

Sheow Management Services

Spending your money wisely on risk. I wanted to bring this matter up many times but I was not sure if I was encroaching beyond my field of expertise by talking about insurance policies.

Risk – Let's call it that and treat it as that too! – Bob Oh (All issues are posted here <http://profit-times.blogspot.com>)

Why do we buy insurance?

There are things in life which we KNOW, WILL happen and even though the chances of these events occurring to us personally are slim, maybe even slimmer than striking at TOTO or 4D, we are willing to pay **someone else** to take on the cost of the effects of such an event happening.

Because the amount of money we spend for someone else to bear the cost is **far less** than the **potential** liability incurred or pay out received by us.

Why do we invest?

We invest because our money depreciates in value through inflation.

We invest because we want our money to work harder for us, and as in any other jobs, our money earns us a **steady form of income**, for example,

Bank deposits – interest
Properties – rental
Shares - Dividends
and of course many others.

Why do we gamble?

(I am not very sure of pay outs etc...apologies)
We gamble because we want to turn our dollar to something exponentially higher, for example,

TOTO – S\$2 to become a millionaire
4D – S\$1 to win \$3,000 or something
Horse racing – whatever it is...

Basically, we gamble because we **HOPE** that the payout from the gamble will be far more than the amount we pay.

So, buying insurance is like TAKING A GAMBLE!

<i>Incident</i>	<i>You pay</i>	<i>You get</i>
Fire at home	S\$300 p.a.	S\$200,000
4D First prize	\$200 big bet	S\$400,000

From an accounting point of view – BOTH must be treated as AN EXPENSE. Incurred and forgotten about!

WHAT'S YOUR POINT????

Many of our insurance agents/financial planners love to **stir up** our emotions in regards to spending money!

They tell us that our money spent on insurance is NOT an expense BUT an investment! This makes it easier for us to part with our money! Since we will get back SOMETHING MORE!

So we are lured into buying investment linked insurance products in hope getting back what we paid into it. A GREAT DEAL? We get our risk COVERED and get it FOR FREE!!!

Rule No.1 in life – If it is too good to be true, it probably is!

Treat insurance as an expense – pay for coverage only

Treat investment as an investment – to get steady rewards for delaying gratification.

So Bob, are you saying, that we should ONLY buy term insurance?

My answer would be to use your money wisely:

Cover risk – Pay insurance to cover risk, why mix them up? (investment & insurance)

Protect your dollar – Choose suitable financial instruments to protect against your dollar depreciating in value.

Invest – What's your appetite in regards to losing EVERYTHING?

IN SHORT – Pay only for what you are going to use it for!

I saw the following words of wisdom by Warren Buffett to his shareholders which was brought to my attention in a client's face book account.

<http://www.berkshirehathaway.com/letters/2007ltr.pdf>

“I should mention that people who expect to earn 10% annually from equities during this century – envisioning that 2% of that will come from dividends and 8% from price appreciation – are implicitly forecasting a level of about 24,000,000 on the Dow by 2100.

If your adviser talks to you about double digit returns from equities, explain this math to him – not that it will faze him. Many helpers are apparently direct descendants of the queen in Alice in Wonderland, who said: “Why, sometimes I've believed as many as six impossible things before breakfast.” Beware the glib helper who fills your head with fantasies while he fills his pockets with fees.”

How does our IRAS see it?

Insurance - Personal

Life Insurance are tax deductible upon certain conditions.

Only life insurance policies are allowed and if your CPF contributions exceeds \$5,000, you cannot claim any more deductions!

Insurance - Corporate

Insurance are tax deductible upon certain conditions.

Keyman insurance

Medical insurance (limit)

Fire, workmen compensation etc.

Investment -

Investments are a balance sheet item, it is treated as an asset.

Loss on investment – No deductions

Gains on investment – No tax payable

(Not applied to companies whose main trading activity is to trade in stocks and shares)

Investment income -

All taxable except for local dividends.