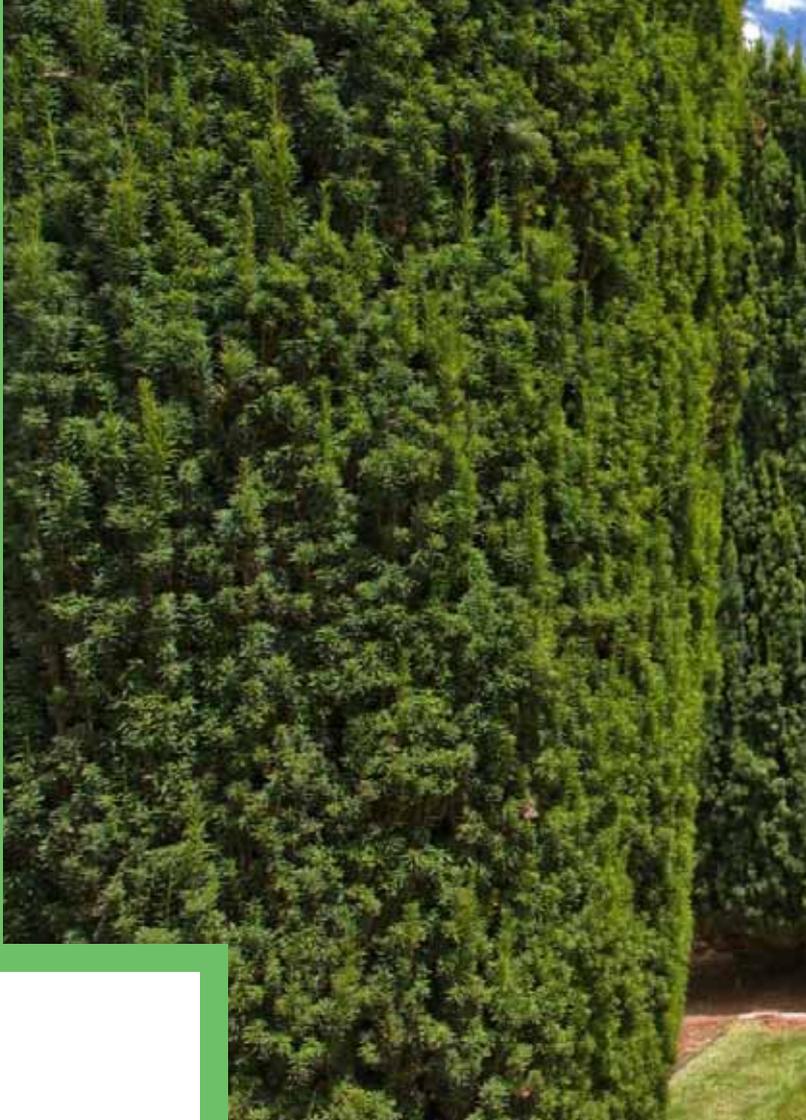


Managing your wealth well is like tending a beautiful formal garden – you need to start with good soil and a good set of tools. Just as good soil has the proper fertility to nourish a plant, having the right foundation in financial literacy should empower you to potentially cultivate a successful investment portfolio. ***Navigating the Principles of Investing*** is the first in our **financial education series** to help educate you on the fundamentals of investing as you tend your very own financial garden.





Principles of Investing: What You Should Know...



Before making any of your investment decisions, you should ask yourself what are you investing for?

What are my needs and aspirations in life?

What financial goals and targets do I need to set to meet those needs?

How do I develop an investment strategy to realise these objectives?

Once you have answered these questions, you will find that investing your money according to a holistic and well-developed plan can be a rewarding experience. You will better understand how your money is working for you, and which decisions are helping you achieve your financial goals and which are not.

Principles of Investing: What You Should Know...

To start you off in your financial investment journey, we are pleased to present six of the key principles of investing*:



1 Assess Your Risk Appetite



2 Diversify Your Investments



3 Determine Your Timing



4 Use Averaging to Your Advantage



5 Start Investing Early and Reinvest Your Gains



6 Regularly Review and Rebalance Your Portfolio

* Please note that these key principles are not the only principles applicable or relevant to your current financial situation and your investment needs, rather they are some of the most generally accepted principles of investing that you should consider when making your own investment decisions.



Assess Your Risk Appetite

Assess Your Risk Appetite

Your risk appetite is your tolerance level for positive and negative fluctuations within your portfolio. You need to determine whether you are comfortable with a fair amount of market volatility, or whether you prefer a calmer ride through less market volatility.

You should work with a financial advisor to detail your individual risk profile and inclinations. Only then can you confidently focus on investment options and strategies that suit your comfort level and financial objectives.

