06/2020

Coffeebreak

Wrongly Incarcerated Singer Delivers Unforgettable Song

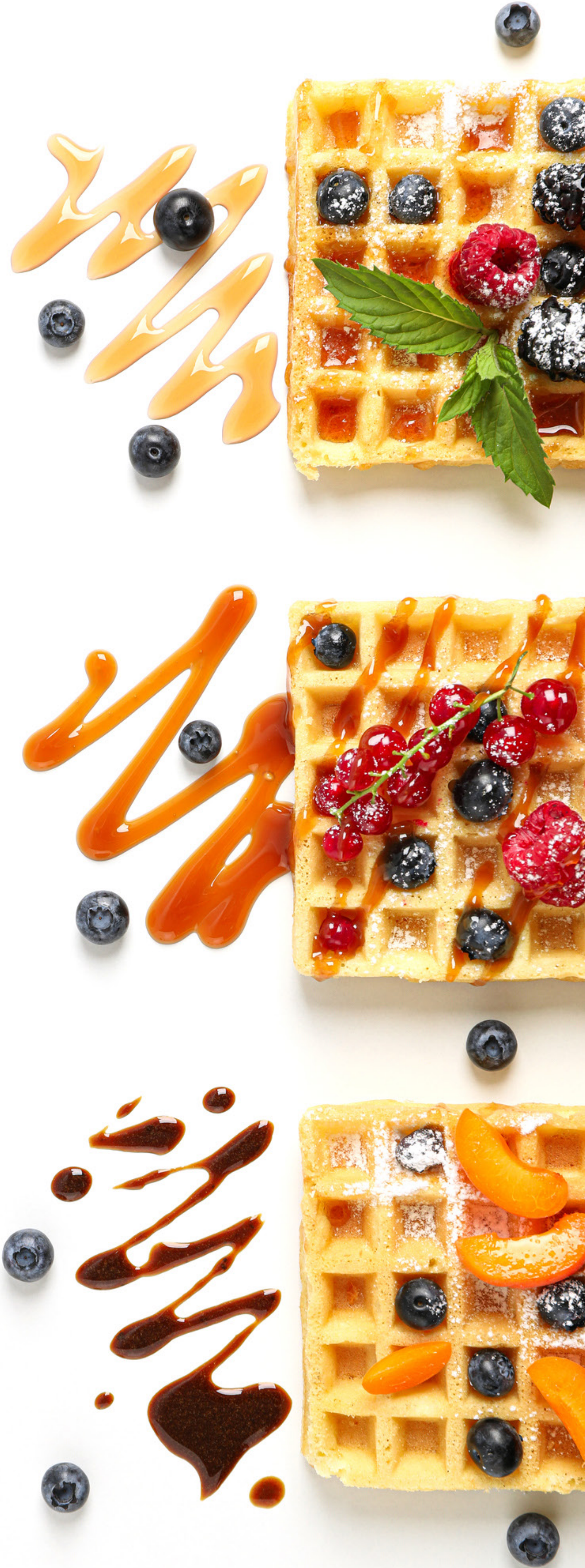
How The Rate Of Return Is Driven By Your Goals

Client's Journey To Adviser

CPF Nomination Can Now Be Made Online

PROVIDEND

Dear Valued Client,



During the recent Circuit Breaker, I had to go through Tang poetry (唐诗) as part of home-based learning with my pre-schooler. As I flip through his folder, I come across this familiar poem, one which I learnt as a child myself.

草 (白居易)

离离原上草，

一岁一枯荣。

野火烧不尽，

春风吹又生。

Below is one of the translated versions I like:

Grasses By Bai Juyi

Boundless grasses over the plain

Come and go with every season;

Wildfire never quite consume them —

They are tall once more in the spring wind.

Year 2020 has so far been a challenging year, no thanks to the COVID-19 pandemic. Yes, there are many things we can and should be thankful for, such as good health, more face time with family members, more time to cook, learning new dishes and for many of us, still having our jobs. But it has also brought many adjustments that we all have to very quickly make and adapt to this new way of life: working from home whilst managing children's home-based learning (thank God most of them are back to school now!), new technology and software, trying to demarcate work time and family time, not to mention connecting socially via a computer screen instead of physical human interaction!

