



Coffeebreak

12/2019

Snow: A Christmas Short Film

Why You Should Focus On Your Goals When You Invest

My Providend Love Story

Update On CPF And More



Dear Valued Client,

I always look forward to December. It is the time of the year when Singapore feels like we are in winter land and where everything slows down and families go for holidays. It is also the time of the year when we take time to be grateful for the things that has happened in the last 12 months.

As I take stock of my last 12 months, I cannot help but to feel very grateful. On a personal front, I am extremely honoured and grateful to be able to launch my book "Money Wisdom" in November. This book is a compendium of articles that I have written over the past 15 years and It would not have been possible without the help of many people. I hope you will get a copy of the book to read and if you have not done so and would like to get a copy either for yourself or as a Christmas gift for your

family and friends, do speak with your client adviser on how you can get a copy.

Also In November this year, after serving the army for 30 years, I was honoured at the National Day Awards Investiture with a Commendation Medal (Pingat Penghargaan Tentera). It has been a privilege for me to be able to serve Singapore this way and I am just grateful for the award.

On the family front, I was grateful to be able to go to Manila with my wife to support my son playing floorball for Singapore in the 30th SEA Games. It was his first SEA Games and I thought we should be there for him. It was so exciting to cheer with fellow Singaporeans for Team Singapore and I was very proud that my son and his team won a silver medal for Singapore.

Majulah Singapura!



On the business front, 2019 has been an exceptionally good year for Providend. A few months ago, we were recognised by iFAST Corporation (our custodian and platform provider) to be the financial advisory firm on their platform to have the highest net new Asset Under Advice (AUA) in 2018. And in 2019, our AUA continues to rise by SGD100 million and Providend is now advising close to \$400 million of our clients' money. This is a huge honour as well as a big responsibility for us and I am indeed touched by the trust you have given us in taking care of your retirement money. In terms of investment performance, this year has been a spectacular year for all our investment portfolios. And this is achieved despite the volatility of the markets, no thanks to all the noise created by media. While the nature of the financial markets does not allow us to have great performances every year and we do not

know what the markets entail in 2020, we are ready to help you capitalise on the opportunities if markets do go down in 2020. Meanwhile, stay invested for the long run.

So what are you grateful for in 2019? As the year comes to an end, I hope you will be able to take some time off to rest and spend time with your loved ones.

Blessed Christmas and a happy new year!

Warmest regards,
Chief Executive Officer

Christopher Tan



Content

01

Food for Thought

Snow: A Christmas Short Film

02

Thought Leadership

Why You Should Focus On
Your Goals When You Invest

03

Family Happening

My Providend Love Story

04

Coffee Express

Update On CPF And More



01

Snow: A Christmas Short Film





02 Why You Should Focus On Your Goals When You Invest

Kyith Ng, Senior Solutions Specialist

We just concluded our last Retirement Weekend here at Providend. At this event, we explain the holistic considerations that many may not have considered when they are near retirement.

One of the feedbacks that we have received about the Retirement Weekend was that not a lot of talks explained how to conceptualize the various assets and cash flow that we all have. Over the course of 15 to 25 years, it is not uncommon to have accumulated many kinds of financial assets.

You can keep accumulating assets, but has anyone ever shared with you **a plan for how all these financial assets piece together?**

A lot of our clients come to us because they could not resolve all the financial assets which they have accumulated along the way.

They do not know whether they have enough for what they need.

Some do not know what they need, let alone whether they have enough.

That is probably a story for another day.

One other fixation we observed is on returns. In this case, what is **the compounded average return your investment nets you**. Investors pit what they should invest next in, against the compounded returns of their existing investments, or something out there.

When they evaluate what we proposed to them, they would ask "How does this fund compare to XXX?". If not, some months later, they will indicate an interest in investing in a certain fund and ask whether that is a good idea.

At Providend, we think investment returns are important, but not in the way most think.

Your Goals And Liabilities Drive Many Things

In an article by The Business Times on 16 November, Giuseppe Ballocchi explains that investment professionals should try to provide a return that matches their client's mission and purpose. Giuseppe is a CFA holder who is a partner at Alpha Governance Partners, specializing in derivative strategies, and sits on a few investment fund boards.

Giuseppe advises investment professionals to design investment plans that meet an investor's needs and achieve "unique client-directed results". "Unique client-directed results" is a big phrase but essentially it means that every of your client have unique needs. Every investment professional should need to conduct a detail analysis of the client's situation, and work out what assets the client has, and what are the client's goals and liabilities.