Risks versus returns

Higher risks do not automatically translate into higher returns. Riskier investments may present the possibility of superior returns, but higher risks in itself is no guarantee for good performance and they may in fact result in lower returns and loss of your initial investment amount.

It is important to note that achieving higher investment returns will in most cases require you to accept a greater level of risk in your chosen portfolio.

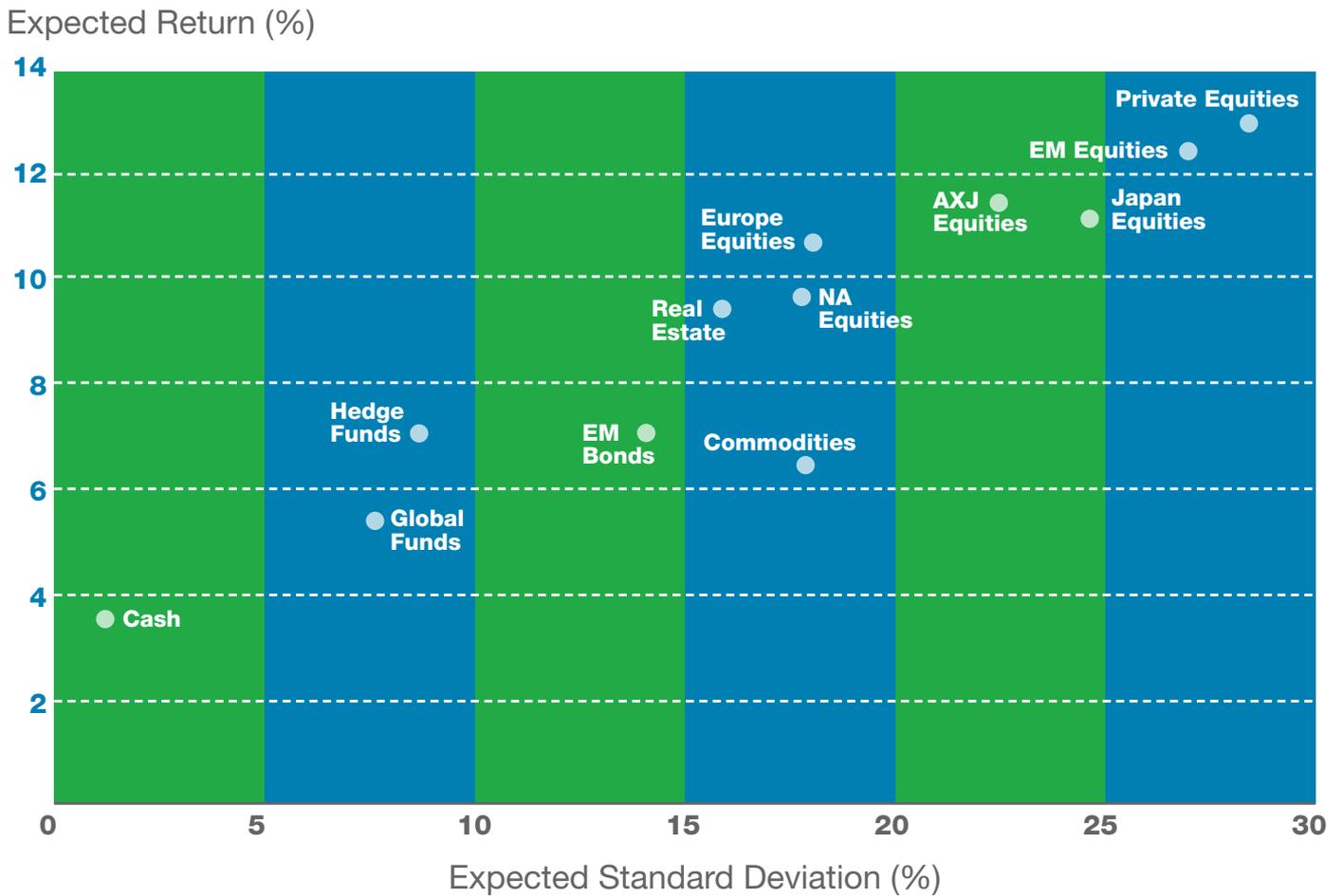


Many paths to success

When making your investment decisions you should invest at a level and pace which you are comfortable with. There are many different investment strategies which you can choose from to realise your goals.

The right investment decisions are the ones which are aligned to your risk profile, which includes your tolerance of risk.

Return/Risk Map of Selected Individual Asset Classes



Source: Mercer 2010 Capital Market Assumptions

Footnote for chart:

The standard deviation of an investment instrument is often used as an indication of its inherent risk.



