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LIVING IN SINGAPORE

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Ahead of Singapore's National Day, our next quarterly seminar on 25 July will focus on investing in Singapore. How would you have invested when you were younger? One of our portfolio managers who was born before Singapore became independent says that if he were to travel 52 years back in time to 1965, he would have advised Singaporeans to invest in properties, properties, properties. In the quarterly seminar, he will attempt to look into Singapore's landscape another 52 years from now.

It would be a fair assumption that in the next couple of decades, Singapore's landscape would be significantly different from today. We will likely have more skyscrapers and a higher standard of living. Cost of living will likely be higher than today. At the quarterly seminar, another of our portfolio managers will share how we can build a retirement nest to provide for sustainable income in our golden years.

In financial planning lingo, we say that the common mistake that people make in financial planning is the failure to plan. This is very much tied to inflation and the concepts of compound interest and passive income.

The $1000 that I withdraw from my ATM today is likely to be able to buy less of the same things in Singapore in 10 years from now, not more. Is this not a common worry that we have been reading in the dailies and that we should take action on?

Fret not because there is a flip side to this. My $1000 is likely to grow to much more in 10 years' time if I do not keep it idle in a piggy bank. This $1000 could double in 18 years if it could grow by 4% a year during this holding period. Whereas bank deposit rates in Singapore are currently nowhere close to 4%, the concept of "compound interest" is still relevant for our discussion. The $1000 will first earn interest on it in the first year, then earn interest on the ($1000 plus first-year interest) in the second year. Fairly simple enough in concept.

Applying the "Rule of 72" (which says that an estimate of the number of years it takes to double a sum of money is to divide 72 by the annual rate of return), I could perhaps double the $1000 to $2000 in a shorter period if it could grow by just a little more, by 4.25% a year. I use 4% as an example because I was previously told by my insurance agent that this was the return that I was getting for my endowment life insurance policy. I think it is fair to say that equity markets have been more challenging after the Global Financial Crisis. Obviously it would help if I can obtain a sustainable annual return of say, 6%, and I could double my money in 12 years (that is, 72 divided by 6).

Now, how would that help when the value of our residential properties could have more than doubled our cost (let's say, we bought them 52 years ago in 1965) but we are asset rich and cash poor (I am sure you have heard this many times before)? One common way to address this is to generate rental income from our properties or receive dividends from our shares. These are common forms of "passive income". We can even live on bank interests on our savings, if we are fortunate enough (sorry to note that interest rate of 0.15% on $1 million can only get us $1,500 a year – not enough to retire on this). My colleague who is speaking at our quarterly seminar shares with us that a dividend yield of about 4% is achievable from Singapore equities. In fact, we have launched a regular pay-out scheme for our Singapore Equity Yield Portfolio since late last year whereby our account holders for this service receives half-yearly payouts which amount to approximately 4% per annum of their own portfolio valuations.

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