2016 Economic Outlook
G3 recovery mitigates China risk

Other People’s money
portfolio construction for New Investors

University research challenge
Dear Members,

We are actively engaging other organizations to extend our reach into the broader community. Beneficiaries of our recent initiatives included friends from the accounting profession, new retail investors as well as junior members.

**Professional Development Committee**

- In January, we jointly organized a seminar with ISCA in what was our first collaboration with our national accountancy body. The investment community and the financial accounting profession have much to share with each other and we look forward to more of such collaborations. The seminar featured leading economist Manu Bhaskaran, CFA, who highlighted the global developments that may affect this year’s economic outlook.

**Advocacy Committee**

- We jointly launched a year-long campaign with SGX and MoneySENSE to encourage retail investors to save and invest for the future. Known as Save and Invest, the campaign commenced in January with a monthly column in Sunday Times featuring simulated savings and investment portfolios of three Singaporean individuals and families at different life stages. We also organized bi-monthly seminars on topics aligned with the Save and Invest column.

Four senior CFA members provided personal guidance to the simulation investors. Our volunteers also conduct training at the bi-monthly seminars for beginner investors.

**Career Development & University Outreach Committee**

- Our Career Development Committee launched its much-anticipated mentoring programme in January. Junior members were matched with CFA charter holders who have senior leadership experience of 8 years or more in the finance industry. The 6-monthly programme includes a personality test, one-to-one mentoring, as well as networking and review sessions.

- We held the Singapore finals of the CFA Institute University Research Challenge on 30 January. This annual event is organized by our University Outreach Committee, which recruits senior CFA members to volunteer as judges and mentors.

**Other People’s Money: The Real Business of Finance.** The book had been voted Best Book of the Year 2015 by Financial Times, The Economist and Bloomberg.

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Through our Membership Committee, CFA members were part of an International Women’s Day seminar hosted by National Australia Bank. The seminar took place on 17 March and celebrated social, economic, cultural and political achievements of women.

Our Networking Committee organized a drinks networking session on 21 March where directors from the Centre for Non-Profit Leadership shared about how it supports the non-profit sector.

These are but a handful of the value-added activities that we organized. We hope you make full use of all the Society has to offer, and join our volunteers in providing value to the broader society.

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CFA Singapore Society President
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Anyone passing the skyscrapers of Wall Street or the City of London and its annexe at Canary Wharf will be impressed by the scale and scope of modern finance. The premises are lavish, the limousines ubiquitous. Individuals with offices in these executive suites earn more in a month than most people will expect to do in a lifetime.

When I give talks to people who don’t work in the finance industry, one of the questions that I am often asked in the Great Britain is this: “What do these people who work in the City of London and other parts of the wholesale financial services sector actually do?”

To an extent that defies belief, what they do is they trade with each other. World trade in goods and services has grown rapidly over the past 50 years, but the value of daily foreign exchange transactions is almost a hundred times that value. A lot of people think that what banks do is that they take deposits from savers and lend them to businesses.

When I explain that less than 3% of the assets of British banks are loans to non-financial businesses, they scratch their heads and wonder about the remaining 97%. What value, then, does this financial activity add to the real economy and why are they so profitable?

### What is finance for?

1. **Payment System**

Without an effective financial system, the modern economic system simply cannot take place. We need finance for utilitarian purposes like paying for our utilities. The payment system employs the largest number of people in finance. The payment system is the essential utility of finance and is a rather mundane activity processed by ordinary people doing relatively mundane jobs.
2. Wealth Management

The term ‘wealth management’ is seen as a service by people in grand looking offices and charging rather large fees for asset allocation. More broadly, ‘wealth management’ is the process by which we finance our education when we are young and our retirement when we are old. And we manage our finances over our lifetime to make these things possible. We also need a system to enable us to provide for our children and leave our household wealth and our assets to successive generations.

3. Capital Allocation

Over the last 20 years in Britain and in the US, the total amount of cash taken out of businesses and put into the equity market through share buyback is significantly larger than the amount raised in new issues. The primary function of today’s IPO is no longer what it once was: to raise fresh capital for investment and provide liquidity for early stage investors. Rather paradoxically, the modern stock exchange is less a means of putting money into a business than a means of taking money out.

The capital markets have changed because modern businesses are capital-light. That capital is typically fungible, such as shops, offices, computers and other premises, which do not need to be owned by the companies that use them.

In the early days, the stock markets came into being to finance railways, railroads and large infrastructure projects. That model was extended to large manufacturing corporations over the first half of the 20th century. These large manufacturing companies included breweries, automobile plants and petrochemicals.

At US$700 billion or so, Apple has the largest market capitalization in the world today. In comparison, its operating assets are less than US$20 billion, mostly its head offices. The Queen of England and the Norwegian sovereign wealth fund jointly own Apple’s flagship European store on Regent Street in London.

4. Risk Mitigation

At the 2005 Federal Reserve conference at Jackson Hole, Raghuram Rajan presented a paper called “Has Financial Development Made the World Riskier?” Rajan, who was at that time the Chief Economist of the International Monetary Fund, pointed to a number of potential problems with the financial developments of the past thirty years.

The problems that Rajan considered include skewed
incentives of managers, herding behaviour among traders, investment bankers, and hedge fund operators who suffer withdrawals if they underperform the market. Rajan also discussed the problems associated with firms that “goose up returns” by taking risky positions that yield a “positive carry.”

Rajan argued that financial sector managers were encouraged to take risks that generate severe adverse consequences with small probability but, in return, offer generous compensation the rest of the time. These risks are known as tail risks. But perhaps the most important concern is whether banks will be able to provide liquidity to financial markets so that if the tail risk does materialise, financial positions can be unwound and losses allocated so that the consequences to the real economy are minimised.

