

 Manulife Asset Management™

# Wealth *STYLES*

2017 Spring edition



Why **Asia**  
**Matters**



# Content

## **Editor's Note** 01

## **Wealth Tips** 02

Keeping Return Expectations in Check

## **Cover Story** 03

Why Asia Matters

## **Investors' Education** 06

Seeking a Regular Income after Retirement?

## **Financial Parenting** 07

Red Packet "Lai See money"

## **Feature Story** 08

## **Wealth Q&A** 09

3 Principles that can help the young achieve Home Ownership dream

In the Year of the Rooster, Manulife Asset Management would like to take this opportunity to wish you good health, wisdom as well as a smooth road to your financial goals.

As most of our readers may be aware, the last Year of the Rooster was in 2005 when the global economic environment was drastically different from that of today's. For one, the US Federal Reserve hiked rates eight times in that year (to 4.25%), and inflation was over 4.5%.

In stark contrast, the market expects the Fed to adjust rates only a few times this year (if at all), against a backdrop of ultra-low interest rates.

Whether the pace of rate hikes by the US will turn out to be another 'black swan' remains to be seen. After all, recent political and economic events have shown to be both unpredictable as well as intriguing.

Against a dynamic market environment, many investors have chosen to stay on the sidelines and refrain from investing at all. This may not be a wise decision as they may miss out on opportunities in making higher potential returns offered by markets.

To preserve wealth amidst a tumultuous market environment, the key is to set targets and adhere to a plan, while making timely adjustments to the portfolio according to changes in market situations.

By outlining the latest economic outlook for Asia, we hope this issue's cover story **Why Asia Matters** can help readers keep tabs on Asia's latest trends and significant events, on top of getting a macro perspective of the region.

Furthermore, we have also enhanced our content on wealth management in this issue. **Wealth Tips**, **Investors' Education** and **Financial Parenting** are some of the highlights which we hope will provide food for thought for different groups of investors, such as pre-retirees as well as parents.

This issue's new column, **Wealth Q&A**, aims to address young investors' queries on how to realize their home ownership goals. Going forward, we welcome readers to send us questions by email to [WealthStyles\\_Asia@manulifeam.com](mailto:WealthStyles_Asia@manulifeam.com) related to financial management, which we will address and discuss in future issues.

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# Keeping Return Expectations in Check



**W**ith Chinese New Year just around the corner, have you made your wishes for the new year yet?

Most people will perhaps wish for a seamless and profitable year for their investments. However, the key question is: what investment returns would one expect for this year? 3%? 10%?

A recent survey conducted by Manulife Asset Management (MAM) revealed that Asian investors generally look for a return exceeding 5% this year. Is this expectation realistic? To answer this question, let us look for clues from past surveys.

In the fourth quarter of 2016, MAM surveyed investors from eight Asian countries and regions on their new year's aspirations. The results showed that the average expected return in the region ranged from 5.6% to 11.6%\*. Investors from Singapore expected the lowest return, while investors from Hong Kong and Mainland China expected returns of 6.3% and 7.8%, respectively. Investors expecting higher returns were mostly concentrated in Southeast Asian countries such as Indonesia and Thailand.

Interestingly, what stood out from the findings was that compared to the same survey conducted in the fourth quarter of 2015, Asian investors had roughly the same return expectations for 2016 and 2017. In other words, Asian investors have not adjusted their expectations over the last two years. Are their expected returns reasonable and attainable?