The investment environment has also been very volatile, to say the least. And many wonder whether another wave of extreme volatility will hit as they think there is a great disconnect between the state of economies and the current stock market levels. Whether the stock market recovery will be a V-shaped, U-shaped, W-shaped, the Nike Swoosh-shaped or the most pessimistic L-shaped, we do not know. What we do know, and can take comfort in, is that human beings are resilient. We can and will adjust. It may be tough in the short term, but over time, life will find a way (one of my favourite quotes from "Jurassic Park"). Demand for goods and services will eventually come back, and companies that make adjustments to survive and thrive will generate earnings, and the stock markets will breach new highs, as it always do over time.

What we can and should do now, is to go back to basics to ensure that we have our good old emergency funds in place, our risk management plans are in place to take care of exigencies with significant financial impact, review that the investment portfolios we are in suit the remaining time horizon we have for the respective financial goal and our assets are positioned for growth when it eventually return. Because when spring wind comes, and it will come, we can then look back to year 2020 and be thankful for the journey and the experience.

Do continue to stay safe and healthy, and reach out to your Client Adviser for a chat, where needed.

Warmest regards,
Deputy CEO & Chief Advisory Officer

Evelyn Goh

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How The Rate Of Return Is Driven By Your Goals

Kyith Ng, Senior Solutions Specialist

Our Client's Needs Drive Our Investment Philosophy

At the very tip of wealth building, what we think drives investments is what our clients need their wealth to accomplish.

Finance professionals call this goal-based investing.

We are comfortable with that term as well.

Your wealth is a means to some end. It allows you to have a better quality of life.

You exchange part of your wealth to give something meaningful to your family and friends.

We believe that the return you get from your investments should match your goal and purpose.

Our clients' goals drive what our client adviser will re-allocate their wealth into. For some clients, their financial goals are less challenging while for others, their financial goal requires their wealth to perform well.

This would require their wealth to grow at a greater compounded rate of return in order to be closer to their target.

At Providend, we design our investment portfolios that can be applied to different results our clients are looking for.

Richard And Eva Do Not Need A High Rate Of Return

Some clients can achieve what they wish without the need to push for high return. Richard and Eva fall into this category.

Richard and Eva are in their early 40s and would like to see if they can be financially independent between 55 to 60 years old.

They have not thought if they would stop working at that point but would like to have the flexibility and financial security of the option not to work.

Currently, they have $250,000 in stocks and unit trust, which they manage themselves and $300,000 in cash equivalents. They bring home $380,000 in income last year (net of taxes) and spent $150,000 a year all in.

We call clients like Richard and Eva accumulators.

They are at a stage of their lives where they need to convert their valuable human capital into wealth assets. These wealth assets will eventually provide the cash flow if they wish to be financial independence or other needs.

In order to generate an income of $10,000 a month at 55 years old for their financial independence (FI), Richard and Eva's client adviser worked out that they would need $4.5 million.

Richard and Eva's wealth needs to be allocated into an asset allocation that realistically will provide a compounded rate of return that can grow their wealth close to $4.5 million.

Our advisers can choose to allocate all their wealth into a 100% stock portfolio. Is this the most appropriate asset allocation?

Allocating their wealth this way will give Richard and Eva a high possibility of a high compounded rate of return necessary to reach their financial goal. Given a horizon that is long enough, there is a high possibility for a high stock portfolio to get a high compounded return.

A high returns expectation often means that the volatility of returns in the short time frame is volatile. There are certain time periods where the portfolio's compounded return may fall short of the expected return that Richard and Eva require to hit their FI milestone. It may take the high equity portfolio longer to provide that average return they need.

As an example, based on history, in some extreme cases (where the possibility of it happening is less than 1%), it may take longer than 12 years to break even.

Richard and Eva do not have a long-time horizon as a client in their early 30s. We need to risk manage their investments to ensure that the portfolio's volatility is lower and that within 14 years, there is a high probability the returns target can be achieved.

