

# INVESTtALK

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PRIMEtalk

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## EXPLORE more ways to map your Financial Future



Most Singaporeans probably know the importance of taking up an insurance policy or buying investment plans to accumulate their wealth for financial security and a comfortable retirement. Unfortunately, many think that insurance and investment plans can only be bought with cash. As a result, many believe that they have little or no options for long-term financial planning if they do not have additional money.

Using monies in the Supplementary Retirement Scheme (SRS) or CPF Investment Scheme's Ordinary (CPFIS-OA) or Special Accounts (CPFIS-SA) could have been the solution for this problem but most people have no idea about the benefits or how to go about using it. This is evident in statistics\* revealing that approximately S\$57 billion has been left idle in the CPFIS-OA and close to S\$18 billion remains inactive in the CPFIS-SA.

CPF actually allows you to tap into your Ordinary and Special Accounts^ to enhance the returns for building your retirement egg nest. The monies in the CPFIS-OA or SA

can be used to invest in unit trusts, insurance policies and annuities.

As a supplement to your CPF savings, the SRS is established as a voluntary scheme to encourage you to save for your retirement. Contributions to SRS are eligible for tax relief, returns accumulated are tax free (with the exception of Singapore dividend), and only 50% of the withdrawal from SRS are taxable at retirement. You can also choose to stagger your withdrawals over 10 years to enjoy greater tax savings.

The CPF Board currently pay an annual interest rate of 2.5%^ on the CPFIS-OA and 4%^ on the CPFIS-SA. On the other hand, the SRS account offer an annual interest rate of 0.125%+. With that information in hand, would it be worthwhile to consider using your CPF and SRS monies in your purchase of an investment product or insurance plan? All you need to do is to explore more routes when mapping your financial future with our UOB Personal Bankers.

**Source:** 1. [www.cpf.gov.sg](http://www.cpf.gov.sg) 2. [www.mof.gov.sg](http://www.mof.gov.sg) \* As at June 2005, CPF Quarterly Statistics: Section B - Participation under CPF Schemes. ^ The CPF Board currently pays a legislated minimum annual interest rate of 2.5% on the CPF Ordinary Account and a guaranteed minimum annual rate of 4% on the CPF Special Account. CPF interest rates are based on the 21-month fixed deposit and month-end savings rates of the major local banks and are revised quarterly. The interest is computed monthly, and is credited and compounded annually. +Based on amounts up to S\$10,000 for balances in the SRS account with UOB. As at September 2005.

**Disclaimer:** The above is for information only and does not have any regard to your specific investment objectives, the financial situation and any of your particular needs. You may wish to seek advice from a financial adviser before making a commitment to purchase or to subscribe for any financial products. In the event that you choose not to seek advice from a financial adviser, you should consider whether the product is suitable for you.

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# ASSET allocation and market timing - how to invest in a world with no crystal ball

Many people think that successful investing is all about having superior information, or having a "system" to time the market or depending on someone who often talks about how their "expert" decisions resulted in making money. Most people are too polite to dig deeper and discover that human nature makes us all remember the good investments and conveniently forget about the bad ones. Others only want to invest at the "right time", when all the signs are positive, that's usually at or near the top of a market cycle. That sort of thinking resulted in many people jumping in at or near the peak of the Tech Sector Bubble we saw in 1999 and 2000.

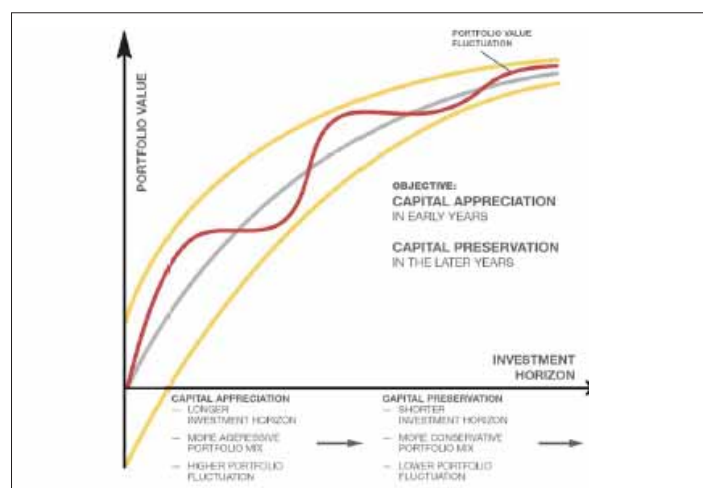
As a result of recent bad experiences in investing, many are now super conservative in their investment decisions. But this can lead to a further problem: inflation erodes the value of your savings and rarely do very cautious investments like bank deposits make our money work hard enough. Another more insidious problem is that these cautious investors are often the same ones who remain cautious with their money until the day when they read about housing prices having risen and stock markets making new highs. Then they invest, entering the market at the peak of good news, usually when asset prices are at or near their peaks.

