Save&Invest

Bonds and equities up, ETFs and Reits down last month

Simulated portfolios' performance bears out investment wisdom that diversification is key

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Invest Editor

In January, The Sunday Times Invest introduced a Save & Invest Portfolio Series featuring the simulated portfolios of three real retail investors.

In this, the seventh part of the series, we look at the performance of the three simulated portfolios which went live on Jan 18 and are being tracked each month until early next year.

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

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

All three portfolios are limited to instruments listed on the Singapore Exchange (SGX) to keep them simple, accessible and easy to monitor – along with Singapore Savings Bonds, which can be bought via automated teller machines.

The main asset classes are domestic equities, real estate investment trusts (Reits), global exchange-traded funds (ETFs) and bonds.

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

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

PORTFOLIO PERFORMANCE

The CFAS panel noted that May was a relatively benign month for global markets. In the absence of any significant events, most major markets – Europe, the United States, China and Japan – moved within a narrow band.

The benchmark Straits Times Index was no exception, and ended the month at 2,791.06, which is 47.46 points lower than in April, for a marginal 1.7 per cent drop.

Global growth continues to be sluggish with no clear clues for markets to follow. The ability of central banks to generate growth or the targeted inflation in the economy is becoming increasingly doubtful, added the panel.

Singapore equities and the bonds allocation generally outperformed the benchmarks in May, while ETFs and Reits underperformed.

However, since the Portfolio Series started in January, Singapore equities and Reits have been the best-performing assets.

On the other hand, ETFs and bonds allocation have detracted from the performance, owing mainly to US dollar weakness this year and the inclusion of off-benchmark instruments such as commodity ETFs.

This illustrates the objective of asset allocation, which is to minimise losses through a disciplined diversification approach.

So far, Ms Chee's portfolio has registered the biggest underperformance among the three portfolios, compared with the benchmark, mainly owing to relatively higher transaction costs because of her smaller portfolio size.

Mr Wang's portfolio has performed the best – in absolute and relative terms – mainly owing to the strong performance of the Singapore equities selection. That helped to mitigate and offset the larger allocation to bonds which has underperformed the benchmark.

Transaction costs also affected Mr Wang's portfolio the least, as it is the largest of all three portfolios.

Last month, Mr Goh and Mr Wang's portfolios registered small gains, while Ms Chee's portfolio was down slightly.

Ms Chee's portfolio was down 0.4 per cent for the month, trailing the benchmark (-0.23 per cent) by 0.17 per cent while Mr Goh's portfolio was up 0.06 per cent, trailing the benchmark (0.27 per cent) by 0.21 per cent. Mr Wang's portfolio was up 0.42 per cent, outperforming the benchmark (-0.56 per cent) by 0.98 per cent.

The CFAS panel explained that all three portfolios were dragged down by their ETF portion, due mainly to a correction in gold, as well as by the Reits (due to a correction in A-Reit) allocation, which underperformed their respective benchmarks.

However, this was offset by the Singapore equities and bonds allocation, which outperformed their respective benchmarks. The bond portion was boosted by a rebound in the US dollar against the Singdollar, which helped pull up the iShares JPM Asia Bond ETF.

In anticipation of a potential US interest rate hike, the greenback strengthened throughout May.

The portfolios' performance reinforced CFAS' belief that diversification is key, and that the bulk of investment returns comes from prudent asset allocation, and not market timing. These three portfolios have been designed with these principles in mind.

REBALANCING PORTFOLIO

The CFAS panel noted that while the global landscape is changing rapidly and sometimes unpredictably, the local corporate environment is relatively more stable and so does not warrant frequent adjustments to the portfolios.

It said: "Typically, good businesses do not turn into rogue companies so suddenly. However, given the slowdown in Singapore's economy, we will be looking to slowly increase exposure to regional ETFs.

"In order to preserve wealth (purchasing power), we would be carefully studying the relative return potential of Singaporean assets versus assets in foreign currencies, notably the US dollar. This process is gradual and incremental since we do not intend to time the market."

Since the three portfolios had some idle cash, the panel decided to allocate that cash, keeping in mind the minimum transaction sizes and trading costs, particularly for Ms Chee's portfolio.

