Save&Invest

Cash is best in uncertain times

Panel advising on simulated portfolios starts to take profit to raise cash levels

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Cleaners from ground-handler Sats boarding an aircraft. Most of the outperformance by all three portfolios last month came from the Singapore equities allocation, driven by Sats and SingPost, with both appreciating more than 6 per cent. Looking ahead, the panel sees Asia as a sweet spot of opportunity. ST FILE PHOTO

With short-term global uncertainty looming on the horizon, a panel advising on our simulated investment portfolios has started to take a more cautious approach.

Steps are being taken to remove some risk from the three simulated portfolios under the Save & Invest Portfolio Series, by increasing cash levels.

All three portfolios have enjoyed robust performance, thanks to diversification in recent months. In September, they posted gains and beat their benchmarks.

In the 11th part of the series introduced by The Sunday Times in January, we look at the performance of the portfolios, which went live on Jan 18 and are being tracked each month until next year.

The investors are 25-year-old Shona Chee, a communications manager, entrepreneur Getty Goh, 38, who is married with two young children, and retiree Wang Moo Kee, 61.

The Portfolio Series does not involve actual money as it is intended for illustration and education only.

All three portfolios are limited to instruments listed on the Singapore Exchange – to keep them simple, accessible and easy to monitor – and to Singapore Savings Bonds, which can be bought via ATMs.

While there are similarities in the three portfolio holdings, the allocation for each profile differs, depending on the individual's risk-return objectives and preferences.

Each portfolio has a different benchmark that best reflects the portfolio mix. The simulated portfolios are constructed by CFA Society Singapore (CFAS) for an ideal investment horizon of five to 10 years.

PORTFOLIO PERFORMANCE

All three portfolios registered gains last month. Ms Chee's portfolio was up 1.47 per cent for the month, beating the benchmark (1.03 per cent) by 0.44 percentage point.

Mr Goh's portfolio advanced 1.32 per cent, beating the benchmark (1.21 per cent) by 0.11 percentage point while Mr Wang's portfolio was up 1.18 per cent, beating the benchmark (0.91 per cent) by 0.27 percentage point.

Most of the outperformance by all three portfolios came from the Singapore equities allocation, driven by Sats and SingPost with both appreciating more than 6 per cent.

The global ETF allocation contributed positively to both Ms Chee's and Mr Wang's portfolios, mainly owing to the Asian ETF exposure.

THE INVESTORS

Communications manager Shona Chee, 25.

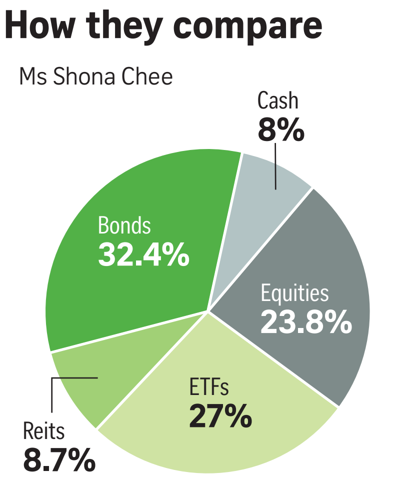
Entrepreneur Getty Goh, 38. Married with two young children.

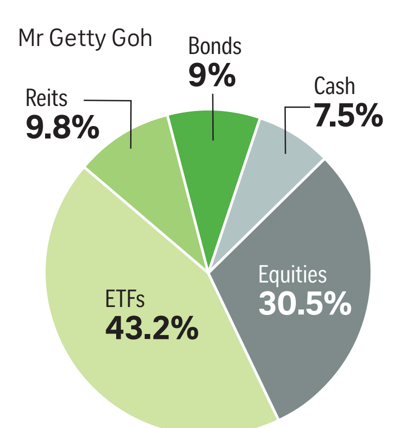
Retiree Wang Moo Kee, 61.

