UOB

Investment Insights

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The state of your portfolio: A 10-year challenge that matters

Unless you've been on a social media hiatus of late, you would have noticed an onslaught of "10-year challenge" posts on your feeds. Looks might not always improve with age, but there's a good chance your investment portfolio could – with a good long-term investment strategy.

Summary

- A significant number of investors are cagey, fearing an economic recession in the next year or two.
- Even if you don't catch the bottom, it's possible to grow your portfolio significantly given enough time in the market.
- Over the long term, clients who choose to hold cash often miss out on valuable opportunities to grow their wealth.
- A good long-term approach would be to invest in tranches.

For much of last year, souring US-China relations set the stage for a turbulent year in global markets. Investors, shaken by the widespread impact of the trade war on global growth, are holding tight to cash, waiting for the right moment to re-enter the markets.

While it probably isn't possible to predict exactly how global markets will move in the future, studying the relationships between investor behaviour, market movements and their corresponding outcomes can help would-be investors with their future investment decisions. Enter Mr Tan, his neighbour Mr Wong, Mr Wong's wife, Mary, and their friend Alice.

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Should you have any queries, please contact your UOB Banker for more information.

An investor with perfect market timing

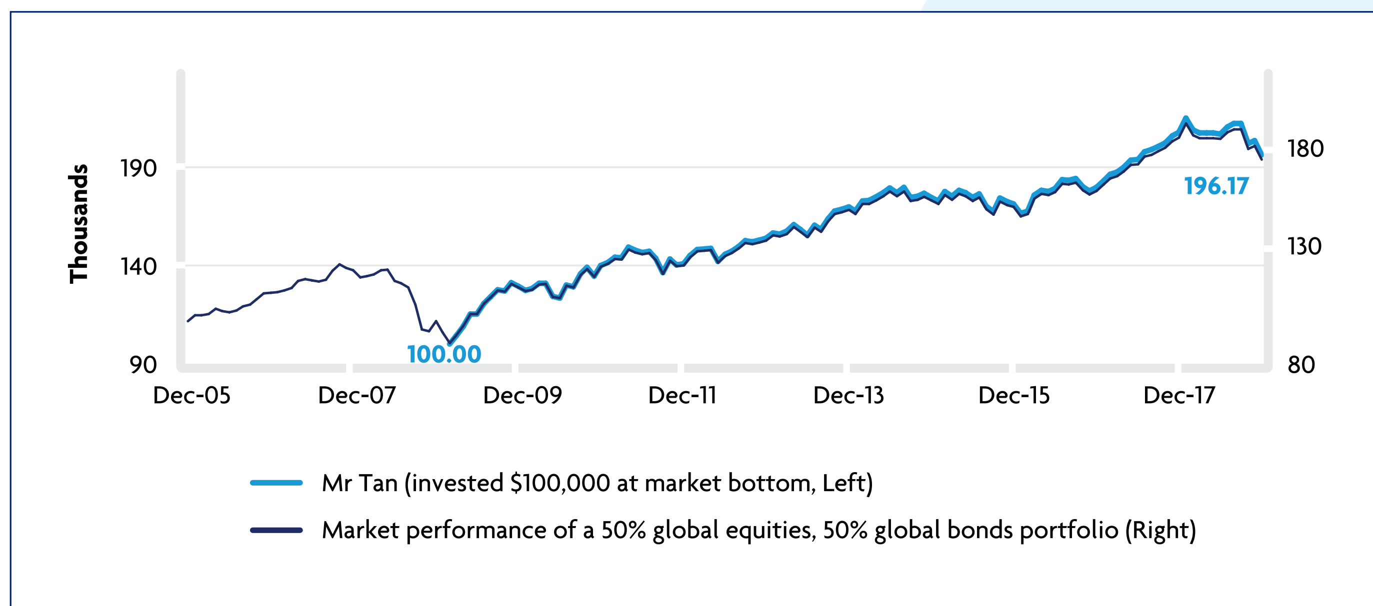
One such investor, Mr Tan, timed the market perfectly. He invested US$100,000 of his savings in a 50-50 mix of global equities and bonds in February 2009 – right after global markets crashed. He caught the bottom, racking up a handsome 96% in overall gains over a decade-long period.

