

INVESTING & WEALTH

Portfolio watch: Tilting towards developed markets

US stock market could benefit from expansionary fiscal policy. **By Oh Chun Wei**

IN October 2016, Ivan invested S\$40,000 in the Avallis Asian Market (AM) portfolio amidst major uncertainty in the financial markets prior to the US presidential election. A defensive portfolio was recommended; allocating 30 per cent into Asian equities and 70 per cent Asian bonds.

After the election, Ivan liquidated his remaining US and European equities and restructured his holdings into Avallis Portfolio Asset Management (PAM) strategy. He wanted to realign all his investments according to the risk level he was comfortable with.

The PAM series of portfolios seek to align clients' investment and financial planning objectives with their risk profile. Clients' objectives are achieved through investing in both equity and fixed income funds, and diversifying across regions, industries and sectors. The investments are intended as medium to long-term holdings.

Diversification has always been integral to the Avallis PAM investment philosophy. To ensure diversification across major regions, Ivan started his second portfolio in November which consists of developed market (DM) equities. With a better market outlook, a more aggressive DM portfolio was recommended consisting of 50 per cent DM Equities and 50 per cent Asian bonds.

Most Asian markets ended mixed in 2016 with China down by 12 per cent. The PAM methodology was key to Avallis AM Portfolio's annual growth of 5.14 per cent in 2016.

On the other hand, many mature markets such as the US, Europe and Japan ended positive despite a volatile year. Avallis PAM DM portfolio fared well with a total return of 9.85 per cent from Feb 2016 to Dec 2016 (Please refer to the table).

"Cautiously positive"

Political upheavals across major economies over the last year cast more doubts than ever across the global financial market. The impact of Brexit remains to be seen and British Prime Minister Theresa May's declaration of a possible "hard Brexit" will create some volatility in the European markets this year.

Elections taking place in some of the major economies including Germany, France, India and South Korea, will add uncertainties to the global economy, and investors should exercise caution. Investors who diversified their portfolios across regions as recommended by Avallis have seen an overall gain in their investments in 2016. Despite Ivan's short investment period with Avallis, his total portfolio value as at Dec 31 is S\$81,460.78, up by 1.8 per cent.

The much anticipated Fed rate hikes suggest a move towards an inflationary economy in the US. If the Trump administration's proposed expansionary fiscal policy materialises, 2017 could prove to be a rewarding year for both the US economy and stock market. Asian markets may see some bright spots as investors turn to emerging markets on cheaper valuations as compared to the developed markets. Some Asian markets are also expected to perform better in the early part of 2017 due to the perceived impact of the US' expansionary fiscal policy.

I have advised Ivan to increase his equities exposure in his AM portfolio from 30 to 50 per cent at the start of the year. With this change, his total portfolio is equally weighted between equities and bonds. Even though short-term volatility is expected, Ivan can rely on the PAM methodology to manage his investments. His scheduled review and rebalancing for the portfolios will be in May 2017 where we will assess the market conditions and make adjustments if necessary.

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

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Ivan's portfolio performance

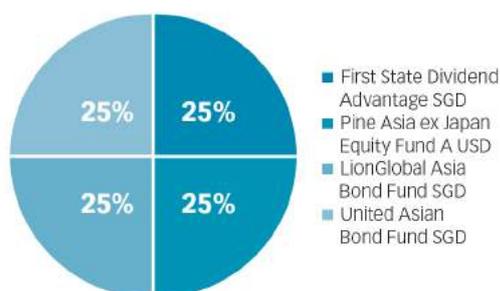
	Inception	Initial Investment	Portfolio value at Dec 30, 2016	Inception till Dec 2016	Annual return (Jan/Feb to Dec 2016)	Portfolio value at Jan 19, 2017
AM portfolio	Oct 16	\$40,000	\$39,822.09	-0.44%	5.14%	\$39,324.10
DM portfolio	Nov 16	\$40,000	\$41,638.69	4.10%	9.85%*	\$41,052.11

Note : AM – Asian Market, DM - Developed Market

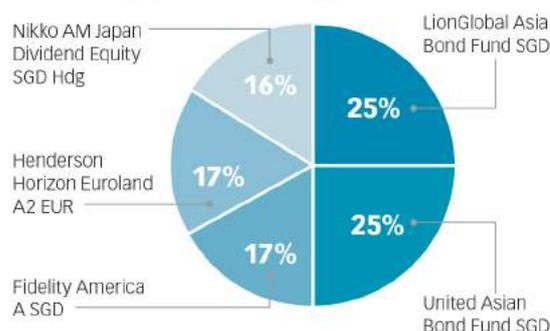
Portfolio values expressed in SGD

* DM portfolio was launched in Feb 2016.

Asian market portfolio



Developed market portfolio



Source: Avallis