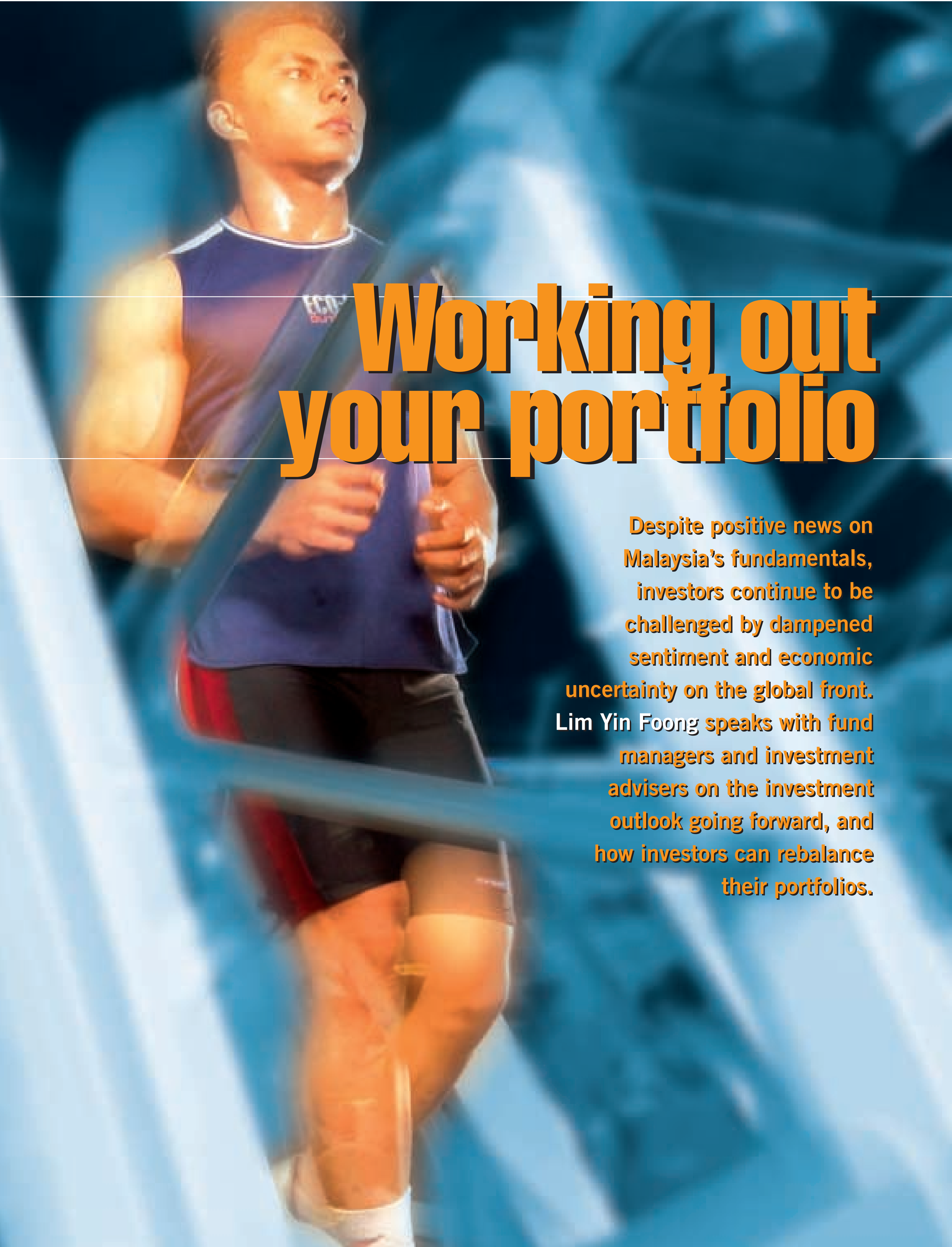


Working out your portfolio

Despite positive news on Malaysia's fundamentals, investors continue to be challenged by dampened sentiment and economic uncertainty on the global front. Lim Yin Foong speaks with fund managers and investment advisers on the investment outlook going forward, and how investors can rebalance their portfolios.

