Save&Invest

Diversify for better investment outcome

A study of three simulated portfolios shows that no single asset class performs consistently

Lorna Tan

Invest Editor

Diversification has been the key to the robust performances of the simulated portfolios of three retail investors under the Save & Invest Portfolio Series introduced by The Sunday Times in January.

All three portfolios registered gains last month and beat their respective benchmarks.

In this, the 10th part of the series, 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 only for illustration and education.

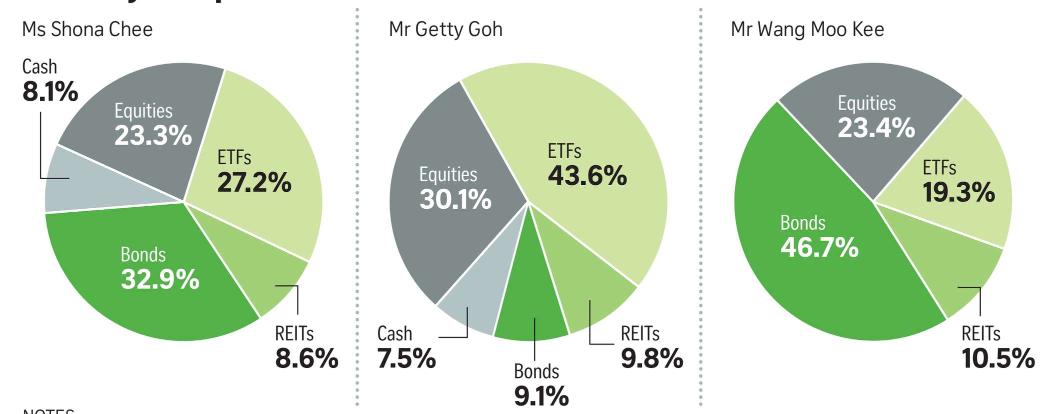
All three portfolios are limited to instruments listed on the Singapore Exchange – to keep them simple, accessible and easy to monitor – and to Singapore Savings Bonds, which can be bought via ATMs.

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

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	42,876.66	7.19	8.94	744.39	919.96	1,883.32
Mr Getty Goh	200,000	216,399.28	8.20	10.01	2,904.64	3,391.80	10,890.63
Mr Wang Moo Kee	400,000	432,419.28	8.10	8.32	9,173.06	9,051.82	17,028.99

How they compare



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

Period	Outperformers
Jan-Feb	Equities and Reits
March	None
April	ETFs and bonds
May	None
June	ETFs and Reits
July	Equities and bonds
August	All

NOTE: None of the four asset classes has consistently remained as an outperformer or underperformer. As such, diversification is key to investment success.

Source: CFAS SUNDAY TIMES GRAPHICS

Ascendas OneHub GKC is located in Guangzhou Knowledge City, China. Dividends from Ascendas Reit were a main factor in the Reits' outperformance in the simulated portfolios last month. PHOTO: ASCENDAS-SINGBRIDGE

DIVERSIFICATION

Through the past eight months, the evidence shows that none of the four asset classes – domestic equities, real estate investment trusts (Reits), global exchange-traded funds (ETFs) and bonds – has consistently remained as an outperformer or underperformer.

In the January to February period, for example, equities and Reits were the outperformers, but in April, ETFs and bonds led the pack. In June, the outperformers were ETFs and Reits, but a month later, equities and bonds came up tops.

Last month, all four asset classes outperformed their respective benchmarks.

CFAS panellist Praveen Jagwani said the panel is wary of drawing conclusions on the basis of performances in short time periods.

However, even during the past eight months, there has been a significant lesson for investors – the importance of diversification.

Mr Jagwani says: "None of the four asset classes have consistently out/underperformed. Such is the fickle nature of markets, and thus, as investors, the best we can do is research and diversify while investing for the long term.

POETIC ADVICE

Investment requires patience and a steady hand, reminiscent of the opening line of Rudyard Kipling's poem If, "If you can keep your head when all about you are losing theirs..."

CFAS PANELLIST PRAVEEN JAGWANI, on how investors can deal with the fickle nature of stock markets.

"Investment requires patience and a steady hand, reminiscent of the opening line of Rudyard Kipling's poem If, "If you can keep your head when all about you are losing theirs..."