For the latter, all cash – which constitutes about 8.8 per cent of the portfolio – was deployed into Asia ex-Japan ETF (db x-trackers MSCI AC Asia ex Japan Index UCITS ETF.)

For Mr Goh, of the 6 per cent cash, 2 per cent was used to buy into DBS, while the balance went to Asia ex-Japan ETF.

Mr Wang's portfolio had 6.5 per cent in cash. The panel deployed about 1 per cent each to SIA and DBS Group Holdings, and the remaining cash to Asia ex-Japan ETF.

With the inclusion of the Asia ex-Japan ETF, all three portfolios are now overweight ETFs and underweight Singapore equities (vis-a-vis the customised benchmark).

The CFAS panel said: "We are comfortable with this positioning as we expect Asian markets to outperform the Singapore equity market over the next few months."

The panel's tip to retail investors is to "moderate" their expectations in such uncertain times and focus on the goal of capital preservation.

"The most reliable mechanism of achieving that goal is to remain diversified and not attempt to chase momentum," said the panel.

The fourth seminar in the Save & Invest Portfolio Series will focus on portfolio construction for income-seeking investors. It will be held on July 9 from 10am to 3pm at NTUC Auditorium. Participants will receive a portfolio construction worksheet and learn how to build their own portfolio. To register, visit www.sgx.com/academy.

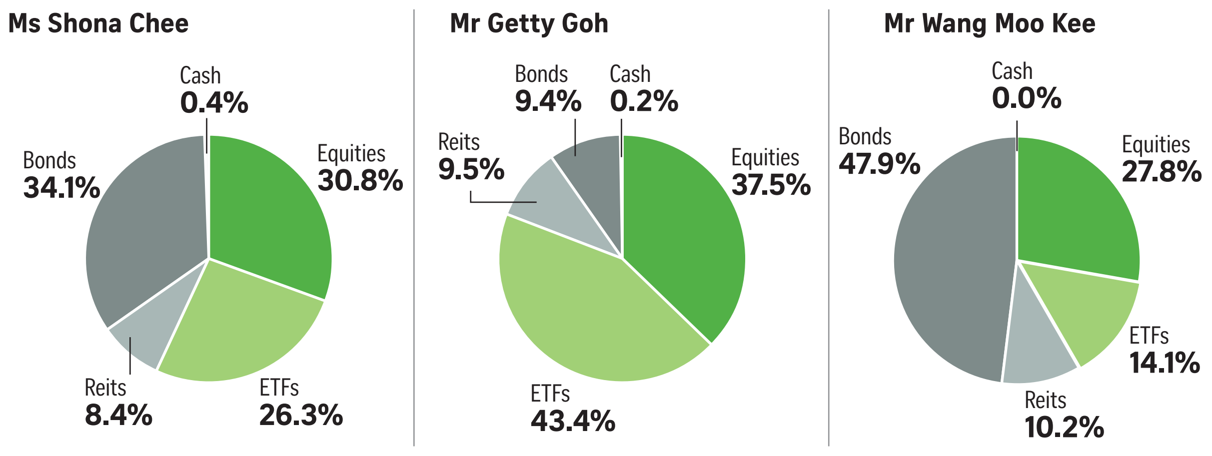
To analyse the financials of SGX-listed firms, you can check out StockFacts (www.sgx.com/stockfacts).

• 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 ($)	Realised profit/loss ($)	Unrealised profit/loss ($)
Ms Shona Chee	40,000	40,998.43	2.50	5.56	284.42	589.96	720.07
Mr Getty Goh	200,000	208,338.82	4.17	6.66	987.18	3,137.31	4,966.75
Mr Wang Moo Kee	400,000	418,677.56	4.67	4.84	4,686.90	5,975.00	10,384.11

