



Preserving Your Assets in Turbulent Times

By Eng Tiang Chuan

With market sentiments not expected to improve, we propose different ways to keep and preserve your wealth.

The year 2008 is finally behind us and what a year it has been! It will be remembered as the year of unprecedented market volatility, government interventions and rescue packages. Major traditional asset classes, with the exception of government bonds, have all fallen in tandem, leaving investors with little room to hide.

It is not difficult to see that investors would have lost a substantial part of their investments over the course of 2008. In such an environment, investors ranging from professional managers and the ultra rich to the man in the street have been hit. Stories of how investors have made huge losses in the market have appeared in the media regularly.

The following table illustrates the 2008 returns of major indices.

| Index | Performance in 2008 |
|-------------------------------------|---------------------|
| US S&P 500 | -38.5% |
| Europe (DJ Stoxx 600) | -46% |
| Japan (Nikkei 225) | -42.1% |
| Hong Kong (Hang Seng Index) | -48.3% |
| India (SENSEX) | -52.9% |
| China (HS Mainland Composite Index) | -48.9% |
| Singapore (Straits Times Index) | -49.2% |
| MSCI World | -42% |
| MSCI Emerging Market | -54.5% |

CPF INVESTMENTS REPORT CARD

The data from the Central Provident Fund Investment Scheme (CPFIS), which tracks up to 900,000 CPF members, is used as a proxy for the kind of losses investors have suffered in 2008. Figure 1 and 2 shows the Profit/Losses CPFIS Ordinary Account (OA) for the period between October 1, 2006 to September 30, 2008. Note that the reporting period is up to September 2008 which missed the October 2008 market mayhem due to the collapse of Lehman Brothers and the crisis at AIG.

Figure 1 shows 49 per cent of the CPFIS OA investors realized their losses in the period October 1, 2007 to September 30 2008, representing an increase of 6 per cent from the preceding corresponding period. This does not look like a big increase. However, the Unrealized Profit/Losses data tells a different story. All 8 out of 8 investment products reported a worse performance with 5 of them making unrealized losses in 2008, compared to the situation whereby all 8 investment products made unrealized profits in 2007. Only Statutory Board Bonds and Singapore Government Bonds and gold made positive returns in 2008. The most drastic difference came from Property Funds whereby it made a 50.8 per cent profit in 2007 but made a loss of 24.8 per cent in 2008, a difference of 75.6 per cent!

Such a severe drop in asset values can have immense implications in the areas of Wealth Preservation and Distribution. Massive amounts of wealth have been wiped out due to the financial tsunami. Such developments did not just impact the investor or business owner, but would also have created huge consequences for future generations. Often, our loved ones are the very reason for all the blood, tears and sweat in building up our wealth. Some would also

like to contribute to a welfare organization or their place of worship by leaving a legacy. Such acts of love bring meaning to the efforts of Wealth Accumulation.

PORTFOLIO BOND - BENEFITS

However, the market turbulence last year has clearly shown that asset prices can have dramatic movements. Life is unpredictable. If death occurs and forced liquidation is carried out at such times of market volatility, the value of the liquidated assets will naturally be severely impacted as well. Such a scenario would certainly be detrimental to the benefits of the intended recipients and certainly not to the wishes of the deceased. Imagine leaving just 50 per cent of a portfolio to your loved ones!

Other than using insurance to hedge against untimely liquidation, to avoid forced liquidations during market downturns, specialized platforms called Portfolio Bond can be utilized to minimize the chances of such situations occurring. It is not a bond but an investment platform, this flexible arrangement allows different types of investment products such as unit trusts, exchange traded funds, structured notes, bonds and even fixed deposits to be placed or transferred into it.

Business owners also face the additional risk from their business exposure, especially during times like now. Creditors may lay their hands on the very assets meant for family members and deny their rights to them. Trusts can be employed in Portfolio Bonds to break the chain of ownership to the assets and help preserve them for the rightful beneficiaries instead of them falling into the hands of creditors.