"What matters is the focus on the individual client, not generating superior returns, especially in the short term. Portfolios built from beta and alpha components – often by bringing together asset allocation and manager selection – have not served end investors well because they do not directly relate to their objectives."

Your Total Assets		Your Total Goals & Liabilities			
Aggregate Of Your Family's Future Earnings Potential	Residential Property Cash Investment	Your Financial Independence	Residential Property Mortgage	Excess, Not Used	
			Child 1 Tertiary Education Expenses	Your Living Expenses For The Next 25 Years	Spouse Living Expenses For The Next 25 Years
			Child 2 Tertiary Education Expenses	Child 1 Living Expenses Till End Of University	Child 2 Living Expenses Till End Of University

Figure 1: Your Total assets are supposed to match your total liabilities and future goals

Goals-based investing, in essence, **allocates assets to match your goals and liabilities.**

The **rate of return** you will eventually earn, **may not be what it is projected**. If there are no feasible and reliable way to meet the target again, then it **may be necessary** to either:

1. **adjust ambitions downwards, or**
2. **increase available assets**

The risk to you should not be negative returns on your fund but on not covering your liabilities or goals.

Giuseppe thinks that this will help to shift the client's perception of risk and would be easier to understand as well.

Effective goals-based investing **requires a deep understanding of clients**. This provides a sound basis for the adviser/client relationship. Clients are not likely to be disappointed over the long term when they are not promised superior returns and won't rely on them to achieve their objectives. If they end up beating the market, so much the better, but that's the icing on the cake rather than the primary value proposition.

Benjamin Graham's words of wisdom come to my mind: "If the reason people invest is to make money, then in seeking advice they are asking others to tell them how to make money." That idea has some element of naivete.

Businessmen seek professional advice on various elements of their business, but they do not expect to be told how to make a profit. That is their own bailiwick. When they, or non-business people, rely on others to make investment profits for them, they are expecting a kind of result for which there is

no true counterpart in ordinary business affairs.

If we assume that there are normal or standard income results to be obtained from investing money in securities, then the role of the adviser can be more readily established. **He will use his superior training and experience to protect his clients against mistakes and to make sure that they obtain the results to which their money is entitled.**

"It is when the investor demands more than an average return on his money, or when his adviser undertakes to do better for him, that the question arises whether more is being asked or promised than is likely to be delivered."

What Giuseppe said is not new to us. At Providend, our clients have benefited from this way of planning over the years. It is just that often, the noise in the media have refocus our clients back on to returns only.

If you evaluate our ability purely based on returns, then we have to honestly admit that we may not be the best in the business.

But our value to clients is more than that because all of them have a unique required rate of return.

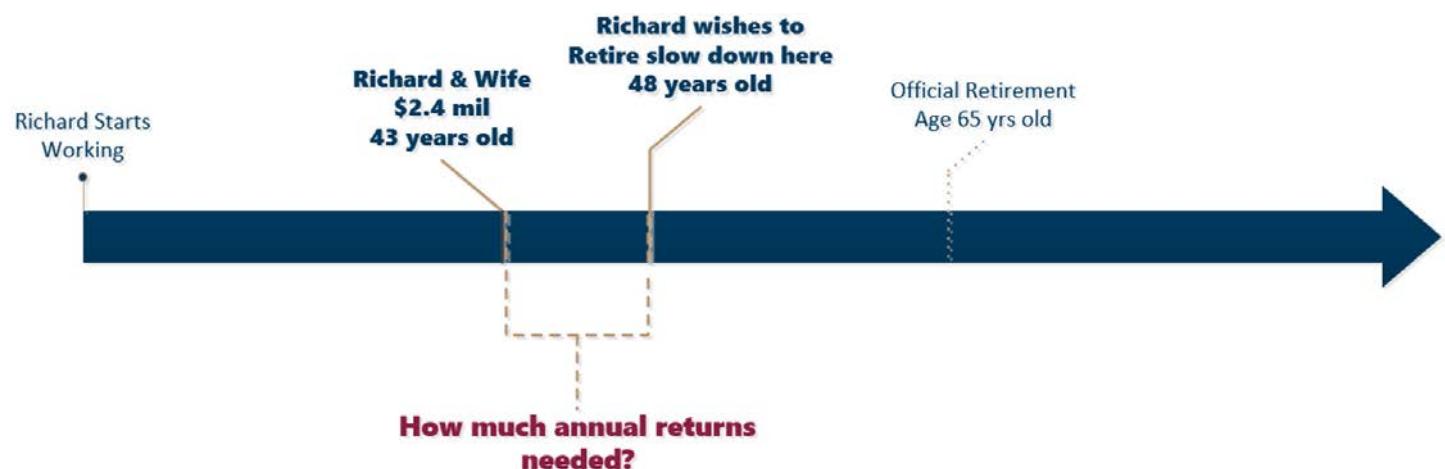
I call this "a well-fitted rate of return".

