Investing under the

CPF INVESTMENT SCHEME

SELF-AWARENESS QUESTIONNAIRE

(MODULE 1)

CONTENTS

UNDERSTANDING INVESTMENTS

Saving and investing are important parts of financial planning and can help you reach your financial goals.

Before you decide to invest, do bear in mind that:

- All investments come with risks.
- Your investment decisions would impact your retirement nest egg.
- Only invest when you:

  1. can take the risk of investments;
  2. can afford to invest;
  3. have the time to monitor your investments; and
  4. are confident of earning more than the CPF interest rates.

PART 1: INVESTMENT RISK AND RETURN

WHAT IS INVESTMENT RISK?

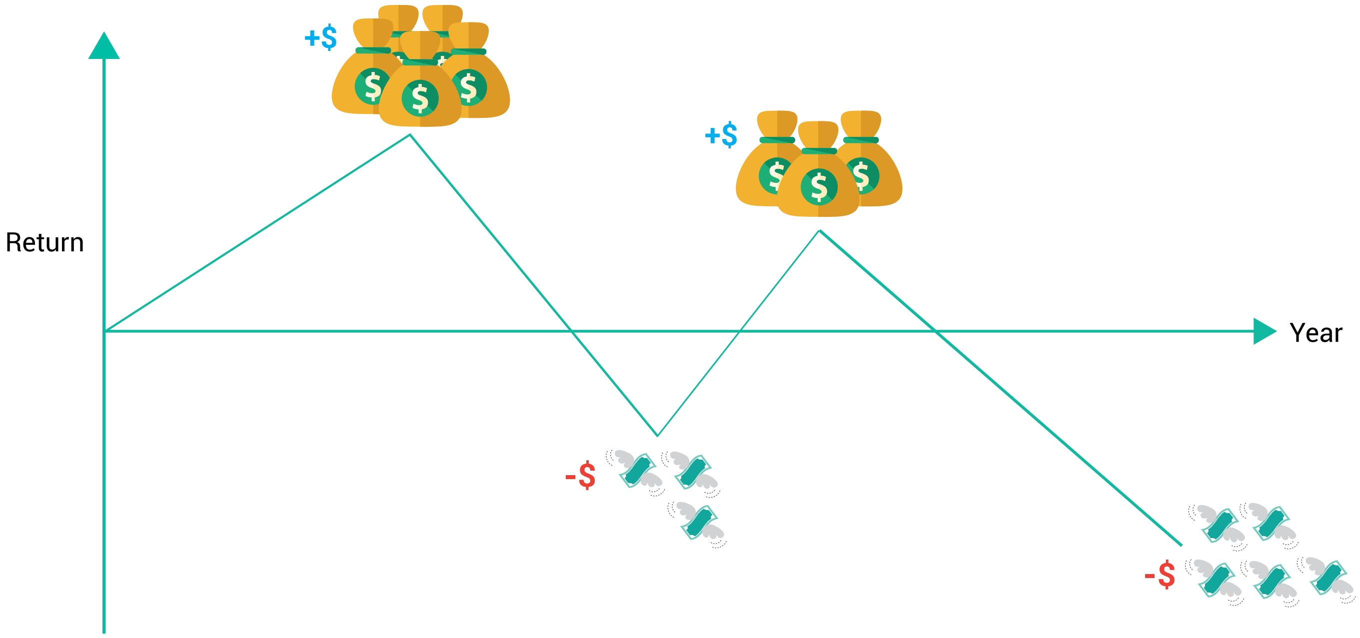
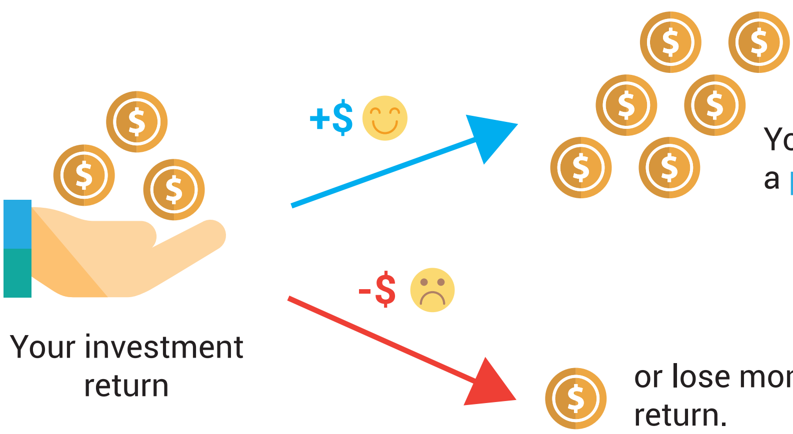


Diagram: Return over the Years

You cannot tell in advance what you will get from your investments. For example, you may even lose all the money you had invested.