In addition, Portfolio Bond enhances Wealth Preservation by

CPFIS OA REALISED PROFITS/ LOSSES

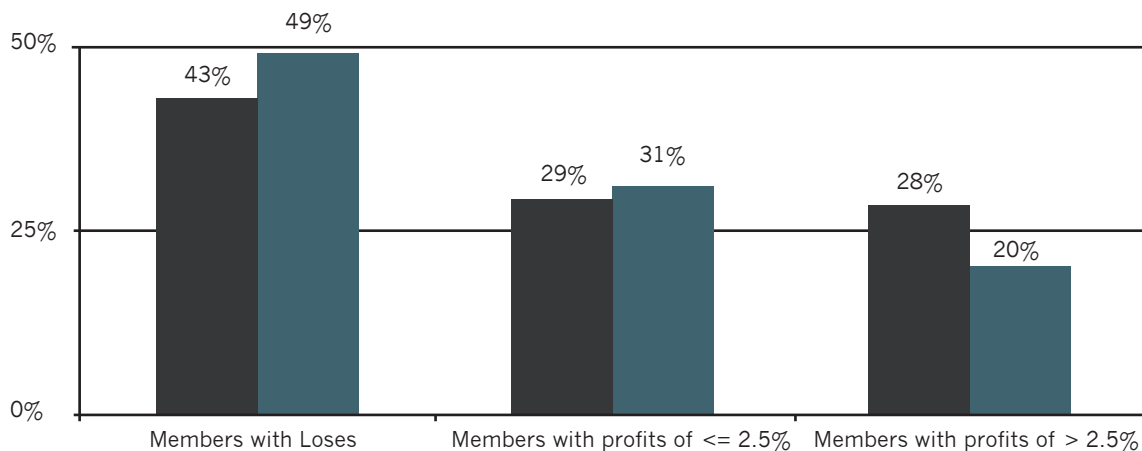


Figure 1

■ 1 Oct 06 - 30 Sept 07

■ 1 Oct 07 - 30 Sept 08

CPFIS OA UNREALISED PROFITS/ LOSSES BASED ON MARKET VALUE VS COST OF INVESTMENTS

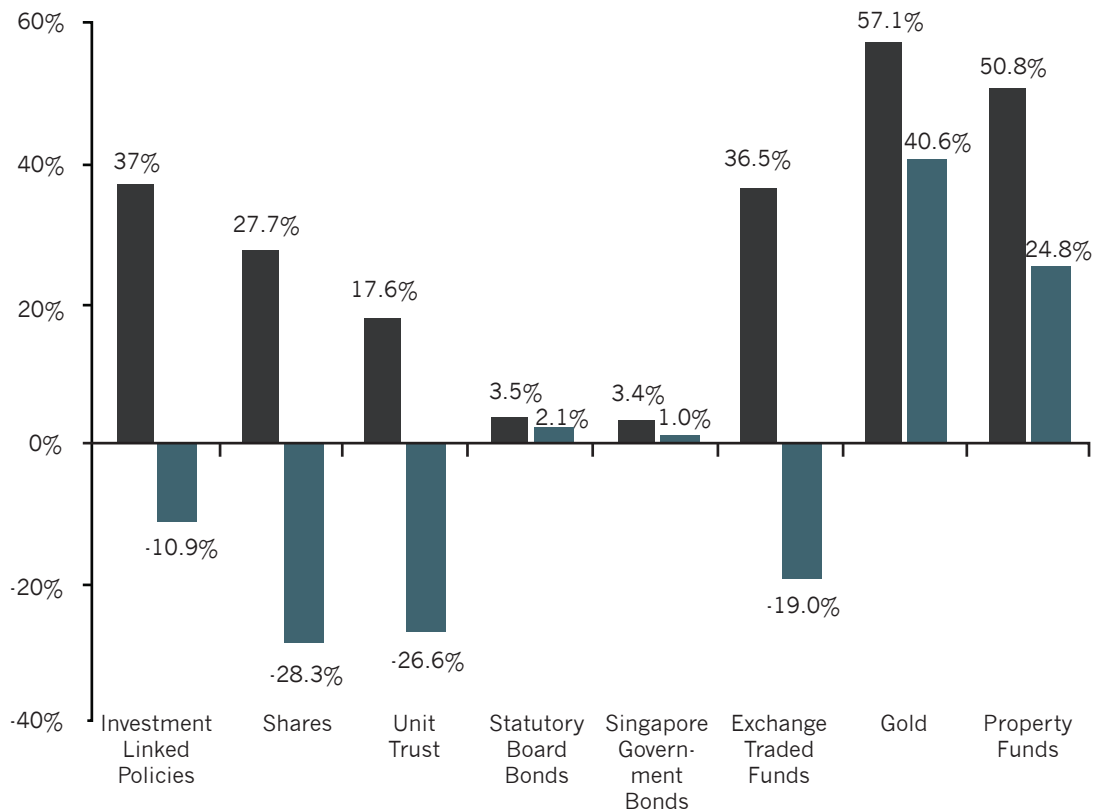


Figure 2

■ As at 30 Sept 07

■ As at 30 Sept 08

minimizing Estate Duty or Death Tax. Singapore has abolished Estate Duty last year in an effort to promote Singapore as a Wealth Management hub. However, jurisdictions such as United States, United Kingdom, Japan and others still impose Estate Duty. With the global nature of investment products available nowadays, it is not difficult to find offshore products in the portfolio. Losing up to 40 per cent or higher of the value (after some exemptions) to the local government during market downturns is a double whammy to the beneficiaries.

PRESERVE YOUR WEALTH

After devoting a lifetime to the creation of wealth, it would be a devastating blow if a significant portion of the assets are lost

due to preventable situations. It would certainly be worthwhile to spend a small amount of time to help preserve what you have been working hard to build up all your life.

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 Eng Tiang Chuan is an adviser with PromiseLand Independent. He is licensed by the Monetary Authority of Singapore to provide financial advice.

Email: tiangchuan@promiseland.com.sg
 Mobile: 9736 2689
 Website: <http://www.ifa-sg.com>

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