

Portfolio performance (as at Aug 31, 2017)

Portfolio	Investment as at Jan 31, 2017 (\$)	Current portfolio value (\$)	Net total return (%)	Benchmark return (%)	Dividends and coupons (\$)	Realised P/L (\$)	Unrealised P/L (\$)
Ms Shona Chee	63,732	68,274.33	7.13%	7.32%	993.98	2,794.95	3,423.74
Mr Getty Goh	222,193	244,500.33	10.04%	8.68%	3,028.97	17,583.08	15,208.76
Mr Wang Moo Kee	437,248	464,814.05	6.30%	6.47%	8,341.21	20,249.47	11,098.41

NOTES:

- Portfolio start date was Jan 18, 2016.
- New fiscal year began from Jan 31, 2017.
- Portfolio performance as at Aug 31, 2017.
- 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% due to rounding off.
- To access past articles and portfolio reports, click on the Save & Invest Portfolio Series banner at www.sgx.com/academy

Source: CFAS SUNDAY TIMES GRAPHICS

Save&Invest

Portfolio tweaks to cope with high geopolitical risk

CFAS panel decides to lock in some profits, cut risk exposure and raise cash levels to 20%



Lorna Tan

Invest Editor

Geopolitical risk has reared its ugly head, with mounting uncertainty over the nuclear brinkmanship with North Korea. No surprise then to see a flight to safe haven assets such as gold by investors.

In line with that, the expert panel tracking the three simulated portfolios in the Save & Invest Portfolio

Series has decided to lock in some profits, reduce exposure to risks, and raise cash levels to 20 per cent in all portfolios.

The series features communications manager Shona Chee, 26; entrepreneur Getty Goh, 39, who is married with two children; and retiree Wang Moo Kee, 63. The Portfolio Series, introduced by The Sunday Times in January last year, does not involve actual money as it is intended for the purposes of illustration and education only. The portfolios are constructed by the CFA Society Singapore (CFAS) for an ideal investment horizon of five to 10 years.

MARKET DEVELOPMENTS

With tensions over North Korea escalating, equities across the world have corrected, the CFAS panel

noted. So far this year, the best-performing assets (in US dollar terms) have been Turkish equities (up 48 per cent), China (up 41 per cent), Greece (up 32 per cent), the Mexican peso (up 17 per cent), the Swedish krona (up 14 per cent) and copper (up 22 per cent).

The panel said that in terms of asset classes, emerging market equities are up 28 per cent this year, European equities are up 19 per cent and industrial metals up 21 per cent. The two main assets that have tumbled are oil (down 14 per cent) and the United States dollar index (down 9 per cent). Meanwhile, the Singdollar is up nearly 6.5 per cent against the US dollar and the Straits Times Index is up nearly 25 per cent for the year or 13.8 per cent in local currency terms.

“Against such a global backdrop, it is evident that the long-term preservation of purchasing power can only be safeguarded by investing in a globally diversified portfolio

and reducing exposure in the face of obvious risks,” said the panel.

PORTFOLIO PERFORMANCE

For the month ended Aug 31, Ms Chee's portfolio was up 1.01 per cent, beating the benchmark by one percentage point. Mr Goh's portfolio was up 1.02 per cent against the benchmark – edging up just 0.03 per cent. Mr Wang's portfolio was up 0.50 per cent, beating the benchmark by 0.48 percentage point.

The relative outperformance of all three portfolios was driven by the performance of Singapore stocks, such as Venture Corp (up 22.9 per cent), and global exchange-traded fund (ETF) selections.

The gold (up 3.2 per cent) and Asia ex-Japan (up 1.9 per cent) ETFs helped drive the outperformance for all three portfolios, while Mr Goh's portfolio enjoyed an additional boost from the China ETF (up 5.1 per cent).

A correction in A-Reit (down 1.8 per cent) led to the underperformance of the real estate investment trust selection against the small gain in the broader S-Reit index. The bond selection in Ms Chee's and Mr Goh's portfolios outperformed mainly because of the gain in the iShares JPM Asia Bond ETF (up 1.3 per cent). A correction in the OCBC Perp (down 3.1 per cent) and a slip in the ABF Singapore Bond Index Fund (-0.1 per cent) caused Mr. Wang's bond selection to underperform.

ADJUSTMENTS

The panel decided to raise cash levels to about 20 per cent in all portfolios. To lock in profits, it sold the following from all three portfolios – DBS Group Holdings (as the higher non-performing loans are a concern), Venture (cashing out following the strong rally) and the MSCI USA ETF (high valuations and potential geopolitical risks).

The OCBC position was trimmed in half in both Mr Goh and Mr Wang's portfolios, but sold completely in Ms Chee's portfolio, as it would not have been efficient to halve her position due to cost considerations. To reach the 20 per cent cash target, the Asia ex-Japan ETF was halved in Mr Goh's portfolio, while for Mr Wang, the India ETF was completely sold and the Europe ETF cut by half.

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Tips from CFAS expert panel

The CFAS panel believes a market correction is possible. The top concern for some of the 526 people at a Sept 2 seminar at the NTUC Auditorium was related to the US Fed raising interest rates and the unwinding quantitative easing – the vast purchases of government debt by the Fed. Here are some questions posed to the panel.

Q What is the market outlook? With share prices at an all-time high, do you expect a market correction coming soon?

A The economic outlook is looking relatively robust, with global economic indicators generally still expanding, contributing to the recovery in global trade. With inflationary pressures largely kept in check, this has provided upward momentum for corporate earnings.

Having said this, valuations of some stock markets (for example, US equities) are now looking expensive. There is also uncertainty over whether the US Fed will push through with its plans to unwind quantitative easing and implement interest rate hikes later this year.

Pursuing quantitative tightening and interest rate normalisation could trigger a correction in risk assets. In addition, geopolitical risks have escalated in recent weeks, with tensions in North Korea ratcheting up. As markets have generally delivered strong

returns so far this year, we think there is a risk for a market correction in the short term.

Q Given the uncertain political situation in the US and geopolitical tensions in Asia, what is a suitable investment approach for retirees who are concerned with capital preservation?

A We strongly advocate having a diversified portfolio. It is difficult to properly position one's portfolio for geopolitical risks that may or may not materialise.

Spreading your investments across different asset classes like equities and bonds, and having some exposure to gold, will help dampen down the volatility in your portfolio.

Q Given the current economy, which are the industries/countries you will invest in?

A You can see from the portfolios that we are still positive on Europe. Equities there have underperformed as the stronger euro has been a drag on European stocks, particularly the exporters. The stronger European economy, coupled with the implementation of structural reforms (labour reforms in France), will likely provide a boost for corporate earnings which could trigger a recovery in the stock market.

Lorna Tan

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 two-year period. It guides retail investors in basic investment techniques and shows 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 access past articles in the series, as well as monthly portfolio reports, by clicking on the Save & Invest Portfolio Series banner at www.sgx.com/academy.