If there is no perfect superior information and no perfect experts, is there a way to make your money work harder in a conservative manner?

One obvious approach is to take a long term, diversified strategy. A common weakness with investors is that they tend to concentrate their portfolio on one or two asset classes or sectors, and as a result, expose themselves to greater volatility than is necessary. This is what happened with many investors during the Tech Bubble. As the tech sector and stock markets in general kept climbing, many investors piled in and ignored other asset classes like bonds. Now, there is one true free lunch in investing and that is diversification which can reduce volatility without giving up returns.

Two fundamental asset classes that investors should have are equities (shares) AND fixed income (bonds). Equities provide a direct exposure to economic growth. They can rise and fall in the short term, but so long as the global economy is growing in the long term, global equity markets will also rise in value in the long term. Bonds provide a fixed interest and can cushion a portfolio from short term economic volatility.

With these two main "balancing" asset classes then, the next key thing to note is that the right balance for a personal portfolio also changes over time. As shown in the diagram below, at the beginning of the investment period, an investor should take more risk with his or her ability with time to "ride" through the economic volatility from the equity exposure to provide better combined returns. This should provide better combined returns. However nearer the time when the investment needs to mature for retirement, the personal portfolio should become more conservative, meaning more bonds and less equity.



To achieve this investment mix, UOB Asset Management together with Barclays Global Investors of the US launched the GrowthPath unit trusts in Singapore. These are currently 5 funds, each designed with a different maturity target: the years 2040, 2030, 2020, 2010 and Today (now).

These are designed for personal portfolios with maturity targets around the years 2040, 2030 and so on. The Today portfolio is designed for portfolios which are in the draw down or post accumulation phase. Each portfolio begins with a relatively more equities and gradually the equity portion is reduced in favor of a higher bond exposure. In this way, an investor can create a CORE allocation to a diversified portfolio and have the appropriate balance for that stage of his investing life. As GrowthPath is a unit trust, there are no lock-in obligations to hold the investment to maturity and therefore no penalties for doing otherwise but it is not advisable to switch between portfolios should the investor's investment views change. Once the investor determines the time frame for the investment, it is best to follow the investment "path" through to target date.

For more information, please see the GrowthPath advertisement in this issue of ValueTalk.

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# INVEST in GrowthPath & win the new BMW 320i



VALUEtalk

Invest a minimum of S\$5,000 before 15 December 2005 for your chance to win the new BMW 320i\*.

## Early Bird Draw

Invest before 31 October 2005 and receive chances to win a holiday package, plasma TV and more\*.

## Up to S\$300 in vouchers

Receive up to S\$300 in shopping vouchers\* with your investment.

For more details on GrowthPath, please contact your UOB Personal Banker or log on to [www.uobgroup.com](http://www.uobgroup.com) now and let us make sense of money.

\*Terms and conditions apply

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You may wish to seek advice from a financial adviser before making a commitment to subscribe for or purchase units of the Fund. In the event that you choose not to seek advice from a financial adviser, you should consider whether the Fund is suitable for you. All applications for units in the Fund must only be made on application forms accompanying the prospectus.

UOB Asset Management Ltd Company Reg. No. 198600120Z

Barclays Global Investors Co. Reg. No. 200010143N



## CHANGE of SRS statement frequency

In our continuing efforts to simplify your statements, the frequency for SRS statements will be revised with effect from 1 January 2006. SRS accounts with zero cash balance and zero holdings will receive statements on annual basis.