Rajan’s paper was not well received. Donald Kohn, Vice-chairman of the Federal Reserve Board then, treated the speech as an attack on what he called the Greenspan ‘doctrine’, which proclaimed the virtues of all the financial innovations that Rajan had queried. Ben Bernanke reiterated Kohn’s claim.

Former US Treasury Secretary Lawrence Summers described Rajan’s views as Luddite and likened his thinking to those who would substitute runners and horses for cars and aeroplanes. Timothy Geithner, who was then Chairman of the Federal Reserve Bank of New York, similarly said that the financial institutions had become so effective at measuring and managing risk that financial intermediaries were financially stronger than before and that the US financial system was also more flexible and resilient.

When the global financial crisis broke, George Bush had already appointed Bernanke to succeed Alan Greenspan as the Federal Reserve Chairman. Kohn became deputy Chairman. President Obama appointed Geithner as Treasury Secretary and Larry Summers as Chairman of the National Economic Council.

Rajan left IMF at the end of 2006 and went back to India. After the global financial crisis vindicated Rajan, he became the Governor of the Reserve Bank of India in 2013.

English gentlemen with a good deal of money and a certain amount of time on their hands would gather there to gamble, and they would take wagers with each other on all kinds of things, such as the health of the king, or the progress of various English battles around the world, as well as the fate of ships and tides.

The paradoxical result of that was that Lloyd’s became a global centre for marine insurance because it was a place where you can go and lay off the risks involved in trading overseas, which was a large part of the British economy at that time. Over the centuries, that has become transformed into what is now still the largest centre in the world for marine insurance and one of the largest for the reinsurance market.

The other source was in Switzerland, where poor peasants of the 17th and 18th century agreed to take collective responsibility for agricultural risks. That is, if one of their cows died, the villagers would come together to help the unfortunate individual buy a new one. Eventually, these villagers descended from the mountains and today we have world leading reinsurers like Munich Re and Swiss Re.

Right from the beginning, we could see two types of trading in markets and risks. People trade risks for one of two kinds of reasons. One is the reason that motivated the people in Lloyd’s coffee shop: They had different views on the outcome of a particular event, such as when King George will die. And they agree that one of them will gain from the other, depending on who is right. The other is the mutualization process, in which people agree to share and diversify risk.

If we can understand that, we can understand the core misunderstanding of financial innovation which was going on at Jackson Hole. People were then talking about innovation in financial products as if they were mutualization.
and diversification, a sharing of risk when in fact it was high level gambling.

In the 1980s, people had discovered that if insurance was profitable, reinsurance of insurance was profitable too. And if that was profitable, reinsurance of reinsurance of insurance was profitable. And so you’ve got more and more layered contracts until it became impossible to ascertain the underlying risks the holder of the contract was exposed to.

The Piper Alpha oil rig went on fire in the North Sea in 1987, killing 200 people and triggering what was then the world’s largest marine insurance claim. As a result of that, these reinsurances of reinsurances of reinsured contracts started to become triggered. That bankrupted many of the English gentlemen who were successors to what happened at Lloyd’s coffee shop - underwriting names who had never heard of Piper Alpha discovered they had re-insured it over and over again. The total value of claims at Lloyd’s turned out to be ten times the value of the underlying loss.

Risk was not being diversified and pooled. Risk was being dumped by people who understood a bit about what they were doing onto people who understood less of what they were doing. That was one misunderstanding at Jackson Hole.

There was another misunderstanding at Jackson Hole: At the same time, Hurricane Katrina was blowing into New Orleans. That was probably the worst natural disaster in terms of consequence in the western world in modern times. 1600 people died and total damaged inflicted was estimated to be about US$100 billion.

It is risks like Hurricane Katrina that concerned people in everyday life. The risks discussed at Jackson Hole were not risks that concerned people in everyday life. The risks discussed at Jackson Hole were risks related to volatile security prices, forex fluctuations, commodities price fluctuations, with interest rate movements. In fact, the risks that financial innovation were designed to mitigate, were risks that were mostly created within the financial sector itself in the first place.

To a large degree, both capital allocation and risk management have moved away from their underlying purposes of serving the needs for risk mitigation and capital allocation in the real economy into a world of secondary market trading. What mattered was not knowing what the underlying needs of users were. Rather, it was knowing and understanding what the needs of other participants in the financial markets were.

Professor Kay’s new book, *Other People’s Money*, is a timely reflection on the problems currently plaguing the financial industry. As the Chair of CFA Institute’s *Future of Finance Advisory Council*, Professor Kay is able to provide insights into how this CFAI initiative addresses some of the issues that he has raised.

The Professor proposed imposing strict liability to make the top management of financial institutions responsible for what happens under their supervision. While this sounded radical, there wasn’t any pushback from the audience on the points that he raised.

Getting the incentive structure properly aligned at the top will hopefully lead to a change in culture throughout the entire organisation. CFA Institute initiatives such as *Putting Investors First* will help the industry push for change.

Daryl Liew, CFA
Co-Chairman
CFA Singapore Advocacy Committee
Since finance has moved away from meeting the needs of the real economy, what shall we do about it?
We have had a very large increase in regulation. What is wrong is not that we don't have enough regulation, but what we do have has proved largely useless for achieving the real objectives, which is to make the financial sector effective in meeting the underlying needs of users.
We thought we could regulate the financial sector more effectively by writing more detailed prescriptive rules. The problem is: The people who were trying to write the rules didn't know enough to be able to effectively influence the behaviour of the people they were trying to regulate. And since the people they were trying to regulate had no incentives to comply with the spirit rather than the letter of what was being imposed on them, the outcomes were largely affected.
We had Basel I, which was an attempt to lay down risk-weighted capital rules for banks. We discovered the risk weighting was not sophisticated enough to match the characteristics of the real world. So, we introduced Basel II, which was a more sophisticated risk-weighting scheme. But it did not work well either and it was replaced by Basel III. The problem is no matter how complicated the rules are, people will find ways of circumventing them.
I think regulation should move away from prescriptive rules. I think the regulation that we have should focus on two things: the structure of the industry, and incentives for both the corporate and the individual within the structures.

