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**Society of Registered Financial Planners**

**“HONG KONG UNDERGRADUATE FINANCIAL PLANNERS  
OF THE YEAR AWARD 2011”**

**(香港傑出大學生財務策劃師比賽)**

**Case Study**

For university participating teams in  
**First Round – Written financial proposal in English.**

All teams are given the same standard case. They are required to submit a detailed financial proposal on this case. The top 12 teams will move on to the second round. The proposal must be written in English and no more than 25 single-sided, single-spaced pages, with 12-point Times Roman font size, including cover pages and appendices.

## Case Study

The date is 1 August 2011.

1. You are a Registered Financial Planner and financial advisor at Generative Financial Group. Daniel Wong and Kitty Ho are your clients. Daniel is 26 and Kitty 24. They are planning to get married 3 years later and have their first child within two years after marriage. They started living together a year ago in a rented apartment with quarterly rate of \$1,000 and monthly management fee \$500, all on account of the tenant. They contemplate to have their own home after 3 years, and plan to retire at 60 years old. Their life expectancies are at age 80.
2. Besides his parents, Daniel has a younger brother of 19 years old, Mickey, who is enrolled in the university in the first year. His tuition fee and cost of living amounts to \$50,000 a year. Daniel's father, Kelvin Wong, is a civil servant. He is now 55 and earns a monthly salary of \$25,000. He will retire after 5 years and his life expectancy is 75. Daniel's mother, Melody Chan, 53 years old, had been working as a cashier in a small supermarket for 3 years on contractual basis, with a monthly salary of \$5,000. As the Hong Kong economy deteriorates, the supermarket has been shut down. Although his parents are not dependent on him financially, Daniel has to support the tuition fee and cost of living of his brother.
3. Daniel works as a software programmer in a local computer company. He has been working there for 2 years. His monthly salary is \$20,000 at present and there is a year-end bonus equivalent to 10% of his annual income. In addition, the company provides a group medical insurance policy which entitles him to claim reimbursement of up to 80% of the total medical expenses incurred, annual ceiling is HK\$200,000, and covers him till he retires or leaves the company.
4. Daniel's income and expenditure are as follows (1/4/2010 - 31/3/2011):

Annual income (include interest revenue)		\$264,250
Rent (\$72,000 x 0.5)	\$36,000	
Transportation fee	\$36,000	
Food expenses	\$36,000	
Entertainment fee	\$36,000	
MPF contribution	\$12,000	

Other necessary expenses	\$36,000	
Fund to support his brother	\$50,000	
Car loan installment (3months)	\$9,000	
Credit card loan payment	\$6,000	
Salary tax	\$7,680	
Total expenditure		<u>\$264,680</u>
Surplus		<u>- \$430</u>

5. Daniel has a car for personal purpose. It was bought on 1 January this year. The price was \$180,000. Down payment was 20%, balance 80% has been arranged by BCD Bank as a loan, with repayment term of 5 years and a 5% flat interest rate. The car's current market value is \$170,000.
  
6. Daniel is not good in financial planning. He spends extravagantly with his credit card. He does not have a habit of saving regularly. Currently, Daniel has a savings account with a balance of \$25,000 and a credit card loan balance of \$20,000. Aside from the compulsory contribution of MPF, Daniel has no other investment. His MPF account balance is \$50,000 and the annual expected return is 4%. It is expected to grow steadily in future.
  
7. Recently Daniel watched a TV program 'Inside the Stock Exchange' and found out the salary as a stock analyst is quite attractive. He wants to take a CFA prep-course which will last for three years. The tuition fee is \$50,000 per year, payable at beginning of the year. The fee will be adjusted relating to inflation. Daniel hopes to save up the tuition fees in three years so that he can complete the course and be a stock analyst.
  
8. Kitty is the eldest daughter in her family. She has a 22 year old sister, Minnie. Minnie will graduate from university this year and will start working soon. Kitty has been paying Minnie's tuition fees and living expenses ever since working. Kitty's father, Jason Ho, is 55 while Kitty's mother, Jacqueline Lok, is of the same age. Both of them are retired and their life expectancies are at age 80. Kitty gives \$5,000 to them monthly as living expense. Kitty's parents want to leave their own estates to the living spouse after death, yet no will has been made.
  
9. Kitty is a senior clerk in a local logistics company. Her monthly salary is \$18,000. She has been employed by the company for 6 years. Kitty's job provides her great

satisfaction and she works smooth among her colleagues. As she is happy with the salary and company benefits and the risk of changing job is high, Kitty will not consider job changes. She is provided a group life insurance policy and a group medical insurance policy by her employer. The benefits of life insurance policy equals to 20 times her monthly salary. The medical insurance policy entitles her to claim reimbursement of medical expenses up to 80% of the total expenses incurred, with an annual upper limit of \$150,000, the excess 20% medical expenses is reimbursed in cash by her employer.