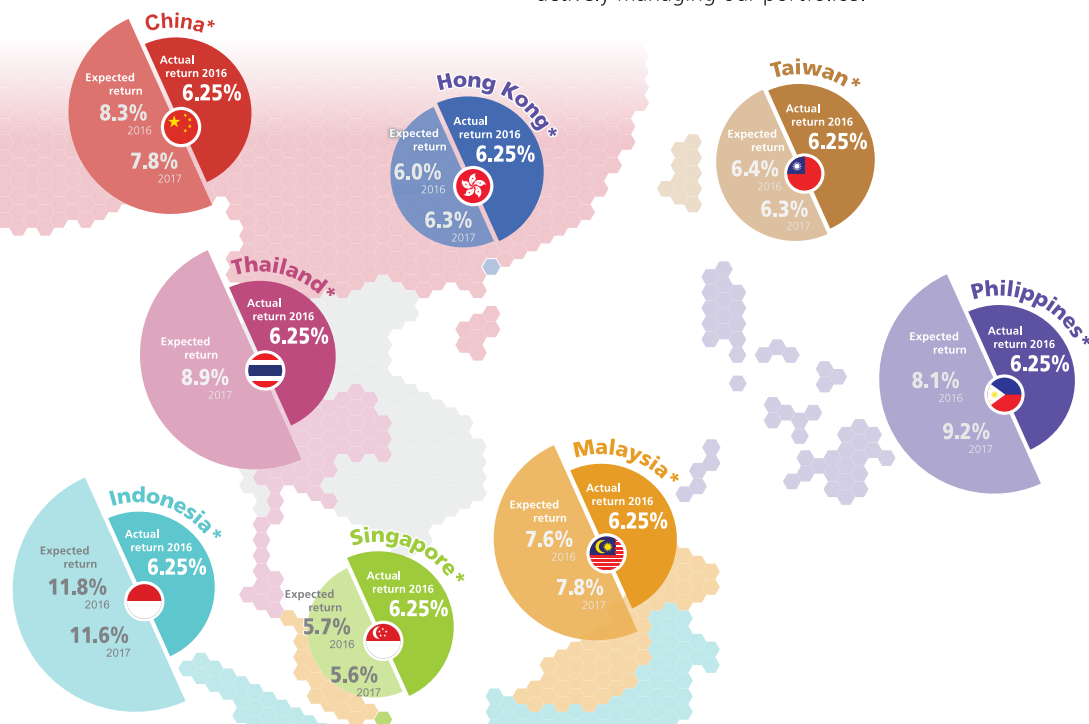
Let us take a look at the performance of Asian equity and bond markets in 2016. If we assume Asians invested only regionally and allocated the entire capital to multi-assets at the beginning of 2016, then only investors in Singapore and Hong Kong would have realised their expected returns, given the actual investment return for 2016 was 6.25%\*. If we consider the currency factor, only Hong Kong investors would have met their expectation.

With cash/deposits accounting for up to 43% of the average Asian investor's portfolio, their actual investment return would be even lower. It is almost impossible to achieve the expected returns - not unless more is allocated to assets with potentially higher returns, such as equities and bonds.

Not only would unrealistic return expectations result in avoidable disappointment in the short run, it also leads one to overestimate accumulated wealth, which in turn affects mid-to-long term wealth management plans.

It would be good if readers take the opportunity during the festive season to discuss their portfolios with professional wealth management advisors, adjust asset allocation based on more reasonable return expectations, and ensure that the allocation matches their individual risk profiles.

Having said this, risk is inherent to investing. We cannot completely eliminate it but we can certainly mitigate risks by actively managing our portfolios.



\* Source for investors' expected return: Manulife Investor Sentiment Index Survey, fourth quarter 2015 and fourth quarter 2016

\* Source for actual returns: Bloomberg, as of 30 December 2016. Multi-Assets refers to 50% equities (MSCI Asia ex-Japan in US dollar) and 50% bonds (JP Morgan Asia Credit Index in US dollar), gross dividends.

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# Why Asia Matters

The Asian economy has been confronted with two significant challenges over the last two decades, namely the Asian Financial Crisis of 1997, which was triggered by depreciation of the Thai Baht, and the Global Financial Crisis in 2008 and Euro Debt Crisis in 2010, which crippled the major Western economies. To this day, developed markets, including Europe and the U.S., have yet to recover fully, and the road ahead to meaningful growth remains a long one.

In contrast, like a resilient youth, the Asian economy, has roared back to life after much battering. Not only has Asia emerged from the shadow of the crises, it has also displayed more vigor as the constituent economies continue to upgrade and transform. In this issue, let us explore the key trends that will drive the future pulse of the Asian economy.

## Do you know that Asia contributes one third of the global economy?

“Asia’s contribution to the global economy is vital. According to data from the World Bank, 12 of the top 50 countries ranked by Gross Domestic Product (a measure of economic growth and performance) are from Asia. The combined GDP in these 12 countries accounted for one third of global GDP in 2015’.

