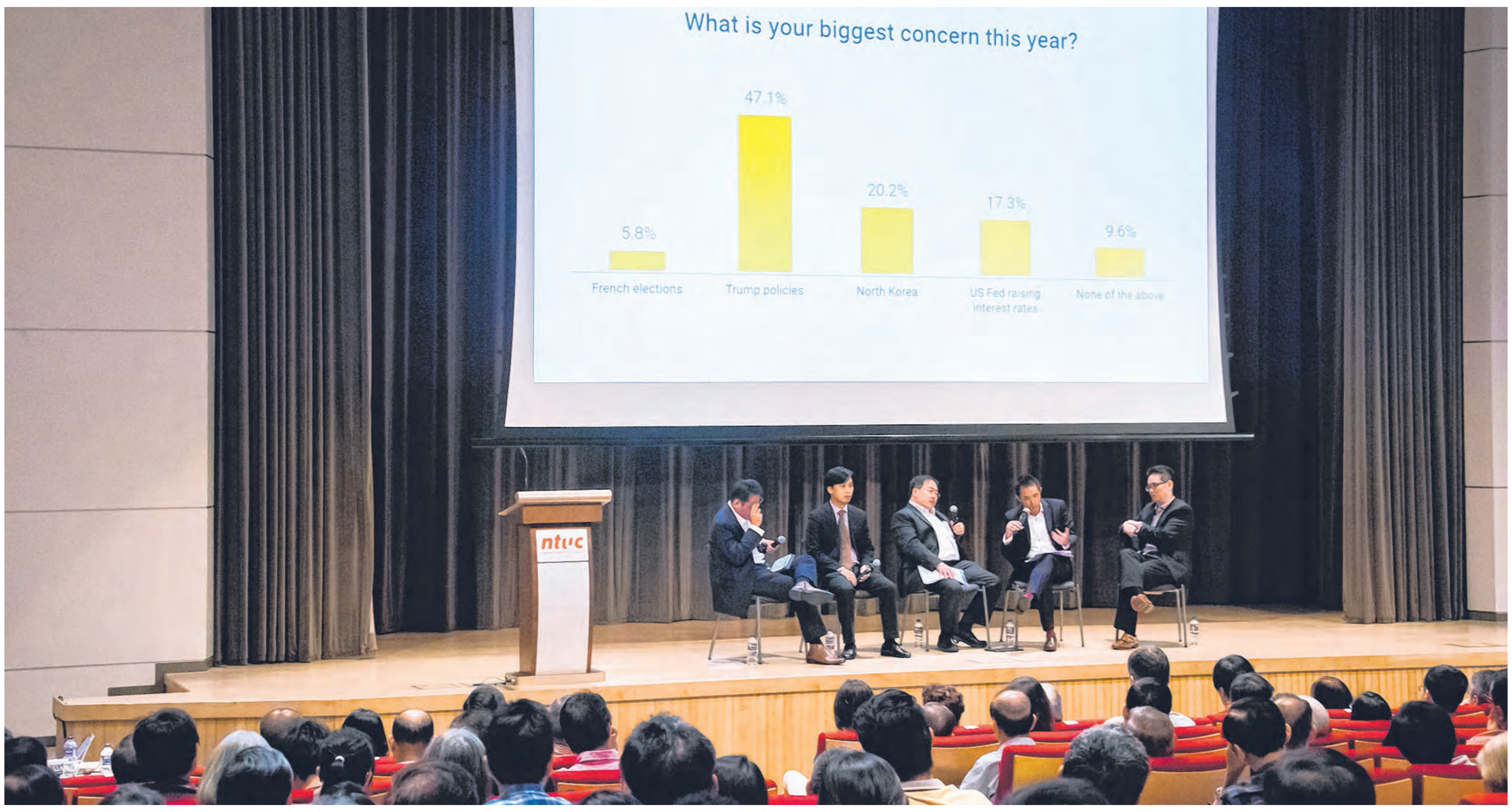
The Save & Invest Portfolio Series

The Save & Invest Portfolio Series features the simulated portfolios of a young working adult, a married couple with two young children, and a retiree. 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 (CFAS) and MoneySense, the national financial education programme.

The CFAS panellists tracking the simulated portfolios are: Mr Phoon Chiong Tuck, senior fixed income manager 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).