Figure 1

Investment:
US$100,000

Market Cycle:
Market Bottom

Portfolio:
US$196,170 on 31 December 2018



Source: Bloomberg, portfolio returns based on 50% MSCI World Net Total Return Index and 50% Barclays Global Aggregate Index, as at 31 Dec 2018.

An investor with poor market timing

Mr Tan's neighbour, Mr Wong, had quite the opposite outcome when he tried to time the market – investing right before global markets crashed spectacularly. Like Mr Tan, Mr Wong invested US$100,000 of his savings into a 50-50 mix of global equities and bonds, except he had invested in October 2007, right before global markets tanked.

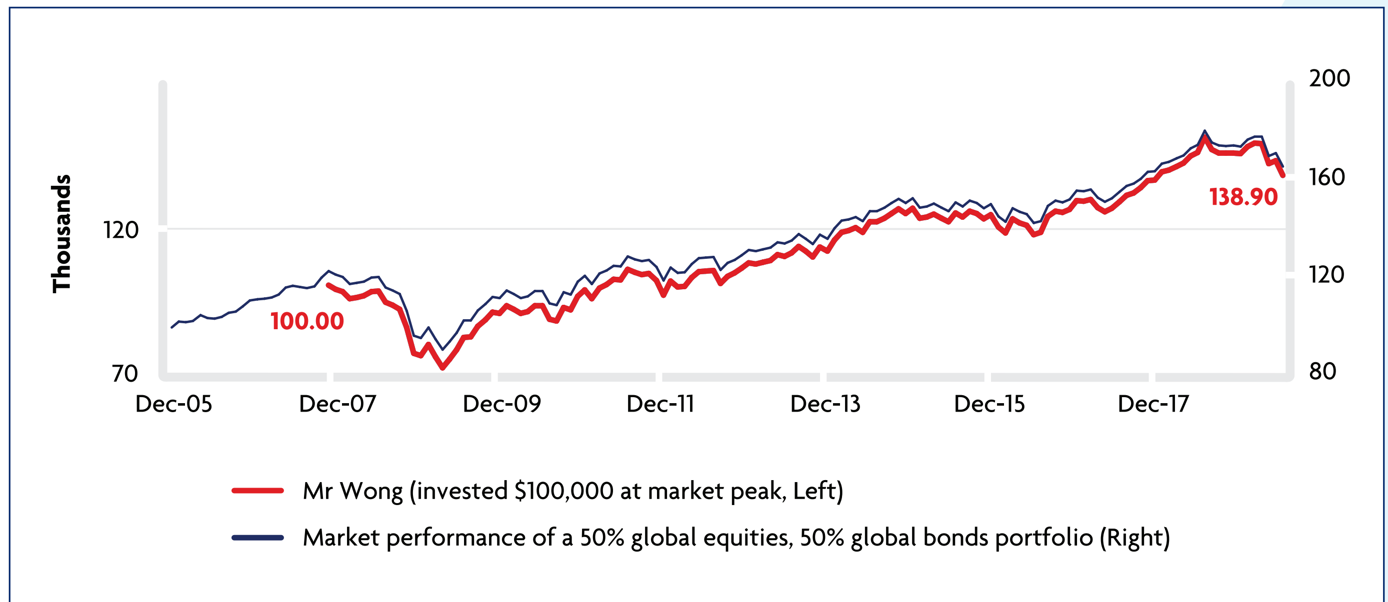
Feeling discouraged, Mr Wong walked away from investing for the next decade and ignored his portfolio the entire time. Out of curiosity, he decided to check in on his portfolio in 2018 – and to his surprise found he was in pretty good shape. Overall, his portfolio had grown nearly 40% to US$138,900!