WHAT IS INVESTMENT RETURN?



You can make money, and have a positive return,

or lose money, and have a negative return.

PART 2: RELATIONSHIP BETWEEN RISK & RETURN

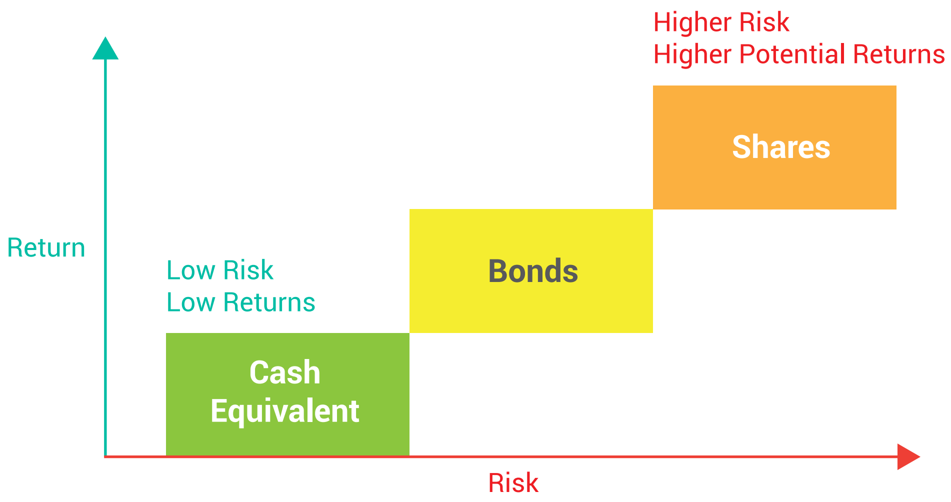


Diagram: The relationship between **Risk** and **Return**

Investments under the CPF Investment Scheme (CPFIS) fall under three basic asset classes:

- Shares,
- Bonds, and
- Cash equivalent products.

Generally, shares are more risky but come with potentially higher returns. On the other hand, cash equivalent products are less risky but come with lower returns.

The risk and returns for bonds are generally in between that of shares and cash equivalent products.