What A Well-Fitted Rate Of Return Means

Richard and his wife have built up \$2.4 million in investable assets.

This is in the form of cash, managed investments, investment property, net of mortgage on their investment property. He works as a Director in financial services and his wife works as a marketing executive. They bring in a combined \$280,000 a year before taxes and \$230,000 after taxes.

Richard is 43 this year and would like to see if he can slow down at 48 years old.



If we do not respect the client's goals and objectives, we would choose to put Richard and his wife in our portfolio that generates the greatest returns, which is the Index+ Equity Portfolio.

By going through a detailed discovery session with them, we have uncovered a few things:

1. The family's annual expense when Richard reaches 48 years old is estimated to be closer to \$50,000 a year
2. Richard's wife has always been rather conservative. On the other hand, he has seen this kind of things daily in his work, but he does hold a more balanced tolerance to risk
3. The family has nearly a 70% savings rate (after-tax income – expenses) / (after-tax income)

The key thing for Richard and his family is that even with \$2.4 million, given their frugal lifestyle, they do not need to grow their money at all. Even at 0% rate of return, their annual expenses, adjusted for inflation would constitute only 2.4% of their net wealth today.

A conservative portfolio, or balanced portfolio, looks more appropriate given that both lean towards people who are not so willing to take risk. Moreover, their time horizon also shows a lack of ability to take risk.

A focus on returns may jeopardize Richard and his family's life. A high return fund exposes Richard and family to higher volatility assets. In the short term, the returns may vary from +20% to -20%.

Even if their portfolio becomes \$1.2 million, their family's retirement income may be more or less intact. However, \$1.2 million may not last for a 50 years' retirement duration with high certainty.



The worst thing for Richard and his wife is to see their hard-earned assets be cut in half, when they are not comfortable with such volatility.

Returns are important. But we build our wealth so that we can live the kind of life we desired. If you focus too much on the returns, and not how everything fits together, perhaps you have failed to see the big picture.

03

My Providend Love Story

Tan Chin Yu, Client Adviser

My love for personal finance began 9 years ago when I first entered the workforce with Singapore Airlines as an executive and receiving my first paycheck. Like many others, it felt like a lot of money at that time, having just transitioned from a poor student to full time employment. I knew that I needed to find a way to optimise but was unsure on how to do so. Knowing myself, I would never commit my hard-earned money in the hands of financial salespeople without doing enough due diligence myself.

"Buy Term and Invest the Rest" or BTIR, this was one of the first lessons I learned when I went down the rabbit hole of devouring every information I can find on personal finance. The realisation that there are many more effective ways of planning for insurance



and investments beyond the commonly promoted use of high cost wholelife plans and investment-linked policies was enlightening to me. It was also fascinating to read about the stories of how various individuals planned out how they like to live their lives through deliberate decisions in their finances. I wanted to do the same for myself and also to share what I learned with others so that they can also make good decisions in their finances and personal lives.

"Our government is like our father", those were the words that I never thought I would hear in an educational talk on CPF. My first encounter with Chris was on YouTube about 6 years ago. I was searching for information on utilising CPF and SRS schemes when I chanced upon his talk given at a SIAS event. The video was over an hour long which honestly, I did not plan to finish watching entirely. However, Chris' ability to present a dry topic like CPF in an engaging way with interesting and funny analogies made it so enjoyable to watch that I finished watching the whole video before I knew it. His down to earth and sincere demeanour easily connected in a way, and I could tell that the audiences felt the same too.

