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Kenanga Investors

Date: 30 September 2020

Investment strategies to shield your retirement from black swans.

Smart Investor (September/October 2020 issue)

By Lee Min Keong

With the right strategies, you can secure your retirement fund and grow it during economic crises and market crashes.

The Covid-19 pandemic has served as a wake-up call for a myriad of people not only in Malaysia but around the world. Many have called the pandemic a “Black Swan” – an unpredictable and extremely rare event that is beyond what is normally expected with potentially severe consequences. Apart from the human tragedy as seen from the huge death toll, the pandemic has also wreaked havoc on the global economy. In just a few months, people’s lives have been turned upside down by the unprecedented economic damage brought about by the lockdowns. Moving forward, the major concern for retirees and investors in general is that Covid-19 won’t be the last Black Swan lurking around the corner.

Kenanga Investors Bhd chief executive officer Ismitz Matthew De Alwis agrees that Covid-19 has had far reaching and devastating consequences, leaving those in heavily impacted industries reeling from sudden job losses in a matter of months.“From earning a stable income to burning through savings to survive day-to-day expenses, the pandemic would have put severe dents in many people’s retirement plans. “It will take time, some wise investment decisions and careful budgeting before they can get back on track to pursue proper wealth creation as they sort out debt and various other more pressing troubles caused by the pandemic,” he says. He also cautions that those still employed should not rest easy as they need to delve deep and look at whether their own savings or investments need to be reinforced or rebalanced.

A silver lining

The plus factor to this scenario, De Alwis says, is it has made many to reconsider their financial situation and circumstances, allowing them to start focusing on their own financial planning rather than stalling. He says having a sound financial plan in place is crucial for individuals to protect their investment portfolio from Black Swan events, economic recessions and market crashes.

"This is usually accomplished with the help of professional financial planners who could assess their current situation and assist to map out investors' risks and goals to develop a plan (possibly consisting of a diversified portfolio of various asset classes) that would eventually achieve what the investor wants to achieve. "Even then, investors would need to keep periodic tabs on their overall portfolio to ensure they are on the right track and to make adjustment where necessary. "It is very important for the investor to stay diversified so that the various assets in the portfolio can take advantage of different economic conditions, leading to the investor achieving best possible outcomes during crashes," says De Alwis, who is also president of the Financial Planning Association of Malaysia.

Avoid following the herd

He says it's also very critical for an investor to avoid following a herd mentality especially when they are caught in times of crises. "It is easy to follow where the crowd goes because many believe there is safety in numbers. "But when it comes to personal financials, one person's risk appetite and goals can differ to the next person's. This is why it is better to assess your own current situation before selling in haste and finding out at later that you would have recovered or profited had you stayed the course," he adds.

In a recessionary environment, he says it would be unwise for average investors to dabble in "high risk and highly speculative assets" as they may not be able to recover immediately if disaster strikes. "Once again, investors would do well to stick to defensive sectors where companies are less impacted by economic changes. Above all, stay diversified and focused on your personal financial goals." It would also be beneficial to have supplementary savings such as Private Retirement Schemes (PRS) which can help cushion inflation or unexpected emergencies such as today's situation, he adds. Though retirement savings are often referred to as nests, De Alwis prefers to liken it to a ship. "By objectively reviewing your portfolio, you can ensure that your retirement ship is well fuelled, travelling on course, with leaks sealed, and its growing cargo protected. Even if strong winds emerge, you can adjust your sails to your advantage."

The scourge of low interest rates

Retirees around the world, including in Malaysia, are grappling with the reality that the money they have saved up over the years is generating less and less returns over time and this has serious implications for their golden years. And events like the Covid-19 pandemic only exacerbates the problem. Affin Hwang Asset Management chief learning officer Steve Lim agrees that Black Swan events can have long term repercussions on an individual's journey of wealth accumulation. He notes that central bankers the world over are implementing quantitative easing in one form or another to arrest the downturn of their economies in the wake of the pandemic, driving interest rates lower and in some cases mulling the possibility of negative interest rates.