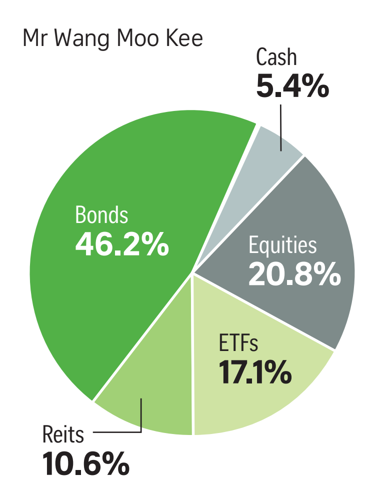
Portfolio performance

Portfolio	Initial investment ($)	Current portfolio value ($)	Net total return (%)	Benchmark return (%)	Dividends and coupons ($)	Realised P/L ($)	Unrealised P/L ($)
Ms Shona Chee	40,000	43,505.95	8.76	10.06	777.39	919.96	2,479.61
Mr Getty Goh	200,000	219,263.00	9.63	11.35	3,180.64	3,391.80	13,478.35
Mr Wang Moo Kee	400,000	437,509.96	9.38	9.31	10,280.06	7,642.30	16,771.55

How they compare







NOTES:
- Portfolio start date was Jan 18, 2016.
- Portfolio performance as at Sept 30, 2016.
- As the Portfolio Series is intended for illustrative and educational purposes only, 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.
- Figures may not add up to 100 per cent due to rounding off.

Source: CFAS SUNDAY TIMES GRAPHICS

However, Mr Goh's global ETF allocation was dragged down by the Lyxor Commodity ETF exposure, leading to a slight underperformance against the sub-sector benchmark.

A-Reit had another strong month, which contributed positively to all three portfolios' Reit exposure. Ms Chee's portfolio benefited the most as she holds only A-Reit. Mr Goh's and Mr Wang's Reit allocations underperformed the Reit benchmark slightly because of their CMT holdings.

For the bond allocation, only Mr Wang's bond holdings beat the iBoxx ABF Singapore Bond benchmark, driven by a good month for Frasers Centrepoint and OCBC perpetual shares.

PORTFOLIO ADJUSTMENTS

In view of the potential geopolitical risks, the CFAS panel has decided to gradually reduce the risk in the portfolios ahead of the United States presidential election next month.

The CFAS panel said: "We intend to raise cash levels in all three portfolios to approximately 20 per cent by the end of October. In this regard, we have decided to start by taking profit on two positions in Mr Wang's portfolio – selling half of the Sats position and the whole of the China ETF position."

This is because Mr Wang's cash level was very low compared with Ms Chee's (8 per cent) and Mr Goh's (7.5 per cent) portfolios. The panel intends to continue taking profit on positions in all three portfolios over the next few weeks to raise cash levels.

On Ms Chee's intention to invest an additional $20,000 in her simulated portfolio, the panel has advised her to hold it off for now.

"In the light of the uncertain environment and the fact that we are in the process of de-risking the portfolios, we have advised her to hold off on investing fresh funds till after the US elections," said the panel.

MARKET COMMENTARY

The panel noted that September was a "see-saw month" for financial markets on several counts. They include a highly anticipated US Federal Reserve rate decision, European Central Bank meeting, US presidential election debate, Opec negotiations, news flow around Deutsche Bank's financial woes and economic data from the US and China.

Still, on the whole, risk assets survived the turbulence and global equities (developed and emerging markets) managed to close the month 0.44 per cent higher.

Emerging markets were relatively flat while the biggest winner was Asia ex-Japan, gaining 1.4 per cent.

Looking ahead, Asia seems to be a sweet spot of opportunity, said the panel. Asian equities' 1.4 per cent gain last month also lends support to the argument that there is value to be found in the region's markets. And Asian assets will continue to be supported by an easing bias from regional central banks.

In China, the A-shares closed the month lower while H-shares gained 0.4 per cent. "Many sceptics of Chinese data may not be convinced about the quality of economic recovery and 'new economy' sectors have lost some steam. Nevertheless, selective investment opportunities do exist in China and relative valuations of H-shares (versus A-shares) remain attractive," the panel said.

It noted that gold slid during the month but ended 0.5 per cent higher. "Regardless of price direction, an allocation to gold (percentage depending on the investor's risk profile) in portfolios is always deemed as a good insurance policy against global uncertainty and market volatility," it advised.

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Save & Invest Portfolio Series

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

It guides retail investors in basic investment techniques and on how to build a portfolio in line 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. The CFAS panellists who track the simulated portfolios are Mr Phoon Chiong Tuck, head of fixed income at Lion Global Investors, Mr Jack Wang, partner at Lexico Capital, Mr Praveen Jagwani, chief executive of UTI International, Singapore, and Mr Simon Ng, CEO of CCB International (Singapore).

