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Invest early in the build-up to retirement

By 2020, the total net worth of those born between 1982 and 1998 – could grow to US$19-24 trillion. To leverage on this, financial professionals recommend planning for retirement the moment a person enters the workforce.

By Stephanie Luo

IN the past, investing and multiplying one's wealth early was not commonly heard of, since young people then had less purchasing power and capital to invest. Today, investing has almost become second nature to young adults who start doing so early, and investing in different stages of one's life is important in the build-up to retirement.

Some specialists in the finance sector whom *The Business Times* spoke to advocated investing early.

Brandon Lam, Singapore Head of Financial Planning Group at DBS Bank, told BT that every person should start planning for retirement the moment he or she enters the workforce.

"Early planning has immense benefits, such as a longer horizon to invest and save towards your retirement sum. If you start planning for retirement early, you could allow time to work in your favour through compound interest, a smaller amount of contribution over a longer period. For every year that you delay, you may need to contribute a larger sum than the previous year."

Mr Lam said that those in the 20-40 age group, who can afford to take more investment risks and take advantage of compounding, can start by learning about investment products and strategies, and begin to invest – even in small amounts – on a regular basis.

"If you have sufficient risk appetite, you could adjust your portfolio to higher risk – more exposure to risky assets – by overweighting your investment capital in shares versus bonds or deposits. But, you should always make sure you can afford the losses in worst-case scenarios."

Similarly, life planner Samantha Tan recommended employing prudent savings for those aged between 20 and 30. She said: "For someone with a low-risk appetite, he or she can invest in a scheduled monthly saving scheme. Those with a higher risk appetite can explore foreign exchange and the stock market. As income grows over the years, continue to put aside savings each month to plan ahead for rainy days and retirement funds. You may not see the benefits and returns in the short term, but definitely in the long term."

By 2020, it is expected that the total net worth of millennials – or those born between 1982 and 1998 – will grow to US$19-24 trillion, according to Deloitte's 2015 edition of Insights. In the Asia-Pacific, this generation is expected to outdo other generations with its large spending power, with an estimated disposable income of US$6 trillion by 2020, according to last September's data from Accenture.

Nicholas Wong, a director at a Swiss bank, agreed that investing early is important. "As inflation increases and standard of living keeps rising, not starting early will move your retirement goals further away. Investing is not solely to make money, but also allows you to keep abreast of the economy and markets around us. Through investing, you will see how finance – the essence of all trades – affects companies or shapes currencies," he explained.

Mr Wong was first introduced to investing at 18, when he was approached by friends and relatives to buy insurance policies. Now, he said, his investments skew towards properties and exchange-traded funds.

For those in the older age group of 41-59 who tend to put more focus on retirement, family or education planning as well as savings preservation, DBS Bank's Mr Lam said that investment products should be chosen and assessed according to these priorities.

"More diversification is required in order to provide lower volatility. In certain cases, investors might consider embedded income distribution if regular cash is needed. Riskier assets should represent a smaller exposure of savings and even in worst case scenarios, should not significantly affect your initial investment goals."

Those in their 60s are advised to focus on three priorities in their investment plans: lower-risk, wealth preservation and income distribution, Mr Lam said.

"Investment products for the latter are designed to provide regular revenues for retirement and regular expenses. All three can be achieved with a diversified and balanced investment portfolio which looks at a combination of fixed deposits, investment grade bonds and unit trusts invested in bonds and equities.

"For those 60 and above, they should look to investments that provide them with regular income and preservation of their capital. Therefore, riskier assets and products should not represent a significant part of their portfolio," he added.