For investors, these are trying times indeed. Just as confidence was returning, with prospects of a Malaysian economic recovery by the second half of this year — thus building up investor confidence and sentiment in the local market — a flurry of events, both domestic and external, that started in June has sent many retail investors scuttling to safety.

Attention these days is very much focused on external factors; economic news coming out of the US — a crucial barometer of the prospects of the global economy — continues to be mixed. Coupled with the continued volatility in major US bourses caused by aftershocks of the American accounting scandals, there is increasing worry that the country is facing a possible double-dip recession.

This has continued to dampen sentiment locally; on the Kuala Lumpur Stock Exchange (KLSE), trading volume has been thin as investors wait out the uncertainty.

Notwithstanding this, most economic and stock market observers continue to be cautiously optimistic about Malaysia. The general sense is that its economic fundamentals are sound; consumer spending and confidence are still strong while liquidity abounds. The country's economy is still expected to recover by the end of this year, with a projected gross domestic product growth of 4.0 to 5.0 per cent.

Ivan Tham, general manager and chief investment officer of HLG Asset Management Sdn Bhd, is of the view that going forward to next year, the outlook for the local economy is generally better. He believes that domestically, there are enough resources that can help drive the market.

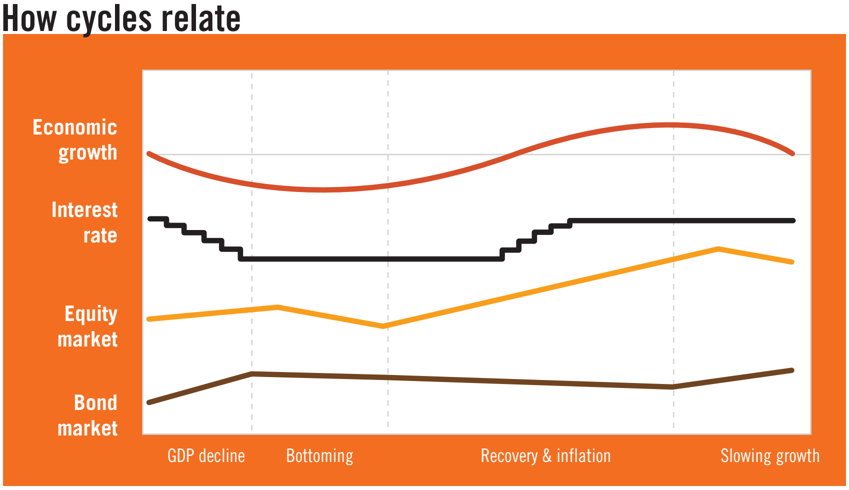
"Malaysia is buffered by strong commodity prices, plus domestic pump priming. Private consumption is quite healthy and the investment for private and public infrastructure projects is still very good."

Hasnul: Over the long term, we are positive; the main trend of the market is still on the upside

Yeoh: There is definitely a need for more caution now compared with six months ago

HASNUL'S PHOTO BY THE EDGE   YEOH'S PHOTO BY CHU JUCK SENG/THE EDGE

How cycles relate



COMMERCE TRUST

Outlook on asset classes

With the outlook focused on an economic recovery, equity remains the favoured asset class for the long term.

"At certain cyclical phases, one asset class is more appropriate than the others in terms of performance," says Yeoh Keat Seng, CEO of Commerce Trust Bhd. There is relatively more interest in equities versus bonds because the interest rate cycle is not so favourable of bonds. Furthermore, the economic cycle is more favourable to equities with the economy perceived to be at a stage of making an upturn (see chart below).

But is this a good time to go back into equity?

"At the beginning of the year, it was a lot clearer, but in the past few months, the situation has changed again because there are more concerns about a double dip in the US economy. There is definitely a need for more caution now compared with six months ago," Yeoh says.

While in the short term there remain many worries, fund managers and analysts are bullish on the stock market over the longer term. In fact, many consider this a good time for investors to relook their portfolios and pick up equity at good values.