Diversify Your Investments

You should incorporate a variety of financial instruments in your portfolio when making your investment decisions. This way, the underperformance of any single investment may be offset by gains made on other holdings. However, you should note that this intended offset of losses in particular investments in gains from other investments may not always be achieved.

Here are some ways to diversify effectively

- Building a portfolio across a variety of financial instruments, such as cash, securities or derivatives, that provide exposure to a variety of financial markets and asset classes.

Types of Financial Markets:

- Capital Market, which includes the bond market and stock market
 - Money Market, which facilitates short term debt financing and capital
 - Derivatives Market, which provides instruments to help control financial risk
 - Foreign Exchange Market
 - Insurance Market
 - Commodity Market
-

Examples of Asset Classes and their instruments:

- Long Term Debt: Bonds, Loans
 - Short Term Debt: Treasury Bills (T-Bills), Time Deposits
 - Equity: Stocks, Shares
 - Foreign Exchange: Spot Foreign Exchange
 - Real Estate
 - Commodities: Gold, Rubber, Crude Oil, Natural Gas, Coffee, Soy Beans
-

- Choosing investments with different risk levels, as some of these risks may offset each other, and may help stabilise (or may at least limit losses to) your portfolio performance.

Example: Stocks versus Bonds

Stock prices tend to be volatile, and dividend payouts are contingent on the company's performance and overall market conditions. In contrast, bond prices are generally more stable, and bondholders receive regular interest payments.

Including both stocks and bonds in your portfolio will create a more balanced allocation and better risk-adjusted return.

- Including investments in different industries in your portfolio. Spreading your investments across unrelated industries may minimise the impact of industry-specific risks on your portfolio.
- It can be very costly and challenging for an individual investor to construct a properly diversified portfolio on his/her own. For example, when seeking diversified equity exposure, an investor may need to buy more than just a few individual stocks; which requires a large financial commitment and may result in sizeable transaction costs.
- It is possible to make the mistake of being **overly** diversified. While you may be tempted to acquire or buy different stocks, mutual funds and/or other instruments, it can be overwhelming to manage and track the performance of such a large number of investments.

You should therefore consider more efficient options for investment diversification. For example, a single investment in an index fund can give you instant access to a well-diversified basket of index stocks.

It is also useful to bear in mind the following when trying to diversify your portfolio