Figure 2

Investment:
US$100,000

Market Cycle:
Peak of Market

Portfolio:
US$138,900 on 31 December 2018



Source: Bloomberg, portfolio returns based on 50% MSCI World Net Total Return Index and 50% Barclays Global Aggregate Index, as at 31 Dec 2018.

An investor who held cash

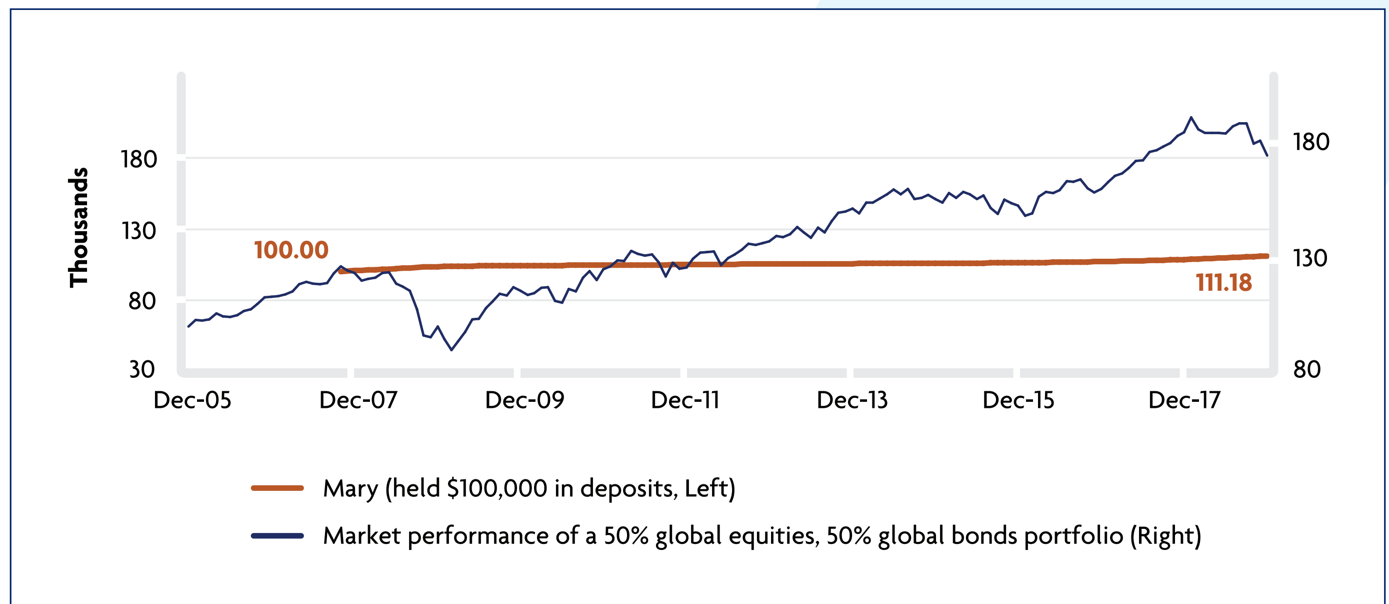
Mr Wong was surprised, but not nearly as surprised his wife Mary was. You see, Mary had held on to cash, waiting for the right opportunity to enter the market – but her resolve had been shaken by various global events, such as the European debt crises in 2011, the taper tantrum of 2013, fears of a China hard-landing 2015 and the Sino-US trade war in 2018. She ended up holding on to her savings of US$100,000, deciding against investing altogether.

In 2018 – right about when Mr Wong checked on his portfolio – Mary realised her cash hadn't really worked much for her at all. She got back US$111,180, about 11% more than what she had originally put in. As far as 10-year challenges go, Mr Wong scored a decisive victory against his wife – even with what he thought was extremely poor investment timing.

