

The Right Use of Funds

The Straits Times (3 July 2006) recently highlighted the issue of Singaporeans facing the risk of running low on retirement savings due to overspending on housing, with more than 25,000 people above the age of 55 still paying off their housing loans with their CPF savings. Besides the lesson on prudent planning to ensure we do not take on debt beyond our means, there is another lesson we can learn from this. Consider the scenario where these people have significant cash deposits in excess of their liquid emergency funds, which earns an interest less than that of their mortgage payment. They may be better off using some of these funds to pay down their debt, and reduce their interest payment. This is a lesson on the right use of funds.

In a similar fashion, there is also a right use of funds for investments. Investors with a short-term time horizon for their investment funds may want to avoid more volatile investments such as equities. It would be to their detriment if they have to sell stocks three months after buying them just to raise cash, even when the market is down. On the other hand, investors with a longer-term time horizon, and are prepared to put these funds away for some time may not want to leave all their assets in cash deposits due to their lower returns. With a longer-term time horizon, they can better withstand market volatility, and can consider volatile equity investments in their quest for higher returns.

In the recent market correction, we are glad that this is a concept well understood by our clients. We have always strived to ensure that clients' investment funds placed with us are those that they could park away for growth over the longer-term, and we have seen little redemption of funds over this period. Investment performance will and do go through periods of volatility, and it is key to use the funds for the right purpose.