Good asset allocation key to returns

FROM B24

The CFAS panellists who track the simulated portfolios are (from left) Mr Phoon Chiong Tuck, head of fixed income at Lion Global Investors; Mr Jack Wang, partner at Lexico Capital; Mr Praveen Jagwani, chief executive officer of UTI International, Singapore; and Mr Simon Ng who heads the multi-asset investment team at Shanda Group. ST FILE PHOTO

PORTFOLIO PERFORMANCE

The portfolios' performance from Jan 18 to the end of February shows the benefits of diversification. During this period, domestic equities and Reits outperformed their benchmarks while global allocations and bonds suffered.

Overall, all three simulated portfolios are reflecting gains, with Mr Goh and Mr Wang's portfolios outperforming their respective benchmarks.

Ms Chee's portfolio is slightly underperforming her benchmark.

Part of the reason is the higher trading costs related to the construction of her portfolio, due to her lower investable sum of $40,000.

However, over time, trading costs as a percentage of total performance will decline in a predominantly buy-and-hold portfolio.

Ironically, Mr Wang's portfolio – which has the most conservative profile with about half of his $400,000 investable sum in bonds – is the best-performing over the period. This is mainly due to the relatively small allocation to global ETFs which underperformed, while the domestic equities and Reits allocations delivered strong performance.

Mr Goh's portfolio was the second best-performing portfolio over the period on a net return basis.

To recap, the panel and Mr Goh had earlier decided to hold back half of the allocation meant for domestic equities, Reits and global ETFs in the first four weeks due to volatile market conditions and the fact that his portfolio has a large equity exposure.

The panel evaluated whether to deploy the second tranche of Mr Goh's equity allocation a month after the initial investment.

As global equity markets generally continued to trend lower by the middle of last month, the panel subsequently decided to fully invest Mr Goh's equity allocation on Feb 18.

Holding back helped reduce the volatility of his portfolio.

On the flip side, it unfortunately detracted from returns.

With the benefit of hindsight, Mr Goh's portfolio would have delivered an even stronger performance if the equity allocation was fully deployed at the beginning.

This is because while global equity markets were broadly lower by mid-February, the stock picks (domestic equities and Reits) and the selection of global ETFs all outperformed their respective benchmarks.

Ms Chee's portfolio was mainly dragged down by trading costs, and actually outperformed Mr Goh's portfolio on a gross basis.

Ms Chee's request to include a healthcare stock was a good call, as Raffles Medical was in the second best-performing position in her portfolio.

The CFAS panel said: "Research has consistently shown that the bulk of investment returns are achieved from prudent asset allocation and not market timing. These portfolios have been designed with these principles in mind."

The panel has decided not to make any changes to the portfolios as the current allocation appropriately reflects the desirable risk-return equation for each profile.

It noted that global markets have been plagued by unusual volatility and risk aversion.

This has caused widespread decline in equity markets and has triggered a rush into defensive investments like gold.

The CFAS panel said: "In Singapore, consumer prices have declined for 15 straight months and growth has declined in sync with the region.

"Times like these serve to underscore the importance of the two golden rules – diversification and long-term investment horizon."

Looking ahead, the global economic environment continues to remain uncertain. The main factors depressing global financial markets are weak global growth, low commodity and energy prices, the slowdown in China and negative interest rates in Europe and Japan.

• The second seminar on the Save & Invest Portfolio Series will be for growth-focused investors. It will be held on April 16 from 9.30am to noon at the SGX. To register, visit www.sgx.com/academy. To analyse the financials of SGX-listed firms, you can check out StockFacts (www.sgx.com/stockfacts).

