

# What to invest for the *long term* – **WITHOUT MONITORING**

**SEVEN IN TEN** polled in a recent Straits Times Insight survey on CPF said they do not think their savings with the CPF Board will see them through old age. This problem “of money not enough” is often repeated in many similar surveys. One of the solutions often proposed is to “make the money work harder” - that is to invest so as to earn a higher return. Yet, this is easier said than done. Retail investors are often spoiled for investment choices. From my last count, there are at least 351 unit trusts available to retail investors from discount portals. After adding structured products and funds exclusively for accredited investors,

the number of choices could be mind boggling.

Before investors start their investment journey, they must decide whether to engage a professional investment adviser or to do-it-yourself (DIY). Whatever the choice, they also need to decide whether the investment requires close attention or it could be left alone on a long term basis. If the investment requires close monitoring, the cost of engaging the adviser is more. Those who DIY will need to spend more time on it and less time for other things. Either way, investment may not be everybody’s cup of tea for some. Unfortunately, in most cases, investing requires close

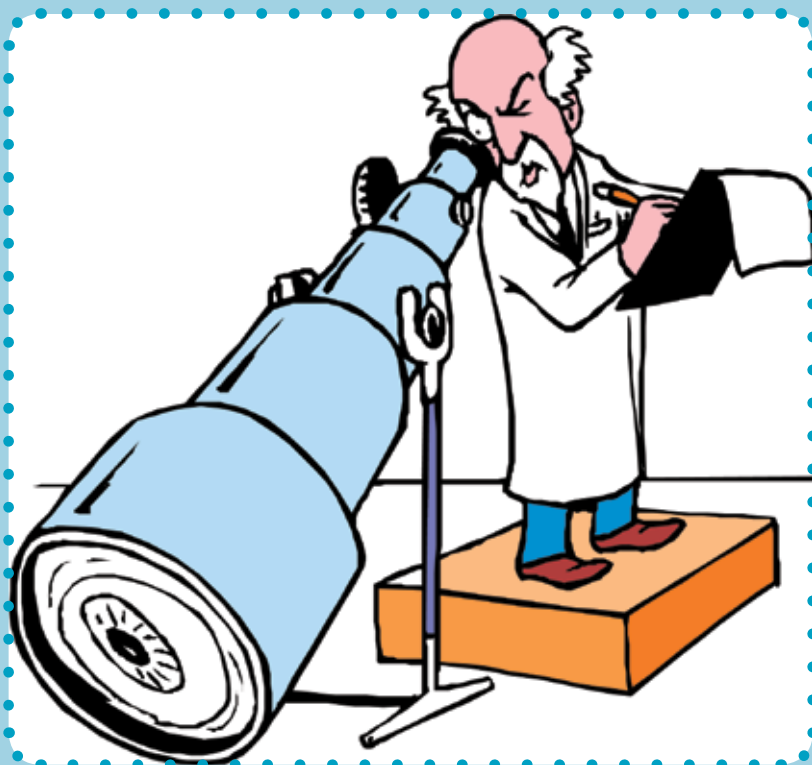
supervision. Resignation of a key fund management staff is an example. A few years ago, two-thirds of an award winning fixed income team of a reputable fund house resigned to join a competitor. Astonishingly, many people did not know about this and continue to hold on to the fund thinking that the previous team was still managing the fund.

Nevertheless, is it really possible for an investor to invest and hold on a long term basis without close supervision? The answer is yes. This can be done.

We will examine how this can be done and we will discuss the pros and cons of such a method. For discussion sake, we have three hypothetical investors with varying degree of risk appetites. However, they all have one thing in common which is they are long term investors. Generally, long term investors are those with more than 10 years in time horizon.

## **Miss Aggressive — Long-term aggressive investor**

Our Miss Aggressive would like to invest without the requirement of close monitoring. As an aggressive and long-term investor, her portfolio should be 100 per cent in equity. Equity offers the highest reward but has the highest risk. To ensure that she does not need to constantly monitor the world’s economies, I will recommend a globally diversified portfolio in developed economies. She may not wish to consider emerging



Don't have time to keep track of your investments? We say that it is really possible for an investor to invest and hold on a long term basis without close supervision.

By Wilfred Ling

countries as part of her portfolio. Emerging countries are notorious for its political instabilities. Although the returns could be great but monitoring country politics is not in Miss Aggressive's vocabulary. The last thing that Miss Aggressive wants to hear is another emerging country imposing capital controls (sounds familiar?).

