

Model Answer of the Structured Question Example

1. Wealth Planning

- (a) Mr Chen plans to pass the family business to his son, and intends to live out his life in Taiwan. As Mr Chen's business has successfully grown in size, it is believed that the business structure of Mr Chen's business is a company. Considering the business structure, there are two relevant solutions for Mr Chen's business succession plan:
- Exchanging Mr Chen's common shares for preferred shares. It can leave the management of the company to his son whilst Mr Chen continue to receive dividends through the ownership of the preferred shares for his retirement income.
 - Shareholder's agreement. It may ensure Mr Chen's wishes on matters related to future shareholders are accurately reflected.
- (b) There are two potential issues in respect of personal wealth succession:
- Mr Chen's investment portfolio is registered in his personal name. It may raise the liquidity issue for his family in the event of his death or incapacity.
 - To address this issue, it suggests restructuring the assets to have joint owners. Joint account with survivorship enables the co-owners of the account to access the asset in the account upon the customer's death/incapacity.
 - Mr Chen's potential estate duty exposure.
 - To address this issue, Mr Chen can put his personal asset to a trust. Trust assets do not need to undergo the probate process.
- (c) Mr Chen may also has the following two wealth planning needs:
- Debt planning. Debt planning is important for Mr Chen due to the proposed USD50 million business loan, and a particular concern is the potential for any personal liability that may arise.
 - Investment planning. Mr Chen does not have time to properly manage his investment portfolio.

2. Behavioural Finance

- (a) Mr Chen appears to be suffering from two behavioural biases:
- Outcome bias. It can result in an investment decisions that are not consistent with the agreed investment plan.
 - Self-attribution. It may lead to possibly to overtrading..
- (b) For Mr Chen's behavioural biases, the private wealth manager may:
- moderate the effects of outcome bias by stressing the importance of basing investment decisions on the decision process and the research conducted by the private wealth manager.
 - moderate the effects of self-attribution bias by stressing the importance of basing investment decisions on the decision process with all investment decisions being based on the agreed investment plan.

3. Customer Relationship Management

(a)

- i. Mr Chen is considered as one of your best customers group.
- ii. Retain the relationship with Mr Chen through frequent contact, introducing specialist colleagues, invitations to appropriate social and networking events, etc.

(b) Two methods that the private wealth manager should proactively manage customer retention and minimise the risk due to Mr Chen's wealth transfer:

- To raise to Mr Chen for introducing you to his spouse, children and the potential philanthropic organisations.
- To help Mr Chen and his family to understanding a family's planning horizon, needs and tolerances as they develop over time.