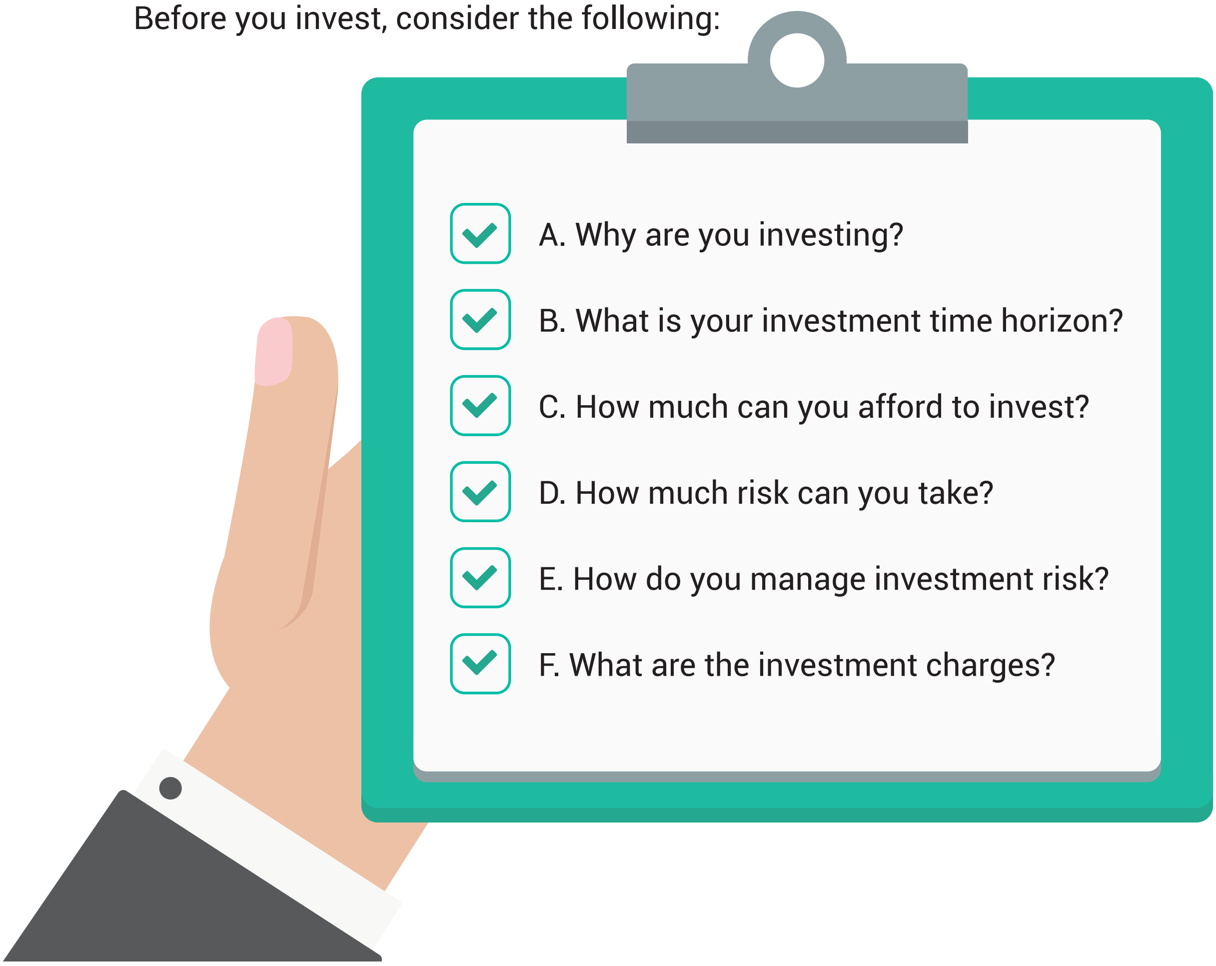
Generally, the higher the potential returns on an investment, the higher the risk involved.

However, investing in higher risk investments do not guarantee higher returns.

If you are not comfortable with the risk involved in investing, you have the option of leaving your CPF savings in your CPF accounts to earn the risk-free interest rates. You will learn more about the risk-free CPF interest rates in Module 2.

PART 3: INVESTMENT CONSIDERATIONS

Before you invest, consider the following:



A. WHY ARE YOU INVESTING?

Set an investment goal
For example, a long-term goal could be to grow your savings to $X at the end of 25 years for retirement. You could also set a short term goal to grow your savings to $Y in 2 years for a family holiday.

B. WHAT IS YOUR INVESTMENT TIME HORIZON?

Work out your investment horizon or the time you have before you need to use the money.

In general, the longer your investment time horizon, the higher risk you may be able to take as you can afford to wait and ride out the ups and downs of the market. You may consider investing for the long-term if you are investing your CPF savings as these are your retirement savings.

PART 3: INVESTMENT CONSIDERATIONS

C. HOW MUCH CAN YOU AFFORD TO INVEST?

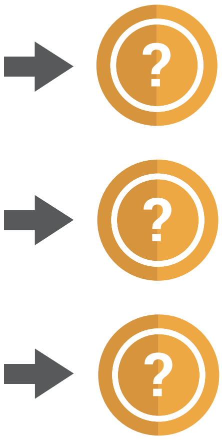
Work out how much money you can afford to invest by considering your income and expenses. For example, you may need to set aside your CPF savings for retirement needs, housing instalments, insurance premiums or education needs.

D. HOW MUCH RISK CAN YOU TAKE?

STEP 1

It is important to **know your risk tolerance level** i.e. the amount of risk you are comfortable to take.

Once you have assessed your risk tolerance, you should understand the investment products and decide if they match your risk tolerance level.