"Over the long term, we are positive; the main trend of the market is still on the upside. I think this recent downfall in the market is just a minor hiccup; the correction was expected," notes OUB-TA Asset Management Sdn Bhd director and general manager Mohd Hasnul Ismar Mohd Ismail.

"The problem though is that we are just a small trading country compared with the Western countries; that's why overall in the short term, we will still be affected by external factors no matter how solid our fundamentals are." Hasnul believes that positive sentiment will return soon provided that the fears of external factors subside.

Investment planner Joyce Chuah believes that Malaysia is now somewhere around the first leg of the bull run trend.

"There are a lot of opportunities right now to make profit [from equities] in the next two to three years. So if you start accumulating right now, it's still not too late. There is still a good two to three years to go before the peak," says Chuah, who is senior partner of investment planning firm Success Concepts Sdn Bhd.

The outlook for fixed income instruments like bonds is not so favourable as interest rates look unlikely to drop any further in the near future (bonds and interest rates have an inverse relationship; when interest rates rise, bond prices drop and vice versa).

HLG's Tham expects interest rates

Tham: Investors should be moving out of lower-risk investments such as fixed income and move more into equity

PHOTO BY ABDUL GHANI ISMAIL/THE EDGE

to eventually rise over the next 12 to 18 months and thus he advises fixed income investors to put their money in short-dated instruments.

"Going forward, it's going to be very difficult to make money from long-term fixed income instruments; it's the wrong part of the cycle to be putting money into fixed income," he says.

Tham also feels that as cash is not yielding much returns given the low interest rates, it's a good time to put money into equities, especially if stock market valuations continue to drop.

"You get a better return going into the stock market. Some of the consumer stables are giving 5.0 to 6.0 per cent yields, which are better than fixed deposits," he notes.

Chuah agrees: "Investors should be weighted in growth vehicles; those that give you returns on capital rather than of capital."

As for property, the traditional favourite with many investors, there is still concern that the market is still flooded with surplus stock. However, property in the right location is always a good buy.

"It's fine to buy property now if you get the right location, or what's perceived to be the next right location," says HLG's Tham, who adds that investors may want to consider property stocks as they are more liquid and involve less hassle compared with direct property investment.

Hasnul believes that while property is always good for long-term portfolios, investors should take advantage of the asset class that would perform relatively earlier in an economic recovery.

"Equity will definitely perform earlier, so you might as well take advantage of the equity market first, then switch over to property. I think there is still plenty of time to buy property," he says, adding that property prices will take another two to three years to rebound (for more on the outlook on property, see page 40).

Rebalancing your portfolio

Hasnul believes there are two types of

Equities: Growth sectors to look at

OUB-TA's Hasnul:

Cyclical growth sectors such as construction, plantations and consumer goods. Look at stocks that have already been bashed down more than the Kuala Lumpur Composite Index.

HLG's Tham:

Construction: Earnings are quite secure for the next two to three years as private and public sector infrastructure projects seem to be ongoing. Even in the worst case scenario, as a fund manager I will go for these companies because I know that they've got steady business and they will get out of a recession relatively unscathed.

Gaming: These companies normally tend to do very well too.

Financials: The pulse of the economy, this is a good sector to keep an eye on, particularly if we think the economy is going to recover. The sector's consolidation will continue to enhance the quality of financial institutions and it presents a lot of opportunities.

Services: As we move from a commodities-based economy to a more developed economy, the services sector becomes a much more important component.

Commerce's Yeoh:

Tech: Taking a three-year view, we are quite optimistic on this sector as the country is in the early stages of recovery. This will be one of the laggards in the cyclical recovery.

investors. "One type would have actually rebalanced their portfolios, probably in April when the market went up, while the other type of investor would not have done anything as yet."

He says that for those who have rebalanced in April (by taking profit on their equity investments), this would definitely be a good time to start being a bit more aggressive with equities.

"They can either inject new capital, or if they want to maintain the capital that's already invested, they can start switching out of low-risk investments into higher-risk investment to take advantage of lower market levels and cheaper stock prices."