China and Japan take the second and third spots respectively, trailing behind the US, while countries like India, South Korea and Indonesia are among the top 20. ”



### 2015 Gross Domestic Product

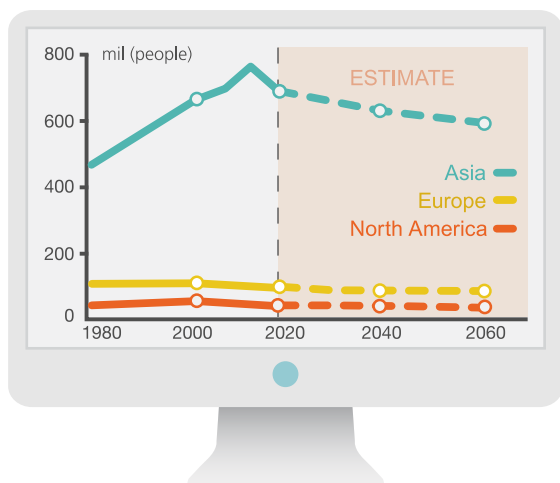
China:	11.01 trillion US dollar
Japan:	4.12 trillion US dollar
India:	2.10 trillion US dollar
South Korea:	1.38 trillion US dollar
Australia:	1.34 trillion US dollar
Indonesia:	861.9 billion US dollar
Thailand:	395.2 billion US dollar
Hong Kong:	309.2 billion US dollar
Malaysia:	296.3 billion US dollar
Singapore:	292.7 billion US dollar
Philippines:	292.5 billion US dollar
Vietnam:	193.6 billion US dollar

## Do you know which Asian country has yet to reach investment grade status?

“Asia’s economic strength has been growing over the last decade. This leaves Vietnam as the only major country in the region that has yet to reach investment grade status<sup>2</sup>. Among the 11 major countries, five has received rating upgrades (see graphic below), with Indonesia and the Philippines added to the list of “investment grade” status. The higher the credit rating, the lower is the cost of borrowing. Better ratings also help garner interest from international investors. Asia’s progress is no doubt a welcome sight.”



Youth aged 15-24 years, by region



## Do you know how many Millennials there are in Asia?

“The term “Millennials” refers to the generation born between 1981 and 2000. In the recent years, the emergence of Millennials has provided an extra lift to Asia’s flourishing economy. In particular, they open up a host of opportunities that tap into both Asia’s present and future.”

The United Nations projects that Asia’s population in the 15- to 24-years old bracket will hover around 700 million until 2030, this is more than six times larger than the population in the same age group in Europe and North America combined!

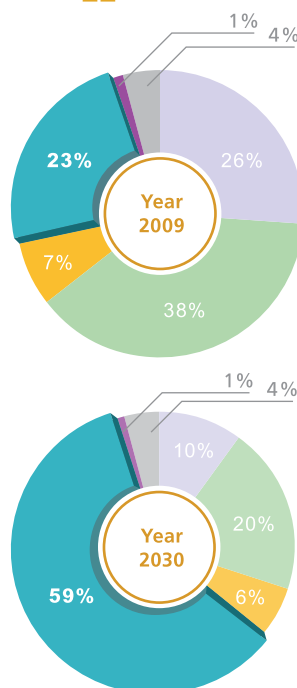
Riding on tailwinds of its young population that drives the consumer market, Asia offers integrated business opportunities across cultural and creative industries and the technology sector. As such, Asia’s development potential should not be underestimated.”

## Do you know how big Asia’s middle class is?

“Asia, once perceived as the “world’s factory”, is slowly evolving from a manufacturing hub that offers low-cost labour into a consumption powerhouse, supported by buoyant demand for consumer goods from the middle class.”

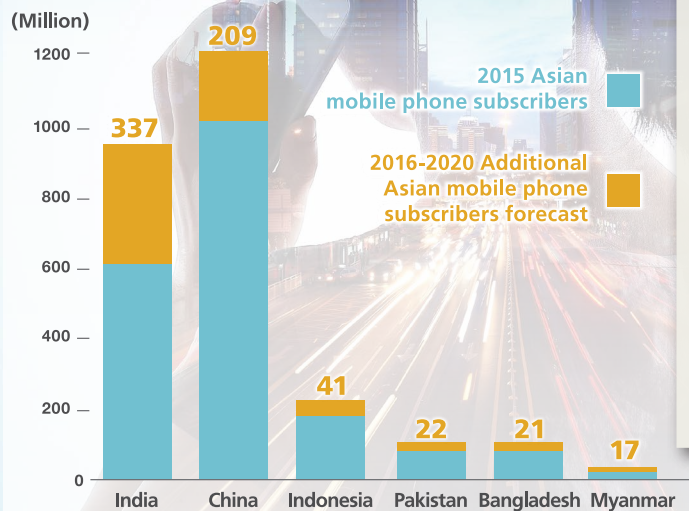
The Organisation for Economic Co-operation and Development (OECD) projects that the number of global middle class population will increase to almost 5 billion by 2030, with Asia Pacific contributing two-thirds of this growth.