He added that the panel has always highlighted the deficiencies of the existing benchmarks for accurate measurement of portfolio performance.

In a diversified portfolio, the benchmark is to be used merely as a rough guidepost.

Furthermore, none of the benchmark indices have any costs embedded, whereas the actual simulated portfolios have to incur trading costs.

PORTFOLIO PERFORMANCE

All three portfolios registered gains in August. Ms Chee's portfolio was up 1.53 per cent for the month, beating the benchmark (0.37 per cent) by 1.16 percentage points.

Mr Goh's portfolio advanced 1.64 per cent, beating the benchmark (0.65 per cent) by 0.99 percentage point while Mr Wang's portfolio was up 0.9 per cent, beating the benchmark (0.22 per cent) by 0.68 percentage point.

All four asset classes outperformed their respective benchmarks in August.

The panel noted that most of the outperformance came from the ETF allocation, as the China, India and Asia ex-Japan ETFs all delivered strong returns. The rebound in the United States dollar also helped as all the ETFs are denominated in US dollars.

The Singapore equities' outperformance was again driven by logistics firm Sats as well as dividends by DBS Bank, Singapore Airlines and SingPost.

The Reits' outperformance was due to dividends from Ascendas Reit, while the better showing in the bond allocation was driven by the iShares JPM Asia Bond ETF, which was boosted by the impact from US dollar appreciation.

ADJUSTMENTS

Last month, in the absence of any significant market factors, the panel decided not to make any changes to the portfolios, except for rebalancing Mr Wang's portfolio.

The panel decided to trim his holdings of the iShares JPM Asia Bond and switched into the ABF Singapore Bond ETF since the Asia bond holding had become greater than 10 per cent.

Additionally, it deployed the cash holding into gold.

For the other portfolios, the panel continued to hold cash since the transactional costs would outweigh the potential benefits.

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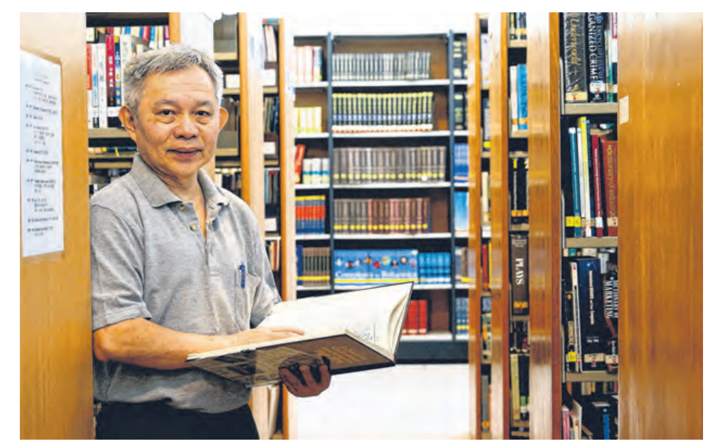
- The fifth seminar in the Save & Invest Portfolio Series – SGX-CFA Portfolio Construction Conference for Retail Investors – will be held on Oct 1 from 9.30am to 3pm at the NTUC Auditorium. To register, visit www.sgx.com/academy.



From top: Communications manager Shona Chee, entrepreneur Getty Goh and retiree Wang Moo Kee are the three retail investors whose simulated portfolios are being tracked. ST PHOTOS: DESMOND WEE, LIM SIN THAI, CHEW SENG KIM

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 the CFA Society (CFAS) Singapore and MoneySense, the national financial education programme.

The CFAS panellists tracking the 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).

Of Fed rates, cash and gold

The Sunday Times poses three questions to the CFA Society panellists.

Q Do you think the United States Federal Reserve will hike rates this year? What would be the implications on the portfolios?

MR PHOON The Fed is poised to raise the rate, given that US economic conditions have reached full employment. However, given the sluggish pace of growth, the pace of hikes is likely to be gradual.

Thus, while there is likely to be a hike this year, it is uncertain if the US dollar will strengthen. I think we can expect further volatility in the US dollar/Singdollar in the months ahead. Also, as credit spreads have tightened over the past few months, I suggest reducing the exposure in the iShares JPM Asia Bond ETF and switching to the ABF Singapore Bond ETF. This adjustment would reduce the portfolio exposure to both credit and US dollar/Singdollar volatility.