10. Kitty's income and expenditure are as follows (1/4/2010-31/3/2011):

Annual income (include interest revenue)		\$219,000
Rent (\$72,000 x 0.5)	\$36,000	
Transportation fee	\$10,000	
Food expense	\$10,000	
Entertainment fee	\$4,000	
Clothing expense	\$4,000	
MPF contribution	\$10,800	
Money to support her sister	\$48,000	
Money to support her parents	\$60,000	
Salary tax	\$884	
Total expenditure		<u>\$183,684</u>
Surplus		<u>\$35,316</u>

11. Kitty is thrifty and has a monthly saving habit. She has a demand savings account with a balance of \$50,000 and a time deposit account with a balance of \$100,000. Like Daniel, Kitty has no other investment besides the compulsory MPF contribution.

12. Kitty's MPF account currently has a balance of \$150,000. She intends to sell those funds with the worst performance in last year and re-invest into the funds with the best performance. The following shows the performances of the funds.

Holdings	Annualized Average Return	Benchmark Index	Annualized Standard Deviation	Beta	Kitty's MPF Portfolio Weighting
Fund A	24.7%	25.6%	19.8%	1.5	20%

Fund B	14.6%	21.6%	15.4%	1.2	30%
Fund C	2.8%	2%	3%	0.9	25%
Fund D	9.5%	5%	10.5%	0.5	25%

13. Kitty was infected influenza virus last month and contracted pneumonia. She was admitted to the hospital for a week. She had totally paid \$20,000 for the medical expense. In the mean time, she has already claimed the full amount from her employer and the insurance company respectively.
14. Daniel and Kitty plan to buy an apartment 3 years later. They like the flat which they are renting now, and have consulted the owner about the price. The owner promised to sell them the flat in accordance to the market price 3 years afterwards. The building area of the flat is 500 square feet and the current price is \$5,000 per square foot. The bank may grant them a maximum 70% mortgage loan and the annual interest rate will be P-1%. They expect that the prime rate will be the same in 3 years. Daniel wants to pay up the mortgage loan within 20 years.
15. If Daniel and Kitty want to implement their plans of buying a property and getting married, they have to firstly save enough money for the down payment and wedding expenses. It is estimated that they need \$100,000 for their wedding 3 years later. As such, they obtained from the BCD Bank a savings investment scheme, in which a 6% annual return rate is guaranteed. They intent to open a joint account and join the scheme in order to meet their goals. Daniel also plans to finish his CFA study through the scheme financing, and plans to open an investment account independently under his own name.
16. Kitty's colleague suggested her to buy a personal life insurance policy for protection of her family, and add a term life insurance for more protection with cheaper premium. Kitty accepts this idea; however, she doesn't know how much she has to pay.
17. Both Daniel and Kitty ask you to give them some suggestions on tax saving scheme so as to pay less salary tax.
18. Kitty recently joined a seminar titled "How to Write Your Own Financial Plan?" with the Founding President of Society of Registered Financial Planners as the speaker. However she still has difficulty to fully understand the difference between

tied agents, multi-tied agents and independent financial advisors. She also finds amazed that some financial planners intend to change from commission based to fee-only despite their income would drop at least in the first few years of the change over. She is wondering if she should seek second opinion from a fee-only financial planner on her money matters.

19. Kitty's Uncle John was a dentist. He died recently and Kitty is the executor of his will. Uncle John unfortunately has a poor relationship with his wife, Aunt Marie. He changed his will so that he left nothing to Aunt Marie but put everything in trust to Kitty, his beloved relative. To complicate the matter further, Kitty recently found out that Uncle John has an illegitimate child, Chip, who is 10 years old. Following a meeting with Uncle John's investment advisors "Breakers Investment Advisors Limited", Kitty received a letter from the investment advisor per Attachment A. She asks you to advise her on this rather complex situation.

20. Other information:

- Savings interest rate: 0.01%
- Inflation rate in Hong Kong: 5%
- 6-month time deposit interest rate: 0.05%
- Return rate of education fund: 2.5%
- Risk-free rate: 1%
- Prime rate: 5%
- Appreciation rate of real estate: 5%
- All currencies are in Hong Kong Dollars unless stated otherwise.
- All interest rates are compounded annually unless stated otherwise.

DRAW UP A FINANCIAL PLAN THAT WILL HELP DANIEL AND KITTY ACHIEVE THEIR FINANCIAL OBJECTIVES AND ADDRESS ALL THEIR CONCERNS THEY HAVE RASIED.

Attachment A

Miss Kitty Ho  
12345 Queen's Road East

Hong Kong

Dear Kitty,

It was a pleasure to have met with you last week. We talked about a number of important issues and the critical investment decisions facing you. Let me repeat here that I know Breakers and I can give you the advice and help you need and would welcome the opportunity to work with you.

I will send you shortly information on "Wu Xia", a stock that I think is "hot" and ready to take off. I would also suggest you give serious consideration to the A&A Life Science Fund. It has outperformed all other funds in its class and is expected to continue in the future.

To serve you best, I would like to give you the following recommendations. First, I would recommend that you authorize us to consolidate all of your investments previously under your Uncle John's name. Through my management, your overall return would be at least 10% over the next few years as I will let you know the best time to buy and sell. Second, I would recommend that you sign margin and option trading agreement with us.

I look forward to working on your behalf soon and do give me a call if you require further information.

Yours truly,

Bean Gate  
Investment Specialist  
Breakers Investment Advisors Limited