Chris' talk sparked the curiosity in me to learn more about Providend, and their mission. I found their story on how they started out in trying to change the industry admirable. I felt their strong convictions in fighting for what is right, despite numerous pushback from the industry. I had seen how passionate Chris was in writing about various topics such as why term

insurance and low cost funds should apply to most people, and responding patiently to the barrage of external disagreements. What I had been advocating casually to friends over the past few years, Providend was doing it at full scale, and made it their life mission and purpose. Slowly and unknowingly, I became a die-hard fan of the company, rooting for them in every step of their journey.

While looking back, I thought about the many similarities between this story and my personal romantic courtship (that is for another day). It starts with admiration from afar, coupled with self-doubt whether I'm good enough to be part of their journey. Neither my education nor my profession was in related fields, hence what qualifications do I have that can even be considered? Where do I even start to get to know the folks there. All these uncertainties held back any concrete plans and actions that I needed to take.

At the same time, I was progressing relatively well in my career, having the opportunity to work overseas and being on track to becoming an overseas Country Manager for Singapore Airlines. The many experiences gained along the way was invaluable to my professional and personal growth. The chance to live as an expatriate in countries such as Indonesia and Australia was an added bonus, not to mention the attractive benefits that the company provided.

Although life seem to going well so far, I couldn't shake off the idea that I could be going after my dreams in something that I'm immensely

passionate about, in a firm that I admire deeply. It was not until a couple of years back that I gave serious thought about what I need to do to pursue what I love. As Chris often also say, we should first make a life decision and decide on our purpose, then allowing that purpose to guide our financial decisions. And that purpose of doing what I love and making significant impact to people's lives was more important than the traditional definition of career success. I wanted to do something that really mattered to me.

From there, I developed a 3-part roadmap for myself to get to where I wanted to be. The first was to ensure that I had enough financially to take care of any uncertainties that might come along in a life changing decision. The next was to embark on a Certified

Financial Planner (CFP) self-study programme to upskill my professional knowledge and credentials in the industry. And the last was to find a way to reach out to Providend, to have them consider my desire to be part of their family. And this last step was filled with the most uncertainties. What if I was rejected? Would I see myself as a failure? If that happens, should I give up or persist? Like any love story, facing the possibility of rejection is never easy but I understood that it is also an inevitable part of the process if it is truly important. Regret was also probably a bigger fear that I had than possible rejection.

Thankfully, it all worked out well and I was fortunate enough to be offered the opportunity to join as a Client Adviser. Like any relationship, getting together is just the beginning. It will take continuous and deliberate effort and hard work to develop myself further, so as to make a positive impact and keep the passion going.



04

Coffee Express

1. The deadline to contribute to the Supplementary Retirement Scheme (SRS) for you to enjoy tax relief in Year of Assessment (YA) 2020 is **31 Dec 2019**.
2. Be mindful of how you are using your bonus as it can be saved towards your retirement and/or contribute to your children education fund.
3. Reflect on your past year and think of the goals you want to focus on for the new year.
4. Prices paid by consumers to GST-registered overseas service providers for the purchase of digital services will be inclusive of GST **from 1 Jan 2020**.
5. The Basic Healthcare Sum - or estimated savings required for basic subsidised healthcare needs in old age - will be raised from **\$57,200 to \$60,000** for CPF members under 65 from Jan 1.





Disclaimer

The information and opinions provided above are general in nature and prepared from data believed to be reliable. No representation, whether express or implied, is made with respect to the accuracy, completeness or reliability of the information or opinions offered, and we expressly disclaim liability for errors or omissions in such information and materials.

Any opinions or views we offer are not necessarily indicative of future or likely performance of any particular investments. The information provided may contain projections and other statements regarding future events or future financial performance of countries, regions or markets. These statements will necessarily only be predictions and actual events or results may differ. You should make your own assessment of the relevance, accuracy and adequacy of the information contained in the information provided and make such independent investigations as you may consider necessary or appropriate. Any opinion or views offered is made on a general basis and is not to be relied on as advice. Accordingly, neither we nor any of our associates, directors, connected parties and/or employees accept any liability whatsoever for any loss, whether direct or indirect, that may arise from the use of information or opinions provided.

The information and opinions provided are not to be considered as an offer to sell or a solicitation of an offer to purchase any investments. Please note that investments are subject to risks, including the possible loss of the principal amount invested. Past performance of any investments is not indicative of its future performance.

See You Latte!



Providend Ltd
Company Registration No: 200209049C
38 Duxton Hill Singapore 089616
Copyright © Providend Ltd 2006- All rights reserved.