SCIENCE OF WEALTH

How to invest your first S$100,000

Investing is a deeply personal journey – act on it by first framing its purpose and your commitments to your loved ones

By : Gregory Van

"I don't care what you have to do – if it means walking everywhere and not eating anything that wasn't purchased with a coupon, find a way to get your hands on $100,000. After that, you can ease off the gas a little bit." – Charlie Munger

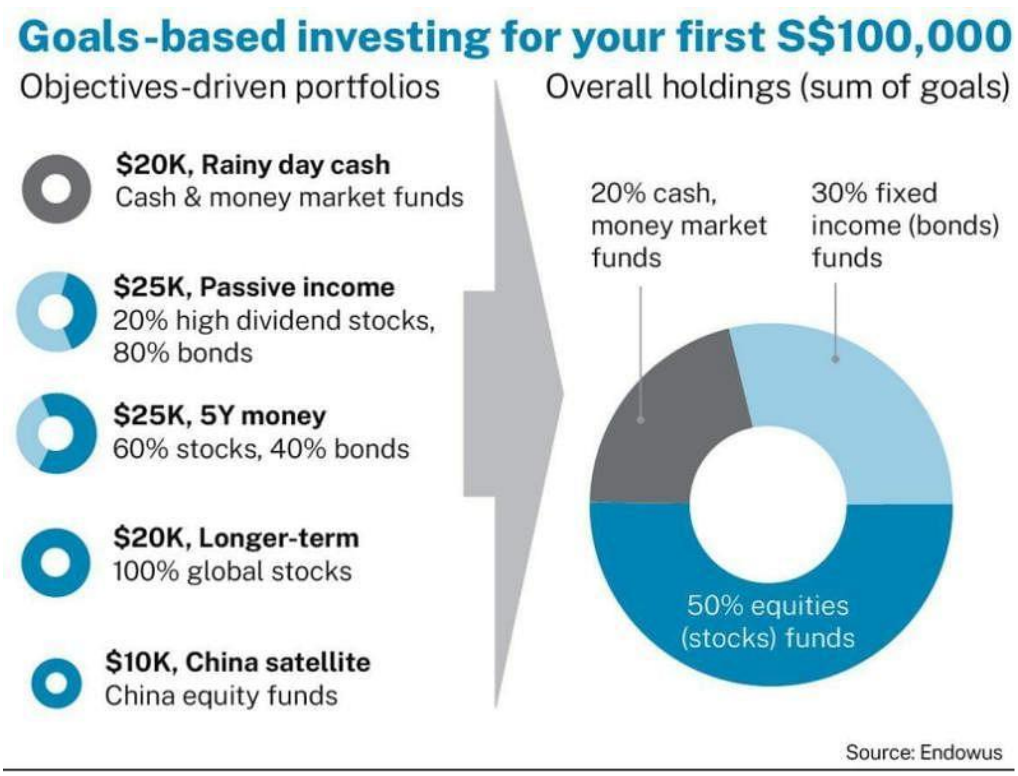
I RECENTLY returned from a ski vacation with my family. It was the first time in three years that family members living all over the world got together – and interestingly, money was something we discussed in much more detail than ever before.

Talking about money would have felt like a slight faux pas in the past. This time though was different. From my younger brothers to my mother, everyone had stories to share of ups and downs over the last few years. With inflation showing itself in strength, a resounding fear persisted, and with that came the need to save prudently and invest right.

First, know why you should buy

Your money goals need to be personalised to your life. It took me over a decade to understand this very simple fact. Books, podcasts, the news, investment gurus, and traditional banks keep telling us what to buy now. Yet, for any of us who have been investing for a while, we know how hard it is to consistently guess the next hot thing, right. The reality is that we all have limited ammunition, so we have to be critical and selective of where we put our money.

The step often missed is to define why we should own certain asset classes and investment strategies, given the investing environment as well as our life needs and goals. The biggest sovereign wealth funds and institutions have a framework they use to achieve their goals while covering their liabilities – there is no reason why you and I should not, too.



To do so, map out your core life needs to match specific portfolios.

1. When it comes to your rainy-day savings, be cash smart.

To invest my first S$100,000, I would first look to set up my emergency fund – money I might need in case of a medical emergency in the family, a loss of income, and other unforeseen circumstances. Four to six months of necessary expenses is a good benchmark for this. Let's say my necessary expenses are S$4,000 a month. I would allocate around

S$20,000 to a portfolio of diversified cash and money market funds, investing in institutional fixed deposits, Treasury bills, and short-duration bonds.

This is particularly good in our current environment where you can enjoy projected yields of around 4 per cent with daily liquidity, no penalties, no lock-ups. For reference, at the start of 2022 for a similar risk investment, the projected yields were closer to 1 per cent.

2. Next, think about near-term goals for the next five years, and the passive income you might want to be generating over that period. This could be for financial commitments such as a new house down payment or for a new car. It could also be for recurring cash outflows such as a child's education fees or money set aside to take care of your parents.

Depending on your goal and risk tolerance, I would look to put this to work in a balanced portfolio of globally diversified stocks and bonds. The 60-40 portfolio (60 per cent stocks and 40 per cent bonds) is alive and well, and is looking more attractive now than it has been in a long time. If generating recurring passive income is an objective, I would consider an income portfolio of globally diversified high dividend stocks and higher coupon bonds. Given the current environment, this can generate payouts of over 7 per cent.

3. Think about the long-term and retirement plans, and grow your money more aggressively if you have the behavioural risk tolerance to ride the markets. Cash savings, CPF and SRS can be invested towards this goal, so you can benefit from the power of compounding over time.

I've been reading a lot of projections by journalists, fund managers, and economists, and although things feel much more positive than a year ago, views are divergent, as always.

The one rule we can rely on is the power of markets to price risk and drive asset prices. If you can tolerate the fluctuations, invest in 100 per cent globally diversified stocks – over time, this investing goal will reap gains from persistent long-term outperformance of stocks versus bonds or versus cash. This relationship persists because it is how the capital markets are designed – bondholders are paid back before stockholders, and therefore stockholders should be compensated with higher returns.

Clients often ask: What about China, tech or megatrends? My answer is to express such tactical views only after taking care of essential life goals in your core portfolios. When expressing such views, be diversified in your play, so your investing fate is not dragged down by one or a few companies or by a narrow sectoral exposure.

Collectively, these goals and their portfolios make up your overall holdings.

Would investing your first S$1 million look any different?

Your first S$1 million can be deployed with the same framework, but you can look at a wider range of strategies to represent your goals. With S$1 million to deploy, you can afford to have your capital held in more illiquid assets to achieve unique risk-return objectives. This can be through the likes of multi-strategy, global macro, and quant hedge funds, as well as private equity, private real estate, and other asset classes.

That said, more choice does not mean better choice – be discerning and make sure these strategies are appropriate for your goals. For anything you do, also make sure you are getting aligned advice at a fair and transparent cost, and are sufficiently diversified so you are compensated for the risk you take.

With your money goals personalised, I hope you unlock quality time to chase those bluebird powder days with your loved ones.

The writer is the CEO of Endowus, an independent and holistic wealth platform advising over S$5 billion in individual and family client assets across public and private markets.