INVEST TALK

A quarterly newsletter by The Investment Services Division

January 2003 Issue

Article from Business Times personal finance
October 23,2002

Have A Strategy Before You Shop

Citing a US study, GENEVIEVE CUA points out the perils of theme-oriented investing

INVESTORS who invest via the do-it-yourself route tend to put the cart before the horse - that is they focus on picking funds first, rather than deciding on an investment strategy, says a Barclays Global Investors study.

This reversal of priorities is 'inevitably flawed', says BGI. 'When a plan is fund-oriented, the investment strategy is an accidental by-product of fund selection,' it says. This gives rise to the 'performance disease' that afflicts defined contribution (DC) plans, whose symptoms include low returns, high costs, and inattention to risk.

The conclusions of BGI's 2000 study on the US' DC plans could well apply to the retail investment environment here today. The CPF framework itself is a DC plan, where employee contributions are prescribed, and members pick from a wide range of retail funds to enhance their savings.

To date the experience has been painful. Until recently, fund marketing has tended to be theme-oriented. Amidst a dearth of qualified advisers, this has subjected investors to their own worst enemy - their emotions - with most money going into themes that pander to fear or greed.

Costs are generally high. Losses suffered in the recent bear market are made more pointed by investors' reluctance to restructure their holdings - for fear of realising the losses - coupled with a general unfamiliarity with asset allocation principles.

Mind that gap

BGI's 2000 study - Mind the Gap! - is a follow-up of a study by Watson Wyatt, which found that DC plans in the US actually lagged defined benefit (DB) plans by as much as two percentage points for the period 1990-1995. A DB plan is one where pension benefits are defined, and assets are managed by plan sponsors or employers, taking investment decisions out of individuals' hands.

Lest anyone dismiss the two percentage point gap as insignificant, BGI notes that US$100,000 invested at a 10 per cent rate of return for 30 years grows to US$1.74 million. The same amount invested at 8 per cent annualised return over the same period grows to just over $1 million. The 2 per cent gap compounds to US$740,000 in missing dollars.

Investors, says BGI, can take a leaf from the manner in which institutions invest. The first step among institutions is to define the strategy. This involves calculations of the expected risk, return and correlations of each asset class to arrive at an 'efficient frontier', which helps to specify an asset class mix.

The efficient frontier - which may be increasingly used in retail funds or advisory structures here - refers to the combination of assets that could yield the highest level of return for a given level of risk. Various combinations of lower-risk and higher-risk assets can be modelled to arrive at an 'optimal' mix.

While the process has its drawbacks, particularly in its reliance on historical data, its greatest contribution could be to raise investors' awareness of risk and of the value of diversification. The process also gets investors to view their various holdings as a portfolio, where what is important is the sum of the individual parts.

It is only after the asset allocation mix is decided upon, that institutions proceed to fund selection. In the latter, indexed funds are mixed with actively managed funds, with a tight rein on costs. Active funds are used only if they are believed to be superior, says BGI.

Investors' predicament

Where do retail investors go wrong? BGI attempts to ferret out the causes of the two percentage point underperformance. Here are a few of the insights that should resonate in Singapore.

- Retail portfolios are inefficient. Typically investors don't realise that by choosing a fund, they've made an asset allocation decision, which plays a big part in their risk exposure as well as returns.

- Taking the wrong amount of risk. Investors tend to take too little market risk with cash-like instruments. This may cause a shortfall in returns greater than 2 per cent. This reflects a fundamental principle of capital markets - that you can't reap substantial returns without risk.The challenge is to find an acceptable risk level, and to avoid volatile assets that fail to generate returns.

- Too many active funds. This results in a portfolio with higher-than-appropriate risk levels and fees. The tendency to pick 'hot' funds means that portfolios often contain active bets that are highly correlated across managers rather than being diversified in terms of active risk'.

editor's NOTE

With uncertainty continuing to prevail in the global economy and escalating cost of living (Yes, GST has been increased to 4%!), investors should stay focused on their long-term objectives rather than the current gloom.

To realize your long-term plans, you need to grow your money. Investing, as you know, is possibly the most effective way to do this. We had just launched an innovative investment called GrowthPath that automatically adjusts the investment mix from higher-risk to lower-risk ones as you approach your investment time horizon. Do join us in our coming seminar to discover more about your GrowthPath.

For homeowners who are seeking better value protection plan, don't miss out reading our article on UOB Life Mortgage Protection Plan. This unique plan not only gives couples the option of having joint life coverage at a rate lower than paying two premiums for 2 individual life coverage, but also the flexibility of several premium payment options for the homeowners.

