Buffer from savings and properties gives room for more risk

FROM B20

These properties provide a source of passive rental income for him and his wife, who is the vice-principal of a secondary school.

"People may say endowment insurance plans work, and we do have some of those, but you need to pay premiums periodically and they don't appreciate in value," Mr Goh says. "For properties, you buy one and pay a fraction as deposit.

"To me, that's good for a mid- to long-term plan. Every month, it pays for itself (assuming it is rented out) and at the end of 10 to 20 years, the likelihood of capital appreciation is high."

The Gohs have outstanding mortgages of $800,000 and a loan of $80,000 for a BMW 325.

His monthly expenses amount to about $6,000, including insurance premiums for a $2 million term policy on his life, his children's education plans and other health and endowment plans.

Apart from his properties and a one-third shareholding in CoAssets, he has no other investments. After setting aside $150,000 in emergency funds, Mr Goh has $200,000 in investable funds.

He told The Sunday Times that his financial objective is to diversify his investments and accumulate wealth. He has a mid- to long-term investment horizon.

WHAT FINANCIAL EXPERTS SAY

Given Mr Goh's diversified real estate portfolio and stable income, he can have a more aggressive investment portfolio.

This means more of his savings can be parked in riskier assets such as equities. A risk-profiling exercise indicated that he is open to a significant level of investment risk with his funds.

As such, the asset allocation of Mr Goh's customised portfolio reflects that of an aggressive risk profile with 40 per cent in domestic equities, 40 per cent in global exchange-traded funds (ETFs), 10 per cent in real estate investment trusts (Reits) and the balance 10 per cent in bonds.

The CFAS advisory panel says: "Getty has the financial buffer to take on more risk.

"His savings and properties are already giving him yield, so he can stomach more risks compared with Shona."

Just like Ms Chee's simulated portfolio, each domestic equity is kept at 5 per cent to 10 per cent to diversify concentration risk.

Reits give good yield and are a natural hedge against inflation, and global ETFs will provide diversification from the domestic market.

There are two stocks in Mr Goh's portfolio – Singapore Airlines (SIA) and Wing Tai – that replaced Raffles Medical, which was in Ms Chee's portfolio as she wanted some exposure to the healthcare sector.

The panel highlighted that SIA would benefit from lower energy prices, while Wing Tai has a healthy balance sheet and strong fundamentals with experienced management to benefit from recovery in the real estate sector.

Mr Goh told the panel that he was concerned about his simulated portfolio's exposure to China in the light of poor market sentiment and plunging share prices this year. The panel has allocated 10 per cent of his investable sum to an ETF that mirrors the FTSE China 50 index.

Panellist Simon Ng says: "Our entry point at this juncture is great... China's growth is still intact, albeit having moved down from 9.5 per cent in 2011 to 6.9 per cent last year.

"It's growth that you don't see in other nations. It's the new norm. The era of double-digit growth is gone. The economy is still growing pretty well and substantial."

He added that while there is short-term risk, the potential upside can be rewarding.

"At 10 per cent, it's a fair amount of risk we would like to stomach with that upside," Mr Ng says.

The panel believes that Europe is likely to have potentially more quantitative easing (QE) initiatives that the region's economies would be able to capitalise on than the United States.

This explains why 9 per cent is allocated to European ETFs and 7 per cent to US ones.

The panel is looking at annualised returns of 8 to 10 per cent a year for Mr Goh's portfolio.

In the light of recent market gyrations and the portfolio's large equity exposure, the advisory panel and Mr Goh agreed to split the investing into two tranches.

The first tranche was carried out on Monday where 10 per cent or $20,000 was "invested" in bonds and 50 per cent of the "funds" meant for domestic equities, global ETFs and Reits were outlaid. The balance will be deployed later with the panel's recommendation.

Last week, we highlighted the panel's rationale for domestic equities. Global ETFs and Reits are covered today while we will look at bonds in greater detail next Sunday.

Meanwhile, you can check out SGX StockFacts (www.sgx.com/stockfacts) as a tool to analyse SGX-listed stocks. The first seminar on the Save & Invest Portfolio Series is on Feb 20 at SGX. To register, visit www.sgx.com/academy.

Send your queries on this series to lornatan@sph.com.sg.

MORE AGGRESSIVE PORTFOLIO

Getty has the financial buffer to take on more risk. His savings and properties are already giving him yield, so he can stomach more risks compared with Shona.

THE CFAS ADVISORY PANEL, on Mr Getty Goh. After setting aside $150,000 in emergency funds, he has $200,000 in investable funds.

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