Asia Pacific’s share of world spending is also expected to surge from 23% in 2009 to 59% by 2030. Improved living standards and education levels, with China and India leading the charge, have led to the rise of Asia’s middle class. As a result, Asia’s purchasing power has caught up with advanced economies. Demand for brand names and luxury goods are also fast increasing. Such trends have spurred Asia’s transformation into a domestic consumption-driven economy. At the same time, product designs and styles worldwide will become more tailored for Asians.”



Spending by the Global Middle Class, 2009 to 2030

- North America
- Europe
- Central and South America
- Asia Pacific
- Sub-Saharan Africa
- Middle East and North Africa



## Do you know the potential of Asia's fast rising mobile phone subscriber base?

“Among the consumer goods, mobile phones best reflects Asia's role as a growth engine. Currently, the number of global mobile phone subscribers has reached 4.8 billion. By 2020 (i.e. in less than four years), the number of subscribers is expected to rise by over 1 billion. India (337 million) is expected to account for nearly one-third of the growth, displacing China (209 million) as the country with the fastest mobile user growth.

Including contributions from Indonesia, Pakistan, Bangladesh and Myanmar, the six Asian markets will contribute around 60% of growth in the global subscriber base<sup>3</sup>. With consumption power and technology innovation likely to receive a boost, Asia's strong mobile subscriber base should help foster a more favorable business environment.”



## Asia from different perspectives

### Asian Development Bank: What could determine Asia's long-term destiny<sup>4</sup>?

1. The ability of Asia's leaders to persevere during the inevitable ups and downs and to focus on the long term.
2. The willingness and ability of Asia to emulate the success of East Asia to adopt a (so far) pragmatic approach, rather than an ideological one to policy formulation and to keep a laser-like focus on results.
3. Asia's success in building greater mutual trust and confidence among its major economies, which is vital for regional cooperation.
4. The commitment and ability of Asian leaders to modernize governance and retool institutions, while enhancing transparency and accountability.



**Andre Pedersen, Chief Investment Officer, Fixed Income, Asia (ex-Japan), Manulife Asset Management:**

*"Asia ex-Japan is the third-largest bond market behind the U.S. and Japan, with a 5-year compound annual growth rate of almost 13%. It is too big to ignore."*

**Ronald CC Chan, CIO, Equities, Asia (ex-Japan), Manulife Asset Management:**

*"Investors are beginning to appreciate the role of consumer spending in driving regional growth. Data indicates that consumption is now the main growth engine of Asian economies, rather than net exports<sup>5</sup>."*



<sup>1</sup> World Bank, 2015 figure in US dollar, as of 16 December 2016.

<sup>2</sup> Source: Bloomberg, foreign currency long-term credit ratings, as of 31 December 2016.

<sup>3</sup> Source: GSMA Global mobile trends report, October 2016.

<sup>4</sup> Source: "Asia 2050, Realizing the Asian Century", Asia Development Bank.

<sup>5</sup> International Monetary Fund, October 2016.

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## Seeking A Regular Income after Retirement?



**M**ost of us dream about receiving a regular and consistent stream of income after our retirement. But how achievable is this goal? The truth is, even if you are not a retired civil servant enjoying pension benefits, you can still achieve this goal, through a prudent investment plan.

**It should be noted that investment vehicles offering payouts do not only appeal to retirees, they are also suitable for investors who are waiting for the right opportunity to realise specific financial goals and could utilise idle cash through active, flexible asset allocation for some income.**

Two popular so called “payout strategies” include being a landlord (i.e. purchasing a property and collecting rent from it), and investing in stocks or bonds. Before selecting the investment vehicle that suits you best, consider the following factors: 1. Individual risk tolerance; 2. Frequency of income ; 3. Dividend/return rate (ratio of income to invested amount) and actual amount of income received; and 4. Liquidity of assets.

First, let us examine the pros and cons of rental income.

If you belong to the lucky group of landlords who do not have to deal with rogue tenants, and are able to receive rent on a timely basis, then buying a property for leasing can indeed yield regular monthly payouts. Of course, before entering into any investment, you are encouraged to do your homework as taxes related to rental income may sometimes significantly undermine the actual income. Furthermore, real estate as an asset is relatively less liquid, implying that it may not be able to generate cash quickly on a rainy day.