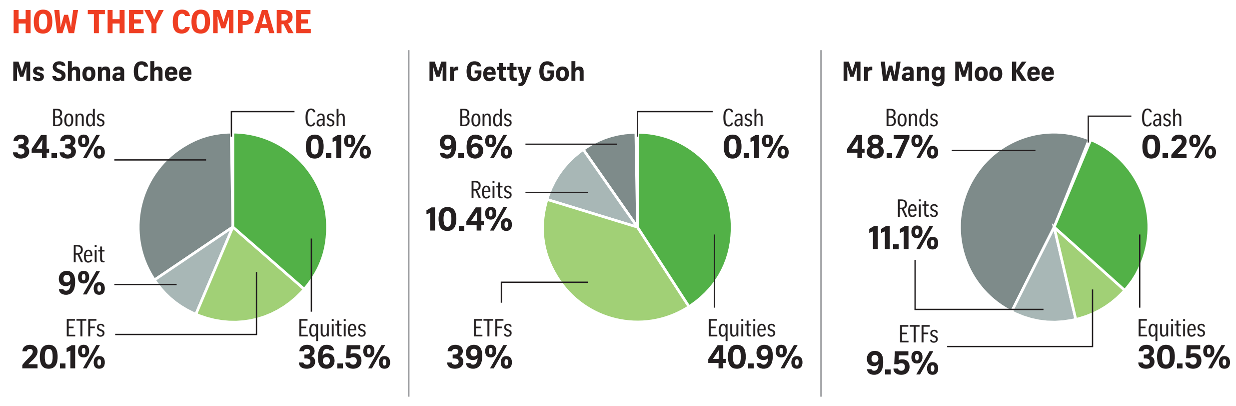
Please send your queries on this series to lornatan@sph.com.sg

Portfolio performance

Portfolio	Initial investment ($)	Current portfolio value ($)	Net total return (%)	Benchmark return (%)	Dividends and coupons ($)	Unrealised profit/loss ($)
Ms Shona Chee	40,000	40,367.38	0.92	1.37	30.80	782.51
Mr Getty Goh	200,000	202,873.96	1.44	1.24	176.48	3,250.93
Mr Wang Moo Kee	400,000	408,605.98	2.15	1.59	752.52	9,902.58

*Portfolio start date was Jan 18, 2016

HOW THEY COMPARE



- Portfolio performance as at Feb 29, 2016.
- As the Portfolio Series is intended only for illustrative and educational purposes, it will not involve actual money, investments or solicitation of funds for actual fund management by CFAS or the advisory panel.
- You are advised to seek independent financial or other professional advice for your own investments.
- CFAS and the advisory panel may provide information and recommendations on investments which they have an interest in.
- All views or recommendations made by the advisory panel are to be attributed to CFAS.

Source: CFAS STRAITS TIMES GRAPHICS

ALLOCATE WISELY

Research has consistently shown that the bulk of investment returns are achieved from prudent asset allocation and not market timing.

THE CFAS PANEL

TWO GOLDEN RULES

In Singapore, consumer prices have declined for 15 straight months and growth has declined in sync with the region. Times like these serve to underscore the importance of the two golden rules – diversification and long-term investment horizon.

THE CFAS PANEL

CFAS' portfolio updates

Domestic equities

COMFORTDELGRO:

There is potential for better bus profitability given that the Singapore bus reform is progressing smoothly. An additional positive is capital unlocking from bus sales. The threat from Uber and Grab has perhaps been overstated.

OCBC:

We favour OCBC over its peers as it has the lowest non-performing loan (NPL) ratio among its peers and the highest cumulative provisions coverage to unsecured NPLs.

RAFFLES MEDICAL:

Raffles Medical's acquisition of International SOS (MC Holdings) last August added 10 clinics to its portfolio. Resulting from this, estimated sales this year should rise by 3 per cent to 7 per cent. Meanwhile, medical tourism remains weak owing to weak macroeconomic conditions in the region.

SATS:

Twin negatives of economic uncertainty and poor consumer confidence across Asia mean continued challenges. But potential catalysts include Sats' recent accretive acquisitions of Brahim's Airline Catering which can potentially increase Sats' earnings per share.

SINGAPORE AIRLINES:

While economic uncertainty might weigh on the sector, net cash amounts are in excess of 20 per cent of SIA's market capitalisation. This provides a measure of share price support.

SINGTEL:

Core operations were generally stable with growth in mobile data services, stronger infocomm technology and managed services revenue in Australia, and higher digital services revenue. Positive trends for Australian mobile service revenues and the good performance of associates are pluses despite the losses in digital business and margin pressures in enterprise business.