As for those investors who have not done anything to their portfolios during the April rally, Hasnul advises them to stay put if they have a high equity holding. "There is no point in reducing their equity exposure now, because we have a very positive outlook for the last quarter of the year and also early next year."

HLG's Tham also believes that investors should be moving out of lower-risk investments such as fixed income and move more into equity.

"If you are under-invested [in equities], you should start looking and picking the right investments now. And if you have a bad holding, take the chance to switch to something better now. Historically, bad stocks do not necessarily go up with the market," he says, advising investors to look for quality companies (see box for stock-picking strategies).

Fund managers advise investors to shift out of defensive stocks and start looking to growth stocks to capitalise on the current lower stock prices.

Chuah of Success Concepts adds that given the bullish outlook on equities, investors should take at

Consumer: [South] Korea has done its transition from an export economy to a domestically driven services/consumer economy. We have a large middle class, young population, relatively low propensity to spend and high savings rate — the potential is there [for a similar transition].

CIMB's Kee:

Financial services: This sector has growth prospects as the wealth levels of Malaysians increase. Look at select banks and finance companies like Public and AmBank. Other sectors to look at include **property** (IOI, SP Setia), and **motor** (UMW, MBM Resources).

what individual investors are doing:

Not when the MARKET'S HOT

By Tan Su-Yin

Boey Goon Sung, 38, has a simple guide when it comes to getting in and out of the stock market. "If there is too much excitement and hype, and people talk too much about it, I get out."

When the stock market fell post-Sept 11, he went in and was up to 50 per cent invested in shares.

Boey has good reason for his contrarian method of investing. Encouraged by the financial windfall of people around him, he started investing in 1997 when the market was hot. When the market fell, he was caught. He figures he has made enough in profits in the past five years to cover his initial losses.

However, Boey continues to dip his hand into the market. He still believes in the market for its potentially higher returns. "I was initially wary, but when you have the extra money, you still have to put it somewhere. And with fixed deposits generating such low returns, you really don't see your money growing there." The father of two knows the need to grow his money to satisfy his children's education needs as well as his own retirement needs.

PHOTO BY HARIS HASSAN/THE EDGE

Boey looks at the fundamentals of the stock

These days, however, Boey looks at the fundamentals of the stock carefully before investing. He still listens to the occasional tip from friends and remisiers, but does his own homework and examines company performance, prospects and price-earning ratios. Being a sales consultant, he has a wide range of contacts and favours companies he knows personally — "you can see whether they are good paymasters, or whether they are expanding". He holds the stocks for a period of one or two years, though he is not against selling them should the price be right.

Now, Boey invests in a mix of unit trusts and shares and leaves the rest of his money in the bank. He also owns two properties, one of which he rents out. Though his unit trusts have given him "pretty good returns", he still favours investing in stocks directly as he likes the personal touch.

Going forward, Boey is optimistic. He has locked in one round of gains earlier this year when the market was at 750 to 800 points and reduced his equity stake to 30 per cent. Since then, he has gone in again and now has 50 per cent in shares, 20 per cent in unit trusts and 30 per cent in cash. He considers himself a fairly aggressive investor and is willing to take losses in the short term. However, 50 per cent is his limit, as anything more than that is "too risky".

least 20 to 30 per cent more in equities compared to their normal asset allocation.

Managing volatility

With the bearish outlook on Wall Street and fears of a double-dip recession in the US dampening sentiment in the local stock market, there is still a lot of short-term volatility that investors will have to deal with. However, investors will need to accept that volatility is part and parcel of the investing game, especially when it comes to equities.

"If you are only willing to invest when there is no uncertainty, chances are, the market is less risky at that time, which means prices have already run up," CIMB Securities vice-president of research (equities) Kee Kin Onn notes. " It's high risk high returns, low risk low returns. Equity investors must accept that market volatility does happen."

There are generally two ways to approaching the stock market, he says. "If you believe in mean reversion — that prices if they are undervalued will actually go back to fair value, and vice versa — then you can use the dollar-cost averaging process to buy low and sell high."