STEP 2

Understand investment products and assess if the products match your risk tolerance level and your investment time horizon.

For example, a young person without family commitments or a housing loan to repay might be comfortable investing in higher risk products like shares.

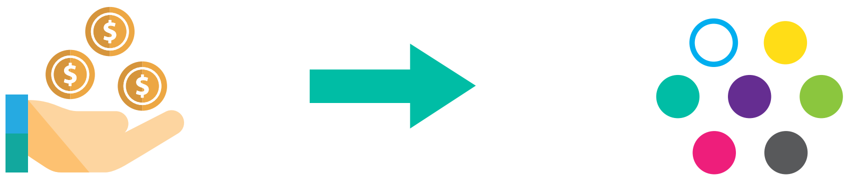
On the other hand, a middle-aged person with family and a housing loan to repay might be more comfortable investing in "less risky" products like balanced funds, which invest in a mixture of shares and bonds.

You will learn more about the investment products available under CPFIS in the next module.

Try out the questionnaire on page 11 to assess your risk tolerance level.

PART 3: INVESTMENT CONSIDERATIONS

E. HOW DO YOU MANAGE INVESTMENT RISK?



Diversify your investment

Invest in different asset classes or markets

Diversifying your investments can help you weather the ups and downs of your returns and spread your investment risk across different products.

You can diversify your investments by investing in different types of investment products or asset classes.

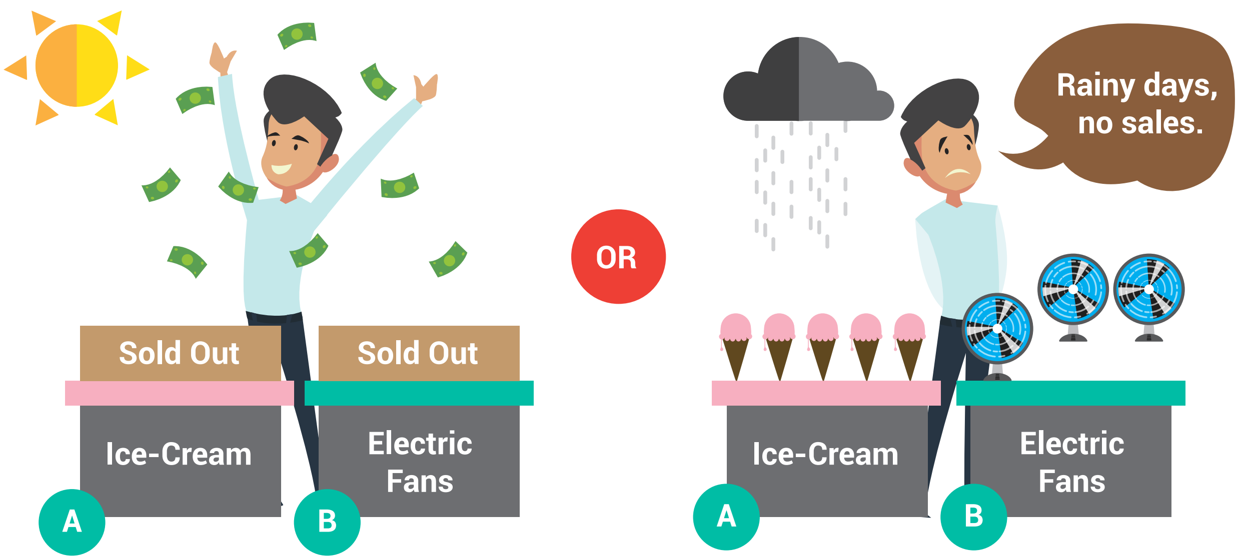
You can also invest in a mixture of products across different countries, industries and companies to manage your investment risk.

CORRELATION AMONG DIFFERENT PRODUCTS

The correlation among different products may affect how you choose your products to achieve diversification.

Positive Correlation

What it means:
Two investment instruments move in **same direction**.