Historically, there is no asset class that consistently performs best from year to year. The chart below ranks the best to worst performing asset classes from top to bottom for the years 2000 to 2009 (date as of 31 December 2009)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Commodities	31.84%	Small-Cap Value 14.02%	Commodities 25.91%	Small-Cap Growth 48.54%	Real Estate 33.17%	Commodities 21.36%	Real Estate 36.14%	Commodities 16.23%	Long-Term Bonds 24.03%	High Yield Bonds 57.51%
Real Estate	31.04%	Real Estate 12.36%	Unhedged Foreign Bonds 22.99%	Small-Cap Value 46.03%	Small-Cap Value 22.25%	International Stocks 14.01%	International Stocks 26.88%	Large-Cap Growth 11.62%	Unhedged Foreign Bonds 12.00%	Large-Cap Growth 37.21%
Small-Cap Value	22.80%	Interm-Term Bonds 8.44%	Long-Term Bonds 16.79%	International Stocks 39.17%	International Stocks 20.70%	Real Estate 13.99%	Small-Cap Value 23.48%	International Stocks 11.62%	Short-Term Bonds 6.61%	Small-Cap Growth 34.47%
Long-Term Bonds	20.27%	Short-Term Bonds 8.30%	Emerging Market Bonds 13.12%	Large-Cap Value 30.03%	Large-Cap Value 16.49%	Emerging Market Bonds 10.73%	Large-Cap Value 22.21%	Unhedged Foreign Bonds 10.81%	Interm-Term Bonds 5.24%	International Stocks 32.46%
Emerging Market Bonds	14.41%	High Yield Bonds 4.48%	Interm-Term Bonds 10.26%	Large-Cap Growth 29.75%	Small-Cap Growth 14.31%	Large-Cap Value 7.05%	Small-Cap Worth 13.35%	Long-Term Bonds 9.81%	Cash 1.80%	Emerging Market Bonds 28.18%
Interm-Term Bonds	11.63%	Long-Term Bonds 4.21%	Short-Term Bonds 5.76%	High Yield Bonds 28.15%	Unhedged Foreign Bonds 12.04%	Long-Term Bonds 6.50%	High Yield Bonds 11.77%	Short-Term Bonds 7.32%	Emerging Market Bonds -10.91%	Real Estate 28.90%
Short-Term Bonds	8.00%	Cash 4.09%	Real Estate 3.60%	Real Estate 27.75%	Emerging Market Bonds 11.73%	Long-Term Bonds 6.50%	Emerging Market Bonds 9.88%	Small-Cap Worth 7.04%	High Yield Bonds -26.39%	Small-Cap Value 20.58%
Large-Cap Value	7.02%	Emerging Market Bonds 1.36%	Cash 1.70%	Emerging Market Bonds 25.65%	High Yield Bonds 10.87%	Large-Cap Value 4.70%	Large-Cap Growth 9.09%	Interm-Term Bonds 6.97%	Small-Cap Value -28.92%	Large-Cap Value 19.69%
Cash	5.95%	Unhedged Foreign Bonds -3.58%	High Yield Bonds -1.89%	Commodities 23.93%	Commodities 9.15%	Small-Cap Worth 4.15%	Unhedged Foreign Bonds 5.94%	Emerging Market Bonds 6.28%	Commodities -35.65%	Commodities 18.91%
Unhedged Foreign Bonds	-2.48%	Large-Cap Value -5.59%	Small-Cap Value -11.42%	Unhedged Foreign Bonds 18.63%	Long-Term Bonds 7.70%	Cash 3.00%	Cash 4.76%	Cash 4.74%	Large-Cap Value -36.85	Interm-Term Bonds 5.93%
High Yield Bonds	-5.12%	Small-Cap Growth -9.23%	Large-Cap Value -15.52%	Interm-Term Bonds 4.10%	Large-Cap Growth 6.30%	High Yield Bonds 2.74%	Interm-Term Bonds 4.33%	High Yield Bonds 2.19%	Large-Cap Growth -38.44%	Unhedged Foreign Bonds 1.90%
International Stocks	-13.95%	Commodities -19.51%	International Stocks -15.64%	Long-Term Bonds 2.48%	Interm-Term Bonds 4.34%	Interm-Term Bonds 2.43%	Short-Term Bonds 3.96%	Large-Cap Value -0.17%	Small-Cap Worth -38.54%	Short-Term Bonds 0.78%
Large-Cap Growth	-22.43%	Large-Cap Growth -20.42%	Large-Cap Growth -27.69%	Short-Term Bonds 1.90%	Cash 1.24%	Short-Term Bonds 1.67%	Commodities 2.07%	Small-Cap Value -9.77%	Real Estate -39.20%	Cash 0.16%
Small-Cap Growth	-22.44%	International Stocks -21.21%	Small-Cap Growth -30.27%	Cash 1.07%	Short-Term Bonds 0.91%	Unhedged Foreign Bonds -9.24%	Long-Term Bonds 1.85%	Real Estate -17.88%	International Stocks -43.38%	Long-Term Bonds -12.93%

Please note that this is an example only and any potential returns set out herein are not indicative of actual returns that may be achieved in any investments that you may decide to make.

