

## INVESTING &amp; WEALTH

**I**VAN set up two investment portfolios with Avallis in 2016. After years of investing without clear objectives, he went through a proper investment planning discussion and chose the Avallis PAM (Portfolio Asset Management) methodology to better track and review his investments while avoiding excessive volatility.

The PAM series of portfolios seek to align clients' investment and financial planning objectives with their risk profile. The portfolios are invested in equity and fixed income funds. Diversification is extended across geographical regions and various industries and sectors. These investments are intended as medium to long-term holdings.

### Back to basics

Many investors structure their portfolios with the sole objective of achieving superior returns. They make investment decisions based on current economic conditions without understanding basic financial planning principles. Doing so can result in misalignment between their expectations and investment risk. Investors chasing returns may find themselves taking risk beyond their comfort zone.

Having a clear objective allows one to make firm decisions when markets are volatile. The investment objective affects one's time horizon and vice-versa. If the time horizon is relatively short, one may want to avoid risky investments completely. A properly diversified and managed portfolio can reduce the risk of losses during market turbulence, but the financial goal will be affected if there is inadequate recovery time.

All investments carry some form of risk. Choose the correct type of investment that fits your risk profile. Fixed deposits are generally considered risk-free but deposits are constantly being eroded by inflation. Investing in an insurance product has liquidity risk as early withdrawal of funds typically incurs some form of penalty.

You should always discuss with your adviser if you think you are taking too much or too little risk in your investments. During your regular reviews, gradual risk adjustment to the portfolio should be done as the time horizon shortens. One common mistake is being too conservative at the start and taking excessive risk closer to the target date.

When setting up any PAM portfolio in Avallis, the investor will be required to complete a risk coaching questionnaire focusing on three important factors:

- Ability to take risk
- Willingness to take risk
- Need to take risk

An investor's ability to take risk is determined by factors such as his total investible assets, current cashflow needs, existing investment composition and so on.

Ivan's investment objective is to boost his retirement funds over the next 20 years. In contrast to another investor who has two years left towards his goal, Ivan can take more risk due to his longer time horizon.

### Taking risks

Even when Ivan is able to invest in a higher-risk portfolio, he must be willing to do so. If he is uncomfortable with the proposed investment risk, he may constantly worry about ongoing market fluctuations.

To reach his target goal of S\$250,000 from his existing S\$80,000 in 20 years, the average annual investment return works out to be 5.86 per cent. Ivan would have to take on some risk to achieve those returns. In his case, low risk products such as insurance or deposits would not be suitable. He

## Risk tolerance in your investment strategy

An investor's ability to take risk is determined by factors such as his investible assets and cashflow needs. **By Oh Chun Wei**



### Keeping track

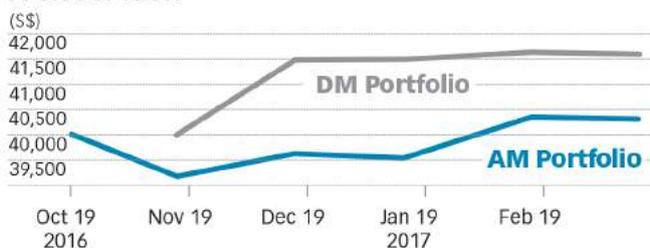
#### Ivan's portfolio performance

	INCEPTION	INITIAL INVESTMENT (\$\$)	JAN/FEB - DEC 2016 (%)	INCEPTION TILL DATE (%)	PORTFOLIO VALUE AS AT MAR 20, 2017 (\$\$)
AM Portfolio	Oct 16	40,000	5.14	0.28	40,110
DM Portfolio	Nov 16	40,000	9.85*	4.24	41,694

Note: AM – Asian Market, DM – Developed Market

\* DM portfolio was launched in Feb 2016.

#### A closer look



Source: Avallis Financial

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should be taking more risk now and managing it down as he draws closer to his investment objective.

If Ivan was neither able nor willing to take risk, he would have been advised to reduce his goal. This discussion is essential to match Ivan's expected return with the risk he will be taking.

With a 20-year time horizon, Ivan should not be overly concerned with short term volatility. His portfolio is due for a scheduled rebalancing in May 2017. The general outlook for the markets remains

positive with short term volatility expected.

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