INVESTMENT 101

A Whole New Approach To Financial Freedom

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Here's the thing about retirement planning - while much has been written about the lack of it in the media, many still remain clueless about how it can be achieved. I believe there are a few key fundamental reasons as to why this is so.

Firstly, there are very few truly proven investment instruments that can deliver consistent performance over a long period of time - something absolutely crucial to grow a retirement asset portfolio. Building a retirement plan on high volatility instruments is akin to building your house on shifting sand. Eventually a storm will cause it to collapse.

These instruments are better suited to short term speculative strategies than stable long term growth. Such volatile instruments will also require a significant amount of attention which many investors find difficult to allocate time to. Hence, most would delegate the responsibility to advisers and planners. In our experience, the results of such delegation have been mixed at best and more often than not, less than desirable. This is not due to a lack of competency, but more so because of the increased market volatility and fluctuations.

The volatile fluctuations of the instruments presents another major challenge - the inability to support significant leveraging. Without leveraging the returns on investment will be too weak to build towards a significant portfolio over a reasonable period of time. Suppose an annual income of $60,000 (inflation taken into consideration) is required in 20 years time for retirement, representing a 3% yield on a $2m portfolio. An investor starting with $200,000 will need to grow his portfolio at 13% annually to achieve that over 20 years. That means that investors would have to take on higher risks, or start with a higher level of capital.

So are there truly viable retirement solutions for investors? I believe so. After over a decade of coaching investors, I have found that 9 out of 10 investors who are comfortably retired, have done it through asset portfolios. Whether local or overseas, their assets tend to be solid, stable and non-speculative, gaining value over time and producing consistent returns while requiring acceptable level of management effort. For most instruments, time often represents risk exposure. For property assets, time is a close friend that corrects mistakes and rewards intelligent purchases.

The trick is to invest purposefully and strategically, building a well-balanced and risk-mitigated property portfolio. Over the years our company has helped many investors do exactly that. For example, one of our clients, a professional engineer with a family of 4, who started with an old fully paid family home. I'll go through a quick summary of what he did to get himself a portfolio of 5 properties that is growing and is allowing him to look into retiring comfortably in another 5 years or so. Note that this investor is particularly biased towards to Australia for personal reasons.

With a starting capital of $350,000, sourced through the refinancing of his Singapore property in 2007 and capped to his CPF contribution to avoid out of pocket expense,

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1. He invested in 2 properties of around A$1.1m while the AUD was 1.28 against SGD at a 75% loan LVR.

2. In 2009, with the AUD at par against SGD, he moved his loans from AUD to SGD to take advantage of the currency weakness and also the low interest rate, thus increasing his yield.

3. In 2011, with the AUD having regained strength he switched his loan back to AUD and thus reduced his loan and increased his equity in the portfolio.

4. The gains due to currency movements, capital growth and rental income led to him being able to expand his portfolio with a further 2 properties in 2012 and another Malaysia property in 2013.

5. In 2015, with the AUD at a low again, he moved his loan back to SGD and with his Malaysia property having grown in value, he is now well positioned in 2018 to expand his portfolio to a total of 7.

6. His current income stands at SGD$50,000 annually, only because he is still in the expansionary mode hence he is maintaining an average of 70% LTV across his entire portfolio ie. higher repayments.

7. By 2020 we are forecasting his portfolio to be worth approximately SGD$6m with a portfolio LTV of around 60% and an estimated annual income of between SGD$80,000-100,000.

Throughout the entire process, the client had very clear goals and strategies, established and managed together with our portfolio consultants. His portfolio, with assets mostly located in established and growing economies, were managed by professionals providing exceptional stability and consistency. Through all the financial downturns in that period including the GFC, Europe meltdown and collapse of oil prices, his portfolio remained strong and profitable. We believe that he is well on his way to achieve retirement.

While some may argue that properties are too exposed to significant risks such as economic turbulences, policy changes and management issues especially when it comes to the overseas market, we have found that with diligent research, strong partnerships and a strong business model geared towards the interest of our clients, we have been able to provide a platform where our clients' portfolios are carefully and intelligently grown, optimised and managed.

Building and managing a property portfolio for long term retirement is certainly not a walk in the park. However, when compared with other instruments it provides a level of consistency that far exceeds them thus making it, in our opinion, the best asset class for retirement planning - one which many can stand to benefit from.

And that is why we at RunningStream strongly believe that we have something unique.

Dan Toh
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