Figure 3 **Mary did not want to take risk and held US$100,000 in deposits throughout the years.**

Deposits: US$100,000

Portfolio: US$111,180 on 31 December 2018



Source: Bloomberg, deposit rate based on 3-month LIBOR, portfolio returns based on 50% MSCI World Net Total Return Index and 50% Barclays Global Aggregate Index, as at 31 Dec 2018.

Winning in the long term

Mr Wong's long-term gains despite his poor investment timing are a classic example of **how timing the market almost never beats time in the market**. That said, it is not always easy for investors to get started with investing, or to make new investment commitments for fear of buying at the peak, or entering the market ahead of a big downturn.

In that case, investors could consider a strategy of investing in tranches through a period of time.

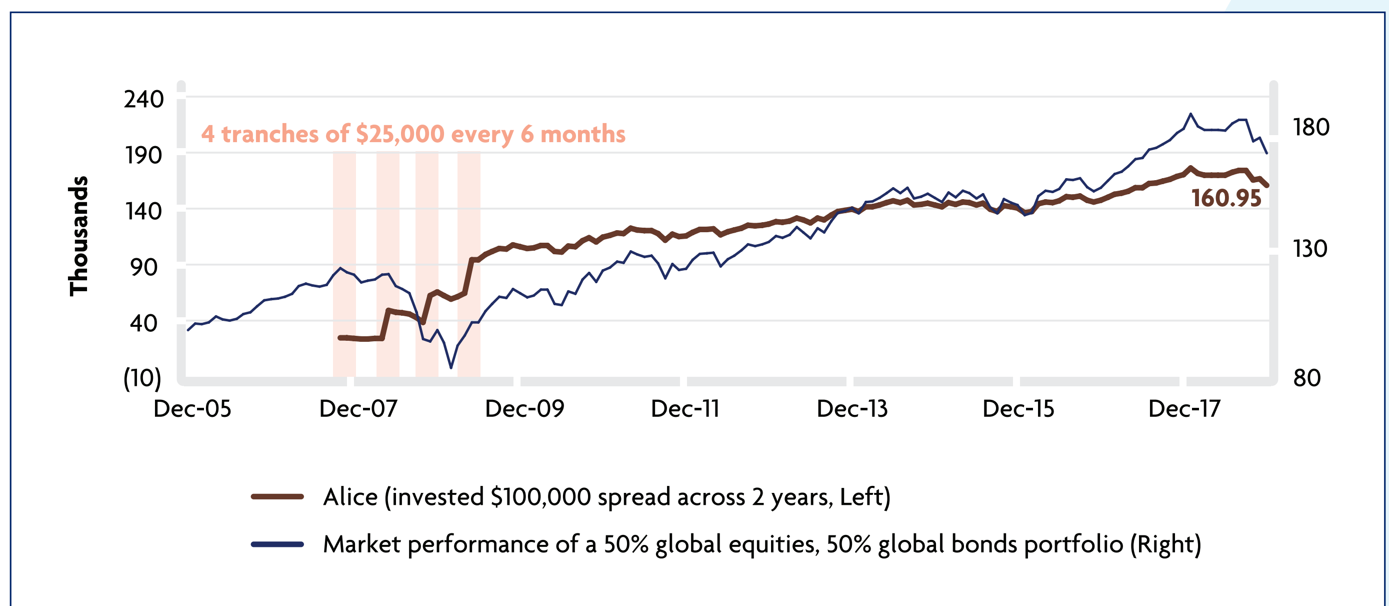
Alice, a friend of the Wongs, decided not to time the market and instead invested US$100,000 split in four equal tranches of US$25,000 in a 50-50 mix of global equities and bonds every 6 months between 2007 and 2009.

At the end of the period, Alice got back US$160,950, a handsome gain of about 61% of her initial investment.

