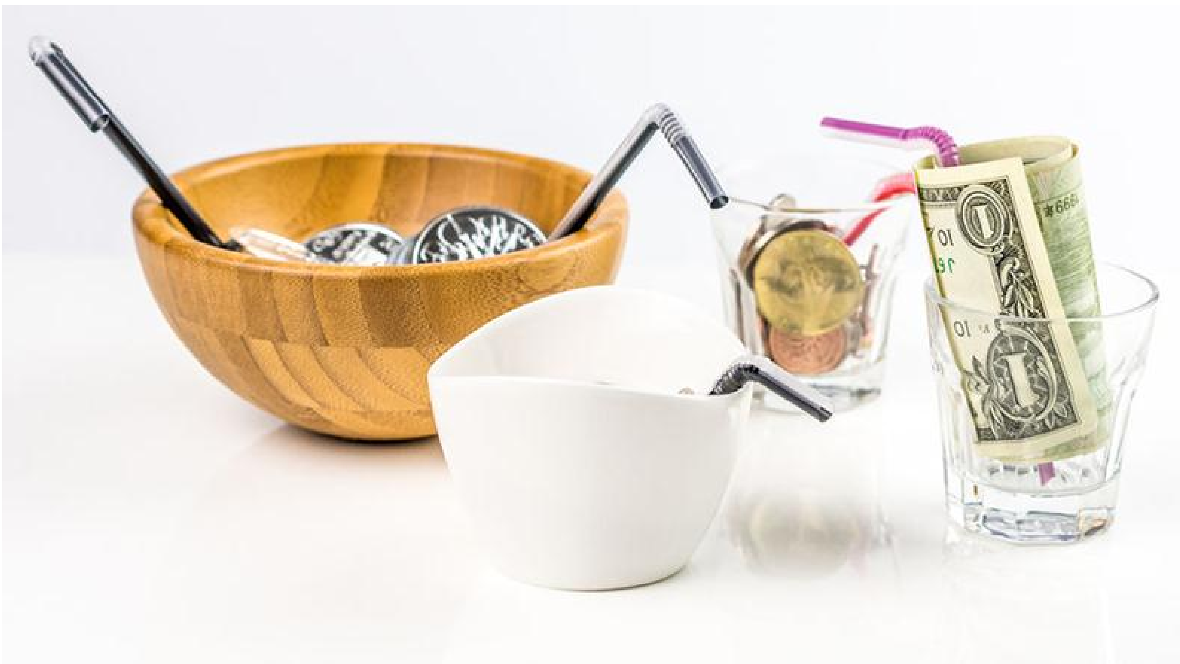
Kenanga Investors

Date: 3 November 2015

What to invest in for your retirement

The Star Online – Business News (1 November 2015)

By: Ismitz Matthew De Alwis



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The EPF scheme, which has been around since 1951, requires employers to contribute a statutory rate of at least 12% to employeesô EPF savings and 11% share comes from employeesô own salary.

Although the guaranteed minimum dividend rate is 2.5% a year, EPF members have enjoyed an average dividend of 5.7% over the last 10 years (from 2005 to 2014). As such, most Malaysians rely on their EPF savings for retirement.

So much so for many, the EPF is the only source of funding for their retirement. But this mindset is set to change.

Eggs in different baskets

While EPFøs dividends have been nothing less than impressive, far too many people make the error of putting all their eggs in one basket when it comes to saving for retirement.

It is essential to diversify your investment to avoid risking everything that is put in one basket. If the basket falls, you will have no more eggs.

By diversifying your retirement portfolio, you decrease the chance that all your investments will experience the same negative market forces at the same time.

One way is to blend a variety of different investments with various characteristics so you can reduce their overall risk while increasing their potential for greater long-term results.

Even smarter investors would invest in assets that counter react each other in the same economic and market conditions.

	Investment Product	**Profitability** (potential return)	**Liquidity** (ease of converting into cash)	**Security** (safety of investment)
1	**Equities** - Ordinary shares of companies that are listed on the stock exchanges. - Provides earnings to an investor in form of capital appreciation and dividend payments.	Generally, stocks and shares are considered high returns investments.	Depending on individual stocks and market conditions. Some stocks are more marketable than others and are traded in higher volumes. If market condition is favorable, the stocks can be sold much easier than during bad times.	Generally, stocks and shares are considered highrisk investment as they fluctuate according to market sentiments. For those to invest in overseas stocks, the risk would include currency and political risks.
2	**Unit Trusts** - Professionally managed pool of funds that are broken down into units for sale to investors. - Allow investors to have indirect involvement in a range of investments i.e. equities, bonds and fixed income securities, to diversify investment risks.	Investors have a chance to make capital gains as well as dividends. Profitability potential is fairly high and is ranked slightly below that of equities.	Unit trust is considered liquid and can be redeemed on demand. The only delay is processing time, which usually takes no more than a week.	Comparatively safer than equities but still subjected to market forces, be it equity market or bond market.
3	**Private Retirement Schemes (PRS)** - Similar to unit trust, it is a professionally managed pool of funds. - Dedicated for retirement only. - Lower fees and charges. - Tax reliefs and incentives available.	(same as unit trusts)	(same as unit trusts)	(same as unit trusts)