With a starting capital of $550,000 (stocks + cash) and an annual injection of $210,000 a year, Richard and Eva can grow their wealth to achieve the $4.5 million they need for their financial independence in 13 years.

Mathematically, the compounded rate of return they need to achieve their financial independence milestone is 4.5% a year.

This can be achieved by allocating their stock, cash and annual injection into a low cost, diversified, balanced stock and bond portfolio. This portfolio provides a historical rate of return of 6.3% a year with much lower volatility than a 100% stock portfolio.

Richard and Eva do not need to take excessive risk with their money, to get a high rate of return, to achieve their goals. Thus, a more appropriate allocation their adviser should allocate their wealth to is a more balanced stock and bond allocation.

We aim for a conservative compounded returns expectation and recommend a portfolio that allows them to achieve that returns expectations.

Dora And Evan Needs A Higher Rate Of Return

In contrast, Dora and Evan are in a different phase of their lives. They are where Richard and Eva will be if they reached their FI milestone.

Dora and Evan were 55 years old when they came to us and wishes to transit from small business owners to not working.

They need their wealth to generate a retirement income.

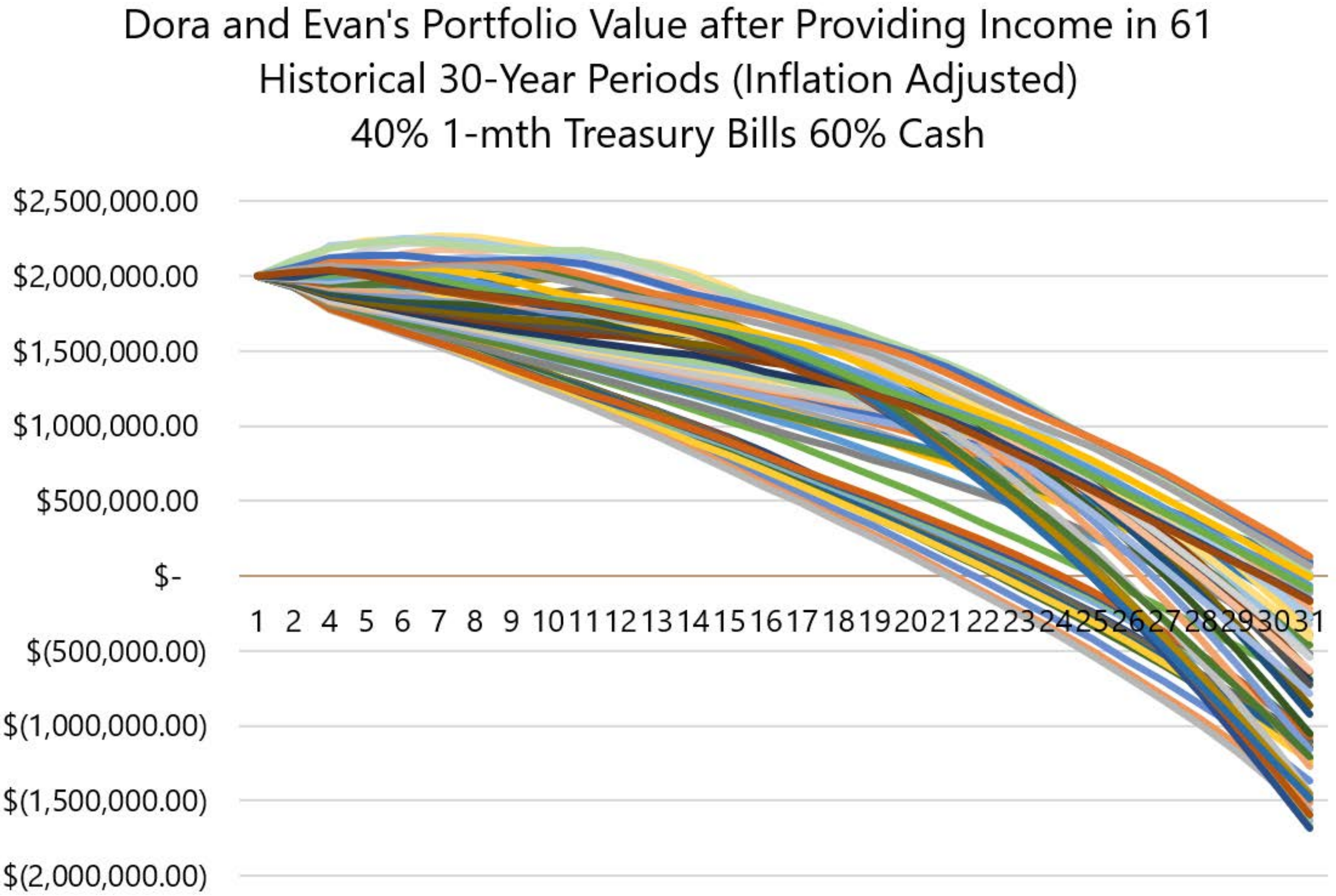
Over the years they have managed to accumulate $2 million in assets, aside from their residential home. The majority of their assets are in savings and deposits. If not, they are in good quality bonds.