SINGAPORE EXCHANGE:

Cash volumes are expected to be range-bound while derivatives volumes might experience a step down. But a nice mix of major contracts (for example, Nikkei and Nifty) should lend some support to turnover.

Steady dividends of 28 cents continue to look attractive and the lack of balance-sheet risk is likely to drive the stock's performance.

WING TAI:

There is potential for property policy easing in the latter part of this year. This represents a key catalyst for the sector. Declining home prices and rising incomes have improved housing affordability. This may in turn give the government some leeway in tweaking policy.

Reits

A-REIT:

Positives include its exposure to higher-value industrial sub-segments through its acquisitions of Aperia, Hyflux Innovation Centre and The Kendall. Portfolio occupancy is close to 90 per cent.

CAPITALAND MALL TRUST (CMT):

Last year, CMT refreshed its portfolio by adding Bedok Mall and selling Rivervale Mall. It also announced the redevelopment of Funan DigitaLife Mall. Revenue contributions from Bedok Mall should help offset the temporary closure of Funan. Footfall and tenant sales remain strong with occupancy close to 98 per cent.

Global ETFs

During the period from Jan 18 to end of February, the Singdollar has strengthened against global currencies like the US dollar, euro and sterling. As a result, the ETF portfolio reflects a loss of almost 2.5 per cent on account of currency alone. While that hurts the portfolio during this short period, in the long run, however, diversification improves the risk-adjusted return of the investments.

CHINA:

The slowdown of China's GDP has been the source of global volatility. China's relevance is not only as a major manufacturing hub for the world, but also as the world's second-largest economy.

Its transition from a state-led investment model to a consumption-driven economy has faltered as global demand has fallen. Still, with the bulk of the decline in Chinese stocks in the first two weeks of the year, the index has remained flat during the period under review.

The panel believes some risks remain over Chinese stocks but being totally out of the Chinese market would not be prudent either.

EUROPE:

Fears of declining global growth weighed heavily on European equities even though on a historical basis, the European stocks seem to offer good value. The risk aversion is exemplified by negative interest rates in almost all European nations.

The refugee crisis and fears of Britain exiting the European Union have also played a role and consequently the index was down around 3.7 per cent for the period. Still, the CFAS panel thinks Europe will rebound when a degree of normalcy returns.

UNITED STATES:

US equities are actually up 0.5 per cent during this period on account of positive economic news and a return of confidence after a turbulent January.

During phases of extreme anxiety, stock prices often get disassociated from their fundamental valuation. The widespread fears over the global banking system contributed to some of this nervousness in US stocks. The earnings declared by many large US companies have demonstrated declining costs and improving margins.

It is important to remain invested in US equities since the segment is also a proxy play for global growth.

EMERGING MARKETS:

In view of the global volatility, the CFAS panel had been cautious to allocate to this asset class given the socio-political and economic troubles of Russia, Brazil and other oil producing nations.

However, this asset class performed relatively better than developed markets. Thus in terms of attribution, the portfolio lost out by not being allocated to emerging market equities.

COMMODITIES – NON ENERGY:

Given the panel's view that "oil is lower for longer", it wanted a little exposure in commodities without taking on the risk of further declines in energy. This played out well, since the index was up 1.6 per cent during this period.

GOLD:

Gold has been the classic safe haven when the world oscillates between fear and greed. This asset class had been excessively beaten down last year and the panel found value in holding it in the portfolio. It is up 12.6 per cent during the period under review and, as concerns remain over global growth, gold will find meaningful support.

Bonds

Returns from bonds are derived from interest rates, credit and currency. The intention was to have a number of bond instruments that should deliver positive returns and accrue interest over time.

However, during the six weeks that the allocations were invested in the securities, markets were subject to a great deal of volatility, resulting in a widening of credit spreads.

Yields on some of these bonds rose by 5-10 basis points and prices fell. Furthermore, the JP Morgan Asia Credit Bond ETF, whose base currency was US dollar, was affected by a weaker US dollar against the Singdollar.

As a result, the bond portion was down. However, the panel expects bonds to do better as interest on the bonds accrue.