If you hold a lot of cash, you will bring down the overall portfolio return

'Rojak Portfolios' and 'poor millionaires'

| BY ERIC KONG |

WHAT do you call a mish-mash of investment products haphazardly acquired throughout an investor's lifetime, with an overall portfolio return of 0.5% and which the investor can't even bear to look at? It is called a "Rojak Portfolio". It happens to most investors. As an example, see the table below:

The "Rojak Portfolio" totals $800,000 and gives an overall return of 0.5% per annum. It is a mixture of blown-up, best-forgotten investments and some cash and blue-chip stocks.

Eight hundred thousand dollars growing at an overall portfolio return of 0.5% for 15 years will amount to $862,146. Hardly substantial. But if one were to invest the same amount in the Singapore stock market exchange traded fund at an 8% rate of return per year, it will result in $2,537,735. That is a tripling of the original amount!

Hence, clean up your "Rojak Portfolio" and make allocations to where it matters most. One may argue that one is happy with $800,000 as a retirement portfolio. That amount is no small potatoes, but we need to do more because times are different today. For example, in 1970, a millionaire was a "real millionaire". He could buy 50 units of HDB flats at $20,000 each with that amount of money. I call today's millionaires "poor millionaires". They worry a lot about their future and their children's future because they know that a million dollars today can't do very much.

For example, when you retire and put that entire million into 30-year SGS bonds that pay 2.75% a year, you will get $2,291 in interest income per month. That can pay for the daily papers, kopi and kaya toast and perhaps a yearly trip on a budget airline — hardly a millionaire's lifestyle. With the ravages of inflation, in 2050, $2,291 will be worth just $863 in today's money. You might have to be satisfied with just black kopi without the kaya toast in 2050.

The 'poor millionaire' really cannot afford a 'Rojak Portfolio'

I have come across many "Rojak Portfolios" and one thing I notice is that they all have too much cash. This ties in with surveys that show Singaporeans hold between 20% and 50% of their portfolio in cash.

Putting 50% of your portfolio in cash means that only half your assets are being put to good use. If you hold a lot of cash, you will bring down the overall portfolio return. Fixed deposits pay 1% and high-quality bonds pay 3%. The returns are too low to make any difference.

Risky bonds and perpetuals may pay more, but they are not worth the risk for the returns. Furthermore, their returns are still inferior to ETFs, which have a long term rate of return of 7% to 8%. If you want more returns, then arm yourself with knowledge of value investing in stocks. That can bring your returns to 10% per year if you are diligent.

So, why do people hold so much cash? For safety, I suppose. But it doesn't make sense if one does not need the cash in the short term. Cash earns nothing and after inflation, it is negative. If you have a steady job and your income exceeds your expenses, there is no reason to hold cash because you have a surplus. Invest that cash pile and the surplus!

Some might say "cash is king". They think they can load up the truck when the stock market crashes. The idea is good, but is rarely implemented. When stock markets crashed in 1997 and 2007, people just panicked and sold their shares, or just did nothing.

The "poor millionaire" really cannot afford to hold too much cash.

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ASSET CLASS	AMOUNT ($)	RETURNS PA (%)
Fixed deposits	200,000	1
Foreign currencies	50,000	2
Blown-up small-cap China stocks	20,000	0
Blown-up scams (gold, birds' nest, landbanking)	1	0
Not-yet-blown-up scams	100,000	-100
Underwater unit trusts	30,000	1
Blue-chip stocks and REITs	100,000	4
Unrentable condo in Iskandar	200,000	0
Investment in your friend's Avocado on Toast Café	100,000	-30
TOTAL	**800,000**	**0.5**