SELECTING THE RIGHT INVESTMENT FUNDS FOR YOUR RETIREMENT PORTFOLIO

Investing for your retirement is not about finding the best product to invest in but the right product that suits your retirement needs

By Bernie Yeo

Investing for retirement is undoubtedly an investor's biggest goal. After all, a successful retirement is not a birthright but something one must earn through hard work and proper – if not cautious – planning.

However, those approaching retirement have found themselves in a unique position today, with the Covid-19 pandemic giving way to market volatility. Businesses across almost all industries are affected, as are share prices, and the concern about losing money is one that equity investors know better than to take lightly.

Similarly, non-investors, too, find themselves in a fix as their retirement savings are eroded by inflation. In July 2020, Bank Negara Malaysia (BNM) cut its overnight policy rate (OPR) by 25 basis points (bps) to a record low of 1.75%.

Upping your nest egg game plan

According to the central bank, the impact of the pandemic on the global economy is severe and Malaysia's economic activity contracted sharply in the second quarter of the year due to measures that were introduced to contain the pandemic. In a recent statement, BNM said that Malaysia's inflationary pressures are expected to be muted in 2020.

"In addition to the OPR adjustment to what is considered to be the decade's lowest, the fixed deposit interest is now at a maximum of 2%, with the inflation rate projected to around 2.8% in 2021, according to Statista.

"Therefore, by not investing, you are losing your purchasing power by almost 1% each year," Alpine Advisory director Gor Sheau Shuenn tells *Smart Investor*.

As a result, most of the soon-to-be-retirees hesitate to retire and suffer from the 'one-more-year' syndrome, which sees them staying in the current job for one more year

Gor Sheau Shuenn

before they retire.

"For those who do not have the luxury of delaying their retirement, they will worry for their slowly-depleting life savings and thus, defeating the objective of retiring in the first place, which is to have a rewarding and worry-free life," he adds.

Gor's suggestion for those whose retirement is on the horizon?

"Start looking into your personal finances. You will need to understand how your retirement life is going to look like, and what are the possible hurdles and hassles that may affect your nest egg.

"Most of the time, retirees do not actually deplete their money by spending it on themselves but rather, to sponsor their children's dreams or their parents' medical expenses, or even dealing with the aftermath of a wrong investment decision."

Therefore, he continues, every pre-retiree should have their financial plan on the table at least five years before they plan to retire. This enables them to adjust to their lifestyle, settle unwanted loan commitments and prepare adequate funds to sponsor their loved ones' dreams, which will then prevent any premature withdrawals from their retirement fund.

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Where to put your money

In general, as a person approaches their retirement (say less than three years), the less risk they are able to take.

"Given that today's investment environment can be said to be uncertain with interest rates at a multi-year low, stock market valuation above their long-run fair valuation and an economic outlook that remains weak, it is only prudent to err on the side of caution," Maybank Asset Management Sdn Bhd Head of Investments, Unit Trust Chen Fan Fai explains.

Having said this, the main chunk of a person's capital should be allocated to low-risk assets like fixed income so that the income generated from coupons can at least match their minimum cashflow requirements without having to dip into capital.

Balancing the need for yield in these low-interest rates environment and the possibility of rates moving higher in the coming years, a duration of five to seven years may be considered.

"Should there be a surplus capital after the exercise, the balance can be invested into higher-risk assets such as REITs, equities and precious metals depending on one's appetite for risk and desire for capital growth," Chen adds.

Rethinking financial and retirement strategies

The current market conditions and the pandemic should force you to rethink your financial and investment strategy for retirement.

"Again, time to retirement is an important factor to take into account," Chen opines, adding that in situations where the time to retirement is relatively short, uncertainties like an on-going pandemic take on added importance.

HELPING CLIENTS ACHIEVE THEIR RETIREMENT GOALS

Before deciding on any form of investment, Alpine Advisory director Gor Sheau Shuenn believes one must have a clear understanding of their current financial position. And based on that, the next thing that needs to be done is to determine the gap between what one has now and their retirement goal.

Why is this important?

