



FINANCIAL LITERACY **FOR YOUTHS**



Borrow Your Way to Wealth





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In our previous articles, we have learned about ways to invest in the stock market. It is one of the easiest way for students to build an alternative source of income. All you need is only some dedication to improve your knowledge in investing and capital as little as RM 1,000. By knowing ways to invest safely and managing risks well, everyone could build their wealth easily to achieve financial freedom. Perhaps your dream is to achieve financial freedom at the age of 30, spend your whole day living the life you desired; You have tried hard to save your pocket money everyday and lived frugally to achieve the financial goals you have set as taught by many personal finance books.

However, if you are serious in building massive wealth, there is one skill that you have to master in order to be truly financially free. It is impossible to be wealthy by investing with your money from savings alone. One of the biggest difference between the rich and middle class is that the rich borrow other people's money to build their wealth, while middle classes are afraid of being in debt with others' money.

The secret is called "leverage", which is the act of trying to maximise their gains through usage of something. In this case, maximising gains by usage of borrowed funds. The rich leverage on everything they could, such as others' people time, knowledge and especially money. In this article, you will learn about how the rich view 'debt' from a different perspective, explained in my real life story.

Jason is a friend of mine who is also a student. He has found out that investing in REITs could pay him constant dividend every year which yield higher than any fixed deposit provided by banks. He also knew that the prices of REITs does not fluctuate a lot when compared to common stocks that are listed on Bursa, after doing some research in their historical price.

Jason managed to save RM 10,000 and invested all his money into a REIT which pays him 6% dividend annually. Every quarter, he receives dividend in the form of cheque by the company that sums up to about RM 600 in one year. Jason is so excited that he told me he could make 6% every year from his money without

doing any work! His return on investment is 6% per annum, which is RM 600 divided by RM 10,000. (Excluding capital gain for easy calculation).

Few weeks ago, I came across with a savvy investor, his name is Alvin. I have told Alvin the story of Jason and seek for his advice regarding investing in REITs. He was so amazed that Jason has started to invest during his young age. Alvin agrees that REITs could provide students a stream of steady income and he encourages me to do so. He also bragged that he would earn a greater return than Jason with the same amount of capital by investing in the same REIT that pays 6% dividend per annum as Jason.

Assuming that Alvin has RM 10, 000 in his bank account, he would also borrow another RM 15, 000 from the bank with an interest rate of 4.5%. He would invest the entire RM 25,000 amount in REIT that pays him 6% return in a year. At the end of the year, Alvin's money will be RM26, 500 and he would pay the bank back $RM15, 000 + RM 675 = RM15, 675$, leaving him with a total of RM 10, 825 and a net gain of RM 825 once subtracts the initial RM 10, 000 he invested. That's a 8.25% return!

Of course, borrowing money for investments have their risks as well. No matter how well researched you are, the market can be unpredictable at times and it will go against your researched trend. Rather than purely financing your investments with debt and going all out with it, you should remain some amount of cash with yourself to pay back your loans and cover the interest payments in the event that your investments go south.

Now you know about the secret of leveraging. One of the best way to borrow money easily and safely as a student is PTPTN, while the interest charged by them is only 1%. It is probably the cheapest money you could borrow legally in the world! The earlier you start, the better.