Key

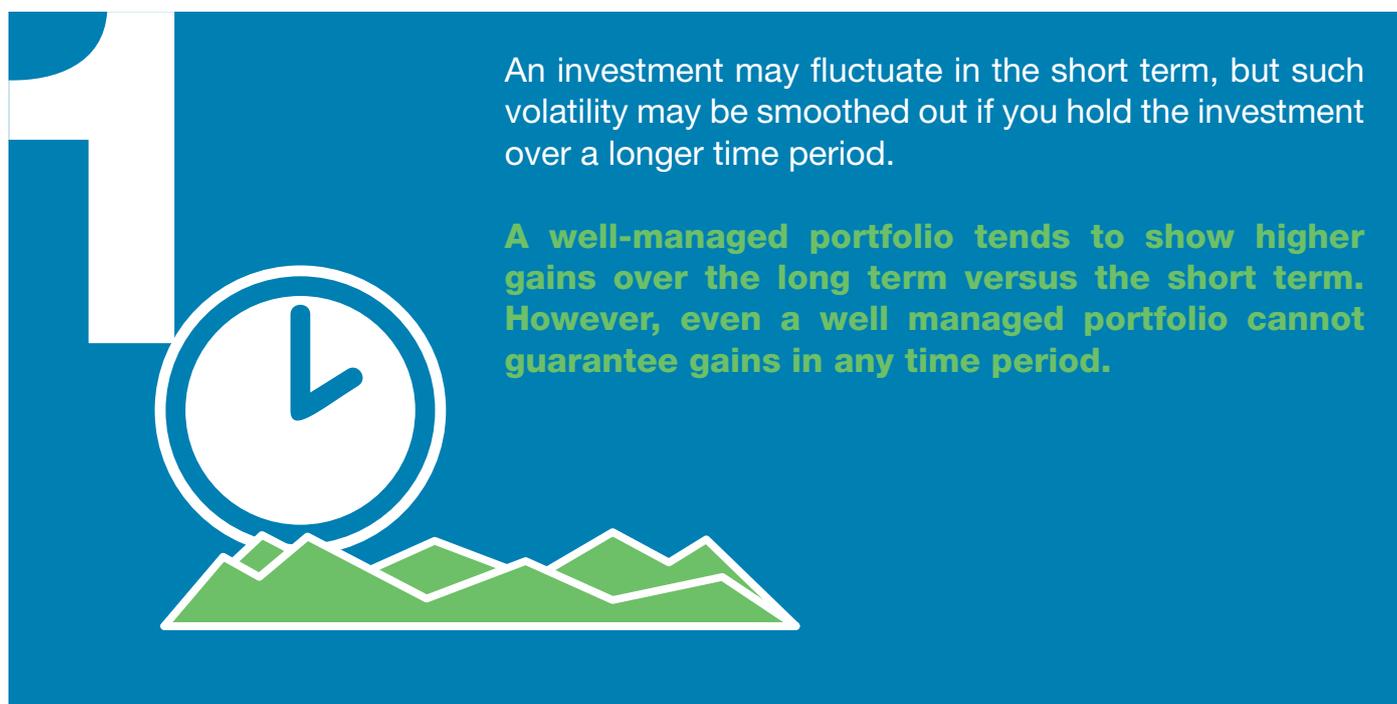
- Cash represented by the Citigroup 3-month T-Bill Index, an index of three-month Treasury bills.
- Commodities represented by the Dow Jones-UBS Commodity Total Return Index, which is composed of futures contracts on 19 physical commodities.
- Emerging Market Bonds represented by the JPMorgan Emerging Markets Bond Index Global, which tracks total return for U.S. dollar-denominated debt instruments issued by selected emerging market countries.
- Unhedged Foreign Bonds represented by the JPMorgan Non-U.S. Global Government Bond (Unhedged) Index, which is an unmanaged market index representative of the total return performance in U.S. dollars on an unhedged basis of major non-U.S. bond markets.
- High Yield Bonds represented by the Merrill Lynch US High Yield Master II Index, which tracks the performance of below investment grade (BBB), but not in default, U.S. dollar-denominated corporate bonds publicly issued in the domestic market.
- Intermediate-Term Bonds represented by the Barclays Capital Aggregate Index, which is composed of securities from the Barclays Capital Government/Credit Bond Index, Mortgage-Backed Securities Index, and Asset-Backed Securities Index. It is representative of the domestic, investment-grade, fixed-rate, taxable bond market.
- Long-Term Bonds represented by the Barclays Capital Long Treasury Index, an index of U.S. Treasury obligations with maturities greater than 10 years.
- Short-Term Bonds represented by the Merrill Lynch 1–3 Year Treasury Index, an index of U.S. Treasury obligations with maturities from 1 to 2.99 years.
- Real Estate represented by the Wilshire REIT Index, which tracks publicly-traded Real Estate Investment Trusts in the U.S..
- International Stocks represented by the MSCI EAFE Index. The Morgan Stanley Capital International (MSCI) Europe, Australasia, Far East Index (EAFE) is an index of over 900 companies, and is a generally accepted benchmark for major overseas markets.
- Large-Cap Growth Stocks represented by the Russell 1000 Growth Index, which measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.
- Large-Cap Value Stocks represented by the Russell 1000 Value Index, which measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.
- Small-Cap Growth Stocks represented by the Russell 2000 Growth Index, which measures the performance of those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values.
- Small-Cap Value Stocks represented by the Russell 2000 Value Index, which measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values.



Determine Your Timing

There are two ways in which time can affect your investment returns:

Time Horizon



1

An investment may fluctuate in the short term, but such volatility may be smoothed out if you hold the investment over a longer time period.

A well-managed portfolio tends to show higher gains over the long term versus the short term. However, even a well managed portfolio cannot guarantee gains in any time period.

