Save&Invest

Portfolios' gains show need to diversify assets

Doing so reduces overall volatility of investment portfolios: Panel

Lorna Tan
Invest Editor

It has been two years of mostly ups and some downs for the three simulated portfolios, but now it is time for the final reckoning as the series comes to an end.

The good news is that the gains since the launch on Jan 18, 2016 have been substantial, with all racking up double-digit returns.

The top performer was Mr Getty Goh's simulated portfolio with returns of 31.45 per cent. So his initial investment – on paper at least – of $200,000 grew to $262,893.40.

His portfolio did better because it was more aggressive with a higher allocation to equities, which significantly outperformed bonds over the two-year period.

Global markets (MSCI World Total Return Index in Singdollar) gained 40.85 per cent while the benchmark Straits Times Index (STI) Total Return achieved 44.32 per cent. In comparison, the ABF Singapore Bond Total Return Index was up 5.93 per cent.

Despite the volatile and uncertain market environment, the robust two-year performance underscored the virtues of asset diversification, said the expert panel from CFA Society Singapore (CFAS), which constructed the portfolios.

Our investors were product marketing manager Shona Chee, now 27; Mr Goh, 40, a businessman who is married with two young children; and retiree Wang Moo Kee, 63. The Portfolio Series does not involve actual money as it is intended only for illustration and education.

To keep them simple, accessible and easy to monitor, the portfolios were limited to instruments listed on the Singapore Exchange (SGX) and to Singapore Savings Bonds, which can be bought via ATMs.

While there were similarities between the holdings of the three portfolios, the allocation for each profile differed, depending on the individual's risk-return objectives and other preferences.

Each portfolio had a different benchmark that best reflected its mix. Mr Goh's portfolio, for example, was heavier on blue-chip shares, while Mr Wang went for bonds to reflect his more conservative stance.

The simulated portfolios were constructed for an ideal investment horizon of five to 10 years.

PORTFOLIO PERFORMANCE

Ms Chee's portfolio delivered a gain of $11,799.19 (total return of 23.17 per cent) over the two years on an initial investment of $40,000 that was subsequently topped up by $20,000 after the first year.

Mr Goh's portfolio reaped a return of $62,893.40 (total return of 31.45 per cent) on an initial investment of $200,000, while Mr Wang racked up $82,722.58 (total return of 20.68 per cent) on an initial investment of $400,000.

But all the portfolios trailed their respective benchmarks.

This underperformance was due in part to transaction costs (which ranged from 1.3 per cent for Mr Wang's portfolio to 3.2 per cent for Ms Chee's due to the smaller portfolio size), and tactical calls made to hold cash, which did not pay off as the markets moved higher after only a brief pause.

The three portfolios posted returns of 9.3 per cent to 11.1 per cent for the first year to Jan 31, 2017.

The final month's performance was also positive. Ms Chee's portfolio was up 2.35 per cent in the four weeks to Jan 31, beating the benchmark (2.28 per cent) by 0.07 percentage point. Mr Goh reaped gains of 3.39 per cent, up on the benchmark (3.18 per cent) by 0.21 percentage point, while Mr Wang's investments inched up 1.84 per cent, beating the benchmark (1.59 per cent) by 0.25 percentage point.

Security selection in the global exchange-traded fund (ETF) and real estate investment trust (Reit) allocations contributed to the outperformance of the portfolios, compared with the benchmark.

In the global ETF selection, China (12.5 per cent) and Asia ex-Japan (5.8 per cent) to a lesser extent were the star performers, significantly outperforming MSCI World (3.8 per cent), pulling up the overall performance.

New addition Fraser Hospitality (3.2 per cent) outpaced the broader S-Reit index (1.1 per cent) and contributed to the outperformance.

The Singapore equities allocation underperformed the STI (3.92 per cent), as strong returns from SGX (10.9 per cent) and Wing Tai (6.1 per cent) were not enough to offset poor numbers from Singtel (-0.8 per cent) and NetLink Trust (-0.6 per cent).

The 1.8 per cent correction in the United States dollar against the Singdollar again negatively impacted the iShares JPM Asia Bond ETF (-2.1 per cent), contributing to a slight underperformance of the bond allocation against the bond index (-0.64 per cent) for Ms Chee's portfolio.

Mr Goh's bond allocation slightly outperformed the bond index due to the much smaller allocation to the iShares JPM Asia Bond ETF, while Mr Wang's bond allocation was boosted by the bank perpetuals.

LESSONS LEARNT FROM SERIES

With the benefit of hindsight, the panel was too cautious in the initial deployment in Mr Goh's portfolio by investing his equity exposure in two tranches. This hurt the relative performance of the portfolio versus the benchmark, as January 2016 proved to be the bottom in the market.

The decision to raise cash in October 2016 ahead of the US presidential elections also backfired, as risk assets surprisingly rallied after Mr Donald Trump emerged victorious.