The big mistake that we made was not to do with regulation, but removing the restrictions on the creation of large financial conglomerates. What I would like to see is smaller specialist institutions which have identified functions and are devoted to meeting particular user needs.
It's not just separating retail from investment banking, even though that is an important start. We need to get away from the world where the activities of investment banking are being supported by depositors' and tax payers' guarantee. Deutsche Bank is today the largest hedge fund in the world supported by the German deposit base, and ultimately by the German tax payer.
If people are to run hedge funds, that risk taking should be done by people using their own money, or the money of the people close to them, who have a very clear idea of what is going on.
We need to recognize that within investment banking, we have a variety of functions. These include corporate advice, securities issuance, secondary market making, and asset management for retail and institutional clients. You simply have to list all these functions to see that every one of them conflicts in some degree with every other.
I would like to see specialist institutions focused on these functions. We should allow the conflicts of interest to emerge, and allow these institutions involved to manage them.
2016 Economic Outlook
G3 recovery mitigates China risk

Manu Bhaskaran
I think 2016 will be better than the previous year because the developed economies (G3) are going to bounce back sufficiently to help us manage the risks we are getting from China. Risks do exist, but they are containable.

So what does that mean for Asia outside China? I believe the worst is over in terms of economic fundamentals. Asia outside China will be better this year compared to last year.

There are significant issues in each country, mostly relating to politics and government policy. The 30-month chart from Dismal Science shows that the two largest markets in the world – the US and Europe - have improved significantly. And I think they will continue to do better.

There are two groups of countries that are doing badly:

- Countries that are either undiversified commodities exporters who did not use the commodities boom to build up their reserves or to diversify their economy.
- Countries struggling with mismanagement in political problems.

Improvements in the US
The US labour market is tightening, and the housing market is gradually improving (below the peak but on certain uptrend). There is a lot of pent up demand, so there is good potential for a continued upswing.

Bank lending to small and medium sized enterprises is also recovering significantly. Credit constraint no longer plagues the economy and businesses are spending and hiring. That is a crucial turning point. The homebuilders’ confidence index and consumer confidence are at a post-crisis high.

2015 has been an eventful year for the world economy. Output in the United States contracted, China’s stock market crashed, oil prices nose-dived, and currencies fluctuated beyond analysts’ predictions.

At a senior CFA Members panel discussion on 27 January, the following experts shared their views on the economic outlook for the year ahead:

1. Manu Bhaskaran, CFA
   CEO of Centennial Asia Advisors

2. Suprita Vohra, CFA
   Director of Barclays Investment Bank

3. Ng Hsueh Ling, CFA
   CEO of Keppel REIT Management

Alex Ho, CFA, CA, the Treasurer of CFA Singapore, who is with PetroChina, was the panel moderator.
We in Asia are looking for the spill over import demand from the US. It hasn't come because one of the major drivers of Asian export demand is capital spending by US businesses on equipment. And that has not really recovered. I believe it will recover, but we will have to wait.

**Recovery in Europe**

The Eurozone is not in full recovery yet. The European Central Bank’s survey on bank lending is showing an upturn in bank lending – both in demand for credit as well as willingness to lend. GDP is recovering. The Organisation for Economic Co-operation and Development (OECD) Composite of Leading Indicators is up. Inflation, however, is down. So, there is a threat of deflation. This will prompt the President of the European Central Bank, Mario Draghi, to ease monetary policy further (He said this in March 2015). I think that should sustain this market.

There is still a huge problem in Greece. There is a political vacuum in Spain and Portugal - elections there have not gone the right way. The European refugee issue is a huge challenge, although I think in the long term that will be a huge positive.

Despite all the pessimism expressed in the media, the Europeans have somehow managed to overcome every major crisis in the last 5 years. This is not a coincidence. They have overcome because of their strong political will. This term that Mario Draghi used, “Do whatever it takes” is reflective of the political will there. They are determined to keep Europe the way it is. That political will sustains them and I think that is a very important positive.

**Don’t underestimate Japan**

Japan is past the stage where it is going to surge forward. Even though the demographics are bad and it is difficult to bring about change, I think there is too much pessimism about Japan. Mature, technologically advanced rich countries do not need big bang reforms. Progressive incremental reforms that can be sustained can make a dramatic difference.

Germany’s experience is an example. Economists were dismissive when Germany started its reforms about 15 to 16 years ago. As it turned out, those reforms to fiscal policy and its labour market made a huge difference because they sustained it. The German economy today is very resilient and quite dynamic.

There is incremental increase in Japanese female participation rate in certain sectors. Japan has also joined the Trans-Pacific Partnership. So, the country is opening up with more reforms in the system. For the first time in a generation, Japan had more inbound tourists than outbound tourists. Tourism is becoming a driver for growth as well.

While Japan is not going to grow by 3% to 5%, it is still a large economy with growth potential that can make a large impact on Asia.

**Technology breakthrough**

Another reason that I am optimistic about the global economic outlook is because there are many key technologies reaching points of maturity. Businesses are adopting these technologies, which include 3D printing, advanced manufacturing robotics, artificial intelligence, Social Mobility Analytics and Cloud (SMAC) computing, genome-based therapies as well as renewable energy from solar and wind power.

The returns from investing in these technologies can be very compelling. But when will companies seize these opportunities?
US companies are sitting on a hoard of cash, some US$1.9 trillion. Japanese companies are sitting on US$2 trillion, even though it is a much smaller economy. The firepower for capital spending is there but courage has been lacking. I think capital spending may take place this year and if that happens, then the recovery will become very strong.