In this issue, I would like to wish all of you a very heartwarming Lunar New Year celebration!

新年快乐

Yours Truly,
Tan Boon Chye
Vice President
Head, Investment Services Division
Personal Financial Services

大華銀行 UNITED OVERSEAS BANK

cover
STORY

Two Sides
of Optimised Portfolios

BGI's solution is to develop pre-mixed balanced funds that have been optimised, and are suitable for those who lack the time or interest to develop their own strategies. Such funds, which are mainly indexed with low costs and low 'active' risks, are expected to earn returns comparable to those earned by institutions.

It has helped to develop a similar range in Singapore, in partnership with UOB Asset Management, with the GrowthPath series.

Four of the GrowthPath portfolios are designed with specific maturity periods, ranging from 10 years to 40 years. These are clearly for investors in the process of saving up for retirement or other financial goals. A fifth 'evergreen' fund, GrowthPath Today, has a conservative 20/80 equity to bond weighting, to aim for capital preservation.

While some may quarrel with the indexed element - global equity and bond allocations go into Barclays indexed funds - or even with the allocation into UOBAM funds (for Singapore equity and bonds), GrowthPath is significant in a few aspects. It is simple. It gives people access to indexed vehicles, of which there is a dearth in Singapore. Costs are relatively low with the total expense ratio expected to be less than one per cent. And changes in the asset mix - an important aspect that today's balanced funds do not address - are done for you as you age.

COULD 'optimised' portfolios be the next big thing in Singapore's advisory landscape? The process of optimisation, advocated by global investment consultants, aims to arrive at a portfolio mix that delivers the highest level of returns for a given level of risk.

Using historical data for returns, risk and correlations, various blends of assets - lower-risk with higher-risk, for instance - are modelled along a risk/return grid.

To date, a few retail products have incorporated aspects of optimisation. These include the Eight portfolios by DBS/Russell; some lifestyle balanced funds; and now UOB Asset Management's GrowthPath funds.

In the advisory scene, funds aggregation service provider Navigator offers ready-made portfolios, broadly based on an optimal asset mix. DollarDEX Investments can undertake to optimise individuals' fund holdings as well. And, at least one bank's wealth management platform advocates an asset allocation mix that appears to have also used the principles of optimisation.

The process has its merits in that it forces investors to take asset allocation as a starting point. Asset allocation, as an oft-quoted study by academics Brinson, Hood and Beebower has found, accounts for up to 90 per cent of a fund's variability of returns relative to its underlying market. In other words, if you picked a technology fund, for instance, its returns and volatility will largely reflect the underlying tech market, and fund manager skill accounts for only a small part.

Optimisation - particularly if it can be customised for you - also forces investors to think seriously about how much risk they can and should tolerate if they are to enhance their savings. It encourages diversification into assets with low correlations.

So, watch the marketing spiel. The results of an optimised market portfolio may indicate a desirable risk/return mix. But you are likely to be channelled into retail funds, where high costs may render the portfolio ultimately inefficient.

For more details on GrowthPath – the core investment that adjusts as you grow, join us in our coming seminar where you will learn of the investment climate for the year ahead. See details under ***latest promotions***. You can also visit any UOB Group Branch, Invest Shop or call 1800 22 22 121 to find your GrowthPath.

product
HIGHLIGHT

UOB Life Mortgage Protection Plan
Packs Twice The Punch!

Why pay two premiums when you can have two lives insured under one sum assured for your home Mortgage Protection Plan? The new and innovative plan from UOB Life gives couples the option of having joint-life coverage at a rate lower than paying two premiums for 2 individual life coverage. It also offers homeowners the flexibility of several premium payment options and the added peace-of-mind for in the event of critical illness.

Joint-Life Coverage Option With Lower Premiums

As long as both homeowner names are in the housing loan Letter of Offer, the unique joint-life coverage feature ensures that homeowners such as unmarried couples or parent-child applications can be insured under 1 sum assured. Premiums payable are lower compared to the convention option of homeowners having to buy individual plans to cover each owner.

Flexible 3 Premium Payment Terms Options

Rather than be faced with the only option of annual premium payment for the duration of the housing loan, homeowners have the flexibility to choose from 2 other premium payment terms:

Single premium is the lowest premium option of all the 3. This option allows one-time premium payment for coverage over the duration of the housing load installment period. A surrender value is payable if the plan is surrendered before the end of the coverage.

Limited premium gives the option of having the premium paid over 2 to 4 years at an annual premium rate lower than single premium option for coverage over the duration of the loan. A surrender value is payable if the plan is surrendered before the end of the coverage.

