



The bond allocation for all three portfolios did well, as all the corporate bonds and the iShares JPM Asia Bond ETF (partly due to a stronger US dollar against the Singdollar) registered gains. PHOTO: REUTERS

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Cash is king in volatile times

Cash levels in portfolios raised due to volatility, to get ready for opportunities post-US election



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Invest Editor

The market uncertainty that has been wreaking havoc on investor sentiment has prompted the panel advising on our simulated investment portfolios to raise the cash element to 20 per cent.

In the 12th part of the series introduced by The Sunday Times in January, we look at the October performance of the portfolios, which went live on Jan 18 and are being tracked monthly 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 its mix. Mr Goh's portfolio, for example, is heavier on blue-chip shares, while Mr Wang goes for bonds to reflect his more conservative stance.

The simulated portfolios are constructed by CFA Society Singapore (CFAS) for an ideal investment horizon of five to 10 years.

The CFAS panel said: "Given the increased uncertainty as we go into November, the panel decided to raise cash levels in all three portfolios."

"Typically, raising cash signals two things: keeping the powder dry to quickly take advantage of opportunities after the US elections, and a defensive positioning of the portfolio in view of asset volatility."

PORTFOLIO PERFORMANCE

After four consecutive months of gains, all three portfolios fell in October.

Ms Chee's was down 0.54 per cent for the month, beating the benchmark (-0.97 per cent) by 0.43 percentage point. Mr Goh's portfolio was down 0.62 per cent, beating the benchmark (-0.85 per cent) by 0.23 percentage point, while Mr Wang's portfolio was down 0.7 per cent, outperforming the benchmark (-1.05 per cent) by 0.35 percentage point.

Holding cash in October contributed to the relative outperformance, as most equity markets fell.

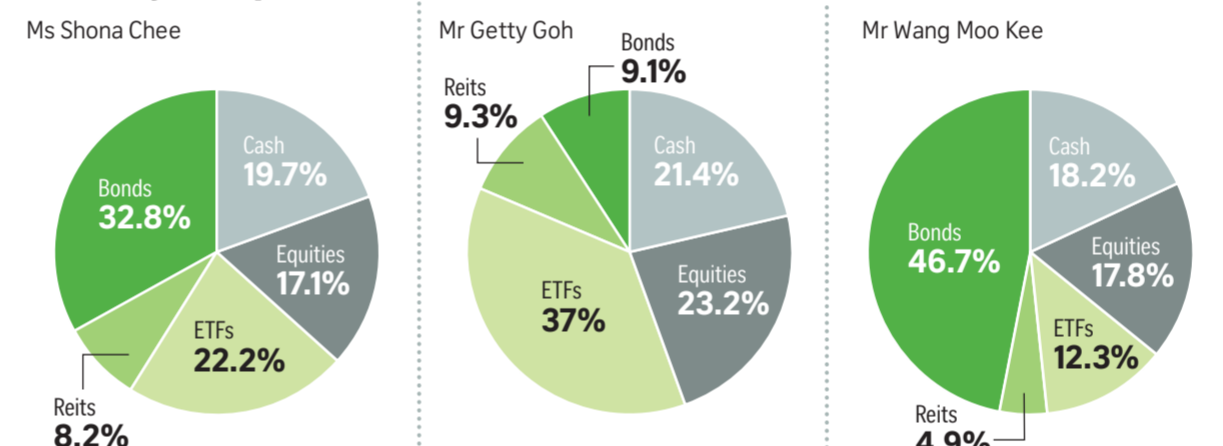
Last month, most of the outperformance for all three portfolios came from the Singapore equities allocation, driven by another strong month for SingPost which rallied almost 9 per cent.

The bond allocation also outperformed the benchmark, as all the retail corporate bonds and the iShares JPM Asia Bond ETF (partly due to a stronger US dollar against the Singdollar) registered gains.

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	43,273.08	8.18	8.99	811.59	1,830.09	1,352.41
Mr Getty Goh	200,000	217,893.73	8.95	10.40	3,499.90	6,993.74	8,280.39
Mr Wang Moo Kee	400,000	434,451.85	8.61	8.16	10,671.22	14,747.43	6,389.02

How they compare



NOTES:
 • Portfolio start date was Jan 18, 2016.
 • Portfolio performance as at Oct 31, 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 do not add up to 100% due to rounding off.

Source: CFAS SUNDAY TIMES GRAPHICS

Investors' feedback

MS SHONA CHEE



"The series is helpful in enabling me to gain a perspective on how to maximise returns from investments and how to build a more diversified portfolio for my lifestyle needs."

"I plan to do a work-compatible MBA in the United States next year or in two years and it will cost about US\$80,000 (S\$110,600). Hence, I may require some liquidity in the near future."

"Meanwhile it would be good to plan investing in higher-yield stocks/bonds to accelerate gains, and for that I am willing to add another \$20,000 in investable assets in order to generate better returns in the time period leading up to it."

