

This is the first article I wrote for My Paper in a fortnightly column for them as published on 8 Jan 2008. As requested by Trebla, I have translated the article from Chinese to English.

Cheers!

Dennis Ng, <http://www.HousingLoanSG.com>

What Investments are Likely to Shine in Year 2008?

What is the economic outlook for year 2008 and how best to position yourself for year 2008? What are the likely trends in year 2008 and what investments are likely to do well and what other investments are likely to do badly?

These might be some of the questions on your mind. Fret not, I will share with you my personal opinion on above and hopefully, this article will help you position yourself well for year 2008.

One thing that even the average Singaporean cannot help but notice is the trend of rising inflation. In year 2005, inflation was 0.5%. In year 2006, it doubled to 1% and year 2007's inflation numbers are likely to be about 2%. Look out for higher inflation in year 2008 as the government official forecast for inflation in year 2008 is 3.5% to 4.5%.

Thus, if most of your money is put in bank deposits, here's the bad news. If you earn 2% returns from Bank Fixed Deposits and inflation is 4.5%, it means that your money is going to "shrink", not grow.

How do they measure inflation in Singapore?

Inflation is the increase in the consumer price index (CPI). It is a weighted average of 5,170 goods sold at 3,000 outlets in Singapore. However, please note that averages can be misleading sometimes.

For instance, I had ice coffee at a food court recently. This particular food court adjusted the price of ice coffee from S\$1 in Jun 2007, to S\$1.30 currently, or a 30% increase. Recently, taxi companies also adjusted taxi fares. On average, I found that I ended up paying about 10% to 20% more in taxi fares. So we need to know that inflation of 4.5% is an average figure and might not be representative of specific situations.

On the other hand, Singapore's economic growth rate is likely to slow down in year 2008. Economic growth for year 2007 is about 7.5%. Year 2008 is likely to have slower economic growth of 4% to 6% instead.

However, higher inflation and slower economic growth for year 2008 is not unique to Singapore, but likely to be the situation for the rest of the world, including U.S., China and Europe as well.

With the Sub-prime crisis in U.S. and with U.S. Fed likely to cut interest rates further, the U.S. economy is likely to slow down with even possibility of a recession and the U.S. dollar might also drop further if investors' confidence in U.S. economy dips further.

Thus, with the above "big picture" scenario in mind, how can you prepare and position yourself so that you can try to get financially ahead in year 2008?

Based on past experience, "paper assets" such as equity unit trusts and stocks typically do not perform well in period of high inflation and slower economic growth.

The logic is simple as inflation and slower economic growth typically would lead to lower corporate profits and thus, lower share prices.

Stock markets might be near the end of bull market in year 2008.

I think one should reduce one's risk by investing less and less money into stocks as markets move higher. (not the other way round). Prices of financial stocks, such as CITIBANK and other banks, are also likely to be beaten down due to the concern of higher loan losses when adjustable rate mortgages are re-priced upwards in year 2008.

What are the assets that would do well in an inflationary environment?

Real Assets, such as commodities and property typically rise in inflationary times.

With higher inflation and with central banks rushing to printing more paper money, gold is likely to break the US\$850 record price and even possibly surpassing US\$1,000. Oil prices are also likely to

remain high due to increased consumption by fast growing countries such as China and India.

How do you invest in Gold? Retail investors can invest in Gold conveniently through Gold ETF and Gold Fund.

With inflation rate going up, properties in Singapore should continue to stay firm in year 2008 and rise a further 10%, barring unforeseen circumstances. Of course, one needs to take note that property prices are already quite high compared to say, 2 years ago. Thus, if you choose to buy a property, it is very important to ensure that you have not over-borrowed and that the total monthly debt repayments including Housing Loan instalments, do not exceed 35% of your monthly income.

It might also be advisable to shift part of your money to invest in stable investments that are not too volatile and subject to market fluctuations. One such investment available in Singapore is UK Traded Endowments.

UK Traded Endowments enjoy the "smoothing of returns" benefit. Because during good times when the insurer is making high returns on their investments, insurers do not give out all of the returns to customers in the form of bonuses. Insurers, for prudence sake, would typically "save" part of their returns in "reserves". Thus during bad times when their investments returns suffer, they are able to draw down on their reserves to continue to pay a stable bonus (smoothing of returns) on their Endowment plans.

Based on past record, UK Traded Endowments should be able to give average annual returns of 6% to 8% even during times of market uncertainty.

Furthermore, from past experience, "substitute currencies" such as Euro and Sterling Pounds typically strengthens whenever US dollar weakens.

To prepare for increased uncertainties, it might also be wise to conserve precious Cash and raise cash level. I personally think people should consider building up cash in "Opportunity Fund". My current Opportunity Fund is 30% of my total investible fund/assets.

What else can you invest in? You can invest in yourself. I personally have a "invest in myself fund", whereby every year I spend S\$5,000 to S\$10,000 on seminars, books, courses to invest in myself. I always find that investment in knowledge gives the best returns (provided one APPLY what one learns). Remember that knowledge is only potential power. Knowledge is only power when APPLIED.

Last but not least, here's wishing you a Happy New Year and many happy returns on your investments. Please note that I do not have a "crystal ball". Whatever I shared above is my personal opinion and you can definitely have a different opinion from mine.

About the Author

Dennis Ng is a Certified Financial Planner with 15 years of Bank Lending experience, who set up www.HousingLoanSG.com, a Mortgage Consultancy Portal in year 2003.