

Selection and regular review of fund managers vital

Factors such as management team changes and management's short-term views can drastically affect funds. **By Oh Chun Wei**

FOLLOWING the US presidential election with Donald J Trump emerging as president-elect, most major indices fell, some by more than 5 per cent in a day. They rebounded the very next day. Short-term volatility in the stock market is expected given the heightened uncertainty.

In October, our hypothetical client Ivan invested in an Asia-balanced portfolio with Avallis's Portfolio Asset Management (PAM). It is not due for rebalancing for another five months but seeing the huge fluctuations in the stock markets, Ivan came back to me again – this time over his other investments. Specifically, he was concerned over his existing European and US portfolios which were not regularly reviewed by his advisers.

Ivan understands the risk-return relation inherent in any investment and expected some volatility. However, he felt he had taken on more risk than he was comfortable with in his existing US and European portfolios.

Fortunately, his US portfolio escaped a major drop. For peace of mind, he hopes to employ a proper investment strategy of diversification and rebalancing.

Analysing Ivan's worries

Unlike PAM, his other portfolios were invested in only equities. Without diversifying into other asset classes, his portfolios would face greater risk when equities in general are down.

During our discussion, we realised that his current funds were not performing as well as some of the peer groups due to the lack of regular tracking and rebalancing. This can be resolved with the PAM methodology where better performing funds may be selected at the point of regular rebalancing.

Keeping close tabs

The PAM portfolio held up well, having the steepest drop at a mere 1.5 per cent throughout the entire period (Oct 19 to Nov 10). This highlights the importance of diversification across asset classes.

On Nov 10, the portfolio registered a drop of 0.84 per cent, a figure that Ivan was comfortable with. The bonds within the portfolio held their ground well and the drop was largely attributed to equities. For Pinebridge Asia ex Japan Equity Fund A USD, the fall was greater than 2.39 per cent, but the drop was cushioned by the stronger US dollar.

PAM methodology

Avallis uses several in-house criteria for the selection of funds in the portfolios. One consideration is fund performance. Even though past performance is not representative of future performance, it is still an indicator of a fund's consistency. Funds that satisfy our selection criteria, based on both long and short-term forecast performances, will then be shortlisted.

The IAS department then makes a further assessment of the fund manager. For instance, if a fund which has been performing well over a long period sees a sudden dip or rise, the IAS department would speak to the fund manager. The manager's views and direction would be taken

into account to decide whether they continue to fit our philosophy and selection criteria.

The process of selection and regular review of fund managers is important because factors such as changes in management team, short term views of the fund managers and other factors can drastically change the performance of the funds.

With uncertainty in the world economy and recent political events, more investors like Ivan are taking a second look at their portfolios. When selecting the appropriate risk for your portfolio, keep in mind the five factors of invest-

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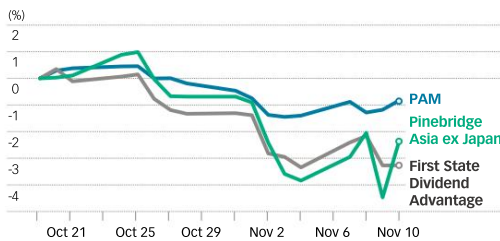
ment planning as shown in the accompanying graphic. With regular review and rebalancing, you will invest with greater peace of mind.

In Ivan's case, he is now considering transferring his existing investments to Avallis and we will be reviewing the portfolio in the next meeting.

⇒ The writer is director and independent financial advisory representative at Avallis Financial, which aims to educate and empower clients to achieve their financial goals

Revisiting portfolio

COMPARATIVE VOLATILITY OF EQUITIES



INVESTMENT PLANNING FACTORS



ALLOCATIONS

	ALLOCATION	OCT 19, 2016	NOV 10, 2016	(+/-)
First State Dividend Advantage SGD	15%	\$6,000.00	\$5,803.76	-3.27%
Pinebridge Asia ex Japan Equity Fund A USD	15%	\$6,000.00	\$5,856.82	-2.39%
LionGlobal Asia Bond Fund SGD	35%	\$14,000.00	\$14,090.58	0.65%
United Asian Bond	35%	\$14,000.00	\$13,913.93	-0.61%
Total		\$40,000.00	\$39,665.09	-0.84%

NOTE: All figures are in Singapore dollars.

Source: Avallis Financial Pte Ltd



PHOTO: REUTERS