Figure 4

Investment:
US$100,000 (US$25,000 every 6 months for 2 years)

Portfolio:
US$160,950 on 31 December 2018



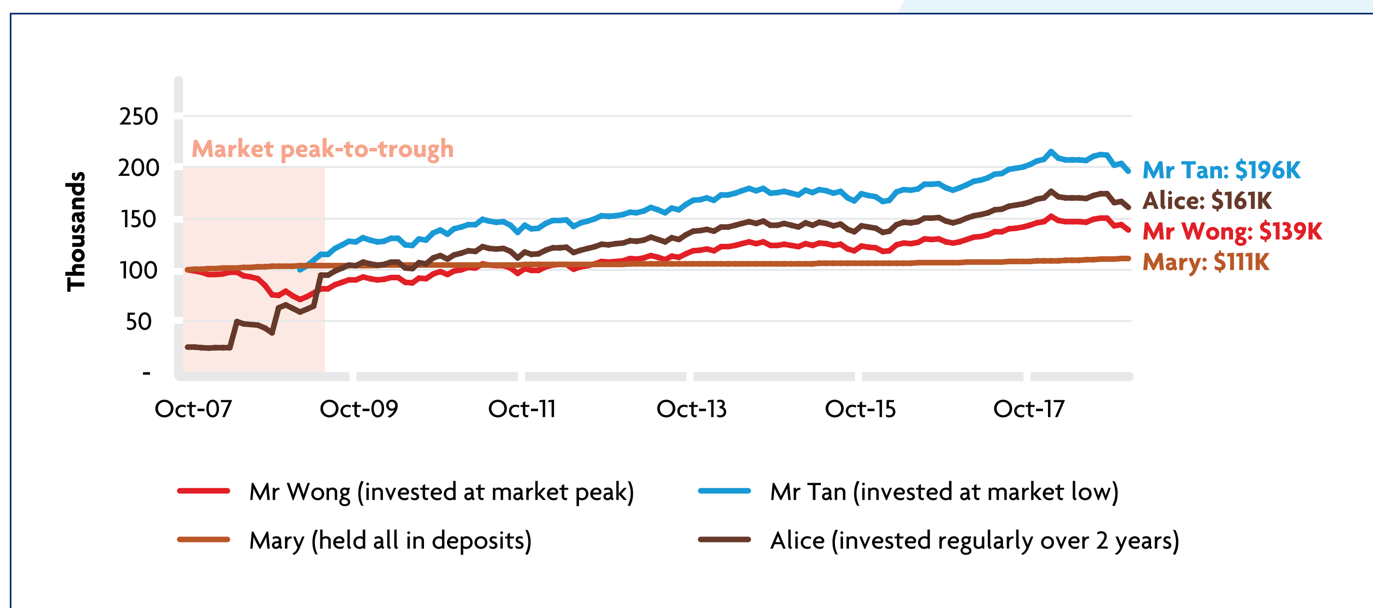
Source: Bloomberg, portfolio returns based on 50% MSCI World Net Total Return Index and 50% Barclays Global Aggregate Index, as at 31 Dec 2018.

Winning in the long term

Those who are still on the fence would get some encouragement from examining available data on long-term investment returns. Research conducted by Charles Schwab Company, which examined market data between 1926 and 2011, found a 20-year holding period never produced a negative result. A strategy of disciplined investment in tranches at regular intervals is probably a better approach than choosing to sit out altogether.

It's clear that sitting tight with cash in hand simply means missing out on important opportunities to grow your portfolio. Taking the first step to invest is a significantly more important factor to tap on investment returns than trying to choose a "right" time to invest.

Figure 5 How can we win the 10-Year Challenge with the least amount of uncertainty?



Source: Bloomberg, deposit rate based on 3-month LIBOR, portfolio returns based on 50% MSCI World Net Total Return Index and 50% Barclays Global Aggregate Index, as at 31 Dec 2018.

