

1. Explain what amortization is and how a down payment and loan duration impact it.

An amortization is a fixed equal amount of money which consists of principal and interest. At first, the proportion of interest dominates the proportion of principle in the fixed periodic payment. When the time passes by the proportion will be reversed since we have paid a lot interest at the early period which reduces the amount of loan to be calculated the interest later.

When we pay a large amount of down payment, it will result in a smaller periodic amount per month, with the equal duration of loan, since the loan amount used to calculate the amortization is lower and vice versa. And when the loan duration is long, the monthly periodic amount will be larger and when the loan duration is short, the monthly periodic amount will be smaller.

2. What is the importance of health insurance and disability insurance in personal financial planning?

Health insurance and disability insurance will help us reduce the financial burden which we can suffer if we are facing the health problem or disability to the body problem as the insurance company will pay us a medical fee under the agreed condition or they will pay us an allowance during the period that we cannot work or pay the high amount of money plus monthly allowance if we are facing the disability and more. With health insurance and disability insurance, we can reduce the financial burden and make us meet the financial goal faster with less financial obstacles.

3. What is life insurance? What is its purpose and principle?

We will talk about the “whole life insurance” which is the most used now. The life insurance is the financial instrument that helps us in two purposes which are saving for the retirement and as a benefits for the descendants when the insuree is dead. To make a contract, they have to pay a fixed amount every year for the first 10 years as an example and the insurance starts right away at the first payment and when the insuree is 60 years old as an example, the insurer will pay out the annually periodic(payout period) allowance to the insuree until the age of 99 (in Thai case). We are protected from the first date of payment until the year we are aged 99. We also have other type of insurance which pay an “variable” annually periodic allowance during the payout period which is called variable life insurance but it’s not the most popular now.

4. Joe and Jane are both 35 years old. Although they graduated from college almost 15 years ago, they have never developed a diversified investment program. What extra money they had was invested in high-tech stocks that did quite well. Then, with the economic downturn, they encountered major losses. How could asset allocation have reduced the dollar amounts of the Joe's and Jane's losses?

First, they only invested in one industry which is high-tech group and it’s not well-diversified. With the economic downturn, they will suffer from both systematic risk (market risk) and Unsystematic risk (company risk) which could make a huge loss during that time. If they apply the asset allocation concept successfully, they will face a lower intensity of loss during the economic downturn since they face only systematic risk which is unavoidable and the unsystematic risk is eliminated by using asset allocation.