Invest

Goh Eng Yeow sees buying opportunity in stock sell-off. B18

Qin Jinghuang, 20, devised a filtering system to identify stocks. B16

Save&Invest

Bonds take lion's share of retiree's portfolio

Given his age and need for income, portfolio is kept conservative, with less in equities

Lorna Tan
Invest editor

This is the third part of our Save & Invest Portfolio Series, where The Sunday Times will feature the simulated portfolios of three real retail investors over the course of a year.

The series began a fortnight ago with 25-year-old Shona Chee and her simulated investment portfolio devised by a panel of four professionals from the CFA Society Singapore (CFAS). Last week, we featured Mr Getty Goh, 38, who is married with two young children.

The Portfolio Series will not involve actual money as it is intended only for illustrative and educational purposes. All three portfolios are limited to Singapore Exchange-listed instruments, to keep them easy to monitor, simple and accessible, as well as Singapore Savings Bonds, which can be bought via ATMs.

There will be similarities in the three portfolio holdings, but the allocation for each profile will differ, depending on the individual's risk-return objectives and preferences. The simulated portfolios are constructed for an ideal investment time horizon of five to 10 years.

The three portfolios, which went live on Jan 18, will be tracked by The Sunday Times each month until the end of the year.

WHAT WANG MOO KEE WANTS

Retiree Wang Moo Kee, 61, was a marketing manager at a multinational whose role included submitting three- to five-year plans to his senior management. He applied the same discipline when it came to planning his finances, the result of which is a comfortable albeit simple retirement now.

He told The Sunday Times that he used to tabulate items that he would need to spend on during his golden years, breaking them down into different categories of "minimal", "comfortable" and "luxury" lifestyles and forecasting the expenditure over five years. This spreadsheet was updated regularly as he drew closer to retirement.

He counts himself fortunate to be a saver and has maintained a simple lifestyle throughout. "I save a lot, about 30 per cent of my monthly pay when I was working and almost all of my yearly bonus. I don't spend on luxury goods because I don't believe in paying for brands and I hardly eat out at restaurants," he says.

"Before I was 50, my family and I hardly went for trips except for the occasional driving holiday to Malaysia, so we saved a lot. I also told my kids that they have to study in Singapore. As long as they study here, expenses will be low."

His wife is still working and he has four children, aged 16, 19, 26 and 28. The family lives in a 2,900 sq ft 99-year-leasehold terrace house in the Jurong area that Mr Wang bought for $900,000 in 1997. It is now worth about $1.7 million. He recalled that the $4,000 monthly mortgage instalments for his house were "quite scary". He paid off his loan in 2009.

Before that, he owned a five-room HDB flat in Bukit Purmei that was bought for $130,000 in 1979 when he got married. It was sold in 1997 for $480,000.

He keeps his expenses to the minimum, spends time reading at public libraries, does taiji at the community centre three times a week and cooks for the family. His silver Toyota Isis MPV is also paid up. Mr Wang expects to reduce his monthly expenses of $3,000 once his two youngest children start working.

He became interested in share investing 20 years ago, partly because he wanted his money to work harder for him instead of getting eroded by inflation. His portfolio is valued at about $50,000 and he owns shares like CapitaLand, DBS and Wing Tai. He buys only when the market crashes and he analyses annual reports and financial figures like price-earnings ratio and dividend yield.

"I set an exit plan. I will sell when the stock goes up 10 per cent to 20 per cent. Last time, I buy and don't sell, which was a mistake," says Mr Wang.

He had a bad experience in unit-trust investing at age 40 when he lost 70 per cent of his stake in a fund. Mr Wang sold all his unit trusts five years later.

He is not a fan of insurance as the yields are low. The only whole-life plan he has was bought when he was in national service.

After setting aside $50,000 as emergency funds and parking some cash in fixed deposits, Mr Wang has an investable sum of $400,000. He has around $80,000 in his CPF Retirement Account, which he will draw down at age 65.

In the event that his nest egg is depleted, he is prepared to sell his house and downgrade to an HDB flat.