Dora and Evan would like to have an income of $60,000 a year when they stop work. It would be better if the income keeps up with inflation.

Based on their age, we think they need to plan for the money to last for at least 30 years.

Their average compounded rate of return based on their current asset allocation is 2.38% a year.

With our tools, we can simulate Dora and Evan’s current asset allocation over 61 different historical 30-year periods and see if they will have a successful retirement money-wise. These periods have various inflation rates from deflation, low inflation, to high inflation.



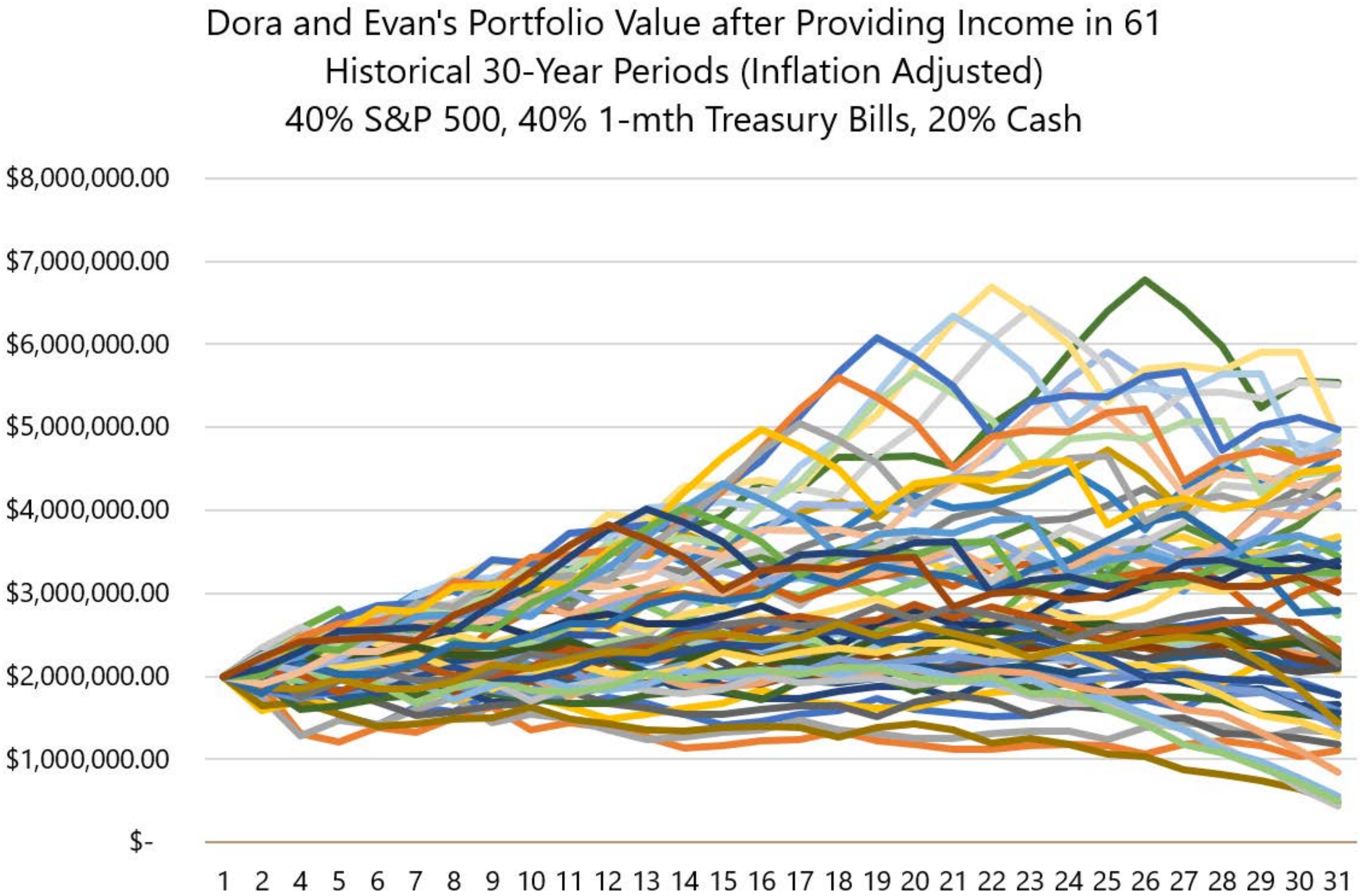
If Dora and Evan retain this asset allocation, under 56 of these 61 historical situations, their wealth would not last 30 years (all the lines dip below $0 before year 30).