How to select stocks, and other questions

As part of the Save & Invest Portfolio Series, there are public seminars, hosted by SGX Academy and CFAS, aligned with themes in the series. The fifth seminar – SGX-CFA Portfolio Construction Conference for Retail Investors – was held on Oct 1. It attracted more than 500 people. Here are five of the questions that were answered at the event.

Q *How do I choose the stocks for my equity portfolio?*

A Stock selection has to do with understanding the sustainable growth potential of the companies.

Do the firms have pricing power? Do they have a solid brand? Have they consistently made cash profits? Do they have the strength to navigate extended periods of harsh business environment? Do they have good dependable management? Do their business practices exhibit ethical, socially responsible and governance standards? Finally, is the stock valued appropriately?

Stock selection is central to long-term investing and investors should seek companies with strong business fundamentals that have the ability to deliver income (yield) as well as growth (capital appreciation).

Investors are advised to use the tools available, such as SGX StockFacts, to assist with screening of various stocks and draw comparisons.

Q *How do you choose the weight of different asset classes in the portfolios? Are there ideal weights?*

A The asset allocation is determined by the risk-reward trade-off that each investor would like to achieve.

Before determining the most appropriate asset allocation, the panel drew up an Investment Policy Statement (IPS) for each investor.

This IPS details the investors' desired investment objectives and risk tolerance as well as investment constraints such as time horizon, liquidity needs and unique circumstances. Factors such as age, stage of career, lifestyle and financial obligations are also considered.

They form the basis to determine the most appropriate asset allocation strategy, including ideal weights, for each investor.

Q *Given the current economic climate, specifically for the Straits Times Index (STI) which has dropped from 3,550 to about 2,800, has a bottom been reached already? With the low valuations of Singapore listed companies, is it a good time to invest? And should we be concerned with the timing to invest in the light of the market volatility?*

A Low valuations by themselves are not a reason to invest, unless the economic environment and earnings growth are in sync too.

STI has performed on a par against Hang Seng Index and the broader S&P500 over the past year. However, looking at the two-, three- and five-year numbers, STI had underperformed both indices.

A positive indication is that the Singapore Purchasing Managers' Index rose above 50 last month for the first time in 15 months, signalling a recovery in manufacturing and potentially the economy. And at forward price-to-earnings multiples of about 12 to 13 times, the panel considers the STI to be quite fairly valued against other counterparts.

Still, timing the market is not a consistent ingredient of success for long-term investors. However, given the short-term global uncertainty from the potential geopolitical risks on the horizon, the panel has advised Ms Chee to hold off on investing fresh funds.

Q *What sector of Reits would you recommend as a more defensive strategy, as the global economy slows down?*

A In the year to date, S-Reits have outperformed developers, supported by soft sovereign yields and the strength of the Singdollar.

Physical market fundamentals remain subdued, but given the slew of game-changing events in the second half of this year and interest rates remaining soft in the next 12 months, S-Reits will continue to see buying interest, with investors looking beyond subdued distribution per unit (DPU) growth (+1.5 per cent in financial year 2016 and +0.3 per cent in financial year 2017) and focusing on S-Reits with more resilient earnings streams.

Older industrial buildings (for example, single-storey stand-alone factory buildings and cargo-lift warehouses) will be most impacted, especially with the likelihood of tenant movements either into newer facilities or as tenants downsize in response to slower demand.

For business parks, rents should stabilise this year despite supply growth of 15 per cent, partly due to the reclassification of high-tech space from the asset enhancement initiative at Viva Business City into business park space. Projects completing are substantially occupied (63 per cent this year). With no projects slated to be completed next year and in 2018, supply dynamics remain most favourable in this space. A key concern is that as office rents fall, tenants will shift away from existing business park space to better-located office space. While there has been evidence of some companies shifting (for example, Blackberry to Goldbell Towers, and IBM to Marina Bay Financial Centre), the converse also holds true, with office tenants electing to move to business parks due to more cost-effective rents.

In summary, the panel is positive on Reits specialising in industrials and shopping malls.

Q *As Mr Wang is a retiree, when and how is he able to start withdrawing his gains or capital for his daily expenses? What is your strategy?*

A Although Mr Wang is a retiree, he made it clear during our initial discussions that he doesn't require his portfolio to distribute income currently. This is because his wife is still working and he has other cash reserves. However, the portfolio has been designed with income distribution in mind, with the panel selecting stocks and bonds with decent dividend yields and coupons. The regular distribution of these dividends and coupons can then be used to fund daily expenses.

Lorna Tan