The panel learnt from this experience a year later during the North Korean nuclear stand-off in August 2017, this time being much quicker to deploy the cash when tensions started easing. It also learnt to keep the allocation simpler for Ms Chee's portfolio due to its relatively smaller size. There is a trade-off between trying to achieve diversification and incurring transaction costs, and it probably included too many positions in Ms Chee's portfolio, resulting in higher transaction costs that ate into performance.

"Managing foreign currency volatility (USD) with the ETFs also proved a challenge, especially in an environment when the USD was weakening. We believe Singdollar-hedged versions of popular ETFs are needed in the market to help retail investors manage forex exposure," said the CFAS panel.

TIPS FOR RETAIL INVESTORS

Last year was a record-breaking one for the Dow Jones, S&P 500 and Nasdaq. This year started out promising the same, with the trend seemingly intact in the first week of last month, said the CFAS panel.

That all changed later in January with a correction; the market consolidated and took profits as concern about rising bond yields weighed in. "While the global economic growth is still likely to be robust this year, there could likely be further volatility in markets, driven in part by interest rate normalisation and the unwinding of quantitative easing policies," said the panel.

It added: "Investors should consider these changes to the macro environment and adjust their portfolios accordingly, as the outperformers of yesteryear may not continue to outperform in a different operating environment.

"As always, we strongly advocate maintaining a degree of diversification across asset classes to reduce the overall volatility of your investment portfolio."

lornatan@sph.com.sg

• The final seminar in the Save & Invest Portfolio Series, which will include a portfolio construction exercise, will be held on Feb 24 from 9.30am to 3pm at the NTUC Auditorium. To register, visit www.sgx.com/academy

Portfolio performance (Jan 18, 2016 - Jan 31, 2018)

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	71,799.19	23.17	28.27	2,557.07	5,063.30	6,171.04
Mr Getty Goh	200,000	262,893.40	31.45	36.34	9,015.78	27,268.75	29,664.51
Mr Wang Moo Kee	400,000	482,722.58	20.68	22.92	27,489.71	37,483.90	22,525.48

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	$71,799.19	$262,893.40	$482,722.58
Asset class	**Security (Weighting)**	**Security (Weighting)**	**Security (Weighting)**
Cash	**0.1%**	**0.0%**	**7.4%**
Domestic equities	**33.6%** -Netlink NBN Trust -OCBC -Singapore Exchange -Singtel -ThaiBev -Wing Tai	**35.8%** -Netlink NBN Trust -OCBC -Singapore Exchange -Singtel -ThaiBev -Wing Tai	**27.7%** -Netlink NBN Trust -OCBC -Singapore Exchange -Thai Bev -Singtel -Wing Tai
Global ETFs	**25.7%** -DBX AC Asia ex-Japan 1C -DBX Euro Stoxx 50 -DBX FTSE China 50 1C -iShares MSCI India Index ETF -SPDR Gold shares	**40.3%** -DBX AC Asia ex-Japan 1C -DBX Euro Stoxx 50 -DBX FTSE China 50 1C -DBX MSCI Japan 1C -iShares MSCI India Index ETF -SPDR Gold shares	**13%** -DBX AC Asia ex-Japan 1C -DBX Euro Stoxx 50 -DBX FTSE China 50 1C -SPDR Gold shares
Reits	**11.1%** -A-Reit -Frasers Hospitality Trust	**13.4%** -A-Reit -Frasers Hospitality Trust	**10.1%** -A-Reit -Frasers Hospitality Trust
Bonds	**29.5%** -CMT 3.08% Feb 21 -FCL 3.65% May 22 -iShares JPM USD Asia Bond -Singapore Savings Bond	**10.5%** -CMT 3.08% Feb 21 -FCL 3.65% May 22 -iShares JPM USD Asia Bond -Singapore Savings Bond	**41.8%** -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: • Ms Chee's investment amount grew to $60,000 as she added $20,000 to the simulated portfolio in 2017.
• As the Portfolio Series was intended for illustrative and educational purposes only, it did 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.
• 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

About the series

The Save & Invest Portfolio Series featured the simulated portfolios of a young working adult, a married couple with two young children and a retiree over a two-year period ending last month. It guided retail investors in basic investment techniques and showed how to build a portfolio in line with their financial goals and risk tolerance.