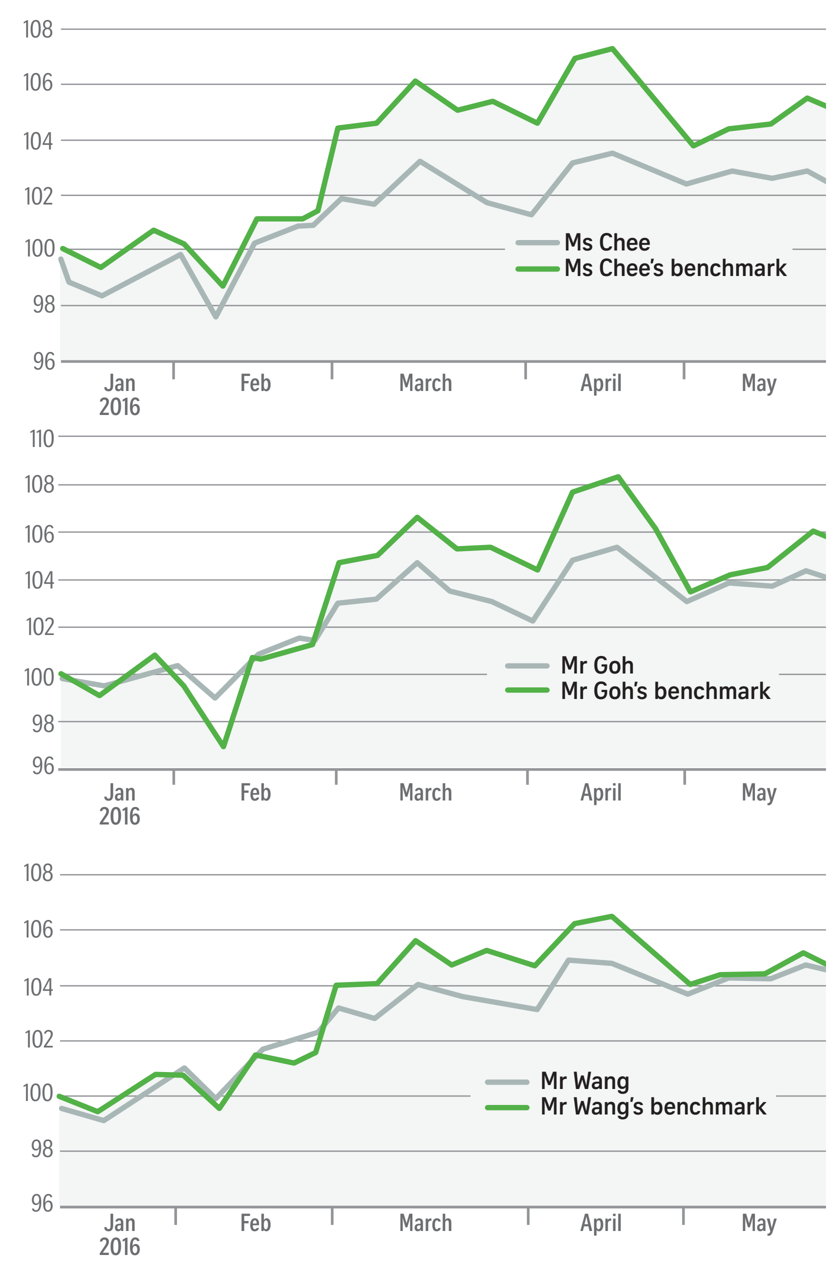
HOW THEY COMPARE



NOTES:
- Portfolio start date was Jan 18, 2016.
- Portfolio performance as at May 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.

Source: CFAS SUNDAY TIMES GRAPHICS

How they compare



NOTE:
1. The actual portfolio performance is more stable than the benchmark performance which has steeper ups and downs. This can be explained by the selection of more defensive names in the actual portfolio – for instance there are no oil and gas related companies (which have been very volatile) in the Singapore equities allocation.
2. Since inception, the Singapore equities and Reits allocation have outperformed their respective benchmarks, while the ETFs and Bonds allocation have detracted from performance.

Source: CFAS SUNDAY TIMES GRAPHICS

In anticipation of a potential US interest rate hike, the greenback (top) strengthened throughout May, while there was a correction in gold (above). The CFAS panel noted that May was a relatively benign month for global markets. PHOTOS: AGENCE FRANCE-PRESSE, BLOOMBERG

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 officer of UTI International, Singapore; and Mr Simon Ng, CEO of CCB International (Singapore).