MANAGING RISKS IN INVESTMENTS

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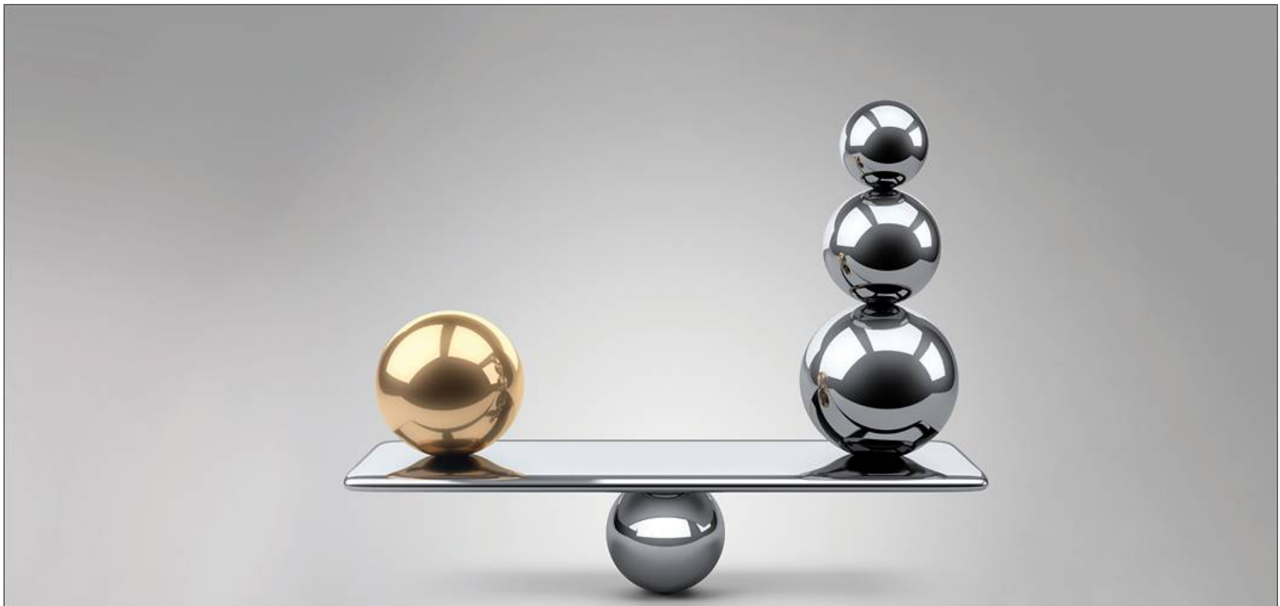
When it comes to growing your retirement nest egg, “steady as she goes” is perhaps the maxim that best applies to the over-riding goal of most people.

Generating a steady stream of income through shrewd investing and appropriate risk management can go a long way towards fulfilling your aspirations, whether your retirement goal is enjoying the Northern Lights in Scandinavia or the Supertree lights at Gardens by the Bay.

The first step to kicking back and enjoying the retirement you want? Understanding your risk profile and appreciating how much time you have on your side.

A BALANCING ACT FOR THE YOUNG AND NOT-SO-YOUNG



Let’s say you’re a 30-year-old who’s already planning for the day you can hang up your laptop bag for good. You’ve got considerably more time till your retirement than someone in his 50s.

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What that means is that you may have room to take on a bit more measured risk in your investments. But that doesn’t mean you can have your rainbow cake and eat it too. You’ll have other things to worry about that someone in his 50s probably wouldn’t, according to one expert we spoke to.

“Near-term financial goals, such as preparing for a wedding, putting a down payment for the first house and having a first child, may derail a 30-year-old from investing,” said Mr Abel Lim, head of wealth management advisory and strategy at UOB.

Meanwhile, investors who are in their 40s and 50s would be thinking of paying down their debts and deriving stable returns in their investments so they should not be taking up too much risks in their portfolios.

“Generally, a 30-year-old investor would be looking at accumulating funds or assets. Those in their 40s and 50s would want to protect and preserve their assets,” said Mr Lim.

“Ideally, a 50-year-old investor’s portfolio should also generate some passive income so he can continue to preserve his assets when he nears retirement age,” he added.

MANY EGGS, SEVERAL BASKETS

With these objectives in mind, investors should adopt several risk-management strategies when investing.

For starters, diversification is one of the most powerful tools you can apply as you spread risks across different asset classes that have low correlation to one another. Mr Lim said this would enable you to better manage volatility and risks in your portfolio over time.

Managing volatility against your time horizon is also an important strategy to adopt. “For instance, if you are nearing retirement age, you should not be investing in highly volatile assets because you might not have enough time to recover from market volatility,” said Mr Lim.

To manage downside volatility, Mr Lim advised investors to consider assets that can generate a coupon such as a dividend yield. “In times of market distress, a coupon can act as a buffer. For instance, if a market has an 8-per-cent correction and your portfolio delivers a 5-per-cent yield, your downside is mitigated by the coupons you receive,” he explained.

LAYERED, LIKE AN ONION

UOB adopts a “Risk-First Approach” and uses this to guide investors on the way they approach their investments.

“Our approach is like a pyramid and we start off with the most important layer, which is the preservation layer,” said Mr Lim. “In this layer, you should have enough monies to take care of rainy days and insurance protection so you can handle what life throws at you,” he added.

Anchored on the principle of risk management, the next layer comprises a highly diversified portfolio that has risk-management control in place, while generating stable yields for its investors.

“While a traditional portfolio may only comprise bonds and equities, we believe a multi-asset portfolio will have multiple legs and the rest of the portfolio can still be well-supported by commodities, futures, REITS or property if one leg breaks,” said Mr Lim.

Under the same approach, UOB also helps customers to identify market opportunities based on the investors’ risk appetites.

“We have an internal scoring system where we identify which investment ideas make more sense and can be qualified under the market opportunities component. Seizing the right opportunities will enhance the portfolio value,” said Mr Lim.

INVESTMENT AND YOUR RISK APPETITE

So if you were a conservative investor, then cash and cash-equivalent products would be right up your alley.

“A medium-risk investor will be encouraged to have the base investment assets that focus on preservation as well as a core investment solution, which may comprise a global multi-asset fund with investments in futures, commodities and exchange-traded funds,” said Mr Lim.

“We also have structured notes that have pay-offs at stipulated periods. Such investments range from monthly to a five-year contract period with the bank so investors who are concerned with liquidity can consider such assets as well,” he added.

According to Mr Lim, the idea is to invest – not punt – your money. It’s a critical difference that is sometimes overlooked in the hope of large returns.

“Investing is about putting your money in assets that can give you stable returns in the long term. But punting is like betting – you put your money in the hope of seeing a huge return in the short term,” he said.

“While it’s true that lower risk taking will translate into lower returns, higher risk-taking doesn't always equate to higher returns,” added Mr Lim.

As with most things in life, the key is to adopt a realistic view to help you strike a balance between risk and return in your investments.

To find out more about UOB's Risk First approach and to find the right strategies to employ for your risk profile, speak to a UOB banker today. Visit uob.com.sg for more information.