Dora and Evan’s income expectations are modest and not unrealistic at all.

However, due to inflation, and that they are withdrawing consistently from their wealth at the same, they needed their asset allocation to have a higher rate of return for their wealth to last longer.

We can allocate 40% of their cash to broad-based large cap US equities and for the rest to remain as it is. This will bring their overall asset allocation to 40% equities, 20% cash, 40% short term bonds.

Here is a simulation of their portfolio value if we allocate Dora and Evan’s portfolio this way:



We can observe that almost all the portfolio value lines are above zero. This means that if Dora and Evan lived through 30-year periods that are very similar to the 61 historical periods here, their wealth will have a much higher probability of lasting the full duration. This is even after taking an annual inflation-adjusted income of $60,000 a year.

Key Takeaways

As a wealth management firm, our main aim is to provide realistic financial solutions so that they can achieve their life goals.

Our investment philosophy is primarily driven by our client’s needs. We evaluate and seek out the financial assets that give our clients the highest probability of reaching their financial milestones.

We create model portfolios that our client adviser can use easily to address their client's specific goals and liability matching. These model portfolios have different returns expectations and different volatility ranges.

The model portfolios encompass our investment philosophy that good investments

1. Let you can stay invested for a long time to reap the power of compounding
2. Allow you can soundly deploy a large part of your net wealth into without worrying too much at night
3. Is simple enough to communicate across
4. Relatively easy to execute
5. More passive and less tactical inputs
6. Allows you to deploy large amounts of your wealth and not be limited by size or liquidity

Goal-based investing means not blindly chasing the highest rate of return. It means to ensure that Richard & Eva, Dora & Evan stay invested long to reap the benefits and fulfil their financial goals.

Richard & Eva can get close to their financial independence milestones in an asset allocation with less volatility. They do not need to chase high returns, worry about whether their vast wealth built up painstakingly is going down the drains.

Dora & Evan will need a higher returns expectation so that they would realistically not run out of money for the duration they need.

Figure out the goal. Assess what you have now. Then, we can see if you can get to your goal.

All names and figures are used for illustrative purposes.