Miss Aggressive has no desire to monitor human resource movement within the fund house. Regardless of who resigns or joins the fund house, she needs to be assured that there should be no material impact on her investment. Therefore, Miss Aggressive tends to favor passive managed fund. Passive fund or index fund has no active fund management. Such investment aims to track the market and guarantees to provide the investor the market's return before cost. We can expect nothing more and nothing less. In this manner, Miss Aggressive need not worry about fund manager underperforming the market.

Miss Aggressive may want to consider Infinity Global Stock Index. It is globally diversified but a passive managed fund that invests in developed countries. Its geographical allocation is based on market capitalization. This fund feeds into Vanguard Global Stock Index, a highly popular and famous fund house known for its advocacy of passive investment. (refer graph titled "Infinity Global Stock Index Geographical Composition")

**The advantages of this fund are:**

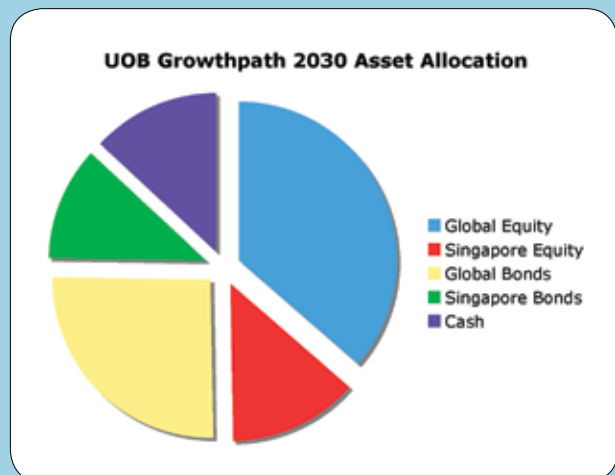
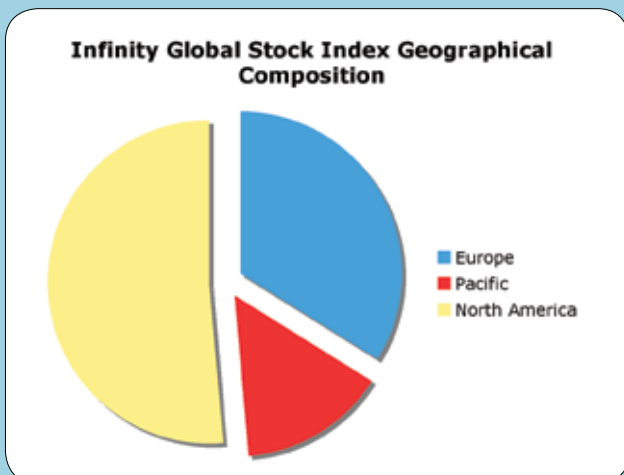
- Globally diversified into developed countries;
- Totally passively managed; no fear of fund manager resigning;
- Low cost of only 1.17 per cent in expense ratio; and
- Invest using Supplementary Retirement Scheme (SRS), CPF-OA and cash.

**The disadvantages of this fund are:**

- Due to its allocation based on market capitalization, it has more than half its allocation in United States. Many people prefer to have a lower allocation in United States.
- It is seldom marketed to investors and as such the feeder fund size is small. At end of July 2006, the fund size was S\$25.9 million but it dwindled to S\$12.6 million as at June 29, 2007. If the fund size continues to decrease; it will only be matter of time that such rare low cost fund will be closed.

**Miss Balanced — Long term medium risk investor**

Miss Balanced's requirement is similar to Miss Aggressive except that she must have some bonds in her portfolio due to a lower risk appetite. The UOB Growthpath 2030 may be appropriate for her. This fund is a lifecycle fund that automatically rebalances towards a more conservative allocation as it



approaches the targeted year 2030. The automated rebalancing removes one element of monitoring. UOB Growthpath 2030 feeds into a number of Barclays Global Investor ("BGI") index funds. These are the BGI Index Selection World Fund, BGI World ex-Euro Government Bond Index Fund and BGI Euro Government Bond Index Fund. In addition, the fund also feeds into the UOBAM's own active managed funds. As at December 31, 2006, the percentage of the fund that is passively managed is 61 per cent. (refer to graph titled *UOB Growthpath 2030 Asset Allocation*)

**The advantages of this fund are:**

- Globally diversified;
- Access to global bond index funds which are usually difficult for investors to gain exposure to;
- Automated rebalancing towards a more conservative allocation as it approaches the targeted year;
- Invest using SRS, CPF-OA and CPF-SA; and
- Low expense ratio of 1.20 per cent.