Q The three portfolios have delivered decent returns so far this year. With valuations in many equity markets appearing stretched now, should the panel take profit and hold cash? Or should cash holdings be deployed?

MR JAGWANI I would prefer to remain fully invested since market timing in the long run is not a meaningful determinant of returns. It is really difficult to consistently time the market accurately, as even professionals struggle to get this aspect correct.

MR WANG In my view, markets are looking a bit toppish, so I would prefer to maintain a healthy cash balance so that we can take advantage of opportunities down the road if markets correct.

MR PHOON Cash is generally a poor asset to hold, as holding cash will be a drag on performance if markets move higher. I would rather park the cash in instruments that provide some form of yield. Singapore Savings Bonds could be suitable if the time horizon is longer.

MR NG If the panellists have a view that we should go into risk-off mode, we should make a deliberate effort to bring cash up to a level of, say, 20 per cent, to demonstrate our conviction. So my thoughts are either we get the remaining cash fully invested, or unwind to a cash level of 20 per cent or more.

Q What assets are the panel comfortable buying now?

MR JAGWANI I think the US economy is looking reasonably resilient and global investors seem to have run out of options for deployment. Thus, I think money will continue to flow into the US equity market and I would add to the US equity exposure. As a hedge, I would increase the gold exposure in the portfolios to the extent possible.

MR NG I would be comfortable buying gold. The era of modern-day monetary omniscience is coming to an end. Look no further than the near 30 per cent year-to-date rally in gold that has it sitting at 28-month highs and the almost 50 per cent rise in silver this year to near two-year highs.

While yielding nothing and providing no cash flow, gold and silver are positive yielding assets in the current negative interest rate environment where trillions of dollars of bonds are giving negative yields. We are truly living in a world of monetary mayhem... Some are confident that gold and silver will be the last currencies standing.

MR PHOON In this uncertain world, I think it is good to have a portion in gold as a hedge.

MR WANG I am not comfortable buying US equities at current valuations but concur with the views on gold and believe that gold's negative correlation with traditional asset classes will help diversify the risk of the portfolios.

Lorna Tan

CFA Society panellists (from top) Phoon Chiong Tuck, Jack Wang, Praveen Jagwani and Simon Ng favour gold as a hedge against an uncertain market and to help diversify the risks of the portfolios.

Honchos hope to learn more about managing their own finances

Lorna Tan
Invest Editor

You might imagine senior management types would have it all worked out when it comes to managing their personal finances.

But a poll of 100 honchos in Singapore found they want to learn more about financial management not just for themselves but also to prepare the next generation.

Four in 10 of the respondents said they could do with more knowledge on how they can manage their money better and build their assets and investments.

And nearly eight in 10 cited educating the next generation about the importance of financial planning and wealth generation as a top priority to prepare them to take on the family's wealth in the future. This means equipping them with financial management skills, life survival skills and a good understanding of work challenges.

This is followed by other priorities such as setting aside seeding funds for them (58 per cent), such as for their wedding and first home, and investing in properties on their behalf (38 per cent).

The survey – commissioned by Citibank Singapore – polled about 100 individuals who hold management positions such as chairman, chief executive officer (CEO) and managing director of firms here. The majority are aged between 30 and 60, earning more than $180,000 a year. About half of them live in landed homes. The research was conducted online by Singapore Press Holdings last month.

Mr Charles Wong, head of retail banking at Citibank Singapore, believes this is the first in-depth financial planning and wealth management survey done of CEOs and affluent people here, looking at ways in which they are investing to achieve their desired retirement lifestyle and growing their wealth to leave to their offspring.

"This survey offers us greater insights into the needs of this group of experienced investors and allows us to identify and fill the gaps, so as to help them reach their financial and lifestyle goals even faster," he said.

Ranking high on the list of financial topics that the survey respondents wish to upgrade their knowledge on are wealth accumulation, saving for retirement, investing in property, building a financial plan, and equity and fixed income investments know-how.

Top on the list of financial goals among the respondents are ensuring financial independence during retirement and that adequate long-term healthcare needs and expenses are met. About 57 per cent expect their savings/investments to be able to cover their long-term care and medical expenses, while 22 per cent do not think so.