Emerging markets
Emerging markets have a very bad name. But, if you dig deeper, you will find several markets that are doing quite well: India, Mexico and Iran. There are some emerging markets that are not so well managed: Brazil, Turkey and South Africa.

Indonesia is not a large exporter of manufactured goods. So, it will not get much benefit from recovery in the G3. It has been hit by China’s slowdown but the worst is probably over. The Rupiah is now much better managed than in previous years, but the currency is still at risk.

What can go wrong?

China’s severe imbalances
Most people had believed that Chinese policy makers knew what they were doing – that is, they were able to manage the risks and stabilize economic growth because past policies had been implemented in a timely and astute way. However, confidence in policy makers has taken a huge step back with China’s stock market crash in mid-2015 and with the RMB devaluation. The damage in investor and consumer psychology will negatively impact China.

China is suffering from over-capacity, over-investment, too much debt and speculative bubbles. But there are also good things happening there: Urbanization and the online retail revolution, as well as supply side efficiency gains. However, almost half the economy of China depends on investment. Given the fundamentals, there is no way investment can have decent growth. On the other hand, there is a very good chance that investment in real estate is going to come down sharply and investment in other parts of the economy could stagnate.

If half the economy is going to be in a bad shape, it is going to be very difficult even for the best policy maker with the most money in the world to reenergize. Secondly, policy making is less effective than before for a deeply rooted reason - that is, for the first time in over two decades, one man wants to dominate. However, the chairman of everything cannot get everything right because he is just too stretched. The timing and the way policy making is conceived and implemented has weakened. We may see mini-crises in different sectors of the economy which can be managed. However, this means growth will remain mediocre.

For investors, China is likely to be a negative force, but is not likely to completely offset the positives from the technology growth in the G3.

Danger from the Middle East
There is war in Libya, Yemen, Iraq and Syria. But the real danger is what happens in Saudi Arabia and Egypt as these are the giants of the Arab world. The Saudi Arabian monarchy has over extended itself and has been quite rash in some of its political and economic strategies. I think the risks are significant there. Egypt is the giant of the Arab world (20% of 411 million people). It is politically repressed right now. It is calm on the surface, but under the surface, insurgencies are building up.

In the old days, we worried about the Middle East mainly because of
the risk premium with the oil price. When the risk premium went up, the oil price went up and everybody suffered. That seems to be less of an issue now.

However, the ISIS has been trying to extend its influence in the Middle East to Southeast Asia, claiming responsibility for the bombings and gun terror attacks in central Jakarta that took place in January. It is difficult for us in Singapore and Malaysia to prevent this kind of terrorism motivated by Sunni and Shia rivalry. It may be a matter of time before something happens in countries which may appear tough in national security.

North Korean missile threat

Even though North Korea’s claims of submarine missile capability was believed to be unsubstantiated, its intent poses a threat to the US. If the US is threatened, it may retaliate. The things that are leading to a major crisis in the Korean peninsula are beginning to fall in to place. This is going to be a huge time bomb: A serious crisis may happen in North Korea over the course of the next few years.

On the other hand, I believe any crisis that may arise from the territorial dispute between China and Japan in the South China Sea can be contained through international diplomatic suasion.

No financial crisis yet

The other big source of risk is the financial sector. We have had 7 to 8 years of loose monetary policy that went on for far too long. When the risk capital is not accurately priced, bad things can happen. The Bank of International Settlements (BIS) has warned that all kinds of imbalances have been growing. There is also much foreign-currency denominated debt in emerging markets. As interest rates rise, financial stress will emerge. It is too soon after the recent financial crisis for the world to have another financial crisis as it takes time for such trouble to erupt.

Are current account deficits in Asia an area of concern?

If a country’s current account deficit is driven by productive investments, then that is fine because that investment would generate returns for the funding of that current account deficit. Right now, I don’t see excesses of current account deficits being driven by bad monetary policy.

I think there is going to be a rise in the investment rate in Asia, particularly in ASEAN. That is good news, because if productivity of investment is intact, there will be higher growth rates. The flip side is: If investment exceeds savings, axiomatically, you get a current account deficit. In my view, it is illogical for these countries to run deficits. They should be borrowing from the world to build productive capacity for the future.

In 1980, Singapore had a current account deficit to GDP ratio of 25%. It was funded by foreign direct investment and it was very productive. We should not be worried about current account deficits as long as they are not huge – that is, not more than 3% to 4% of GDP, and as long as they are caused by reasons that lead to higher productivity.

Indonesia’s current account deficit has improved, but I suspect there is going to be a slight deterioration this year should President Joko Widodo succeed in raising foreign

Mr Ho works with the Planning and Investment Group of PetroChina International (Singapore), where he has been involved in M&A, strategic planning and joint venture management in both the upstream and downstream sectors.

He was the CFO of a JV shipping company, and was also a former board commissioner and audit committee member of an Indonesia state-affiliated JV natural gas infrastructure company.

Prior to this, he was a manager from the Valuation and Strategy Group of PricewaterhouseCoopers Advisory and an auditor from Ernst & Young.

He is also the incumbent Treasurer of the CFA Singapore Society, as well as the Co-Chairperson of its Professional Development Committee.
investment. It's fine as long as this is funded by long term investments.

Malaysia's current account surplus is coming down. They shouldn't be running current account surpluses. Current account imbalances are not a problem in Thailand and the Philippines.

China has a large current account surplus. One of the dangers in China is that its investment rate has been very high but that is unsustainable. China's investment rate is going to come down sharply, and I don't think its savings rate will come down as fast.

Since the current account balance is the difference between savings and investments, if the investment rate comes down much faster than the savings rate, its current account surplus will surge. That's a danger because somewhere in the rest of the world, there's going to be a wider current account deficit.

