Save&Invest

Right to lock in profits, up cash levels

Move to cut risk proved correct; equities, Reit and bond selections helped lift portfolios

Lorna Tan
Invest Editor

Cash is king, or at least it was last month.

The decision in August to lock in some profits and raise cash levels to 20 per cent, to reduce risk exposure in all the simulated portfolios, proved to be the right move.

The Save & Invest Portfolio Series features communications manager Shona Chee, 26; entrepreneur Getty Goh, 39, who is married with two children; and retiree Wang Moo Kee, 63.

Introduced by The Sunday Times in January last year, the series does not involve actual money as it is intended for the purposes of illustration and education only.

All three portfolios are limited to instruments listed on the Singapore Exchange (SGX) and the Singapore Savings Bonds. There are similarities between the holdings, but the allocations differ depending on individual risk-return objectives and preferences. Each portfolio has a benchmark that best reflects its mix.

Mr Goh's portfolio is heavier on blue-chip shares, while bonds fit Mr Wang's more conservative stance. The portfolios are constructed by the CFA Society Singapore (CFAS) for an ideal investment horizon of five to 10 years.

Global equity markets continue to pose a serious challenge as they soar, defying traditional notions of valuation.

Portfolio performance (Sept 29, 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	68,483.45	7.46	6.88	1,131.02	2,794.95	3,570.82
Mr Getty Goh	222,193	244,872.56	10.21	8.61	3,285.62	17,583.08	15,494.88
Mr Wang Moo Kee	437,248	465,996.78	6.58	5.86%	9,703.79	20,249.47	11,122.08

*New fiscal year begins from Jan 31, 2017.

What are in the simulated portfolios?

	Ms Shona Chee	Mr Getty Goh	Mr Wang Moo Kee
Initial investment amount	$60,000	$200,000	$400,000
Portfolio value	$68,483.45	$244,872.56	$465,996.78
Asset class	**Security (Weightage)**	**Security (Weightage)**	**Security (Weightage)**
Cash	**0.0%**	**0.0%**	**6.8%**
Domestic equities	**36.5%** -First Resources -Singtel -Netlink NBN Trust -Venture Corp -OCBC -Wing Tai -Singapore Exchange	**40.1%** -First Resources -Singtel -Netlink NBN Trust -Venture Corp -OCBC -Wing Tai -Singapore Exchange	**30.2%** -First Resources -Singtel -Netlink NBN Trust -Venture Corp -OCBC -Wing Tai -Singapore Exchange
Global ETFs	**21.9%** -DBX AC Asia ex-Japan 1C -DBX Euro Stoxx 50 -ISHARES MSCI India Index ETF -SPDR Gold shares	**39.5%** -DBX FTSE China 50 1C -DBX AC Asia ex-Japan 1C -DBX Euro Stoxx 50 -DBX MSCI Japan 1C -ISHARES MSCI India Index ETF -SPDR Gold shares	**9.3%** -DBX Euro Stoxx 50 -SPDR Gold shares
Reits	**10.1%** -A-Reit -Keppel DC Reit	**9.0%** -A-Reit -Keppel DC Reit	**9.9%** -A-Reit -Keppel DC Reit
Bonds	**31.5%** -CMT 3.08% Feb 21 -FCL 3.65% May 22 -ISHARES JPM USD Asia Bond -Singapore Savings Bond	**11.4%** -CMT 3.08% Feb 21 -FCL 3.65% May 22 -ISHARES JPM USD Asia Bond -Singapore Savings Bond	**43.8%** -ABF Singapore Bond Index Fund -CMT 3.08% Feb 21 -DBS 4.7% Perp (call Nov 20) -FCL 3.65% May 22 -ISHARES JPM USD Asia Bond -OCBC 5.1% Perp (call Sept 18) -Singapore Savings Bond

NOTES:
- Portfolio start date was Jan 18, 2016.
- Portfolio performance as at Sept 29, 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

PORTFOLIO PERFORMANCE

For the month ended Sept 29, Ms Chee's portfolio was up 0.31 per cent, beating the benchmark by 0.73 percentage point.

Mr Goh's was up 0.15 per cent, besting the benchmark by 0.22 percentage point, while Mr Wang's portfolio advanced 0.25 per cent, 0.85 percentage point ahead of the benchmark.

The CFAS panel said: "The decision to move to 20 per cent cash and to hold a significant underweight position in Singapore equities was the main reason for the outperformance of all three portfolios in September, as the Straits Times Index corrected by 1.71 per cent."