WHAT FINANCIAL EXPERTS SAY

Given Mr Wang's age and strong need for income, his portfolio should be conservative. This means less of his savings would be parked in riskier assets like equities and more in bonds. The CFAS advisory panel said: "A moderate 30 per cent equity will allow him to have stable growth and dividend income from blue-chip stocks."

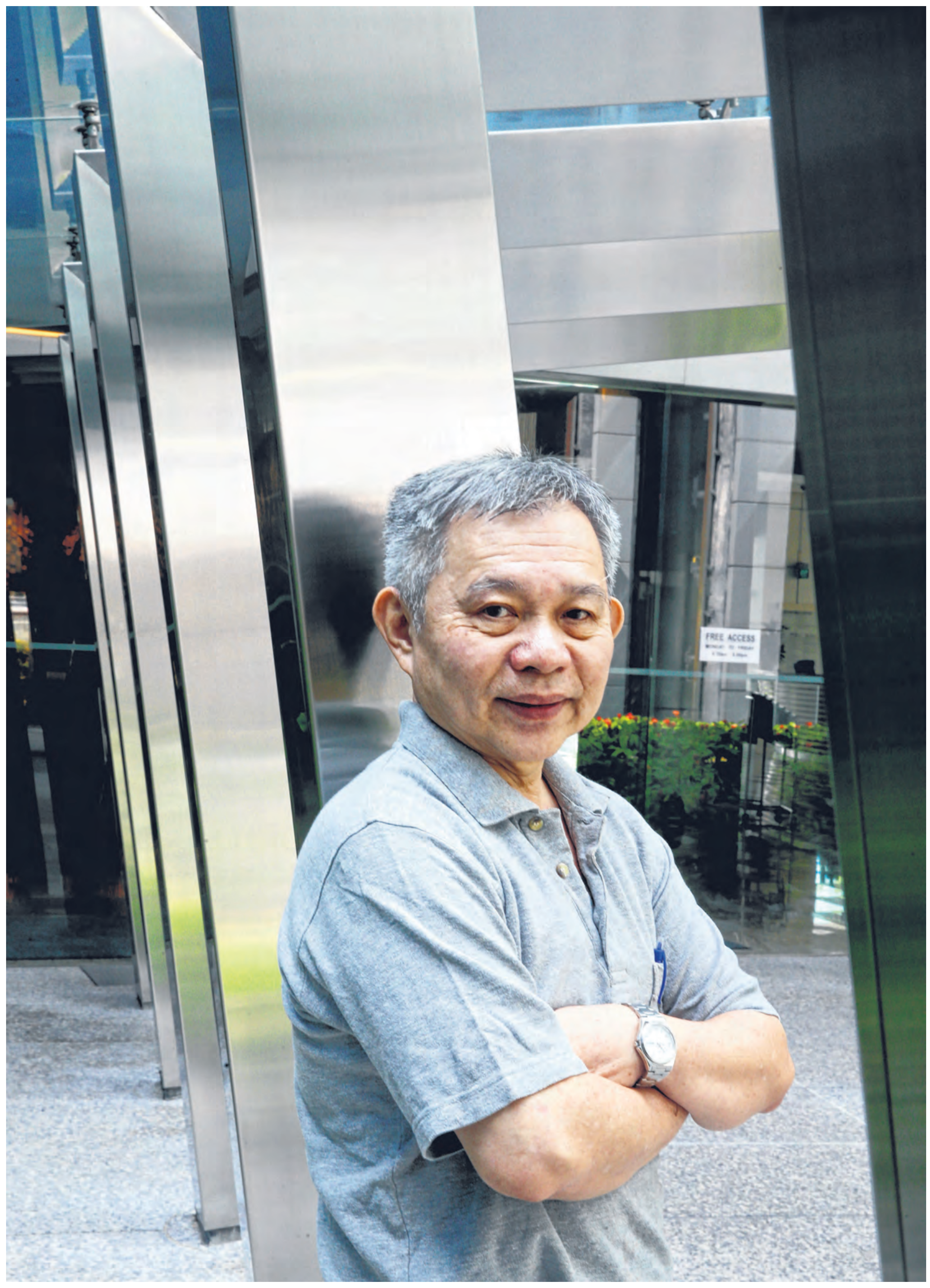
Besides the 30 per cent allocated to equities, Mr Wang's simulated portfolio has 10 per cent in global exchange-traded funds (ETFs), 10 per cent in real estate investment trusts (Reits) and 50 per cent in bonds.