In the US electoral move this year, people are not going to allow that kind of large current account imbalances. I suspect there will be a big push on this. Part of the current account surplus in China is going to be pushed by China dumping its excess supply on world markets. We have already seen that happen with steel and aluminium. That will widen to industrial goods and you will get not just current account imbalances, but all kinds of other pressures as well.

Many such companies are facing financial stress now. US rig count has been falling but oil majors are still ramping up production to generate income in order to service their bank loans.

Overall service rig productivity has increased. We have yet to see the huge drop in shale oil production, but there is a limit to incremental improvement in operational productivity. Coupled with tightened funding, I think that the inflexion point could take place in the next 12 months.

I personally don't see any huge bump in oil price because the global economic recovery is still uncertain. The inventory oversupply needs to be slowly digested.

When we talk about OPEC, we think about rich powerhouses like Saudi Arabia. But within OPEC, there are also fragile economies like Venezuela and Nigeria. The question is: Will the depressed oil price cause a social upheaval in these fragile economies, hence triggering a black swan event in oil prices?

What's the next shoe to drop in the oil sector?

Alex Ho

Oil companies, especially the shale companies that have raised a lot of financing in the year of cheap money, have caused a boost in cheap oil production in the US. Many such companies are facing financial stress now. US rig count has been falling but oil majors are still ramping up production to generate income in order to service their bank loans.

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How ready is the real economy for the rate hike?

Suprita Vohra

I think there will be a maximum of two rate hikes if the global economy gets back on track. If January is representative of what 2016 is going to look like, I don't see how another rate hike is going to happen.

The credit spreads have widened, especially in the emerging markets. Some of the investment grade issues are being oversubscribed. There is a lot of cash lying idle and portfolio managers have only a short list of investments that they can put their cash in. They are very
Ms Ng has been the CEO and Executive Director of Keppel REIT Management, the Manager of Keppel REIT, since August 2009. She works with the Board to set the strategy for Keppel REIT and make recommendations to the Trustee of Keppel REIT.

With over 25 years of experience in the real estate industry, Ms Ng has been involved in the strategic sourcing, investment, asset and portfolio management as well as the development of assets in key Asian cities. She has also extensive fund management experience in the areas of real estate fund product creation, deal origination, distribution and structuring of real-estate-based financial products.

How are corporates such as Keppel REIT managing interest rate hikes and the challenging economic outlook?

Ng Hsueh Ling
CEO
Keppel REIT

REITs are sensitive to interest rate hikes, which is why most REIT managers will try to maintain an optimal level of debt, while hedging exposure to floating interest rates.

For Keppel REIT, at least 70% of Keppel REIT’s loans are on fixed rates, which safeguard us against interest rate volatility. At the same time, we also seek to maintain a strong cashflow position by ensuring a healthy interest coverage ratio.

We adopt a proactive approach towards refinancing: If we are of the opinion that interest rates may be trending up, we don’t wait until a loan is close to expiring to start negotiating with the banks. On the other hand, we have to be mindful that early refinancing may result in possible prepayment penalties. It is therefore imperative that we, like many corporates, balance the need between having certainty in interest expenses, while allowing financial and operational flexibility.

Like many companies seeking growth beyond Singapore’s shores, we too have several Australian properties and to mitigate exposure to currency fluctuations, we adopt a policy of hedging almost 100% of income coming back from Australia.

In expanding overseas, we were mindful that the country of operation and the assets we acquire must offer stable income growth. In this respect, Australian leases are very different from that of Singapore. Apart from being triple net leases, meaning that tenants pay for all outgoing expenses related to the property, leases have fixed annual rental escalation of approximately 4% to 5%. All these help safeguard and protect Keppel REIT against foreign exchange risks.

Closer to home, it is known that the Singapore office market is facing large supply these two years. As one of Singapore’s leading commercial landlords, Keppel REIT will have to cope with the headwinds of increasing office space. We have been channelling efforts to retain existing tenants and attract new tenants. We have also locked in the leases for our top 10 tenants for the next few years. All these provide long-term sustainable income for unitholders.
What are some common pitfalls encountered by beginner investors? This was addressed by senior CFA members who gave a straight and honest talk at a public seminar held in conjunction with the Save and Invest campaign jointly organized by CFA Singapore, Singapore Exchange and MoneySENSE.

Speakers
- Jack Wang, CFA, CA, Partner at Lexico Advisory
- Phoon Chiong Tuck, CFA, head of fixed income at Lion Global Investors
- Praveen Jagwani, CFA, CEO of UTI International, Singapore
- Simon Ng, CFA, head of the multi-asset investment team at Shanda Group

The event was organized by the Society’s Advocacy Committee and took place at SGX Auditorium on Saturday, 20 February 2016.

Sunday Times article

The three simulated portfolios will be tracked over one year, guided by the following senior CFA members:
- Jack Wang, CFA, CA, partner at Lexico Advisory
- Phoon Chiong Tuck, CFA, head of fixed income at Lion Global Investors
- Praveen Jagwani, CFA, CEO of UTI International, Singapore
- Simon Ng, CFA, head of the multi-asset investment team at Shanda Group

To ensure the investment instruments are easily accessible, all three portfolios are limited to instruments listed on the Singapore Exchange as well as the Singapore Savings Bonds, which can be bought via automated teller machines.

The main asset classes are domestic equities, real estate investment trusts (REITs), global exchange-traded funds (ETFs) and bonds.
Jack Wang, CFA, CA, who is one of the panellists in charge of the simulated portfolios, compared stock selection to selecting a spouse.

The first stock that I bought was Capitaland. I remember buying it at S$1.01. Within 2 days, it went up to S$1.09. I thought I was brilliant, so I sold it off with an 8-cent gain. I was very happy for one day. The next day, it surged up to S$1.60. I thought making money from the stock market was so easy. This was when I was in PriceWaterhouseCoopers. After work, I would be very busy staring at Capitaland. I thought, ‘Wow! I can make 8 cents in one day!’