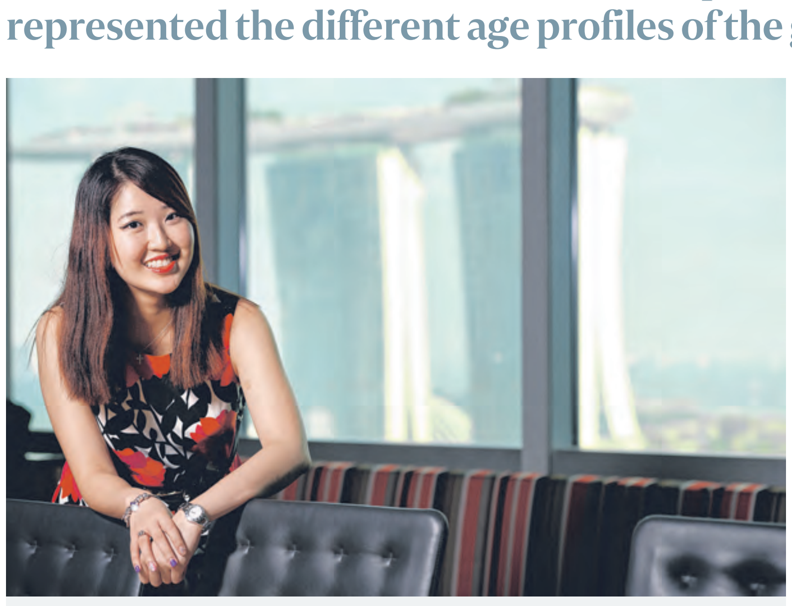
This initiative involved the Singapore Exchange collaborating with CFA Society Singapore (CFAS) and MoneySense, the national financial education programme.

The CFAS panellists tracking the simulated portfolios were: Mr Phoon Chiong Tuck, a fund manager; Mr Jack Wang, partner at Lexico Capital; Mr Praveen Jagwani, chief executive of UTI International, Singapore; and Mr Simon Ng, chief executive 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

How investors view the series

The Save & Invest Portfolio Series comprised three simulated portfolios for three retail investors who represented the different age profiles of the general population. Here are their views about the series.



Ms Shona Chee said the series has helped her better understand the financial market and various financial products. ST FILE PHOTOS

PRODUCT MARKETING MANAGER SHONA CHEE, 27, RECENTLY MARRIED

"This series has helped me better understand the financial market, various financial products and the importance of a diversified portfolio in this dynamic market.

"It was interesting to look at the simulated portfolio performance of Mr Goh and Mr Wang, who are in different life stages, as I begin a new life phase as well.

"I am now based in the US, so I tend to focus more on the US stock market instead."

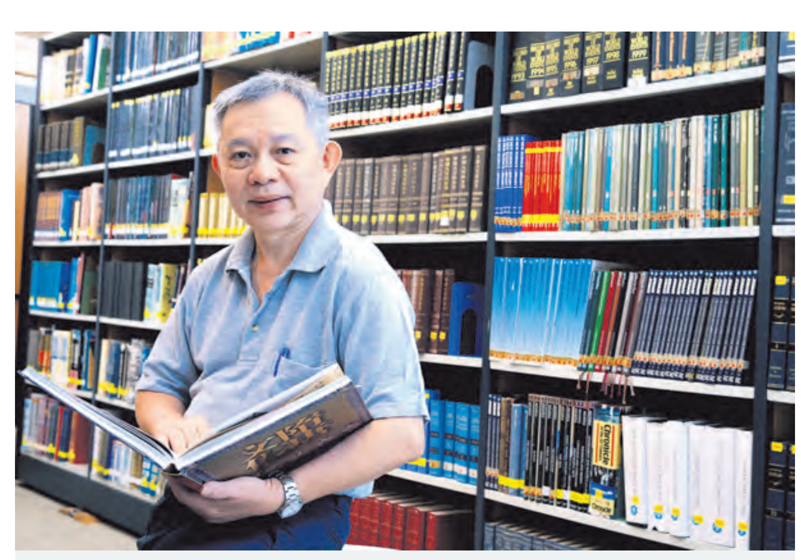
Mr Getty Goh's biggest takeaway from the series is that the best time for people to invest is when they are in their 30s.

BUSINESSMAN GETTY GOH, 40, MARRIED WITH TWO CHILDREN

"My takeaway is that it is never too late or early to start investing. Fresh grads or retirees can invest in the markets to derive returns... as seen from Ms Chee's and Mr Wang's portfolios."

"However my greatest takeaway is that the best time for anyone to invest is when they are in their 30s. This is the age when they have sufficient disposable income to invest (as compared to a fresh grad) while having a higher risk appetite, as compared to a retiree.

"This can be see from the highest returns garnered by my simulated portfolio, as an investor in my age group would be able to make more risky investments, compared to the rest."



Mr Wang Moo Kee said the series gave retail investors the know-how on how to effectively combine stocks in a portfolio to achieve returns.

RETIREE WANG MOO KEE, 63, MARRIED WITH FOUR CHILDREN

"The Save & Invest Portfolio Series provided retail investors with the know-how on how to effectively combine stocks in a portfolio to meet their objective of achieving returns. I note that there is a need to monitor and make changes according to market conditions and trends.

"Real estate investment trusts are a good tool for maximising returns."

Lorna Tan