Market Outlook and Strategies ▶▶

Economic Drivers

Global growth	The IMF forecasts global GDP growth to slow to **3.5% in 2019**[1] **from 3.7% in 2018**, on par with the average growth rate from 2012 to 2016. However, slower growth does not equate to a recession in 2019.
Inflation and central bank	**Central banks continue to normalise monetary policy**, led by the Fed. The Fed is expected to hike rates two times in 2019 instead of the previously-forecasted three hikes. **Future hikes are likely to be data dependent**. The ECB is likely to begin hiking rates in 2H2019. The BoJ will likely stay accommodative for the foreseeable future.
Corporate earnings	In 2019, strong personal consumption supported by a healthy jobs market should continue to drive the **positive trend** in corporate profits. Global earnings growth is expected to rise around **8% in both 2019 and 2020**.

Risks

Spike in yields	The US could impose more tariffs on Chinese products in 2019. **Continued trade woes** will hit Asian economies that are plugged into global value chains. Higher import prices could raise costs and lower profit margins.
Geopolitical tensions	Inflation continues to rise amidst a tight labour market. The heightened risk of **inflation overshoot** could prompt central banks to increase rates aggressively. Conversely, if central banks are **overly-aggressive in tightening** monetary policy without high inflation, the excessive reduction in liquidity could suffocate economic growth.
Political risks	Prime Minster May's Brexit plan was rejected by the UK Parliament, but her government survived the no-confidence vote. The impasse in Parliament has led to more uncertain outcomes. As a result, financial markets could see **increasing volatility** in the run-up to Brexit Day on 29 March 2019.

[1] World Economic Outlook, IMF, January 2019

High Conviction Strategies

Conviction	Key Proposition	Risks
Global Quality Equities	Global quality equities tend to outperform broad equity markets over longer investment cycles.	Relatively expensive valuations could increase the probability of short-term corrections. However, the quality companies tend to better weather the economic slowdown, limiting the likelihood of large corrections in quality stocks.
Emerging Market Equities	Broad EM equities are supported by stronger fundamentals and attractive valuations.	An unexpected surge in USD strength could cause a retreat from EM equities, as seen in the Turkey situation last year. A worsening of US-China trade tensions could also lead to higher market volatility.
US Financial Equities	Attractive valuations and higher earnings due to rate hikes.	A Fed policy misstep that hikes rates more or less than what the markets expect can hurt the performance of US financial equities. Although economic indicators remain strong, such as robust economic growth, low unemployment and inflation above 2%, markets are concerned that the Fed could be overly-aggressive in raising rates and snuffing out the economic recovery.

Megatrend Strategies

Conviction	Key Proposition	Risks
Global Healthcare Equities	Healthcare is a structural growth story. We expect drug approvals and an increase in M&A activity to be catalysts for a sector re-rating. Less negative announcements on drug pricing could boost sentiment.	Policy uncertainty could weigh on sentiment for the sector. Concerns over drug pricing could place pharmaceutical companies under closer scrutiny in the near-term. This risk will likely be mitigated in the long-term as a growing silver segment should contribute to stronger increase in demand.
China A-Shares	China A-shares are underowned by global investors, and provide a good risk-reward and diversification benefits.	A US-China trade war remains a key risk in the near term. Negotiations are likely to be long-drawn, but both sides have shown commitment in reaching a deal sooner rather than later. Financial deleveraging could continue to put pressure on growth and lead to higher risks of policy missteps.
AI & Innovation-Driven Companies	Artificial Intelligence (AI) has the ability to drive multi-fold increases in productivity by utilising big data and powerful computing hardware to accurately and reliably solve real-world problems with little human input.	Policy and regulatory uncertainty is a key risk to watch for. As AI permeates more and more into people's daily lives, questions about safeguarding individual privacy and appropriate use of such tools will surface. Regulators may step up efforts to curb the uses and applications, while differing standards from various countries can create barriers to universal adoption.

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