Most respondents already own personal insurance, stocks and properties. Still, they are interested in acquiring properties, stocks and other financial instruments such as warrants and exchange-traded funds for future investment.

Nearly half of those polled said they have worked out a financial plan. Of this, most have worked out a financial plan by themselves while about 30 per cent said they did it with a financial planner.

About 62 per cent of the respondents have set aside savings to provide for their children's tertiary education while a third bought endowment plans.

In a positive light, the survey highlights that the respondents are looking at various sources of retirement income. As part of their retirement planning, the majority (77 per cent) have invested in property as well as parked money (74 per cent) in savings, fixed deposits and retirement savings accounts. About 66 per cent have invested in financial products such as stocks, bonds, unit trusts and currencies.

ADDRESSING NEEDS IN FINANCE

This survey offers us greater insights into the needs of this group of experienced investors and allows us to identify and fill the gaps so as to help them reach their financial and lifestyle goals even faster.

MR CHARLES WONG, head of retail banking at Citibank Singapore, on conducting the in-depth financial planning and wealth management survey

Seven per cent say they do not know how to go about planning for their golden years while 24 per cent would like to have professional help in retirement planning.

Reasons given by those who have not engaged in retirement planning include not knowing how to invest for retirement, having other more important priorities, and not having thought about their retirement.

When it comes to legacy planning, respondents cited the distribution of assets and writing a will as two key areas of information that would be helpful.

Other areas of interest include recommendations on suitable products based on their portfolio and life stage, and the types of insurance legacy products in the market.

On investing habits, the survey highlighted that diversification is not so important to the majority of the respondents (70 per cent), who would increase their portfolio allocation to their winning investments when the portfolio is making profits.

Almost six in 10 respondents like to time their investment entry and exit to maximise profits and 32 per cent said they would average down when their investments are losing money. Like most retail investors, 22 per cent found it difficult to take profit from profitable investments as they expect the good performance to continue.

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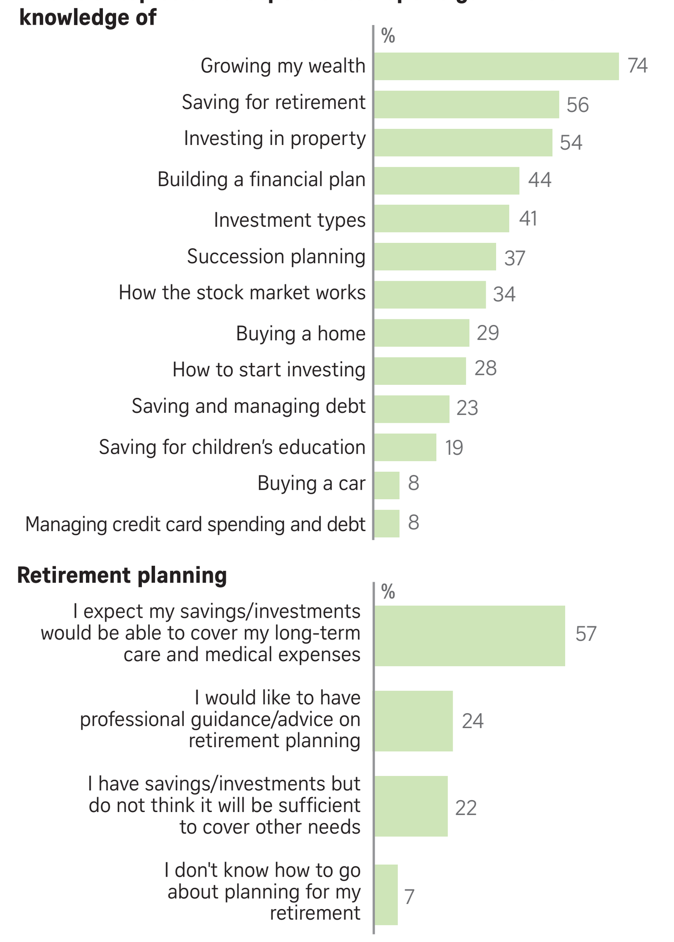
Survey results



Source: SPH SUNDAY TIMES GRAPHICS