The alternative to mean reversion, he says, is trend following or momentum investing; as the stock market goes higher investors keep buying as they expect it to go higher, and vice versa. This works in certain market conditions like the bull run in the US in the last 12 years.

Chuah: Even the most conservative investors should try to be a bit more aggressive

"In my view, it's better to stick to mean reversion as your returns will be higher in the longer term. On average, markets will tend to revert to a mean rather than to move on a momentum basis in the long term.

"With mean reverting, you will tend towards value investing, whereas with momentum, people will buy more into growth stocks. But although growth has done well in certain periods, overall in the longer term, value has tended to outperform growth," Kee adds.

While caution is still the name of the game, it may not pay to stay out of the market totally, given the strong longer-term outlook on equities.

OUB-TA's Hasnul advises investors looking to moderate the market volatility to switch slowly from defensive assets to more aggressive ones.

"Do it stage by stage," he says, adding that it is very important for investors to stick to their investment objective and timeframe.

"If you start by saying 'I want to invest for the next 10 years', you can't be too bothered with short-term volatility."

Commerce's Yeoh agrees that short-term volatility should not bother long-term investors too much, provided that they are not so risk averse that they lose sleep every time the stock market goes down.

"If you want to time the market a bit more, it may be better to try and increase your equity allocation every time there is a correction, when there are dips in the market."

Yeoh believes that in Malaysia, there is a strong case for contrarian investing; too often, people tend to chase the market rallies instead of buying on dips.

He does, however, caution investors that when buying stocks during a dip, to ensure that the reasons that caused the market dip are not the same reasons that caused the stock you are interested in to take an even bigger dip than other stocks.

Tham agrees that it is still a good

PHOTO BY KENNY YAP/THE EDGE

Stock-picking strategies

WITH uncertainty continuing to plague sentiment on the Kuala Lumpur Stock Exchange (KLSE), it pays to be cautious when picking stocks.

HLG Asset Management Sdn Bhd general manager and chief investment officer Ivan Tham advises investors to be selective and to avoid speculative and political stocks for the moment.

"At the end of the day, what will drive stocks will be the business fundamentals. Focus on the business at hand," he says. "A lot of times, people are driven by emotions rather than economic or business fundamentals, but some businesses will still do very well despite a recession, and it's those companies that you want to find.

Tham also stresses the importance of understanding the businesses and industries in which you invest. In other words, know what you are buying.

"Look at the general environment, then you understand where the industries are going. See how the economic structure is changing, and then that's where you should be positioning your portfolio — beneficiaries of the changing environment.

"Understand the macroeconomics of the economy and the businesses as a whole first, then you know where you should be positioned."

When looking at specific companies, Tham advises investors to look at the company structure and its management; how has

time to pick up good stocks for a long-term portfolio.

"You've got to have at least a 12-month perspective. The next few months will continue to be volatile."

While investors can't control the events that happen around the world and its effect on capital markets, Tham says investors should look at these events as opportunities to buy cheap assets.

Given the bullish outlook on equities in the longer term, Success Concepts' Chuah believes that even the most conservative investors should try to be a bit more aggressive. "If they had ever wanted to be a little bit more aggressive, this is the time," she says.

In managing volatility, Chuah advises those investing in equities for the next three to four years to consider the following; that they will need to have the resources to dollar-cost average their investments, the fortitude to move in and out of the market, and the ability to take profit within that period.

However, for those conservative investors still jittery about the current uncertainty, Yeoh believes there is no harm in holding on to a bit more bonds until things start to look a bit clearer.

"It's a question of your view on the equity market. If you are more risk averse and worried about whether the US economy will go into a double-dip, and you are worried about other negative events, bonds may be a better hedge for you," he says.

If you think there is no upside in the stock market in the next six months, and that you can get a 2.5 per cent rate of return from bonds within that period (assuming that bonds have no downside risk in the next 12 months and will probably yield about 5.0 per cent a year), you can wait to do a switch to equities at the year-end or early next year, he says, adding that there is always a case for having a certain amount of bonds in any portfolio.