"Look at it this way. You see a doctor for pain in one of your knees, telling the doctor, 'My knee hurts' and stopping at that. What do you think the doctor will do? Surely, he will ask 'Which knee, what kind of pain, when did it start, was it a result from a fall?'

"The doctor will then proceed to examine your knee to determine whether there is a fracture or is the knee just inflamed. Only then will the doctor prescribe the necessary medication.

"Investment is like that. In order for you to decide how and where to invest, you need to have a clear idea of how much you have, how much you need and how much time you have to achieve it.

"Investing without a purpose is like sailing out into the seas without a sail, rudder and compass – you will most probably get swept away by the undercurrent, or worse still, capsize during a storm," he explains.

Once you have determined all these, the next step is to allocate the right proportion into bank saving accounts, fixed deposits, bonds, shares, mutual funds, properties, lands, antiques and other alternative investment products.

Your investment journey is not about finding the best product to invest in but about finding the right product that meets and suits your retirement needs, he adds.

"The most important thing you need to remember is to never invest in something you do not understand, especially when it comes to how the product is managed. Cliched as it is, when something sounds too good to be true, it normally is," says Gor.

Chen Fan Fai

"However, assuming that time to retirement is far longer – 10 to 20 years, for instance – then it may not be that critical and investors should place more emphasis on an asset with long-term return to enable them to achieve their retirement nest egg.

"In this case, we are talking about a riskier asset with higher long-term return potential."

The underlying assumption made here, says Chen, is that all asset classes undergo periods of under- and over-performance as they go through different economic cycles and event risks. "However, when given enough time, they will revert to their long-run returns."

For Alpine Advisory's Gor, the investment objective during retirement would primarily be capital preservation while your retirement income strategy would encompass the timeline and the amount that you would receive in dividend income, fixed deposit, and/or business dividend pay-out, etc.

As such, a full roadmap of a retiree's or soon-to-be-retiree's monthly cashflow statement (which includes large annual expenses such as insurance premiums, car insurance renewals, road tax renewals and assessment tax, for example) is crucial.

At the same time, they will also need to consider incoming cashflows from multiple investment portfolios that will continue to generate passive investment income, and also the capital appreciation to generate enough income to fund the living expenses as laid out in their financial plan.

"Despite retiring soon, you shouldn't forget that you could possibly live on for another 20 to 30 years, and should therefore diversify your

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investment into different time horizons – short, medium and long term.

"The advantages of having separate portfolios is to serve as an indicator as to how disciplined a retiree is in terms of his expenditure during retirement.

"This way, you wouldn't have to panic sell during an economic downturn (if the underlying investment asset is solid) and become stressed out when there is no monthly income credited to your bank account in the first few months of your retirement," Gor explains.

Building a resilient retirement portfolio

One of the most important factors to take into consideration when building a resilient and growing retirement portfolio is diversification, says Maybank Asset Management's Chen.

This is in addition to time to retirement, the required rate of return to reach retirement sum, the ability to take on risk and the long-run return, and risk of different asset classes.

"We are talking about diversification of not just asset class but also investment style or diversification of fund managers as history has shown time and again that even the best plan can go wrong," he explains.

With a plethora of investment products in the market with different characteristics that investors can consider, Chen further points out there are many ways to invest for one's retirement, and everyone has their own personal circumstances.

That being said, there is no standard solution, and the important thing is to keep in mind the aforesaid factors as you go about planning for your retirement.

"One seemingly obvious solution is to buy a fund (or a few of these funds to diversify across fund managers) that are specifically tailored for retirement needs. These funds are commonly known as lifestyle or life cycle funds and they will normally specify the year when retirement is expected.

"An investor will then choose the fund that matches their retirement year. Essentially what the fund does is gradually rebalance the investor's asset mix to reduce risk as the retirement year edges closer. However, the results have been mixed," he reveals.

The second option is to construct a portfolio of funds yourself or with your financial advisers taking into consideration the previously-mentioned factors.

"To do this well, you and/or your financial adviser will need to have a good understanding of the financial markets. In general, I find mixed asset funds and absolute return funds to be very useful building blocks for a retirement plan," says Chen. SI