I was trying to figure out how I could make 8 cents every day. I succeeded for 20 days. Then, everything crashed, and I realized all the gains that I made in the last 20 days were gone! So, I realized it was a waste of time trying to make money from the stock market and my time was better spent at PriceWaterhouseCoopers.

Beware of get-rich-quick scams

Invest in your own learning before trying to make money from the stock market or getting your financial independence. At your age, you should focus on learning. If you are going to make mistakes, it is better to make them in your twenties. When you make a mistake in your twenties, you can still laugh. When you make a mistake in your thirties, you feel embarrassed. When you make a mistake in your forties, you kill your family life. When you make a mistake in your fifties, you kill your whole life. When you make a mistake in your sixties, you go to jail – nobody will forgive you.

But the worst thing you can do is to sign-up for get-rich-quick courses like those that promise 800% returns within a month. If the instructor can make that kind of money, why would he bother with trying to make money from running courses?

Professional investors like us are very happy with anywhere from 5% to 15% returns a year. About 10 years ago, I attended one of these get-rich-quick courses out of curiosity. I had just passed my CFA exams and thought to myself: I’m a pro. So, I attended the 2-hour brain-washing talk that ended with a superb close: A Ferrari makes its grand entrance.

What has a Ferrari got to do with investment return? The strange thing was: Many people in the audience were impressed. I became depressed at having wasted 2 hours there. I had just witnessed the classic sales trick of getting the prospective customer to make irrational associations.

Two years later, I read about the instructor in the news: He was in a law suit for cheating in investment courses. He did not own the Ferrari. He had rented it to hoodwink the audience into believing that he was making the returns that he claimed were possible using his investment techniques.

The reality is: Many people are not telling the truth about their investment returns. They only tell...
you the trades they made money out of. They don't tell you the trades that they get wrong.

Last year, the small caps in Singapore moved down by 60%. The mid-caps moved down by 40%. The Straits Times Index moved down by 26%. Chances are: 80% of those of you who traded last year lost money. The other 20% are just not telling you the truth.

Select your investment like you select a spouse

You are at the age when you are looking for potential partners for marriage. Don't hang out with the handsome boyfriends and pretty girlfriends. All they do is break your heart! The same goes for selection of stocks and investment products. Do your due diligence and don't go into any investment that you have doubts about. There are some 300 stocks listed on the Mainboard of the Singapore Exchange, and more than double that number if you include Catalist stocks. There are even more if you expand your horizons. Hong Kong has some 2,000 listed companies. The US has about 6,000.

Look for honest companies

If I see anything in the annual report that I do not understand, I just move on and forget about that company. If the report is difficult to understand, it probably is because the management do not want you to understand. Stay away from the company that has something to hide. If you have friends that do not tell the truth or hide something, you can conclude that they are lying!

Allocation to stocks

As a rule of thumb, the percentage of your personal investment portfolio allocated to stocks should be 100 minus your age. For example, a 30-year old should have 70% in equities while a 70 year-old should have only 30% of his portfolio in equities.

Our advice is to avoid having more than 10% of your investment portfolio in one stock. Anything more than 20% is a gamble. You will have a better experience if you start with only 5%.

Don't have a hundred stocks in your portfolio. A safe number of stocks to track closely is 5 to 10. If you believe yourself to be exceptionally intelligent, you can aim to track 10 to 20 stocks. Anything more than that is a stretch.

Jack Wang is a partner of Lexico Advisory, which specializes in CPA advisory services and private equities with a sector specialization on education and professional service firms. Mr. Wang started his auditing career with PricewaterhouseCoopers (PwC) where he obtained extensive professional experience in areas of financial audits and advisory engagements for various listed companies and MNCs.

He was formerly a banker for Greater China Region (China, Taiwan & HK) with Citibank N.A. where he managed and advised successful entrepreneurs on their investment strategies and family business planning. The asset under his management and advisory was more than USD 500 million.

Mr Wang is currently a board member of CFA Singapore, the Chairman of the Young Accountants Group of the Institute of Certified Public Accountants of Singapore (ICPAS) as well as a board member of Global Corporate Disclosure Board for CFA Institute of USA.
In my opinion, the number of stocks that you can follow actively and take a focused position on successfully is like the number of best friends that you can handle. If you are one who can only have one best friend, I suggest you don’t even come into investing. Stay within your own career because your mind is wired to have concentrated risk. You don’t like to find out about others.

**Diversification**

You should have a negative correlation asset. Historically, bonds have a negative correlation with equities. When equities are doing badly, your bond portfolio will mitigate your losses. So, you don’t get very depressed. ETFs are another good way to diversify because the cost of trading is much lower. Investing in ETFs can be compared to getting a low-maintenance spouse. When you open a trading account at a broking house, make sure you ask about the trading cost, which can be easily 1% to 2%. If your trading return is 5%, then such costs can easily eat into your returns.

**Investment Constraints**

Daryl Liew, CFA, who is the Co-Chairperson of the Society’s Advocacy Committee that is volunteering in the Save and Invest campaign, spoke about considering personal circumstances when planning investments.

New investors should be balanced and conservative in portfolio allocation. One of the worst things a new investor can do is to make an overly aggressive bet, get burnt and decide that investing is not his game. Capital preservation was one of the main objectives of Shona Chee’s simulated portfolio. That is why her portfolio contains Singapore Savings Bonds, which is capital protected (guaranteed by the Singapore government).

The portfolio allocation also depends on what kind of investor you are. Are you the kind of investor who can still sleep at night if your capital is down 20%? Or do you become very nervous if it is down 5% and can neither eat nor sleep?

Another investment constraint is whether you need your portfolio to generate regular returns. Retirees will need regular portfolio income more greatly than young investors.