Yeoh, however, reiterates that by and large, there should still be more equities than bonds in anyone's portfolio as the former is expected to outperform bonds in the next one to two years, given that Malaysia is still in the early stages of economic recovery.

management rewarded or penalised minority shareholders.

Over the long term, there will be gyrations, but fundamentally strong companies will always still outperform, he adds.

OUB-TA Asset Management Sdn Bhd general manager Mohd Hasnul Ismar Mohd Ismail recommends that investors pick companies that have proven on the upside, those that outperformed the KLSE by 20 to 30 per cent. "These counters have suffered in the downside, but they are still going to make money."

However, he adds that investors should avoid stocks that have dropped because of adverse factors affecting the specific stock such as structural or management problems, or corporate governance issues.

what individual investors are doing:

Maintaining STATUS QUO

By Tan Su-Yin

Rodney Cheah, 31, figures he has wised up quite a bit with time. He's quite the long-term investor and is into buying shares to hold over a few years. But in his younger days, he started investing in the shortest of time frames — in the earlier part of the 1990s, together with his friends, he dabbled in the share market by playing contra.

But Cheah now realises that's just too much like gambling. These days, he has a much longer term in mind — he has held the current shares in his portfolio for about two years, and he held fast onto them even through the mini run-up in the stock market earlier this year.

Currently he is about 30 per cent invested in the market — a far cry from the earlier days when he was up to 90 per cent invested. Given the uncertainty, it's going to be status quo going forward, he says.

"I'm not going to make many changes over the next 12 months or so," Cheah says. "I believe that once the US market corrects itself, we will see a growth in the Asian markets, and then the market will have the opportunity to hit four digits."

The largest portion of his investment portfolio — 60 per cent — is now in properties. He was first enamoured with property when a buy opportunity came in 1998 as the property market started to dip; his property investment subsequently appreciated by 30 per cent in a short time.

Property also gives you more peace of mind as you don't have to keep your eye on the ticker all the time, says Cheah. He is also looking at unit trusts as a vehicle for future investments.

When investing, Cheah looks at economic cycles closely. Being the regional sales manager for the company he works for, he also has to keep an eye on global markets and economic conditions. Sectors are also crucial for him. "Being in the market, you try to get a feel of which industries are doing well. For example, around five years ago, healthcare was one good sector to get into. Those who did have done well."

Besides looking at reports, Cheah also applies the gut factor. "Investing is about two parts — you use analysis and instinct, and hope it turns out well."

Fixing your finances

Lim Yin Foong finds out how you can get your finances in shape before making portfolio rebalancing decisions

Before you can even consider rebalancing your portfolio, it's important to assess where you are now financially. Financial planner Joyce Chuah, senior partner of investment planning firm Success Concepts Sdn Bhd, suggests the steps below:

STEP 1: Look at your financial goals

Any reassessment of your financial activities should always be done in reference to the financial goals you have set, be it to achieve a comfortable retirement, a good education for your children, or saving for your dream home or holiday. Your financial goals will help you determine, among other things, the time frame you have for investing and the required rate of return necessary to achieve those goals.

STEP 2: Consider your financial statements

Financial statements include your cash flow statement, which provides a picture of where your money comes from and goes to; and your statement of net worth, which provides a snapshot of your assets and liabilities. On the next page are worksheets to help you prepare your financial statements. These statements are also very important in helping determine your financial ratios, which help you assess your current standing.

STEP 3: Assess your financial ratios

Financial ratios are important in helping measure the state of your financial health. Sometimes, having a good net worth statement alone is not necessarily a reflection of your financial health. For instance, says Chuah, a person may feel rich because he has a lot of fixed assets in the form of landed property, but he is not necessarily in a strong financial position if he needs to be highly geared with mortgages and overdrafts to maintain his assets and fund his cash flow needs.

Generally, there are four important ratios to look at: Liquid assets-to-net worth, solvency ratio, debt-to-asset ratio, and savings ratio (see box on next page). Using the figures obtained in your cash flow and net worth statements, you can calculate your ratios in the ratio worksheet and analyse your financial health. If you are not where you should be, you will need to make adjustments to clean up your ratios before you move on to the next step.