For further enquiries on SRS related matters, please call 1800 538 8011 / 8022

SMALLtalk

## FINANCIAL 101: financial glossary

### Asset Allocation

Refers to the representation of how a portfolio is invested among the various available asset classes such as equities, bonds and cash in order to optimize the risk/reward trade-off based on the investor's specific investment goals.

### Diversification

Refers to a portfolio strategy which is designed to reduce exposure to risk by combining a range of investments which are unlikely to all move in the same direction. Diversification reduces both the upside and downside potential and allows for more consistent performance under a wide range of economic conditions.

### Lifecycle Fund

Refers to a highly diversified fund designed to remain appropriate for investors in terms of risk throughout a variety of life circumstances. Lifecycle funds offer different risk profiles that investors can shift their invested funds between, in order to manage risk effectively as they move from youth to middle age to retirement.

# HOW you can stay invested and earn regular income?

If you do not understand the market cycles, you may get caught up in chasing them. The market is a very sneaky predator, luring us into a chase, toying with our emotions until it turns and consumes our investment decisions. You can handle and tame the beast, but only if you understand how it works.

Current market conditions are positioned for uncertainties and higher risks as headwinds such as runaway oil prices, hurricanes and stagflation loom in the horizon. Uncertainties mean that volatility in various asset classes are set to pick up. By and large, investors do not want to entertain too much uncertainty on their investment returns.

In view of this outlook, it is timely for investors to start developing stronger business and personal plans for investment - plans that both consider the expected market environment and incorporate strategies for wealth development and preservation that do not entirely depend on strong asset gains.

The traditional approach to investing, according to Harry Markowitz's Modern Portfolio Theory (MPT), encourages investors to hold diversified portfolios of stocks and bonds to realise the general trends of the market. Over longer periods of time, both stocks and bonds have produced solid investment returns for investors who held onto the portfolios and rode market trend.

However, for investors with shorter horizons, a strategy of patiently watching a stalled market may not be satisfactory. Further, in some bear cycles, investors may be pushed into investment losses. At such times, investors may look to dividend paying funds to provide some level of comfort to buffer investment risks.

A study<sup>1</sup> of the MSCI<sup>2</sup> World Index shows that 60.4% of total return is contributed by dividends while 39.65% of total return is contributed by price appreciation<sup>3</sup>. Regular dividend payouts can help to buffer the impact of market volatility on investments. Hence investors can still receive some returns (in the form of payouts) even when markets have posted a weak or mediocre performance.

In addition to total returns, dividend paying funds also provide a stable stream of income at a predictable interval to help investors manage their cash flows. These streams of income can also be reinvested to yield higher returns over the longer term. Hence, investors can now look forward to staying invested and yet reward themselves with extra income regularly.

To help you get started on your long-term investment planning, UOB is making available the following dividend paying funds for you to choose from:

Dividend Paying Funds	Payout	Payout Frequency
First State Dividend Advantage Fund	4%	Quarterly
Franklin Global Equity Income Fund	At Fund Managers' Discretion	Quarterly
Schroder Strategic Bond Fund	2.5%	Semi-Annually

Do look out for more regular payout Funds that will be added on to our platform to give you a wider range of choice.

Managed by:



**Take this opportunity to invest in these Funds and receive attractive gifts while reaping the benefits of regular income. Promotion for a limited period. To find out more, visit any UOB Group branch or call 1800 22 22 121 or log on to [www.uobgroup.com](http://www.uobgroup.com) today.**

**Footnotes:** 1. As at 28 February 2005 2. Morgan Stanley Capital International 3. Datastream. **Important Notice & Disclaimers:** The above is strictly for your information only and does not have any regard to your specific investment objective(s), financial situation or any of your particular needs and should not be construed as an offer or solicitation to deal in the Fund(s). You may wish to seek advice from a financial adviser before making a commitment to purchase the Fund(s). In the event that you choose not to seek advice from a financial adviser, you should consider whether the Fund(s) in question is suitable for you. A copy of the respective prospectus(es) for each of the Fund is available and may be obtained from the manager(s) or any of its appointed distributors. Investors should read the relevant prospectus before deciding whether to subscribe for or purchase units in any of the Fund(s). The value of units of each of the Fund(s) and the income from them, if any, may fall as well as rise. All applications for units in any of the Fund(s) must only be made on application form accompanying the relevant prospectus(es).

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