Critical Illnesses Coverage Option For Added Peace-Of-Mind

Insured homeowners on annual premium payment option can also choose to take up a waiver of premium option on diagnosis of critical illnesses. If either party in a joint-life coverage plan is diagnosed with a critical illness, premium payment will not have to be continued thereafter.

Invest in UOB Life Mortgage Protection Plan before 31 March 2003 and get shopping vouchers! See latest promotions for more details.

For more information on this innovative plan, ask about UOB Life Mortgage Protection Plan at any UOB Group branch or invest shop. You can also call our 24 hotline at 1800 22 22 121.

market BULLS &BEARS

Equity and Bond Markets

Outlook for Q1, 2003

REGION/ SECTOR	CURRENT QUARTER OUTLOOK Under-weight	 Neutral	 Over-weight	KEY REASONS FOR CURRENT MARKET OUTLOOK
EQUITIES				
US	■			• Uncertainty continues to prevail on the US economic recovery. • A lack of pent up consumer demand, constraints on corporate spending and the general uncertainty flowing from fallout in the equity markets and the threat of war with Iraq are among the factors that are constraining the economy. • Such concerns are so strong that the Fed had to cut rates by 50 basis points to ensure that the economic recovery remains on track. • On the brighter side, further fiscal stimulus such as tax cuts may be in the pipeline given gains in the Congress by the Republican Party and a reshuffle in the Cabinet's economic team • However, over the near term, it is likely that market rallies will be reasons for profit taking before confidence is built back into the markets.
EUROPE		■		• In line with the Fed's move, the European Central Bank (ECB) made a 50 basis points cut in its interest rates which aims to provide a sorely needed spur to the Continent's sputtering growth. • Unemployment in Germany, the largest European economy, rose again in November and an estimated four million people are currently out of work. • Also, the European Commission forecasted that the economy of the European Union might actually contract in the first quarter of 2003. • Over the longer term, the expected pension reforms in several EU countries over the coming years should help spur the growth of capital markets in the EU.
JAPAN		■		• Encouraging signs of an economic recovery are showing in Japan with 3rd Quarter GDP growth being revised upwards to 0.8%, marking the country's third consecutive quarters of growth. • However, analysts warned that falling exports, slow rate of reforms, bad debts problem in the financial sector and the weak consumer spending are likely to put a drag on the economy
ASIA EX JAPAN			■	• It is likely that much of the risks relating to a prolonged global economic slowdown have already been discounted in the Asian markets and downside from here should therefore be limited. • Asian markets are also geared into a global market recovery. • Asian economies like China continue to benefit from the outsourcing trend and the ongoing shift in economic activity and jobs from developed countries • However, the heightened threat of terrorism in the region and the prospect of a US-led war with Iraq may have negative impact on the Asian economies.
Bonds				
US		■		• US Government bonds are relatively expensive and yields are likely to rise as the economic cycle turns up. • Corporate bonds appeared to be more attractively valued.
EUROPE		■		• Generally, bonds are not as overvalued as that of US bonds. • Likewise, corporate bonds offer better value than government bonds
ASIA		■		• Asia has benefited from a spate of positive rating outlook changes such as Korea, Thailand and China and subscriptions for new issuances have been strong. • However, the geopolitical risks such as possible US-led war with Iraq and terrorist threat in the region may reduce the risk appetite for Asian bonds.

Is It Still The Time To Invest In Bonds?

An Interview with the Fund Manager for UOB United International Bond

1. With interest rates at such low levels, the general expectations are that the rates will increase in the future. Since increase in interest rates would reduce the value of bonds, why should we invest in bonds now?

Current interest rate levels are low because of the slow global economic outlook. Our outlook for the global economy remains one of slow sub-trend growth at least for first half of 2003. Furthermore, there are potential downside risks such as US-Iraq tensions and oil prices. Such uncertainties will likely see the authorities refrain from hiking interest rates. We think rates are likely to remain low for the near-term.

Besides, the returns on bonds are derived not only from taking interest rate risks but also credit risks. The spectrum of the corporate bond (some times referred to as credits) universe is diverse and wide, ranging from the very high grade AAA bonds to high yield B-rated or emerging market bonds. Interest rates t tend to be negatively correlated with economic growth whereas credit spreads (spread between the yields of corporate bonds and risk free assets) tend to be positively correlated. In this respect, the additional credit yield earned on a corporate bond relative to the US Treasuries for example, can buffer some up tick in interest rates, not necessarily resulting in a negative return.

On an overall portfolio asset allocation basis, the negative correlation of interest rates to equity markets justifies some allocation to bonds for diversification benefits. Of course, investors need to select the type of fixed income instruments or funds which best fit their investment objectives and outlook.