Time in the Market



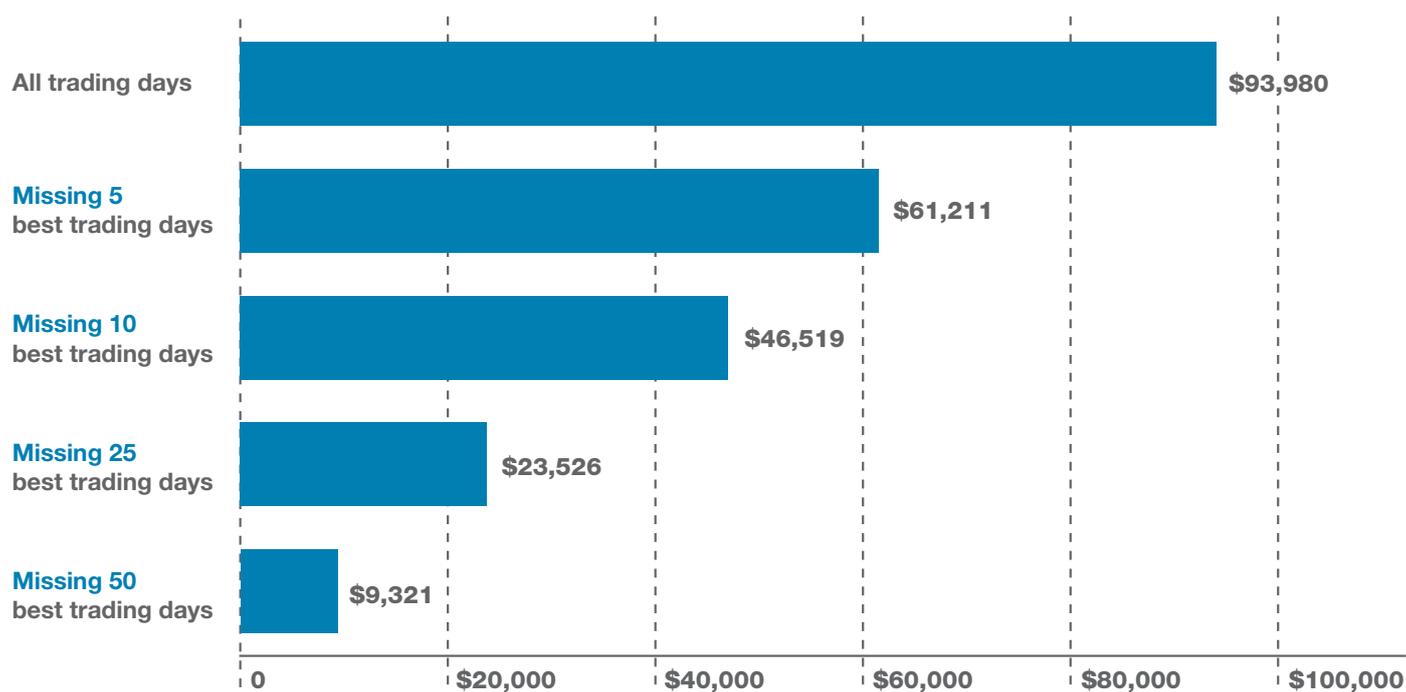
“Buying low and selling high” may sound like a good investing rule-of-thumb, but if you try to “time the market” (grabbing the lowest and highest points in the market to buy and sell, respectively) it may lead to risky investment behaviour and may result in lower than expected gains or losses to the principal amount invested.

It is not so simple to time the market by “buying low and selling high”. If you try this, you may end up doing the opposite (that is, buying high and selling low). Rather, if your investment decision is to simply buy and hold on to an investment over a longer time period, you may have the opportunity to receive better investment returns by participating in the market’s best performing cycles (in addition to its worst performing cycles).