In addition, security selection also helped in the Singapore equities allocation as First Resources (+1.3 per cent), Wing Tai (+1.4 per cent) and SGX (+0.3 per cent inclusive of dividend) all delivered positive returns.

Keppel DC Reit (+3.3 per cent) led the outperformance of the Reit (real estate investment trust) selection compared with the 0.68 per cent fall in the broader S-Reit index.

The bond selection outperformed mainly due to gains chalked up by retail corporate bonds and bank perpetuals, versus the bond index which fell 0.33 per cent.

But holding an underweight position in Global ETFs (exchange-traded funds) detracted from the performance as the MSCI World Index posted 1.86 per cent gains driven by European and Japanese equities.

The Euro Stoxx 50 ETF (+3.9 per cent) was a good performer in the Global ETF selection, as well as the Japan ETF in Mr Goh's portfolio, but all the other ETFs lost ground for the month.

ADJUSTMENTS

The panel has decided to bring the equity allocations back up to neutral due to stronger global economic indicators and a reduced risk of a military confrontation on the Korean peninsula.

Most of the additions are in the Singapore equities space with OCBC, Thai Beverage, Netlink Trust and Wing Tai added to the portfolios.

Mr Goh's portfolio sees the addition of the Asia ex-Japan and China ETFs to bring his ETF allocation back to the targeted level, while Mr Wang's A-Reit and Keppel DC Reit positions are increased to bring his Reit allocation up to neutral.

After these adjustments, Ms Chee and Mr Goh's cash levels have been fully deployed, while Mr Wang still maintains a 6.8 per cent cash holding, due to an underweight position in bonds.

MARKET DEVELOPMENTS

The CFAS panel noted that the big driver in global markets last month was the change in United States dollar sentiment. The greenback had been in decline since the beginning of this year but turned the corner on Sept 3. The tax reform proposal of US President Donald Trump was positively received and the US Federal Reserve signalled a reasonably high probability of a December rate hike.

In Europe, politics dominated the agenda last month, with German Chancellor Angela Merkel's narrow polls win, French President Emmanuel Macron's rise to statesmanship on European Union issues and unrest in Spain over Catalonian secession.

In Asia, the escalation of tensions over North Korea caused the CFAS advisory panel to reduce risk exposure. Equity markets typically react negatively to such events, while safe-haven assets such as gold benefit. Indeed, the precious metal briefly reached US$1,350 per ounce, a level last seen in August last year, said the panel.

Global equity markets are continuing to pose a serious challenge as they soar, defying traditional notions of valuation.

Closer to home, the STI has been on an uptrend for this year although it has corrected slightly since July. Overall, with the subsiding threat of a nuclear conflict in North Korea, the panel is cautiously optimistic about growth returning to the world.

"We are carefully studying global events and their interconnectedness to identify pockets of value creation. Our objective remains to invest in a globally diversified portfolio to preserve purchasing power and generate moderate returns for Singaporean investors," said the CFAS advisory panel.

lornatan@sph.com.sg

Tips from CFAS expert panel

The top concerns for some of the 526 people at a seminar last month were related to the United States Fed raising interest rates and the unwinding of quantitative easing – the vast purchases of government debt by the Fed. Here are some questions posed to the panel at the event on Sept 2 at the NTUC Auditorium.

Q *What is the biggest risk for real estate investment trusts (Reits)?*

A One of the risks... is rising interest rates. The US Federal Reserve has indicated that it intends to hike rates again in December.

However, the market is pricing in only a 30 per cent chance of that happening, suggesting that it does not believe the Fed will carry through with the rate hike.

Reits could have further upside potential if the market is indeed correct, and the Fed decides to pause on its rate hike cycle. However, Reits could be under pressure if interest rates head higher.

Q *If you only have $10,000 spare cash to be invested, how would you allocate it to different asset classes and what strategies would you use to optimise your returns on investment?*

A Depending on your risk and return objectives, we would suggest spreading out your investments across different asset classes.

Due to the relatively small investment amount, you would probably be better off investing in exchange-traded funds – perhaps one equity ETF and one bond ETF – to provide you diversified exposure to the markets.

You can consider adding other ETFs or individual stocks or retail bonds when your investment portfolio grows in size.

Q *For dollar-cost averaging, would you recommend a frequency of monthly, quarterly or yearly? What are the considerations to note?*

A We would suggest dollar-cost averaging either on a monthly or quarterly basis. Considerations would include the amount you have to invest at each period as you should ideally invest a meaningful amount so as to minimise your trading costs.

Lorna Tan

THE POSSIBILITIES

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CFAS PANEL

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.