2. Why invest in United International Bond Fund?

There are some key reasons why one should invest in the United International Bond Fund:

A. Track record

The rigorous research process UOBAM employed has resulted in our bond portfolios offering good performance over the past few challenging years. The United International Bond Fund's performance numbers are below:

Performance	1 year	2 years	3 years	4 years
Bid-Bid*	7.21%	16.02%	15.37%	24.70%
Offer-Bid*	3.81%	12.04%	11.44%	21.01%

*Source :S&P Micropal, as at 29th November 2002, Bid-bid performance typically reflects the investment managers actual performance, Offer-Bid performance takes into account the subscription fees of the fund.

B. Allocation to International bond fund can reduce overall portfolio risk

Given the negative correlation of interest rates to equity markets, some allocation to bonds for diversification benefits can help to reduce overall portfolio risk. Over the past 3 to 5 years and even beyond, despite volatility in the global equity markets, investing in bonds have benefited investors considerably by providing optimal personal investment portfolios with low risk and higher return. This is in comparison with a portfolio invested entirely in equities.

C. Annual dividends

We have the intention of paying dividends on an annual basis without fail from the year 2003 onwards. The dividends paid out would derive from the income account of the United International Bond Fund. We are looking at a dividend rate of 2% p.a. subject to term and conditions stated in the prospectus of the Fund.

D. Low Cost of Investing

From early 2003, good news awaits everyone who has invested and who is going to invest in the United International Bond fund. The Fund has a lower management fee of only 0.5% p.a. and a lower subscription fee of only 1%. This is way lower than the current management fee and subscription fee of 1% and 3% respectively.

3. What type of bonds does the fund invest in?

As the name suggests, the United International Bond Fund invests globally in bonds issued by governments, statutory bodies or other public or private entities.As of November 30th, 2002, the fund was invested in Corporate Bonds with S&P rating* BBB and above (48.0%), Corporate Bonds with S&P rating below BBB (23.0%), Government Bonds (24.2%) and Cash (4.8%)

4. How much dividend can I expect to get?

The Fund pays annual dividends on a discretionary basis. For the past 2 years, the fund has paid out $5 per 100 units (or 5.8%) and $3 per 100 units (or 3.4%) respectively. However, going forward we are intending to pay out dividends on an annual basis without fail from the year 2003 onwards.

5. Given the investment objectives of the fund, what is the growth potential of the fund going forward?

The Fund aims to achieve its absolute return target of 5-7% by investing in a diversified pool of fixed income instruments and securities.

For more information on United International Bond, speak to our Personal Financial Consultants at Invest Shops or call 1800 22 22 121.

latest PROMOTIONS

Join Us In A Seminar

To Learn About The Investment Climate For The Year 2003

And Enjoy Greater Savings!

1

What are the dangers or opportunities in investing in the new year ahead? This is a question many of us are asking as we approached the new year.

Learn from our award winning fund manager, UOB Asset Management, in our coming seminar, where you will also be exposed to a new and innovative way to investing. Attendees of the seminar will not only benefit from the experts but also enjoy preferential discounts on GrowthPath and one goodie bag each.

To register, simply call our hotline 1800 22 22 121 before the 14th February. Hurry seats are limited!

Venue: Mandarin Singapore
Date: 20th February 2003, Thursday
Registration starts at 6.30pm

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Invest in

UOB Life Mortgage Protection Plan

And Be Rewarded*

From now till 31 March 2003, invest in UOB Life Mortgage Protection Plan at any UOB Group branch or Invest Shops, and you will receive Tangs shopping vouchers*.

You can choose to invest through single premium or regular premium policies. With single premium payment of $2,500 and above, you will receive $20 Tangs shopping voucher. If you prefer to invest through regular premium, a $20 Tangs shopping voucher is yours if your full year premium is $1,000 and above. Get an extra $10 Tangs shopping voucher for every full year premium of additional $500.

For more details, speak with our UOB Personal Financial Consultants at Invest Shops or call 1800 22 22 121 today!

*Terms & Conditions apply.