Determine Your Timing

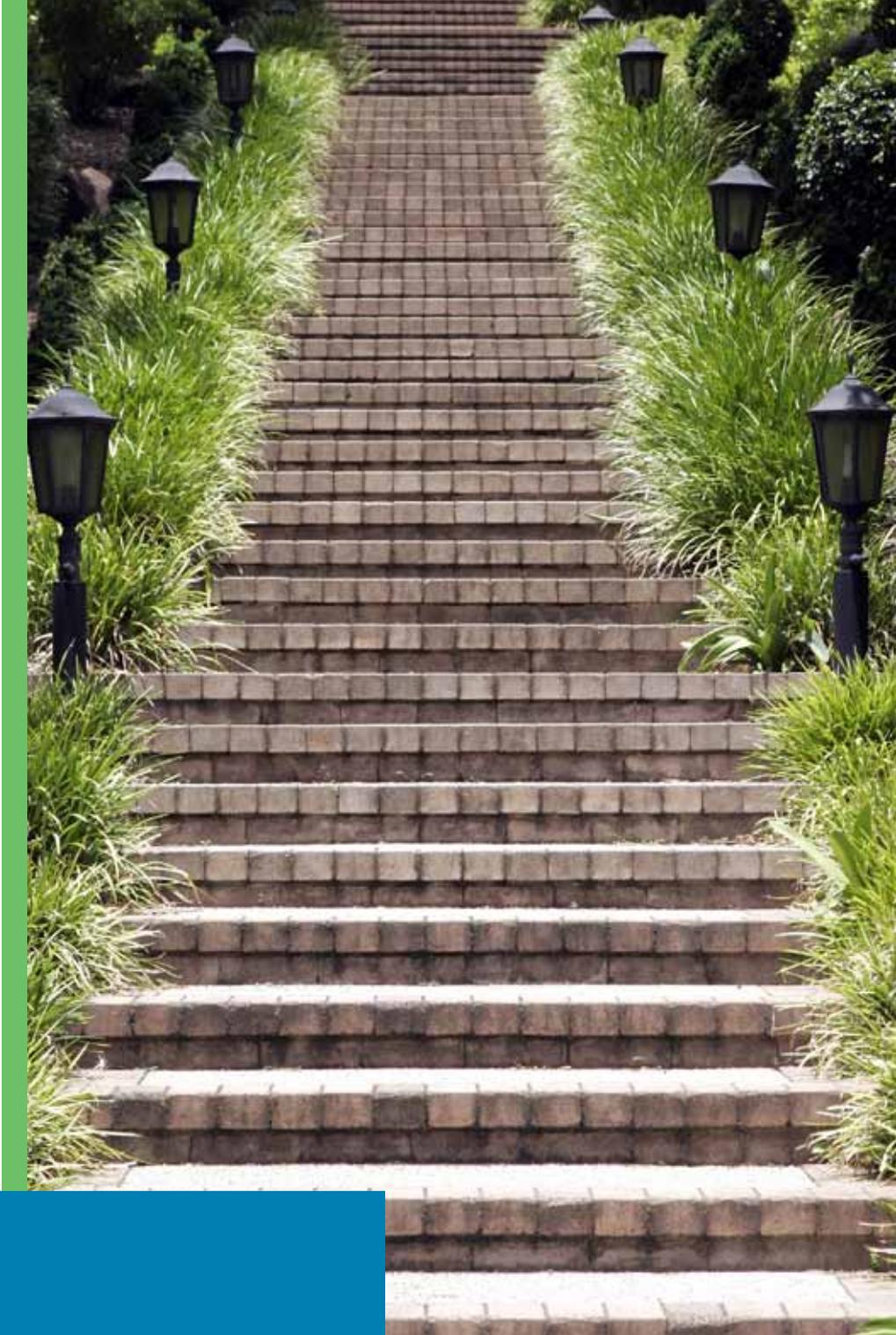
Missing the market's best performing days can have a big impact on your returns:

Example of USD10,000 invested in the S&P 500 over a 30-year period from 1 January 1979 to 31 December 2008.



Please note that this is an example only and any potential returns set out herein are not indicative of actual returns that may be achieved in any investments that you may decide to make.

Missing the 50 best days in the past 30 years would reduce your returns by 90% or close to USD85,000.



Use Averaging to Your Advantage

Dollar Cost Averaging

When making your investment decisions you may be able to save and accumulate your wealth consistently by utilising the concept of **dollar cost averaging** – committing to buy a fixed sum of a particular investment on a regular schedule. When prices go up, fewer units will be bought, and when prices go down, more units will be purchased. The cost of each unit acquired can then be averaged out over time.

In this way, you may be able to build up a desired investment position by making a gradual and disciplined entry into the market, avoiding the need to commit the entire capital upfront, or risk investing a large sum at an unexpectedly disadvantageous time.

Investing one lump sum versus averaging over time

Month	One Lump Sum			Averaging Over Time		
	Amount	Unit Price	Number of Units	Amount	Unit Price	Number of Units
1	\$20,000	\$2.00	10,000	\$5,000	\$2.00	2,500
2				\$5,000	\$1.80	2,777
3				\$5,000	\$1.90	2,631
4				\$5,000	\$2.10	2,380
Total	\$20,000	\$2.00	10,000	\$20,000	\$1.94	10,288

Dollar cost averaging may be a good way to save and accumulate your wealth on a disciplined and regular basis. It may allow you to ride out market volatility and avoid trying to time the market.