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Client's Journey To Adviser

Rahul Bhalla, Senior Client Adviser

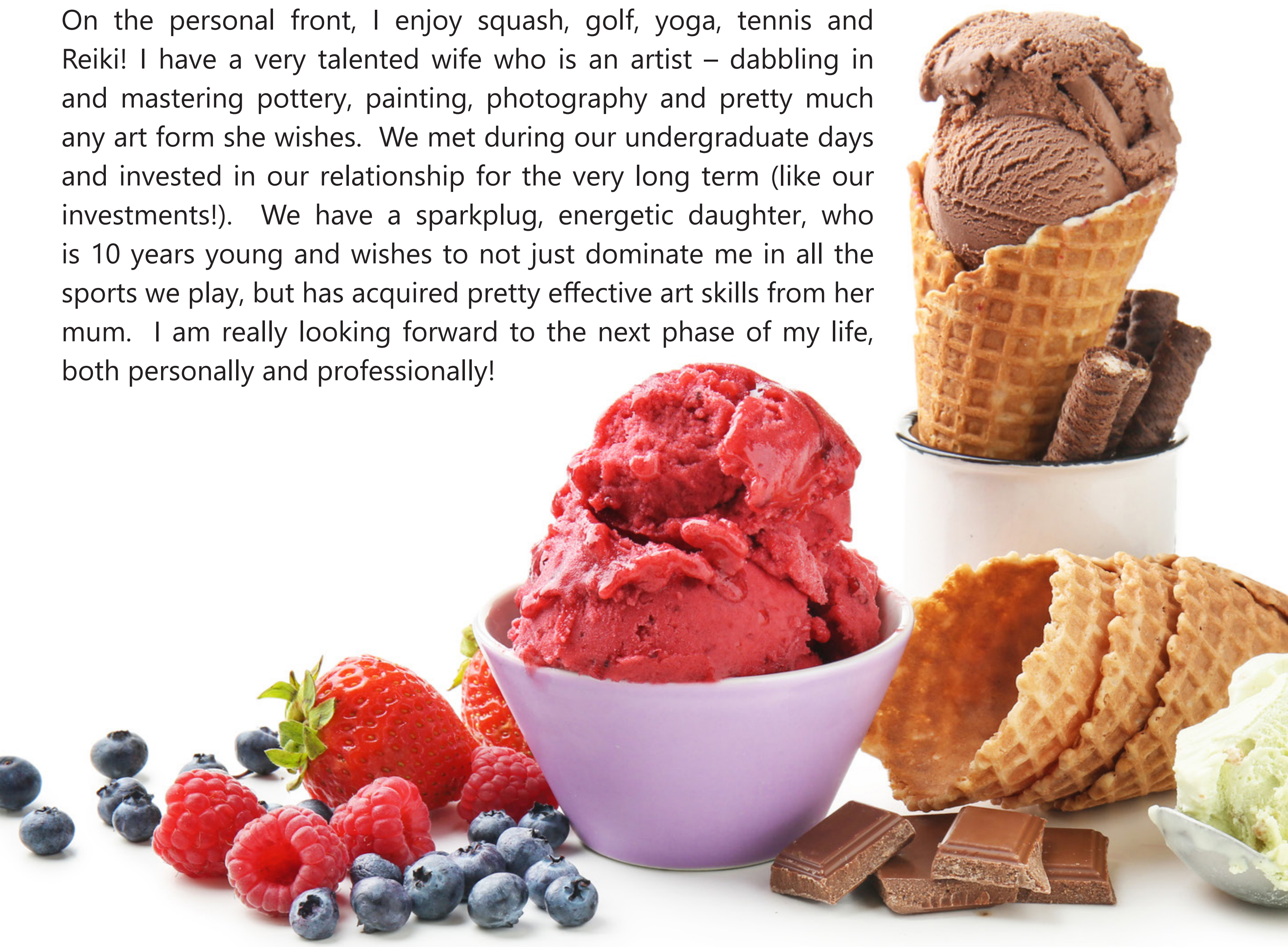
Greetings all! I recently joined Providend in a Senior Client Advisor capacity, but whilst I am new to the role, I have had a very long and fruitful association with the firm over the last 11 years (more on that in a bit!).