Investing in stocks (such as high dividend stocks) and bonds (such as

government bonds), in comparison, gives you more liquidity as dividends are usually paid out quarterly or semi-annually. Retirees without a regular income stream may be better off opting for investments that provide a steady income stream.

In fact, there are retail funds offering different payout frequencies, which benefit retirees who can receive regular income throughout the year (monthly, quarterly or annual dividend payouts, each with varying number of payouts and amounts) and avoid exhausting their savings.

In addition, retirees may also continue to seek potential opportunities for capital growth through pension. Compared to investing in a single high dividend stock or high yield bond, a fund offers better risk diversification while enjoying liquidity benefits similar to that of equities.

It should be noted that investment vehicles offering payouts do not only appeal to retirees, they are also suitable for investors who are waiting for the right opportunity to realise specific financial goals and could utilise idle cash through active, flexible asset allocation for some income.

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# Your child's First Lesson in Financial Management Red Packet "Lai See money"

**Edmond Lee**

Previously an investment banker, Edmond is the co-founder and mentor of the 'Child and Adolescent Financial Education Fund'. He has hosted more than 70 financial parenting related workshops and published numerous financial parenting books.



**A** friend, who works in the financial sector, claims that he has long been teaching his children to manage their finances. When his eldest daughter was around 7 years old, she topped her class and he rewarded her with HK\$10,000 as "Lai See money".

Parents often incentivise their children for educational performance and other achievements. However, heavy reliance on monetary incentives can have negative consequences.

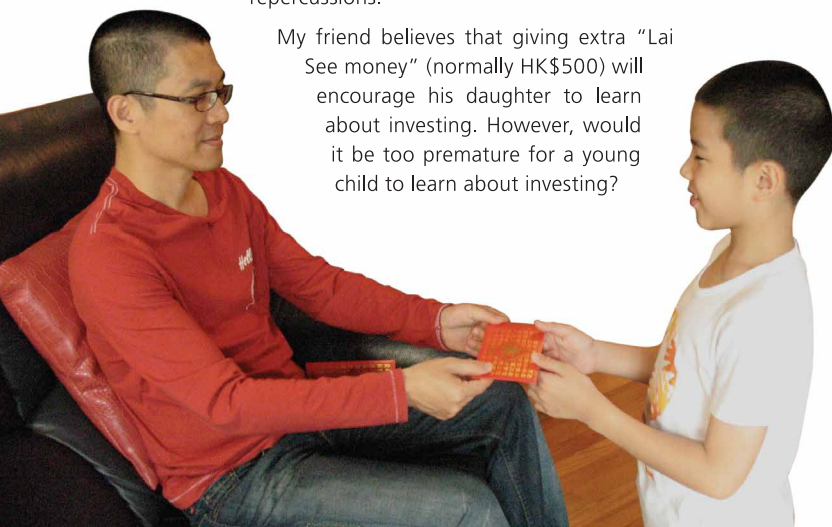
There are certainly more effective ways of rewarding children. For example, verbal praise serves as positive reinforcement and has a more long-lasting effect. Rewarding children with surprise gifts is another act of love. When a reward comes unexpected and not related to the child's performance or academic results, its effect is often deeper.

## Avoid attaching conditions to monetary rewards

"Lai See money" or pocket money should never be conditional or correlated with the child's behaviour or academic results, lest it becomes the sole motivation for the child to complete any task, including basic responsibilities such as studying.

The distortion of intrinsic value of money can lead to long-term repercussions.

My friend believes that giving extra "Lai See money" (normally HK\$500) will encourage his daughter to learn about investing. However, would it be too premature for a young child to learn about investing?



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## Fostering the right attitude

Here are my suggestions:

1

It is important to inculcate the right values of monetary rewards without any conditions attached in children. They need to learn the concept of "No pain no gain". Money should never be used as an incentive for them to study, eat or cut down on online video games.

2

In general, the concept of investment should not be taught until the child reaches the age of 10 and has the ability to understand what investment actually means. In the meantime, parents can save money earmarked for the child, and keep him or her informed of the growing amount from time to time. Of course this depends on family background and the child's ability to understand.

3

Lastly, when the time finally comes to teach children about investing, the key is to foster the right attitude, rather than emphasise on how to make a profit. Precious life lessons can be learned through investing. For instance, parents could share the rationale behind investing for dividends or interest, the importance of doing homework (in this case, understanding the characteristics of an investment product beforehand) and how patience is important to investing.