Like Ms Chee's and Mr Goh's portfolios, each domestic equity in Mr Wang's portfolio is kept at 5 per cent to 10 per cent to diversify concentration risk. Reits are included to provide decent yields and are a hedge against inflation while global ETFs provide diversification from the domestic market.

The panel noted Mr Wang's indifference to gold, but felt that having a small allocation to precious metals would help in diversifying the portfolio.

"The high bond allocation will give him stable income with little principal risks," said the panel.

LITTLE RISK, STABLE INCOME B19



Besides the 30 per cent allocated to equities, Mr Wang's simulated portfolio has 10 per cent in global exchange-traded funds, 10 per cent in real estate investment trusts and 50 per cent in bonds. ST PHOTO: CHEW SENG KIM

Panellists' pick of the crop

SINGAPORE SAVINGS BONDS

Singapore Savings Bonds (SSB) are a simple, risk-free way of investing in bonds. They are guaranteed by the Government and the price is always maintained at 100 per cent. The average interest rates of the previous SSB offers are 2.63 per cent, 2.78 per cent, 2.44 per cent and 2.5 per cent, if held to maturity.

The return for holding an SSB until maturity will match the average 10-year Singapore Government Securities (SGS) yield, which has been between 2 per cent and 3 per cent in the past 10 years. SSBs' interest rates are determined by the average SGS yields in the month before a tranche of bonds is released.

The disadvantage is each investor is limited to an investment of $100,000 and yields are lower than corporate bonds'. However, another way of looking at SSBs, given that they can be redeemed any time, is as a source of liquidity that can earn a higher return than fixed deposits.

DBS 4.7% Perpetual
OCBC 5.1% Perpetual

Bank perpetuals offer good yields but risk being called prematurely before their first call dates.

The panel believes the banks will likely not exercise that but will redeem the bonds on their first call dates. The bank perpetuals are offered in minimum sizes of $10,000 so they may not be accessible to smaller portfolios wanting diversification.

The two bank perpetuals, which are trading above par, offer a good yield of 3.5 per cent to 3.8 per cent.

CMA 3.8% JAN 22

CapitaLand Mall Asia (CMA) is one of the largest mall developers and managers in Asia. It was listed but privatised by CapitaLand in July 2014. It manages and has interests in malls across Singapore, China, Malaysia, Japan and India. It has a strong track record in developing and managing malls with good occupancy rates. Its low gearing and strong recurring record make it a strong credit.

CMT 3.08% FEB 21

CapitaLand Mall Trust is 28 per cent owned by CMA. It is the largest real estate investment trust owning malls in Singapore. Its high-quality portfolio of malls, stable operating record, the spread out maturities of its mall leases and relatively low gearing make it an investment grade credit.

FCL 3.65% MAY 22

Frasers Centrepoint (FCL) is a property developer. An increasing portion of income is coming from rents as it builds its portfolio of investment properties, which are a more stable source of recurring revenue.

However, this is tempered by its relatively high gearing and its aggressive expansion in the hospitality segment of its business.

iSHARES ASIA CREDIT BOND ETF

This exchange-traded fund (ETF) is tied to the JPM Asia Credit Index. This index is made up of US-dollar bonds issued by Asia-based borrowers.

Besides the exposure to US bond yields, this ETF exposes investors to the credit risk of Asian issuers and US-dollar risk. Given that the US dollar is expected to do relatively well versus the Singdollar, having some US-dollar exposure is not a bad thing at this time.

Save & Invest Portfolio Series

The Save & Invest Portfolio Series will feature the simulated portfolios of a young working adult, a married couple with two young children and a retiree over a 12-month period.

It will guide retail investors in basic investment techniques and how to build a portfolio in accordance with their financial goals and risk tolerance. This initiative involves the Singapore Exchange collaborating with CFA Society Singapore and MoneySense, the national financial education programme.

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