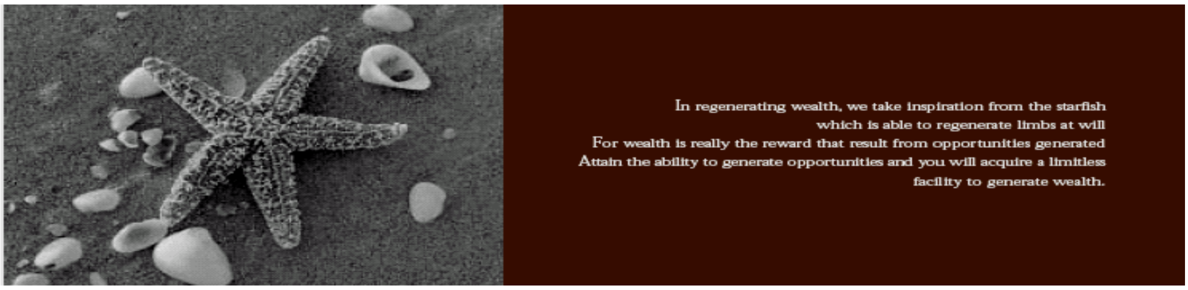

Some Frequently Asked Questions on Investments

Below are some of the commonly asked questions when investing in a fund portfolio. In this section, we wish to address some of the questions you may have when building your investment portfolio.

Question 1: Why do I need Asset Allocation?

Successful investing starts with a sound asset allocation plan that matches your long-term financial objectives and risk tolerance. Studies have shown that as much as 91% of a portfolio's long-term performance is attributed to asset allocation, with the rest attributed to other factors such as market timing, individual stock and bond selection.

Question 2: What should be the benchmark for my portfolio?

At FPA Financial, we strive to assist clients to achieve absolute returns for their portfolios taking into consideration their risk profiles. The alternatives to investment are bank deposits, CPF savings ordinary account and other risk-free assets such as Government bonds.

Questions 3: Why should I stick to my risk profile? If I have a Conservative portfolio, could I change it to Dynamic instead, if I think that there is upside potential in the equity market in the near term?

We recognise the limitations of all risk profile assessment methods and we note that sometimes, clients' risk perceptions as well as financial situations could change over time which may warrant a change in their risk profiles. Nevertheless, changes in the outlook of the investment markets should not be the reason for the change in a client's risk profile.
A client's risk tolerance will stipulate the level of risk he could take and this would determine the expected return on his investment portfolio. Many times, investors are swayed by the markets sentiments and their emotion may swing like the pendulum from Greed to Fear. Sticking to your original risk profile will instil investment discipline as well as ensure investment success over the long run.

Question 4: What do Standard Deviation and Volatility mean?

Standard deviation measures the weighted average of possible deviations of the portfolio from its expected mean return.
Volatility is measured by standard deviation. It measures the fluctuations of the value of the portfolio by calculating the deviation of changes from the expected mean return. A higher volatility figure indicates greater changes or swings in the prices over a certain period of time. Example: A portfolio with a Volatility of 6.5% is interpreted as having a 68.26% probability that the return is likely to deviate from the mean by one standard deviation (i.e.+/- 6.5%) or a 95.46% probability that it will deviate two standard deviation (i.e. +/- 13%).

Question 5: If I can make good returns from my own stock pickings, why should I buy funds?

Investment in funds and unit trusts provides an efficient and access to the different asset classes, global sectors and markets. The complexities and diversities of these markets and sectors make them very difficult and costly for an individual to invest on his own. In addition, funds and unit trusts provide investors with diversification benefits.
Individual stock investment is time consuming and it is riskier as compared to investing in a fund. You need to bear in mind the trade off in accepting higher risk for higher return and sometimes, excessive risks may not be compensated. Funds are managed by professionals who devote their time managing the portfolio with the objective to maximize its risk-adjusted return. Maximizing risk-adjusted return means maximizing the returns per unit of risk that the fund undertakes. Note that the risk of the fund or a stock is measured by its volatility.
If your portfolio consists only of stocks listed on the Singapore stock exchange, you need to be mindful that you are exposed to a single asset class which is equity and a single country which is Singapore. Hence, you will expect greater volatility in your portfolio as compared to funds that:
(a) invest in all of Asia Pacific equity markets or
(b) invest in both equities and bonds in the global markets.

Question 6: How often do I need to review my portfolio?

You should review your portfolio regularly like monthly. Over time, market conditions can change drastically thus creating new risks or opportunities. Returns on some funds may lead or lag the rest of the portfolio, causing it to drift from the original allocations. This may leave you exposed to far more risk than you want or expect. Thus at some point in time, your portfolio may require a re-balancing to keep it in-line with your long-term investment objectives, time horizon and risk tolerance. Your financial adviser will discuss this issue with you and to assist you to devise a rebalancing strategy that will suit your needs.

Question 7: What does long-term investing mean? Does it mean that I should not sell or switch regardless of market conditions?

Long-term investment aims to grow your wealth in the long-run. Your ability to stay invested over the long-run will increase your probability of achieving the expected returns in your investments. During the course of investing, you will need to monitor your investments and make necessary adjustments in view of markets conditions. An investor with a short investment horizon has low tolerance for uncertainty and hence he should always stick to a conservative risk profile that provides him a low risk exposure and high certainty of capital preservation.