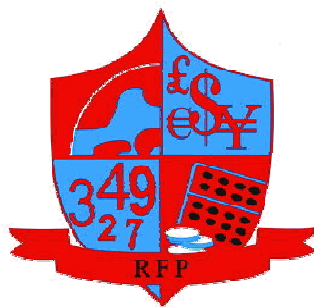


Hong Kong Undergraduate Financial Planners of the Year Award 2013
For University Participants



註冊財務策劃師協會

Society of Registered Financial Planners

**“HONG KONG UNDERGRADUATE FINANCIAL PLANNERS
OF THE YEAR AWARD 2013”**

(香港傑出大學生財務策劃師比賽)

Cases Study

Case Study

The date is set to be on 1 Jan 2013.

Stephen Lo, aged 48, is married with two kids. He is a relatively well-off middle class. He has stable job as a senior engineer and has no risk of losing his job. He and his wife Amy, who is a housewife, have two sons, and both are living with their parents.

The younger son David is 16 years old and a very good student. The elder son Jeff is 20. Unlike his younger brother, Jeff is a happy-go-lucky person who shows no interest in school and has started working after graduating from high school. He holds part-time job at various places such as McDonald from time to time and spends most of his time playing rock music with his friends. Stephen and Amy are both very concerned about the future of this son. As for David, Stephen and Amy plan to send him off to Australia to read for his bachelor degree.

Stephen has two aging parents, both at 70 years old, who are in good health and have their own flat. He gives them HKD 4,500 of pocket money per month. He purchased some life insurance and medical insurance for his own family members. Stephen has no debt except for a floating rate 25-year mortgage loan with 8 years mortgage remaining. The original loan amount was HKD 10,000,000 with a floating HIBOR rate as interest.

In order to maintain the current living standard and to support the overseas study of David, Stephen purchased a term life insurance with 20 years of length of coverage. The life insurance policy has a coverage amount of HKD 3,300,000 with a monthly premium of HKD 2,270 for the following 20 years.

As for medical insurance, Stephen worries about the health of his entire family. After consulting with his insurance professionals, he acquired a comprehensive medical insurance with a complete combination of services including inpatient, dental and outpatient benefits. This insurance plan costs him HKD 80,514 per year. This plan includes 100% reimbursement in supplementary major medical and inpatient services and 80% reimbursement outpatient services with a maximum annual limit of HKD 650,000 per person in hospital and surgical benefits and HKD 3,500 per person in dental benefits and even a maternity protection for his wife.

Due to his respectable income and steady job, Stephen does not feel the needs to take a lot risk in investment. He believes in buying and holding blue-chip, high dividend stocks and mutual funds as the best way to invest and he figures out that he has no time to monitor his portfolio anyway.

Below are the balance sheet and cash flow statements of Stephen's family.

Example using "Normalization" on an Individual's "Income Statement" and "Balance Sheet"

Stephen's Cash Flow Statement

HKD

2012 Annual Figures

Cash Inflows:		
Basic Salary	\$	1,080,000.00
Bonuses/Consulting	\$	60,000.00
Total Inflows	\$	1,140,000.00
Cash Outflows:		
MPF	\$	24,000.00
Taxes, etc.	\$	55,560.00
Mortgage Payment	\$	600,744.00
Club House Membership	\$	14,400.00
TV Subscription	\$	5,976.00
Parent's Pocket Money	\$	54,000.00
David's Pocket Money	\$	18,000.00
David's Education Expense	\$	30,000.00
Jeff's Pocket Money	\$	54,000.00
Entertainment	\$	21,600.00
Insurance - Life	\$	27,240.00
Insurance - Medical	\$	80,514.00
Utilities	\$	13,200.00
Car expense	\$	30,000.00
Food, Misc.	\$	103,200.00
Total Outflows	\$	1,132,434.00
Surplus/(Deficit)	\$	7,566.00

Stephen's Balance Sheet

HKD

As of 31 Dec 2012

Assets		
Cash - HKD	\$	753,000.00
Cash - RMB	\$	653,000.00
Securities (As of 31 Dec 2012)		
- HSBC (6000 shares @ HKD 82)	\$	492,000.00
- Li & Fung (16,000 shares @ HKD 13.68)	\$	218,880.00
Mutual Fund - Hamon Greater China GBP	\$	449,280.00
MPF - all invested in RCM Asia Pacific Limited Stable Growth Fund	\$	540,000.00
Personal Belongings	\$	95,300.00
Total Current Assets	\$	3,201,460.00
Car	\$	450,000.00
Other properties	\$	135,000.00
Household Property	\$	700,000.00
House	\$	14,900,000.00
Total Fixed Assets	\$	16,185,000.00
Total Assets	\$	19,386,460.00
Liabilities & Equity:		
Liabilities:		
Home Mortgage Balance	\$	4,129,487.54
Total Liabilities	\$	4,129,487.54
Equity:	\$	15,256,972.46
Total Liabilities + Equity	\$	19,386,460.00

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Although the retirement age at his company is 60 years old, Stephen plans to have an early retirement at the age of 55 so that he could spend more time with his family and do some traveling. He rarely takes Amy to travel all these years due to his busy work schedule and wants to make it up for her by taking her to a month-long European trip after retirement.

Furthermore, he also wants to maintain his current standards of living after retirement. As he is getting old, he will start to pay more attention to his personal finance – for the first time in his life. The 2008-9 financial crisis certainly has made him wary of taking risk. After all, he said to himself, there is no way to avoid losing money when stock prices fall all over the world. Yet, he knows that he has to rely more and more on his investment to generate income to sustain his expenditure if he wants to retire early. He is also wondering how much net wealth he should have by the time he retires. With all these questions in mind, he decides to seek professional advice from a financial planner.

Stephen was given a risk profile test in the first meeting based on the following preferences:

“Stephen has started investing 5 years ago. He expects his income increment will be the same as the inflation rate. Around 60% of his overall investment is invested in stocks and equity funds of which most are the blue-chips and high dividend stocks. He seeks stable, balanced income and capital growth as the investment objective. Therefore, he accepts moderate fluctuations in return for capital gain and wealth preservation. In case of loss in the face value of stocks for over 30%, he would choose to sell part of the investment and keep some for further gain when the market veers higher. If there is a special need for cash, he would liquidate a large portion of the investments. In general, he would be comfortable with investment products in a time horizon between 1 to 3 years. “

The risk profile test has generated the following result:

Medium Risk: A balanced style investor may wish to choose a portfolio that emphasizes achieving capital growth over a longer term with moderate income flow. The portfolio generally seeks a balanced trade-off between capital growth without excessive volatility and current income.

Question:

Please assess the current financial conditions of Stephen and offer some concrete advice to address his concerns and financial goals. You should assume that the life expectancy of male is 75 and that of female is 80 in your answer.

Note: Your report must be written in English and no more than 15 single-sided, single-spaced pages (font size: 12-point Times New Roman), including cover pages, tables, charts, diagrams, references and appendices. Please submit the electronic file of your excel spreadsheets, if any, with your report.