**Start
Investing
Early and
Reinvest
Your Gains**

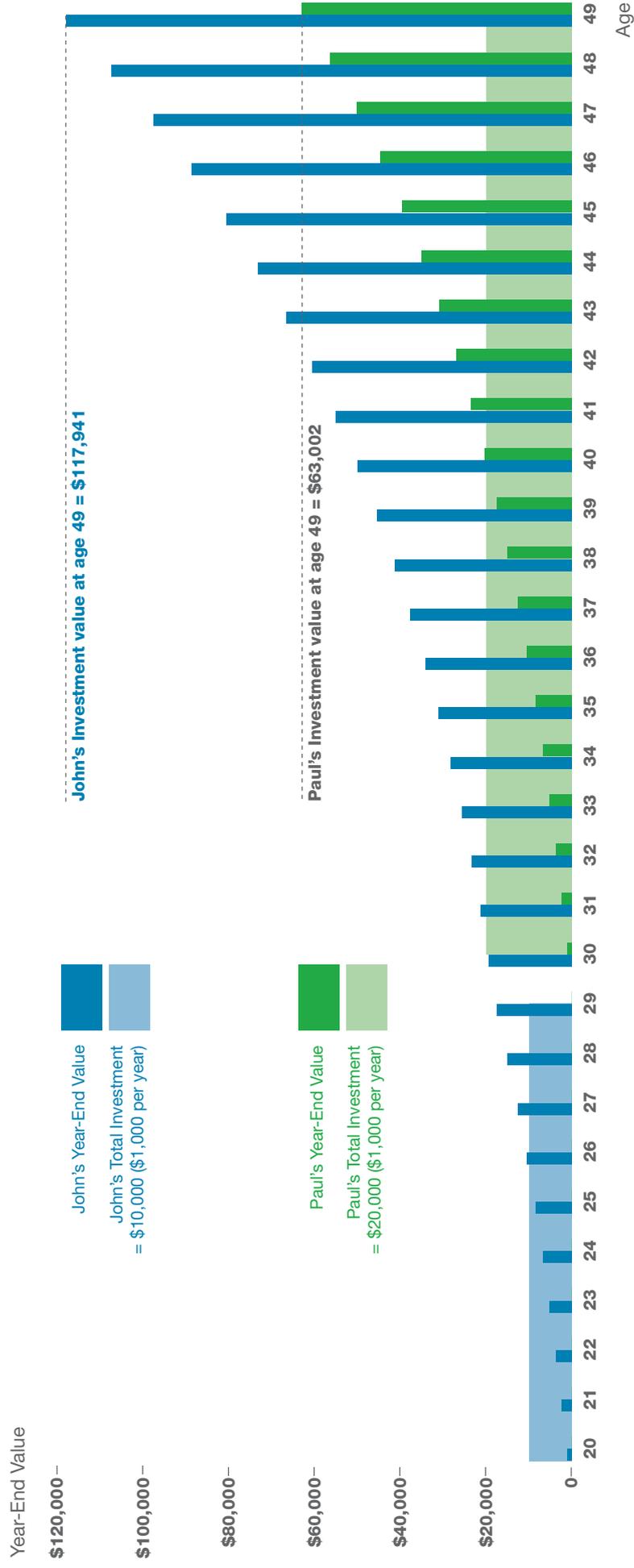
The power of compounding

You may potentially maximise your returns by consistently re-investing any gains you receive back into your investment when making your investment decisions. This way, you are continuously putting a larger amount of capital to work, and your investment return will be compounded – and may be maximised – over time. Utilised properly, compounding may help you grow a small sum of money into a substantial amount over a longer time horizon.

Example

The **power of compounding** is illustrated by the example below, based on a rate of return of 10% per annum. In both examples, John and Paul, both the same age, each invest USD1,000 per annum, but John starts investing at age 20 and for just 10 years, while Paul starts 10 years later at age 30, and invests for 20 years. When they are both 49, John will have significantly more money at than Paul*.

The power of compounding (John versus Paul)



*Please note that this is an example only and any potential returns set out herein are not indicative of actual returns that may be achieved in any investments that you may decide to make.



Regularly Review and Rebalance Your Portfolio

Keeping in good shape

As part of your process in making your investment decisions, you should keep in mind the evaluation and fine-tuning of your investment portfolio at regularly scheduled reviews. This evaluation and fine-tuning may help to ensure your portfolio continues to be aligned with your desired risk-return profile, and that it is well-positioned to achieve your target performance.

At each review, ask yourself if your personal and financial situations have changed, and whether the investment performance of your portfolio has affected your goals. When monitoring your investment performance, resist making impulse driven changes in response to short-term market fluctuations (and incur transaction costs in the process). Instead, keep in mind the investment goal and time horizon you have set for yourself, before deciding if there is a real need to rebalance and re-adjust your portfolio investments.

The professional services of a financial advisor can be most valuable in this regard. He or she will be able to monitor your investments, help you understand if your portfolio is performing to expectations, identify new investment opportunities, and recommend portfolio adjustments where necessary.

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