STEP 4: Examine your investment portfolio

Once you've cleaned up your financial standing, then it's time to look at your current investment portfolio.

Chuah says it's very important to monitor the overall portfolio return and not just that of each asset class. In Chuah's sample portfolio table, the expected average return (B) or statistical measure of various samples of particular investments of each asset class is multiplied by the actual allocation or exposure of each asset class (A). This in turn will provide the weighted average return (C). The total weighted average return of all the asset classes will provide the overall portfolio returns (D).

Chuah advises investors to look back to their financial goals and the rate of investment returns required to achieve those goals. For example, say you will require a rate of return of 10 per cent a year to achieve a certain amount of monthly income for your retirement years. Compare this required rate of return with the total returns from your current portfolio to see if they match. If they don't, chances are that you will have to review the current asset allocation of your portfolio, she says.

Therefore, managing and rebalancing your investment portfolio is not just about looking at your risk tolerance level, and neither is it purely

Portfolio construction table

INVESTMENT	AMOUNT INVESTED (RM)	ASSET ALLOCATION (%) (A)	EXPECTED RETURN (%) (B)	WEIGHTED AVERAGE (%) (C)
Direct equities				
Unit trusts				
Insurance				
Fixed deposits				
Savings				
EPF				
Bonds				
Total				(D)

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Cash flow statement

	MONTHLY	ANNUAL
INCOME		
Income net of EPF	RM	RM
Spouse's income	RM	RM
Bonus net of EPF	RM	RM
Income from FD interest	RM	RM
Dividends	RM	RM
Rental income	RM	RM
Car allowance	RM	RM
Other income	RM	RM
Total income	**RM**	**RM**
FIXED EXPENSES		
Mortgage loan repayment	RM	RM
OD repayment	RM	RM
Term loan repayment	RM	RM
Maintenance charges (property)	RM	RM
Assessment	RM	RM
Property Insurance	RM	RM
Life insurance	RM	RM
Income tax	RM	RM
Total fixed expenses	**RM**	**RM**
DISCRETIONARY EXPENSES		
Household	RM	RM
Entertainment & credit card expenses	RM	RM
Education	RM	RM
Utility	RM	RM
Health care	RM	RM
Planned holidays	RM	RM
Car maintenance, petrol, toll	RM	RM
Total discretionary expenses	**RM**	**RM**
Total expenses	**RM**	**RM**
Available for savings and investments	**RM**	**RM**

SUCCESS CONCEPTS SDN BHD

Statement of net worth

ASSETS	AMOUNT	% OF TOTAL
LIQUID ASSETS		
Current account	RM	RM
Fixed deposits	RM	RM
Equities	RM	RM
Tax balance (LHDN)	RM	RM
Insurance	RM	RM
Unit trusts	RM	RM
Others	RM	RM
TotaL liquid assets	**RM**	**RM**
FIXED ASSETS		
EPF	RM	RM
Home	RM	RM
Properties	RM	RM
Cars	RM	RM
Club memberships	RM	RM
Business	RM	RM
Others	RM	RM
Total fixed assets	**RM**	**RM**
Total assets (Total liquid assets + Total fixed assets)	**RM**	**RM**
LIABILITIES		
Mortgages	RM	RM
Overdraft	RM	RM
Car loan	RM	RM
Term loan	RM	RM
Other debts	RM	RM
Total liabilities	**RM**	**RM**
Net worth (Total assets – total liabilities)	**RM**	**RM**

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Financial ratio analysis

	RATIO	FORMULA	YOUR RATIO (%)	ANALYSIS
1	Liquidity ratios	Cash/Monthly expenses		Your should have a minimum liquidity ratio of 3 to 6 months to meet your monthly expenses.
2	Liquid assets to net worth	Total liquid assets/Net worth		Your goal is to have at least one third of your net worth in liquid assets. This is to ensure that you have not over-invested in illiquid assets.
3	Solvency ratio	Net worth/Total assets		If your solvency ratio is more than 50%, it means you have a strong ability to pay your financial obligations.
4	Debt to asset ratio	Total debts/Total assets		A gearing ratio of below 50% is good. However, a gearing ratio of less than than 10% means that you are under-geared. Some good debts may be necessary to capitalise on existing investment opportunities.
5	Saving ratio	Annual saving/Gross income		The national savings rate is 30%. Saving one third of your income ensures that you are not over-spending and your cash flow position is healthy.