And policy makers have indicated that this very easy monetary condition would persist till economies recover, he says. "This would inadvertently impact savers with low risk tolerance who previously lived on higher returns from deposits," he adds. Just this year alone, Bank Negara Malaysia has cut the overnight policy rate (OPR) four times to a record low of 1.75% to contain the economic fallout from the pandemic. Lim says proper asset allocations according to one's returns expectation and risk profile is crucial to avoid getting caught in Black Swan events. "Although this is not a foolproof method, investors with low risk tolerance could avoid shocks from volatile price movements of riskier assets such as equities, high-yield fixed income securities or derivatives."

To minimise impacts from Black Swan events, he says investors should invest over a very long term using the dollar-cost averaging method. "A well-functioning stock market and stocks with strong fundamental and growth potential would trend upward in the long term. For instance, the S&P500 returned a yearly average of about 11%. "Risk is mitigated by spreading the hundreds of entry points into the financial markets over 10-30 years without bothering to time the market," he explains.

OPPORTUNITY TO GENERATE WEALTH DURING DOWNTURNS

While deep economic recessions and Black Swan events typically have the effect of eroding wealth, on the flipside it also presents rare opportunities for investors to generate wealth. This is because the ensuing economic disruptions causes the prices of assets to fall drastically. And savvy investors who know where to snap up high quality assets at low prices will reap the rewards when markets rebound. Kenanga Investors Bhd chief executive officer Ismitz Matthew De Alwis says there is no doubt that the Covid-19 pandemic has caused certain companies or investors to “amass considerable wealth in 2020”. “Investors would do well with investing in companies which have strong balance sheets, a stable management, a healthy debt-equity ratio, and are in industries that are known to perform even during recessions. “Even with market dips, there will always be corrections or opportunities for recoveries especially if you have the time frame to ride out volatilities.”

Nevertheless, De Alwis says that to forever be on the lookout for profit or instances of opportunity is not a viable long-term goal for an average investor. “Instead, the best option is for an investor to find the right balance of short and long-term investments, and be as aggressive as their risk tolerance allows,” he says, adding that the rule of thumb generally states that the younger you are, the more risk you can shoulder. Affin Hwang Asset Management chief learning officer Steve Lim concurs, citing the age-old adage that “Danger provides opportunities”.

“As part of their tactical allocation, investors can maintain a certain percentage of their assets in liquid cash to cherry pick companies with strong fundamentals and growth potential whose prices have been irrationally punished in a market rout due to Black Swan events such as the Covid-19 pandemic,” he adds.

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Registration No: 199501024358 (353563-P)

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Source:

Smart Investor (September/October 2020 issue)

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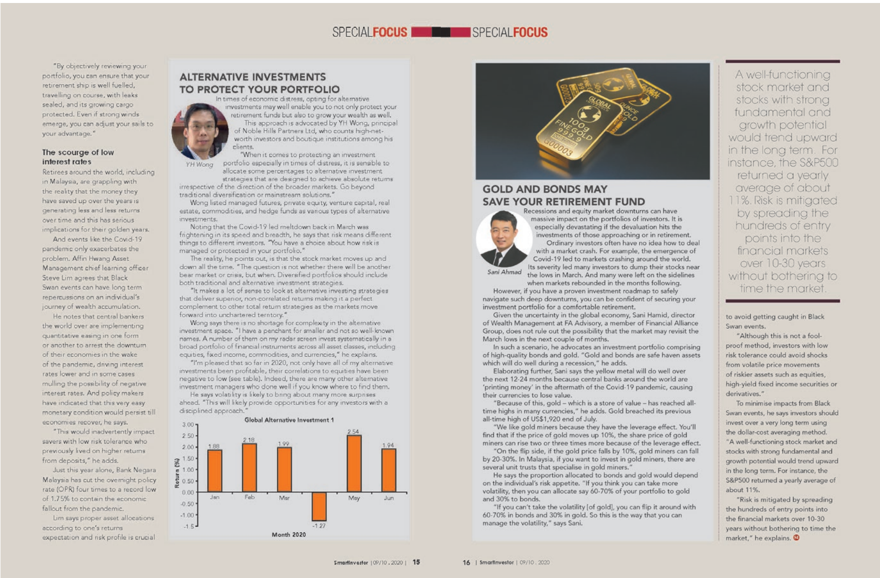

SPECIAL FOCUS

The scourge of low interest rates

ALTERNATIVE INVESTMENTS TO PROTECT YOUR PORTFOLIO

Global Alternative Investment 1

GOLD AND BONDS MAY SAVE YOUR RETIREMENT FUND

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