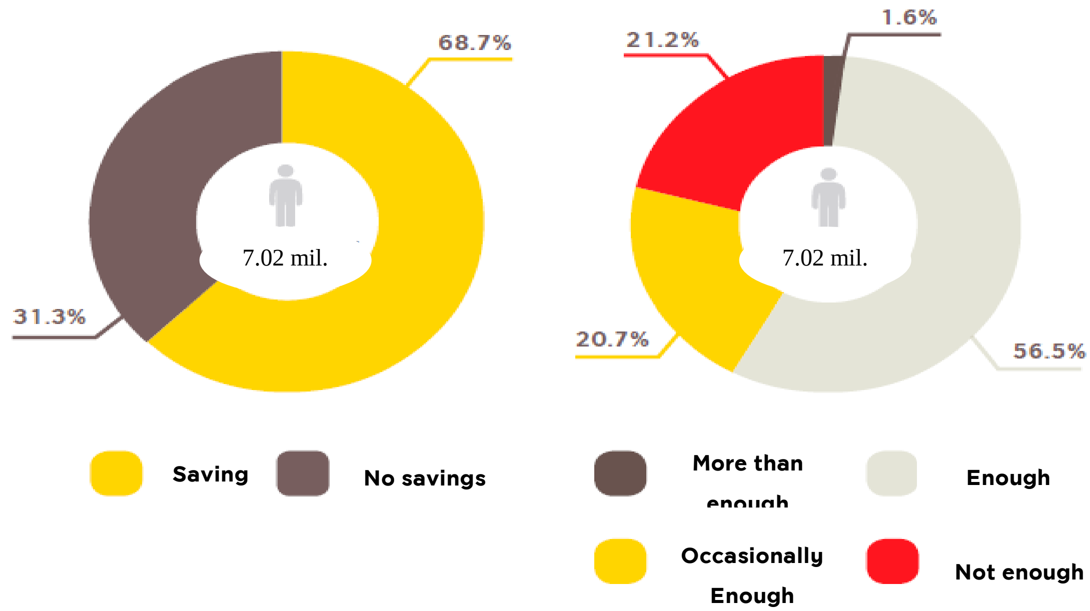
The first risk that we experience every day is "inflation." As mentioned above, inflation is a risk involving "declining purchasing power," so we should not be reckless. To deal with inflation, we should seek a return that is higher than inflation to maintain the value of money in our pocket, to prevent it from devaluing in the future. Financially, we will identify "the real rate of return" to assess if our investment is higher or lower than inflation, by deducting the "inflation" from the "return" we gain from "savings" or "investment." If the value is negative, then it will definitely be the first risk to address by searching for other investments that yield sufficient returns to compensate for inflation.

2

Risk type 2

The second risk is "excessive fear of risks." This might result in inadequate money after retirement. In addition to the issue of inflation, humans' "longer average age" is a reason why we should pay more attention to saving and investment. Having a longer life results in a longer post-retirement life, which is followed by higher expenses. For the last 10 years, the change in the demographic structure and medical advancements has resulted in humans' longer "life expectancy." The most recent research has found that the life expectancy of people is not 80 years, but will extend to 100 years in the future, thanks to medical advancements.

Status of savings and adequacy of incomes of the elderly



Source: Survey on the Elderly in Thailand, 2007, the Office for National Statistics, conducted every five years.

"While you have no income, you **still** have expenditures.

This means that after you retire, you will have to live without income for at least 20 years, or if your age reaches 100 years, you have to spend 40 years after retirement. How can you survive if you do not have sufficient income, because "while you have no income, you still have expenditures." This is another important reason why we need to attach greater importance on investments for post-retirement life.

How much money is adequate for us after retirement?

You may start with a doubt, but there is a simple formula. Supposing that you retire at the age of 60 and think that you will live for 20 years after retirement and currently, you spend 20,000 baht per month, you should have about 240,000 baht per year for your post-retirement life (= 20,000 x 12), or should have about 4,800,000 million baht (= 240,000 x 20). This is just a hypothetic number for you to get a rough idea.

In fact, the figures may be much more than you expect. If you want to have money after retirement for 15 years to maintain the quality of life at 50,000 baht a month on average, you will need to have approximately 9,000,000 baht (50,000 x 12 x 15) on the day of your retirement. The impact of "inflation" has not been factored in but in your retirement years in the future, the value of 50,000 baht will be definitely lower than the current value.

If we set goals properly, risks will reduce and profits will not reduce

Life conditions vary from one person to another, but having a "clear goal" makes us aware that we should prepare ourselves for possible expenses, especially for post-retirement life. Even the government sector has realized the importance of planning for long-term savings for "retirement". Thus, it has granted tax incentives to encourage saving for retirement through the Retirement Mutual Fund (RMF). The government has also supported long-term investment in the stock market via the Long Term Equity Fund (LTE) by granting tax incentives to investors, as it recognizes the importance of investors' investment under long-term goals.

With respect to investment planning, investors need to have clear "financial goals" that will lead to proper decision-making about investment planning to achieve their goals. In general, financial goals can be divided into three phases, as follows:

1. **Short-term goals**
   They are financial goals that you want to achieve within three years, such as buying a house, a car or high-value goods; travelling abroad; or studying at a higher level.

2. **Medium-term goals**
   They are financial goals that you want to achieve within a period from 3-5 years, such as a down payment to buy real estate or preparation for a wedding.

3. **Long-term goals**
   You want to achieve the financial goals within a period of over 5 years, such as your children's education and post-retirement life.

"Your goals will also lead to decision-making about investment planning being in line with the goals. An investment must be consistent with the goals. You shouldn't have short-term goals but make a long-term investment, or have long-term goals but only make a short-term investment. This may result in your investment failing to achieve your goals or cause a failure for the investment to yield the most efficiency as it should."

To enable you to identify your "financial goals" better, there is a simple idea based on the "SMART" principle, which you can apply:

"S-Specific" = You are clear about what you want.

"M-Measurable" = You know if what you do is close to meeting your goals.

"A-Achievable" = You know what to do to achieve your goals.

"R-Realistic" = You can achieve your goals.

"T-Time-bound" = Timeframe is scheduled and clear.

The SMART-based "financial goals" will be more likely to give you a clearer vision of your financial goals. If you make an investment without knowing what your goals are, this may bring about fear, due to an absence of planning. If you already have short-medium-long-term financial plans, you will not be deviated from your financial goals.

For example, you want to have 10 million baht when you retire. Now, you have some savings. You have to think how much monthly savings you have to make and how long your investment period will be to achieve your financial goals. If you are now 30 years old and your remaining work period is 30 years, you just save 333,333.33 baht a year or 27,777.78 baht a month for 30 years, and then you will save 10 million baht as you have planned (the impacts of inflation are not considered yet). This is only a matter of savings. If you are 50 years and have a 10 year-time for investment, you will have to collect one million baht per year or 83,333.33 baht per month for the next 10 years to achieve 10 million baht.

You need to consider if you can achieve the goals you have set. Starting to save money earlier is better. However, in the case above, if you have no financial capital for savings, you need to think whether you can achieve your goals. If the saving period is 30 years, and in order to save less than 27,777.78 baht a month, you need to find a return to compensate. "Mutual funds" will become a tool that will allow you to seek a return on different investments in assets to assist you in achieving your financial goals.

Most importantly, if you fear too much of "risks," in the long term, your savings or investment money may not keep pace with a need for using money after retirement. This will eventually become your "risks" in the future.

"If you fear too much of "risks",
the fear will become
your "risks" in the future."