SUCCESS CONCEPTS SDN BHD

about timing the market and buying cheap equity, Chuah says.

"You must also look at the overall returns on your portfolio; always check your target returns and the weightings of each asset class.

"In modern portfolio theory, the key to wealth accumulation is asset allocation; it's not timing or luck or insider information," she adds.

Constructing a portfolio

When you start constructing your portfolio, there are actually two elements to consider, says Kee Kin Onn, vice-president of research (equities) of CIMB Securities Sdn Bhd.

The first element is your investment policy statement, which looks at your return requirement and risk tolerance. Risk tolerance, says Kee, isn't just about your risk profile but also takes into consideration certain constraints like your holding period with regard to your age and liquidity requirements.

"If you have a longer holding period, typically it means you can take on more risk as you have enough time to recover any losses," he says, adding that the investment policy statement is usually done without any reference to stock market prices.

The second element to consider is your capital markets outlook, from which you would make a decision on whether you want to adopt a strategic or tactical asset allocation approach. Kee explains: "Strategic asset allocation involves maintaining a certain allocation without making too many changes to it. Once you've determined your investment policy statement, you don't look too much at your capital markets outlook.

"If you adopt a tactical asset allocation, however, it means you are more of an active investor and you will take advantage of market conditions [to make changes to your allocation]. Your capital markets outlook will play a greater role."

Kee: Strategic asset allocation involves maintaining a certain allocation without making too many changes to it

PHOTO BY HARIS HASSAN/THE EDGE

Which approach you adopt will also determine how often you should rebalance your portfolio, says Kee.

If you go with strategic asset allocation, you shouldn't be rebalancing your portfolio too often, sometimes even in two to three years. However, if you are taking a tactical approach, then you would rebalance more often, perhaps every six months so, he says.

Under the current circumstances, Kee, whose view is that the market is not too far below fair value at the moment, believes that for a long-term portfolio based on strategic asset allocation, rebalancing is unlikely.

However, a portfolio adopting tactical asset allocation may increase the weighting of the equity component.

According to Kee, the general rule of thumb is that if there is a 10 per cent deviation from your set asset allocation, you won't change anything whether you are adopting a strategic or tactical approach.

"If it's a 10 to 30 per cent deviation, you should make changes to your allocation if you take a tactical approach, and if the deviation is more than 30 per cent, you will need to change even if you are taking a strategic approach because your allocation would have gone so far out of line," he says.

CONTINUES ON PAGE 66

Asset allocation rules

THERE is no set asset allocation rule that applies to everyone, as it has to be customised to each individual's needs and risk tolerance.

There are, however, several general rules of thumb that are used in setting up an asset allocation for a portfolio.

Generally, the younger you are, the more risk you can take, which means you can afford to have higher exposure to more aggressive assets such as equities.

CIMB Securities Sdn Bhd vice-president of research (equities) Kee Kin Onn says the general rule of thumb is that the percentage of your portfolio to be invested in equity should be 100 minus your age. So if you are 35, this means you should put 65 per cent in equities.

"But tailor it to fit your risk profile; minus 20 if you are conservative, and plus 20 if you are a risk taker," he adds.

Success Concepts Sdn Bhd senior partner Joyce Chuah quotes a similar rule of asset allocation; the age equals to bond rule.

"For instance, if you are 35 years old, you should have 35 per cent of your portfolio in fixed income instruments, or instruments that give you returns of capital. The remaining 65 per cent should be in instruments that provide returns on capital, that is, equity and other growth instruments."

Whatever your preferred asset allocation is, always remember to balance your risk exposure versus your rewards at the end of the day. And always come back to your investment objectives.