Daryl Liew is Head of Portfolio Management with Reyl Singapore, responsible for asset allocation and monitoring, ensuring the execution of consistent investment decisions.

From 2002 to 2010, he worked with Providend Ltd in Singapore where he was promoted to Chief Investment Strategist and Executive Director. During this time with the company he formed part of the investment committee and managed the Providend Global portfolios and other client segregated investment accounts. Well known and respected in the industry, he co-authored the Singapore Master Financial Planning Guide, as well as writing numerous articles on investment principles and trends. He joined Reyl Singapore in November 2010.
Related to this is investment horizon. Young investors have a few big expenditure milestones ahead of them, such as a wedding, a new house and kids. Usually, when you purchase a new house, you need to liquidate your portfolio for its down payment. Your future spouse will not be happy if your failed investments ruin your home purchase plans.

Then, there are individual preferences that vary according to one's unique circumstance. For example, an accountant working in a Big 4 accounting firm may have publicly listed clients which preclude him or her from investing in these companies.

**Puah Soon Lim, CFA, highlighted stock screening and research tools found on the SGX website.**

The best-selling investment classic *Intelligent Investor*, authored by Warren Buffet’s mentor, Benjamin Graham, advocates screening for stocks with the most favorable financial fundamentals. To do this, one needs stock screener tools. A free resource for stock screening is StockFacts, a web portal on the SGX website.

One way of protecting your investment portfolio capital is to choose stocks that meet the criteria for institutional investors’ interest. One such criteria is the stock should have a market capitalisation of at least one billion dollars.

Also, many institutional investors use ETFs as that is a low cost and easy way to gain exposure to global securities. This asset class is taking off in a huge way, growing about 30% a year in asset value.

Puah Soon Lim, CFA, is an Associate Director of Finexis Advisory, an independent financial advisory firm. He works with both individual and institutional investors to provide customised advice on optimal asset allocation. His extensive experience and thorough knowledge in wealth management enables him to break down complex concepts into easy-to-understand components for the individual investors.

He has more than 20 years of experience in the investment and financial industry. For the past 8 years, he has participated actively in investment education and delivered on a series of popular workshops, particularly on value investing.
The University Research Challenge began last August with invites to universities and public companies targeted for research. The kick-off meeting took place on 19 September, when student participants were briefed on competition proceedings. Internal selection competitions took place from 25 November to 12 January.

NUS won the local finals of the University Research Challenge on 30 January, and proceeded to the Asia-Pacific regional competition.

We thank the following sponsors for making the event a success: Bloomberg, Factset and Kaplan Schweser. We thank the public listed companies, StarHub and Ezion, for providing for the student contestants with access to their management. We also thank the university mentors who guided the student teams through the months of intense preparation.

University Outreach Committee

1. Kevin Gin, CFA (Chair)
2. Simon Deng, CFA (Deputy Chair)
3. Benjamin Goh, CFA
4. David Leow, CFA
5. Simon Ng, CFA
6. Tan Chee How, CFA
7. Melvin Tan, CFA
8. Jack Wang, CFA, CA
9. Tolmas Wong, CFA
10. Mitchell van der Zahn, CFA
11. Andy Yeo, CFA

Trainers & Speakers

1. Kevin Gin, CFA
2. Jack Wang, CFA, CA
3. Th’ng Beng Hooi, CFA
4. Tolmas Wong, CFA
5. Melvin Tan, CFA
6. Mitchell van der Zahn, CFA
7. Zhang Da, CFA

Judges

1. Lim Kok-Ann
2. Hwang Nian Huei, CFA
3. Sanford Chee, CFA
4. Chou Chong, CFA
5. Andrea Sankar, CFA
6. Lee Yue Jer, CFA
"The performance of the participating teams are improving over the years. The standard is very competitive this year. Every team has its own strength and weakness. In reality, the market keeps moving. The job of a sell-side analyst is to analyse the fundamentals of a company, understand its business and value proposition regardless of what happens to the market."

- Lim Kok Ann (CEO of DBS Vickers Group) in his closing remarks as one of the presentation judges.

"Many of you do as well as analysts on the Street. If you have many variables for the company you are researching on, pick one and focus on it. Just show that you have looked through all the variables and have factored in all the key issues."

- Lim Kok Ann (CEO of DBS Vickers Group) in his closing remarks as one of the presentation judges.

"The performance of the participating teams are improving over the years. The standard is very competitive this year. Every team has its own strength and weakness. In reality, the market keeps moving. The job of a sell-side analyst is to analyse the fundamentals of a company, understand its business and value proposition regardless of what happens to the market."

"What has happened to the market is a piece of history. As sell-side analysts, our job is to understand the intrinsic value of a company and make a recommendation accordingly to investors."

Simon Deng, CFA
Co-Chair
University Outreach Committee
CFA Singapore Mentorship Programme: Speed dating event on 8 March to match mentors to mentees facilitated by Louise Tagliante, Managing Director, Protege

CFA Institute University Investment Research local finals on 30 January: The team from SMU was Overall First Runner-up. It also won the Best Presentation Award. L-R: Sim Yi Jun, Cheong Wen Quan, Feng Lu Wei, Samuel Tan, Sebastian Seow.

Managing Your Own Career: Talk on 25 February by Andrew Jones, Executive Coach, Accadence.com
The Dark Side of Financial Statement Analysis: Talk on 23 March by Professor Joel Litman, Chief Investment Strategist, Valens research group

Interest Rates and their Impact on Style: Talk on 11 March by Dr Peter Hopkins, Style Research

Asian High Yield Overview and Outlook: Talk on 17 February by Feng Zhi Wei (left), Executive Director, Credit Research, Standard Chartered Bank. Right: Victor Ong, CFA, Co-Chairperson of Professional Development Committee

Outlook of RMB and the Asian High Yield Market: Talk on 28 January by Raymond Gui, CFA, Lead Portfolio Manager for Income Partner’s RMB-denominated investment funds.
Talk by Center for Non-Profit Leadership at Charlie’s Tapas, Grill & Bar on 21 March

Winifred Loh, Managing Director, Centre for Non-Profit Leadership at CFAS networking event.