4	**Investment-linked Insurance** - Insurance policy that gives investors both benefits of insurance and investment under a single integrated plan. - Investment characteristics of product are similar to unit trust.	Like unit trust, investors stand a chance to make capital gains as well as dividends. Profitability potential is also comparable to unit trust and ranked higher than traditional life policies.	Considered liquid as investment units may be sold for cash.	Like unit trust, this is comparatively safer than equities. Because the investment portion is subjected to market forces, it is considered less safe than traditional life policies.
5	**Annuities** - A form of insurance designed to provide a stream of income to investors in exchange for a lump sum or savings over a period prior to the payment date. - Depending on type of annuity, income stream can be for a fixed period of lifetime	Usually on the lower end as compared to most other investments. Returns depend on the duration and generally, there is no capital appreciation. Because income stream is fixed, income may be severely eroded by inflation.	Because capital sum is given as a purchase price for a stream of income, it cannot be converted to cash on any change of circumstances that demands lump sum cash. The stream of payment is in cash form, hence, it is totally liquid.	Generally considered one of the safest.
6	**Real Property** - Properties exclude home of investor but can be in form of houses, condos, flats, land, factories, shop lots or other commercial properties.	Depending on type, location and market timing.	One of the least liquid investments to hold. Salability depends principally on location and market timing.	It is tangible and scarce over the long-term hence it is quite safe compared to equities. But, value can be severely eroded during bad times.
7	**Fixed-Income Securities** - This include fixed-deposit accounts, bonds and other debt instruments with fixed interest payments.	Lower than equities. **Bonds**, depending on its grade but generally higher than bank deposits. If interest rates go down, bond prices go up providing capital appreciation. **Bank deposits**, rates vary with time and financial institutions. No capital appreciation.	**Bonds** may or may not be liquid depending on its features. **Bank deposits** are generally liquid but penalty applies if funds are liquidated before maturity period.	**Bonds** vary in safety depending on the issuing institution. Otherwise, it is safer than equities. **Bank deposits** are one of the safest investment products.

Kenanga Investors

Retirement investment options

A key reason why people invest is to protect them against the decrease in purchasing power brought about by inflation. By investing the savings at rate equal or above the inflation rate, the purchasing power of the savings will be preserved or increased.

There is a plethora of investment products in the market with different characteristics which you consider using to diversify your retirement baskets.

Your retirement savings are sacred, so it is understandable that you donõt want to take unnecessary risks. But that doesnõt mean you should rely on safe investments such as bank fixed deposits.

To build a nest egg large enough to see you through retirement, which may last 20 years or more (Malaysia average life expectancy rate - 75 years old), you will need the growth potential that equities can provide.

If you are still 20 to 30 years away from retirement, it is recommend to have a lionõs share of your retirement portfolio in equities or equity unit trust funds.

If you donõt have the stomach for steep downturns, a more prudent investment course is to throw some bonds into the mix.

For example, by having 70%-80% of your portfolio in equities and 20%-30% in bonds, allows you to capture most of the long-term growth of equities while sheltering your investments somewhat during market downturns.

Then, as you approach retirement age, the idea is to shift more of your portfolio into bonds.

Even in retirement, it pays to maintain a healthy dose of equities or equity unit trust funds.

Set a realistic goal as to how much returns you hope to achieve on a yearly basis. Donõt aim for investments that provide astronomical growth only for a year or two.

Some investments may bring you on a hair-raising volatile rollercoaster ride of big upsides on some years and deep plunges on others for taking big risks.

Instead, look for investments that provide you with consistent returns that do not fluctuate much during bloom and gloom markets.

Most importantly, as you get familiarised with investing for your retirement, pay attention to how much risk you can stomach.

Your risk appetite will in turn help you to adjust the asset allocation in your portfolio for diversification.

At the end of the day, investing for your retirement shares very similar wisdom with picking out your food at a buffet line.

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Sunday, 1 November 2015

What to invest in for your retirement

BY ISMITZ MATTHEW DE ALWIS

Not many countries in the world have a compulsory retirement saving scheme, but in Malaysia we are fortunate to have the EPF to help employees save up for their retirement right from their first job!
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So much so for many, the EPF is the only source of funding for their retirement. But this mindset is set to change.

Eggs in different baskets

While EPF's dividends have been nothing less than impressive, far too many people make the error of putting all their eggs in one basket when it comes to saving for retirement.

It is essential to diversify your investment to avoid risking everything that is put in one basket. If the basket falls, you will have no more eggs.

By diversifying your retirement portfolio, you decrease the chance that all your investments will experience the same negative market forces at the same time.

One way is to blend a variety of different investments with various characteristics so you can reduce their overall risk while increasing their potential for greater long-term results.

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	Investment Product	Profitability (potential return)	Liquidity (ease of converting into cash)	Security (safety of investment)
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Retirement investment options

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There is a plethora of investment products in the market with different characteristics which you consider using to diversify your retirement baskets.

Your retirement savings are sacred, so it is understandable that you don't want to take unnecessary risks. But that doesn't mean you should rely on safe investments such as bank fixed deposits.

To build a nest egg large enough to see you through retirement, which may last 20 years or more (Malaysia average life expectancy rate - 75 years old), you will need the growth potential that equities can provide.

If you are still 20 to 30 years away from retirement, it is recommend to have a lion's share of your retirement portfolio in equities or equity unit trust funds.

If you don't have the stomach for steep downturns, a more prudent investment course is to throw some bonds into the mix.

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Tags / Keywords: Investing

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http://3age.com.my/2015/10/29/what-to-invest-in-for-your-retirement/

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What to Invest in for your Retirement

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'Eggs in Different Baskets' – Diversification

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TAGS: ANNUITIES · EPF · EQUITIES · FIXED-INCOME SECURITIES · INVESTMENT-LINKED INSURANCE · PRIVATE RETIREMENT SCHEMES (PRS) · REAL PROPERTY · RETIREMENT PLANNING · UNIT TRUSTS