最新资讯

策略为先－
谋定而后动

GENEVIEVE CUA 引述美国的一项研究，指出主题导向投资的危险

自助的投资者往往采取本末倒置的投资方式－注重先挑选基金，而不是先确定投资策略。这是巴克莱环球投资者的一项研究得出的看法。

这项研究指出这样的本末倒置存在着“不可避免的缺陷”。“当一个投资计划是基金导向的，投资策略就变成选择基金过程中偶发的副产品”，这将导致影响定义贡献的“表现弊病”，其症状包括低回报、高成本以及忽视风险。

巴克莱环球投资者说，投资者可以从机构投资的方式中获得一些启发。机构投资的第一步就是确定投资策略。这包括估算预期的风险、回报和每一资产等级的互生关系，从而得出一个“有效边界”，帮助确定一个资产等级组合。

这个获得越来越多本地零售基金经理或投资顾问公司青睐的有效边界概念，是指这样的资产组合，它能够在一个限定的风险水平内取得最高的回报水平。低风险和高风险资产的不同组合可以作为模式，达成一个“最优化”的组合。

投资者的困境

散户投资者在什么地方出了问题呢？巴克莱环球投资者试图找出2个百分点超低表现的原因。下面是新加坡投资者应该留意的几点看法：

- 散户的投资组合是低效率的。基本上散户没有意识到当选择基金时，他们是做了一个资产 配置决定，这对他们将面对的风险和回报是具有很大作用的。
- 承担错误的风险量。投资者对类似现金的投资工具倾向于承担过小的市场风险。这可能导致超过百分之二的回报减少。这反映了资本市场的一个基本原则：你不可能没有风险地收获可观的回报。挑战是找到一个可以接受风险水平，并避免不能产生回报 的不稳定资产。
- 过多的活跃基金。这将产生高于适当风险水平和费用的投资组合。挑选“热”股的倾向，意味着投资组合“经常含有活跃的赌注，同各个基金经理密切相关，而不是按照活跃的风险被分散。”

巴克莱环球投资者的解决方案是并发经优化的预先组合平衡基金，适合于那些没有时间或兴趣自己制定策略的投资者。这样的基金，具有低成本和低“活跃”风险的特点，预期可以获得同机构投资者相比的回报。

它已经同大华资产管理合作，协助在新加坡开发类似的基金，增长之道系列。

增长之道系列其中的四个投资组合，具有设定的满期期限，跨度为10年到40年，是特别为那些正在为退休进行储蓄或追求其它财务目标的投资者而设计的。第五个基金是“常青”基金－今日增长之道，则有保守的20/80股票对债券比例，以资本保留为目标。

虽然一些人可能对作为指数的成分－环球股票和债券配置进入巴克莱指数基金－或将这一配置引入大华资产管理的基金(新加坡股票债券基金)有不同的看法，增长之道在几个方面都是很有特点的。首先是它很简单。其次它让投资者能够使用指数投资工具，这在新加坡还是比较缺乏的。另外它的成本相对较低，总开支比率预计少过百分之一。此外，资产组合被设计为随着投资者年龄的增长而改变，这是时下的平衡基金所缺少的一个重要方面。

优化的投资组合两方面

“优化”投资组合可能成为新加坡投资顾问业者的下一个关注热点吗？获得全球投资顾问提倡的优化程序，旨在达成一个投资组合混合，能够在特定的风险水平内提供最高的回报水平。

使用历史数据研究回报、风险及共生关系，不同的资产组合－比如低风险与高风险混合，构成风险/回报率坐标的模式。

到现在为止，只有几个零售产品引入了优化的特点。它们包括发展银行/Russell的“the Eight”投资组合；一些生活方式平衡基金；以及现在的大华资产管理的增长之道基金。

在投资顾问市场，基金综合服务提供者Navigator提供的现成投资组合，基本上是依据优化的资产组合。DollarDEX投资公司也承担优化个人的基金持有的服务。此外，至少有一间银行的财富管理平台提出的一种资产配置组合，显示也使用了优化原则。

这一程序的优点是，它迫使投资者将资产配置作为出发点。由Brinson, Hood和Beebower等学者进行的研究发现，资产配置构成一个基金基本市场回报变动性的高达90%。换句话说，比如你选择了一个科技基金，它的回报和变动将在很大程度上反映它的基本科技市场，而基金经理的技巧只起到很小的作用。

优化组合，特别是在可以为你量身制作的时候，也能迫使投资者认真考虑如果要增加他们的储蓄，他们能够和应该承担多大的风险。

那么，留心观察市场。一个优化的市场投资组合的表现也许指示了一个你所希望的风险/回报组合。但是要注意的是你很可能被引入零售基金，它们的高成本也许会将投资组合变得非常低效率。

要了解增长之道的详情，一个伴随您的成长而调整的核心投资，欢迎参加我们来临的投资说明会。到时您将有机会对新一年的投资气候有个预先的了解。说明会的详情请参阅本期最新促销栏。您也可驾临大华银行集团任何分行、投资站或拨电1800 22 22 121寻找您的增长之道。

the MAKERS

Published by
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Printed by
KHL Printing Co Pte Ltd

Designed by
Litt Lindden Design Associates

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MITA(P)092/07/99