CFAS Board Member Simon Ng, CFA (left) with Edna Leong, Deputy Director, People Search, Centre for Non-Profit Leadership.

At the Networking Drinks event at Burger VS Wings + Bar on 29 February, lucky draw winner Ernawati (2nd from left) received a bottle of wine from Networking Committee Chair Seow Hock Hin, CFA.

An Nguyen, CFA (left) was the lucky winner of a bottle of wine at our Networking Drinks event at Overeasy on 25 January.
<table>
<thead>
<tr>
<th>Month</th>
<th>Event</th>
<th>Trainer/Details</th>
<th>CE/CPD Hrs</th>
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<tbody>
<tr>
<td>May 23 &amp; 24</td>
<td><strong>Asia Real Estate Investment and Finance Workshop</strong></td>
<td>Prof. Roy Ling</td>
<td>14 CE hrs / 14 CPD hrs</td>
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<td>June 2 &amp; 3</td>
<td><strong>Drive Workshop</strong></td>
<td>Adrian Chong</td>
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<tr>
<td>June 29 &amp; 30</td>
<td><strong>Strategic Valuation &amp; Fundamental Investing Masterclass</strong></td>
<td>Prof. Joel Litman</td>
<td>14 CE/CPD hrs FTS Eligible</td>
</tr>
<tr>
<td>July 7 &amp; 8</td>
<td><strong>Masterclass in Venture Capital &amp; Startups</strong></td>
<td>Mr. Arvind P. Mathur, CFA</td>
<td>14 CE hours</td>
</tr>
<tr>
<td>July 11 to 13</td>
<td><strong>Investment Banking (IPO, Capital Structure, M&amp;A)</strong></td>
<td>Roy Ling</td>
<td>21 CE hours</td>
</tr>
<tr>
<td>August 12</td>
<td><strong>Business Valuation Workshop</strong></td>
<td>Mr. Ong Woon Pheng, CFA</td>
<td>7 CE / 7 CPD hrs FTS Eligible</td>
</tr>
<tr>
<td>October 5 &amp; 6</td>
<td><strong>Masterclass : Excellence in Private Equity, Venture Capital &amp; Deal Structuring</strong></td>
<td>Mr. Arvind Mathur, CFA</td>
<td>14 CE hrs</td>
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<tr>
<td>October 24 to 26</td>
<td><strong>Advanced Financial Analysis Series</strong></td>
<td>Mr. Hamilton Lin, CFA</td>
<td>7 CE hrs / module</td>
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All workshops listed are subject to change without prior notice. Email us at eventmanagement@cfasingapore.org for more details or visit our website at www.cfasingociety.org/singapore for registration.
<table>
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<tr>
<th>Professional Development</th>
<th>April 28 Thursday</th>
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<tbody>
<tr>
<td><strong>Succession Challenges for Asian Family Businesses</strong></td>
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<tr>
<td>Venue: Manchester Business School</td>
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<td>John Owens Executive Room</td>
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<td>Speaker: Professor Kasper Meisner Nielsen</td>
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<tr>
<th>Networking</th>
<th>April 28 Thursday</th>
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<tr>
<td><strong>CFA Society Singapore – J.P. Morgan Corporate Challenge</strong></td>
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<tr>
<td>Venue: Esplanade Bridge / F1 Pit Building</td>
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<th>Networking</th>
<th>April 28 Thursday</th>
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<tr>
<td><strong>Networking Drinks</strong></td>
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<tr>
<td>Venue: BOULEVARD CRAFTBEER (Millenia Walk)</td>
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<tr>
<th>Professional Development</th>
<th>May 03 Tuesday</th>
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<tr>
<td><strong>[Webinar] The &quot;Checklist&quot;: Ten Steps for Advanced Risk and Portfolio Management</strong></td>
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<tr>
<td>Venue: Capital Tower, FTSE Room</td>
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<tr>
<td>Speaker: Attilio Meucci</td>
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<tr>
<td>Event</td>
<td>Date</td>
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<tr>
<td>Lipper Alpha Insights - Outlook For Markets In Factor Performance &amp; The Attack On Active</td>
<td>May 09</td>
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<tr>
<td>Investing in Renewable – A Tipping Point for Clean Energy</td>
<td>May 12</td>
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<tr>
<td>Multi-Asset Investing: A Practitioner’s Framework</td>
<td>May 30</td>
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<tr>
<td>Annual Forecast Dinner</td>
<td>June 30</td>
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The CFA Singapore Quarterly features the latest in thought leadership, best practices and investor education activities of investment professionals in Singapore. Written by financial journalists for veterans as well as those aspiring to greater heights as an investment professional, this quarterly newsletter commissioned by CFA Singapore is produced by NextInsight (www.nextinsight.net) and circulated to about 10,000 CFA charterholders and program candidates. Email or call Sim Kih (simkih@nextinsight.net) at 6438-2990 for feedback and inquiries.

CFA Singapore Annual Forecast Dinner

CFA Singapore's 2016 Annual Forecast Dinner is back!

Join us at our Professional Development flagship event, together with a panel of regional experts, as they share their views and outlook of the world/ regional economy and discuss how it will impact businesses and investors alike.

**Agenda**

- 6.30pm Registration / Buffet Dinner cum Networking
- 7.30pm Opening Address
- 7.45pm Panel Discussion
- 9.15pm Presentation of Tokens to Panelists
- 9.30pm Closing Remarks
- End of Event

**Organised by:**

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