**The disadvantages of this fund are:**

- Not a complete passive fund. Miss Balanced or her financial adviser

still has to worry about the 39 per cent that is active managed;

- A small fund size of only S\$13.81 million as at June 29, 2007 indicates lack of publicity and public interest. It is not a good thing for a product that has both low publicity and low public interest.

**Miss Conservative — Long term low risk taking**

Miss Conservative is in trouble. There is no suitable passive managed fund for her. Still, we can help her look for something else that is appropriate for a person who is a low risk taking but with a relatively long time horizon. For her, she needs to have a large part of her investment in bonds. Since she is a long-term investor, she might want to consider a fund that has exposure to global bonds and yet containing a minor part in equities. AllianceBernstein's Global Conservative Portfolio is a fund that might be appropriate for her. This fund has a 70/30 mix in bonds and stocks. Its bonds portion is entirely investment grade with half in US short duration and the other half in long-term global bonds. Stock allocation is

a complementary mix of global value and global growth. (refer to graph titled *AllianceBernstein's Global Conservative Portfolio*)

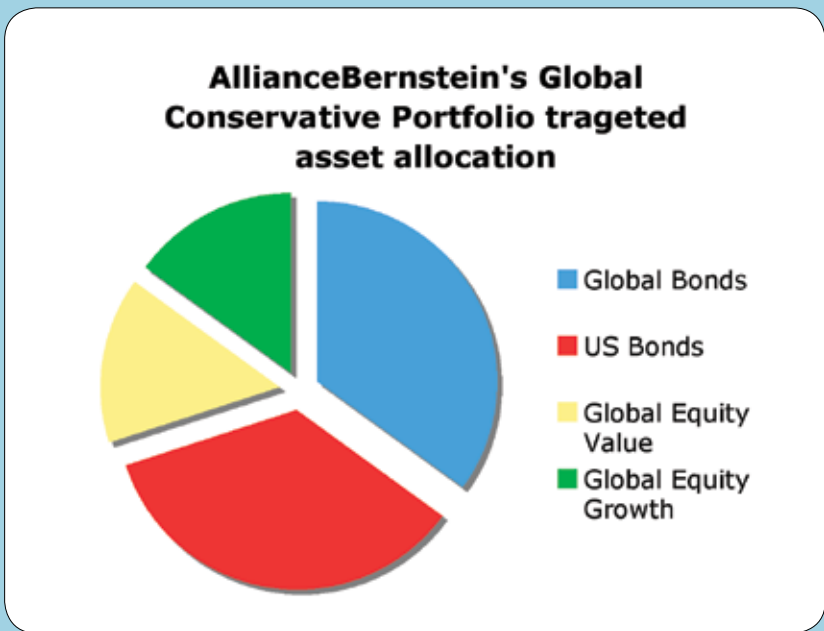
**The advantages of this fund are:**

- Mechanical and automated rebalancing of the asset allocation to the targeted allocation subjected to a variation of plus or minus 5 per cent of the individual component;
- Bonds are investment grades;
- Invest using CPF-OA and cash;
- Reasonable fund size of US\$107.54 million as at December 31, 2006; and
- Reasonable expense ratio of 1.65 per cent.

**The disadvantages of this fund are:**

- Actively managed for the individual component. Therefore Miss Conservative or her financial adviser cannot completely "cease" monitoring the investment;
- Not available for SRS investment;
- Portion allocated to United States in the bond allocation is rather large. Again, most people will be more comfortable with a lower exposure to the United States.

In conclusion, it is possible to have a simple portfolio for these three types of investors. Although each recommendation comes with its pros and cons, we demonstrate that it is not difficult for an individual to get started in investing. Despite the simplicity, it is always recommended to seek advice from a competent and licensed investment adviser.



Wilfred Ling is an investment adviser with Promiseland Independent. He is licensed by the Monetary Authority of Singapore to provide investment advice. The author can be reached at wilfred.ling@promiseland.com.sg or contact number 91710940.