In conclusion, instead of a leash, "Lai See money" – with no strings attached – provides the perfect opportunity for children to learn the golden rules of financial management, particularly in saving and investing. "Lai See money" (pocket money is another lesson), to achieve the intended educational goals, a well thought-out plan is crucial.

If parents rely on monetary incentives to motivate children to achieve certain goals, the child may feel as being manipulated, which can tarnish parent-child relationship in the long-term. They might even grow up with distorted values on money and even life in general. Fostering communication and parent-child relationship is far more effective than using money as a motivator.

"Lai See money" provides the perfect opportunity to teach children how to manage money. The sole focus should be on conveying concepts of financial management without any conditions attached. A simple and straightforward approach works best!



### A few words on trust...

I am a bit of an introvert and after 17 years in the business, I have learnt that gaining the trust of clients is key. The first client I met 17 years ago had a professional background, and I told him up-front that "I don't know how to pitch this product to you!" I was surprised when he responded, "Don't you ever change, Judy; soft selling is fine, I really like it!"

This kind of encouragement from clients has allowed me to stay true to myself over the years. I have always been service-oriented, and do not mind researching on behalf of clients. Selling the product itself has never been my primary focus, and this approach has brought me more client referrals.

### A few words on adding value...

The investment portfolios and solutions I provide to clients are often tailor-made to their risk profiles, with all relevant information listed coherently, so that they can make optimal decisions. Under our professional guidance, clients can learn more about their needs and options over a number of sessions, and from there make the right investment decisions accordingly.

### A few words on success...

Success can be defined in different ways. To me, success means to achieve the best within one's limitations. In my line of work, this translates into providing the highest level of service and most appropriate wealth management plans for clients.

I have a trusting and supportive client base. I do not think it is necessary to flaunt my credentials since the trust of clients and the referrals they provide already speak volumes.

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# 3 Principles

that can help the young  
achieve **Home Ownership** dream

**Q:** “I graduated from university three years ago and am now earning around HKD 18,000 a month. As I do not have much savings, owning a property in Hong Kong seems to be a daunting goal. It is almost impossible for my girlfriend and I to get married and buy a flat, at least not in the short term. In what ways can I save money to buying a flat?” **Reader A**

**A:** ■ Buying a property may be one of the biggest investments. It also results in a debt with probably the longest tenure in one’s lifetime. Hasty decisions should therefore be avoided.

First, we need to determine your purpose for home ownership: is it for your own stay or for investment? Rather than worrying about the obstacles that seem to prevent you from owning a home, adjust their mindset and make strategic plans.

As we do not know of Reader A’s monthly expenses, timeline and more importantly, whether your partner will pitch in, it is difficult to provide a specific solution. However, the following three principles can guide you to the path of realising your home ownership dream:

## Self-discipline in controlling expenses



These days, young people tend to be in the vanguard of seeking pleasure and fun. They buy the latest electronic gadgets and go on frequent vacations. All these require money, and many end up spending the entire salary by the end of the month, which means little or no money towards saving for a home.

If you are set on a home purchase, one of the first steps is to develop a long-term savings plan and control expenses strictly, avoid material temptations and reduce frivolous consumption. More importantly, get into the habit of saving. Remember, the earlier you save, the greater will be the effect of compounding interest, and the greater will be your total wealth.

## Face the reality and adjust expectations



Without the financial support of parents, young first-time home buyers need to provide multi-million dollar down payments upfront. Even if the entire salary goes into your bank account monthly, chances are it is still difficult to accumulate enough over a reasonable period of time for the down payment. In life, there are no shortcuts and this holds true for realising home ownership dream. The usual factors apply – hard work, career progression (which means higher salary), smart savings and realistic expectations.

First-time home owners can consider properties that are relatively cheaper, such as older and smaller dwellings located further away

from the city center, or even government-subsidised housing. The down payment quantum and mortgage for these types of homes are more palatable. Spacious properties built on top of MTR stations with clubhouse facilities can wait till the next promotion and salary increase, or when it is time to upgrade to a bigger flat!

## Plan early to achieve your home ownership goal



The plan must take into account your financial status and be feasible. For example, the savings period should not be too short and the monthly savings amount against the monthly income and target home purchase price should not be too low. Over a mid to long-term period, savings should be invested to earn additional potential returns.

For more wealth management related enquiries, please email

[WealthStyles\\_Asia@manulifeam.com](mailto:WealthStyles_Asia@manulifeam.com)



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