You can gain access to past articles and monthly portfolio reports by clicking on the Save & Invest Portfolio Series banner at www.sgx.com/academy



Panellists from CFA Society Singapore – (from left) Mr Daryl Liew, Mr Jack Wang, Mr Phoon Chiong Tuck, Mr Simon Ng and Mr Chua I-Min – at the April 22 seminar, which is part of the Save & Invest Portfolio Series. They say a big crash in equity markets this year is unlikely, which is why all the three simulated portfolios in the series remain fully invested with very low cash holdings. PHOTO: CFAS

Save&Invest

Trump's policies top local investors' concerns

Geopolitical risks, market outlook among issues discussed at SGX-CFA seminar

Lorna Tan
Invest Editor

The policies of United States President Donald Trump are the top concern this year for retail investors here.

This finding emerged from more than 550 participants at a seminar on April 22, which was part of the Save & Invest Portfolio Series, hosted by SGX Academy and CFA Society Singapore (CFAS).

During the SGX-CFA Portfolio Construction Conference for Retail Investors, they were asked to identify their No. 1 concern among the following choices: Mr Trump's policies (46.1 per cent), the French election, North Korea and the US Federal Reserve raising interest rates.

Here are some questions answered by the panel at the event.

Q *Will the 10-year cycle of crashes in 1987, 1997 and 2007 likely be repeated in 2017?*

A The economic fundamentals are looking fairly positive with global economic indicators mostly in expansion mode.

Admittedly, equity market valuations are looking a little stretched in certain markets (like the US), but this situation is underpinned by improving corporate earnings.

We acknowledge the presence of various geopolitical risks (such as the French election, Mr Trump's policies, North Korea and US Fed interest rates), but we do not believe we will see a big crash in equity markets this year.

This is why all the three simulated portfolios in the Save & Invest Portfolio Series remain fully invested with very low cash holdings.

Q *Which Reits offer good prospects this year?*

A The environment for Singapore Reits has been challenging recently, with distribution per unit growth registering a drop of 2 per cent from a year ago.

Softness in the sector was largely broad-based with declines in hospitality, retail and office.

As for the industrial sub-sector, the Singapore Purchasing Managers' Index (PMI) has stayed above 50 for three straight months, with the reading of 51 in January being the highest recorded since November 2014.

Interest rate hikes would have minimal impact on S-Reits distributions in the near term because of long debt maturity periods and the high proportion of fixed-rate debts.

S-Reits still warrant a strategic position in investors' portfolios.

The preference is in deep-value and diversified Reits with exposure to industry business parks, such as the two in our simulated holdings (A-Reit and Keppel DC).

Q *Overwhelming evidence shows that passive investing beats active investing. What are your views on passive investing (via index funds and exchange-traded funds) versus active investing/stock picking?*

A It is not surprising that investors are questioning the long-term viability of active management. To be sure, alpha has proven elusive for most managers this cycle, with less than 25 per cent of large-cap funds outperforming their benchmarks on a trailing five-year basis. (Alpha refers to the excess returns of a fund relative to the return of a benchmark index.)

However, alpha is cyclical. There have been four distinct alpha cycles since 1990. Prior periods of persistent alpha (1990-1994; 2000-2009) were each followed by a respective period of underperformance (1995-1999; 2010-2016).

Market breadth also matters.

Active management underperforms when benchmark performance is driven by a small number of stocks. When breadth increases, so too does excess return to the benchmark.

Do note that active managers navigate "value" regimes better than "growth". Entering its ninth year, the current "growth" regime is the longest on record since 1975. Active managers have had more success at beating their benchmarks when "value" outperforms "growth".

Quantitative easing (QE) has been a headwind to active management. In a QE environment, there is little differentiation and dispersion between "cheap stocks" and "expensive stocks", hence there is little that active management can do to exploit alpha opportunities.

Q *What is the market outlook for Singapore in the second half of 2017?*

A The global economy is recovering nicely and manufacturing PMI indicators across the world are still expanding. As such, Singapore's economy is on track to grow faster than it did last year.

Equity market valuations are somewhat of an issue, as valuations are looking fair to slightly expensive. However, this is supported by improving corporate earnings.

lornatan@sph.com.sg