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**GSP177E**

**Fundamentals of Investing**

**Tutor-Marked Assignment 2**

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# Investor Profiling

Investor Mr Z is a foreigner who has a profile of a High Net-Worth Individual (HWNI). More often than not, HWNI tend to be aligned to someone of an older age as it takes time and experience for one to build an extensive portfolio. Having allocated SGD 5 million in cash for investment, which is only 5% of his investible net asset, it can be inferred that Mr Z is a middle aged investor who has high liquidity. The risk appetite for HWNI can be relatively high, however considering that he is new to Singapore’s market, he is likely to take a conservative approach and balance out his portfolio. For HWNI, it is important that they maintain a diversified portfolio to reduce the pertinent risk associated by placing all funds in a single product. A well balanced portfolio also helps them maintain a liquid cash flow. Since HWNI already posses the wealth, the investment objective for Mr Z can be assumed to have greater focus on wealth preservation rather than accumulation.

# Product Class Analysis

## Real Property Investment

Investing in real estate requires thorough considerations on the location, property type, tenure and investment proposal. This is because the properties are immovable, invested funds will have little or no liquidity and the investment period is generally longer with legal documentation and completion of property taking up time. The table below shows the potential yield of the two real properties provided.

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Cost (Asking Price \* Size)** | **Expected Annual Rental (Mid-Point)** | **Years to Break Even** |
| **Residential Condominium** | $ 2,640,000 | $ 96,000 | 27.5 |
| **Commercial Office** | $ 2,500,000 | $ 103,800 | 24.1 |

After factoring in the mortgage rate, the estimated capital appreciation for residential condominium and commercial office is 1.14% and 1.35% respectively. In light of the recent property cooling measures implemented by Singapore, it is advisable that Mr Z focus on commercial office rather than residential condominium. As a recognized trading hub in Asia, there will be a continuous supply of businessmen who are looking at rental of office space. The private property market of Singapore is saturated with investors like Mr Z and potential local buyers. By investing in commercial office, Mr Z can avoid the market competition in residential property. Moreover, the office is in the Central Business District which will undoubtedly attract many tenants.

## Listed Real Estate Investment Trusts (REITS)

REITS is a form of property investments organized as closed end funds. It is different from the direct investment of properties as REITS provide diversification by pooling together investors’ funds to invest in an array of real properties. The advantage of investing in REITS is having professionals to manage the portfolio and risk is moderated through the range of real properties. Compared to direct investment of real properties, REITS offers greater liquidity in terms of cash flow as there is a regular dividend payout. The table below shows the potential marginal gain and loss of both C-REIT and D-REIT based on the difference between the last transacted price and the 52 weeks price range.

|  |  |  |
| --- | --- | --- |
|  | **Marginal Gain** | **Marginal Loss** |
| **C-REIT** | 42.86% | -8.57% |
| **D-REIT** | 55.56% | -50.00% |

Although D-REIT has a high yield of 5.75%, which is 1.25% higher than that of C-REIT, it appears to be riskier as well. The maximum loss that Mr Z could be dealt with if he were to invest in D-REIT is 50%, while the maximum loss for C-REIT is only about 8%. It would be recommended if Mr Z invest more in C-REIT but hold on to D-REIT as well. C-REIT would give him a sustainable and regular payout which can be used to curb the inflation rate of 3%. The reason for holding on to D-REIT is for Mr Z to explore the different type of real estate holdings.

## Listed Property Stocks

Stocks generally have a higher average of return that is high in liquidity. The stocks purchased give investor ownership of the company, when the company profits from its property business, the investor earn dividend gains. Likewise, if the company is making a loss the stock value will drop and investor will suffer a loss. Due to its high volatility nature, stocks are high risk investment products that are useful in wealth accumulation. The table below shows the potential marginal gain and loss of both Able Ltd. and Bounty Ltd. based on the difference between the last transacted price and the 52 weeks price range.

|  |  |  |
| --- | --- | --- |
|  | **Marginal Gain** | **Marginal Loss** |
| **Able Ltd** | 125.71% | -14.29% |
| **Bounty Ltd** | 216.67% | -16.67% |

Able Ltd is exposed to wider range of properties with global hotel operations as its primary while Bounty Ltd is more focused on residential projects. The percentage at risk for both stocks is comparable, between 14% and 17% . Although Bounty Ltd has a higher yield, the price to book value suggests that Able Ltd stocks are more expensive. While it is a common practice to go for cheap stocks to generate high returns. It is recommended that Mr Z balance out his investment in both stocks. Able Ltd has a greater potential for wealth preservation considering its high NBV. Similarly Bounty Ltd stocks also have a maximum potential return of more than 100%. Since both stocks are equally risky with promising returns, Mr Z can invest in both.

# Portfolio Allocation

The table below shows the recommended investment products for Mr Z and the potential yield.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **Cost to purchase** | **Units / Qty** | **Price per Unit / Qty** | **Dividend Yield (%)** | **Minimum Gain (Yield x Cost)** | **Estimated Loss (Lower Price Range x Units)** |
| **Commercial Property** | $ 2,500,000 | 1 |  |  | $ 103,800 |  |
| **C-REIT** | $ 280,000 | 160,000 | $1.75 | 4.50% | $ 12,600 | $ (24,000) |
| **D-REIT** | $ 216,000 | 120,000 | $1.80 | 5.75% | $ 12,420 | $ (108,000) |
| **Able Ltd** | $ 1,875,000 | 150,000 | $12.50 | 1.75% | $ 32,813 | $ (975,000) |
| **Bounty Ltd** | $ 120,000 | 80,000 | $1.50 | 2.25% | $ 2,700 | $ (40,000) |
| **Total** | **$ 4,991,000** | **-** | **-** | **-** | **$ 164,333** | **$ (1,147,000)** |

Mr Z is advised against investing in Residential Condominium because the residential property market in Singapore is already saturated with both foreign and local investors. Taking into account property cooling measures adopted by the government, Mr Z may face challenges in the futures due to changes in policies. REITS and property stocks provide Mr Z with the benefits of liquidity while real property provides Mr Z with a plan for long term investment. Although property stocks will provide greater return that REITS, it is not recommended for Mr Z to solely focus on property stocks due to its high volatility. REITS can act as a mitigating factor for the risk and liquidity posed by stock and real property investment while accounting for inflation rate.

By investing in the various property related investment products as proposed above, it fulfils Mr Z’s aim of wealth preservation through balanced risk. While the purpose of investment is to generate income remains the same, for a HNWI greater emphasis is placed on market allocation. This is especially important in the event of economy down turn. Different sectors and countries will have different impact. Hence by investing in various products and in various locations, it guarantees that the purpose of generating income and protecting the capital at the same time.

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