"Now that I'm based in the US, I may consider some US-based stocks not available in Singapore, but I suppose the series will continue to only feature investment products available in Singapore."

MR GETTY GOH



"The Portfolio Series has allowed me to see the other types of investment options that are available."

"As a whole, it is a very good exercise. It made me realise the other investment options but it gave me a sense of what type of returns a person can realistically get. It made me realise that the market is dynamic in nature."

Investments should also be made with a long-term horizon. This is because I can see that every time the article is featured, the (short-term) economic conditions are quite different. So the realisation is that, to make money from investments, one must be prepared to hold them

for several years.

"Personally, not much has changed, apart from CoAssets' listing on the mainboard here. We are Singapore's first and only listed crowdfunding platform and we have been quoted on the Australian Stock Exchange with effect from Sept 5."

"While listing a firm was hard work, I am glad we did it as it has given us even greater exposure and credibility among our registered users. So right now, a lot of my focus and attention is on growing CoAssets. Therefore, I don't intend to increase or decrease my investment amount in the simulated portfolio."

MR WANG MOO KEE



"The Portfolio Series provides guidelines for retail investors and indicates trends of investment. I believe (new) investors will benefit most from the series."

"Personally, my strategy is not to park money in the stock market all the time. Most of the time, I park my cash in the bank and wait for opportunities to invest."

"Today, retail investors have many avenues to access informa-

tion and investment tools. For instance, information on the company, business environment and stocks are widely available and there are investment seminars and talks that investors can attend. So they tend to be more sophisticated or educated, compared with investors in the past."

"Investors may also have preferences for or are familiar with specific markets because they are job-related."

PORTFOLIO ADJUSTMENTS

The global exchange-traded fund (ETF) allocation underperformed the benchmark mainly because of the correction in gold prices which affected the gold ETF. Both A-Reit and Capitaland Mall Trust corrected more than the S-Reit index, detracting from performance.

The CFAS panel continued to de-risk the portfolios ahead of the United States presidential election on Tuesday. In the third week of last month, it raised cash levels closer to the 20 per cent target.

In Ms Chee's case, the panel sold

Sats and the China ETF, while Mr Goh's portfolio was divested of Sats and the Lyxor Commodities Non-Energy ETF. Mr Wang's portfolio of-floated Sats, the Asia ex-Japan ETF and half of his A-Reit and Capitaland Mall Trust positions.

As at Oct 31, Ms Chee's cash stood

at 19.7 per cent, Mr Goh's at 21.4 per cent and Mr Wang's at 18.2 per cent. Ms Chee intends to invest an additional \$20,000 in her simulated portfolio. However, the panel has advised her to hold off for now.

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Market commentary

October turned out to be a jittery month and kept investors on their toes.

"Increased US election uncertainty, choppy crude oil prices, mixed US data and bets on a December rate hike as well as amplified currency volatility – particularly sterling's so-called 'flash crash' on Oct 7 – were all to blame," said the CFAS panel.

As a result, the VIX Index (a gauge of equity market volatility) hit 18.56 at the end of October, the highest level since June.

Global equities closed the month 1.8 per cent lower. Meanwhile, global emerging markets fared better than their developed market counterparts, gaining 1.3 per cent.

CURRENCY

The panel noted that currency markets moved even more dramatically last month with the biggest loser among the major currencies being sterling, which fell 5.6 per cent.

The yen lost 3.3 per cent and the euro was down 2.3 per cent, with the euro-dollar hitting a seven-month low. Much of this, of course, has to do with divergent central bank policies.

Market expectations are still pointing towards a December rate hike despite mixed data from the United States.

ASIA

Economies in Asia that are more export-oriented saw their currencies weaken the most. The Korean won and Singdollar were the biggest losers.

The offshore Chinese yuan traded close to a record low at 6.80 against the dollar but there was no panic. This was nowhere near the rout seen in the yuan at the start of the year and policymakers in China seem to be sending the message that they are comfortable with allowing the currency to drop, especially given weak exports and trade.

The Indian rupee was relatively resilient.

LATIN AMERICA

The largest gains were recorded in Latin America, particularly the Mexican peso (up 2.8 per cent) and Brazilian real (up 2.1 per cent).

This only confirms the fact that increased global liquidity is finding its way into riskier assets, especially emerging markets, but as we have highlighted before, volatility has become a permanent guest.

THE UNITED STATES

The US earnings season and the elections will be at the forefront this month. FBI investigations into Mrs Hillary Clinton's e-mail have not helped with sentiment and negative news flow could continue.

COMMODITY

Commodity prices will also add to the uncertainty. Gold climbed at the start of last month before closing the month almost 3 per cent lower.

Brent crude started the month higher but ended 1.6 per cent lower at US\$48.30 per barrel. After a choppy month, oil prices could remain low for a while amid diminishing hopes of Opec cutting supply. This is now hurting oil-producing countries' revenues.

Lorna Tan