I have worked in the asset management business for close to 19 years, 12 of which have been in Singapore. Having completed my undergraduate studies in Economics at the College of Wooster in the US, I did a short stint at the Federal Reserve Bank of Cleveland, then went on to working at Ibbotson Associates and subsequently at UBS Asset Management in Chicago. While at UBS, I did my MBA part-time at the University of Chicago, Booth School of Business. It was an intense program, having to juggle work and a full academic load, with little time for much else. But it was an immensely rewarding experience and a year after finishing up the degree, I moved internally with UBS to Singapore at the tail end of 2007 (Dec 31st in fact)!

Having spent a year and half at UBS's Singapore office learning how the Asian asset management industry works, I moved on to Vanguard Investments in 2009 to look after their South Asia institutional business development efforts. It was an exciting time to be there with lots of changes happening in the index business globally (Blackrock acquired iShares from BGI that year) and there were lots of changes happening internally from a strategic standpoint as well. It was during this time that I came in contact with Chris and Providend, and they were one of the few champions of low-cost investing and doing the right thing by the client, not just in Singapore but across the Asian intermediary landscape.

I took over as head of the Singapore office in 2011 and as we diversified away from the institutional space into the financial advisor/private bank distribution space, we developed a very close working relationship with Providend, having made many an unsuccessful attempt to get Vanguard's funds registered for retail use. However, I had such conviction in the firm that I came aboard as a client of Mei Kuen's in 2012 and have been one ever since, sending a lot of my friends her way for her expert advice! In 2015, I moved on to Markit to help them with their acquisition of the HSBC Asian fixed income business and expand their footprint across Asia Pacific from a business development perspective. The entire fixed income index landscape was changing at the time, with banks exiting the business and independent providers like Markit stepping in to fill the avoid, so it was a huge learning experience. Finally, in May 2020, I decided to change tact and join Providend as an adviser after a conversation with Chris and Evelyn. It's been a lot of learning for me, and it's been a joy getting to know a real passionate and dedicated group of people here at the firm!

On the personal front, I enjoy squash, golf, yoga, tennis and Reiki! I have a very talented wife who is an artist – dabbling in and mastering pottery, painting, photography and pretty much any art form she wishes. We met during our undergraduate days and invested in our relationship for the very long term (like our investments!). We have a sparkplug, energetic daughter, who is 10 years young and wishes to not just dominate me in all the sports we play, but has acquired pretty effective art skills from her mum. I am really looking forward to the next phase of my life, both personally and professionally!



04 CPF Nomination Can Now Be Made Online

- CPF nominations can now be made online (as of Jan 2020) via the CPF website. If you have not made a nomination, do take this chance to do so while being in the comfort of your own home!

- The Office of the Public Guardian (OPG) has extended the fee waiver for Lasting Power of Attorney (LPA) applications to 31 Mar 2021, but if you think you need one, sooner is better.

- The deadline to contribute to the Supplementary Retirement Scheme (SRS) for you to enjoy tax relief for the Year of Assessment (YA) 2021 is 31 Dec 2020. Given the market conditions, you may want to consider making the contribution to your portfolio early this year and add to your long-term positions if you are able.

- Interest rates are currently depressed. If you have an outstanding mortgage, there might be value in exploring refinancing your loan at this time. However, it is important to remember not to take on unnecessary debt just because financing seems cheap.

- NTUC Income has just launched Gro Capital Ease, a 2-year endowment plan with a guaranteed return of 1.85% p.a. The minimum single premium is $5,000 and the plan is protected up to the specified limits by SDIC.

  This plan is suitable for those who are looking for a short-term plan and are able to lock their cash away for just 2 years, such as your Bucket 1 in RetireWell. Do reach out to your Client Adviser to find out if it is suitable for you.

- The Careshield Life scheme launch have been delayed till end-2020, instead of mid-2020. As such, Aviva's Disability Support Progress is extended till 31th Dec 2020 (from 30 Sep 2020 previously). The sign-up period correspondingly is also extended until 30th Sep 2020 (from 30th Jun 2020). If you are interested, do contact yourClient Adviser.

** The above information is made on a general basis and is not to be relied on as advice. Please consult your adviser if you have questions about any of the above.*

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See You Latte!

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