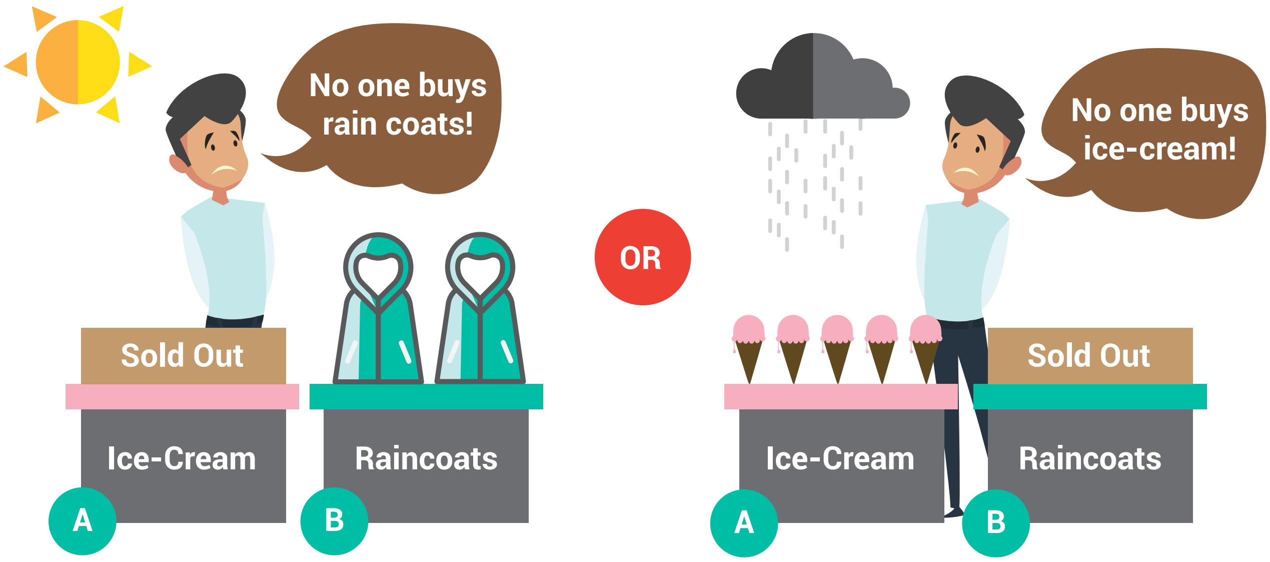


If investment A gains value, investment B is likely to gain in value as well. If investment A drops in value, investment B is likely to drop in value as well.

PART 3: INVESTMENT CONSIDERATIONS

Negative Correlation

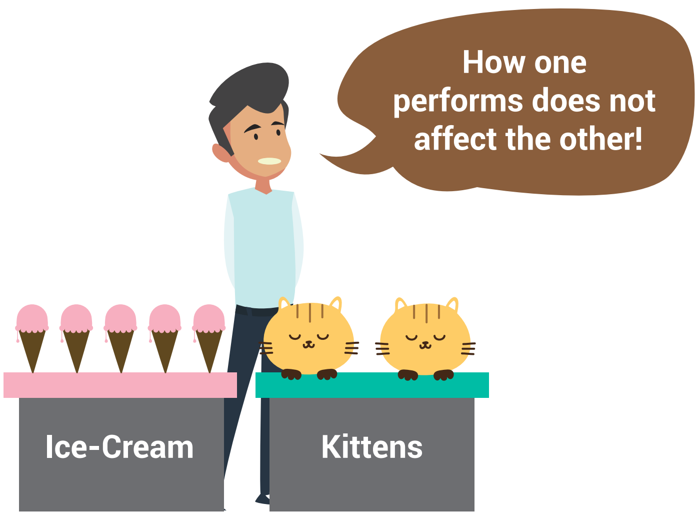
What it means:
Two investment instruments move in **opposite direction**.



If investment A gains in value, investment B is likely to drop in value instead and vice versa.

Low or No Correlation

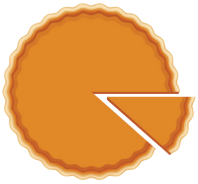
What it means:
The price movement relationship between the two investment instruments are **random**.



If investment A gains in value, investment B may either gain or drop in value.

PART 3: INVESTMENT CONSIDERATIONS

F. WHAT ARE THE INVESTMENT CHARGES?



Investment charges reduce your investment returns. Do consider the investment charges involved when determining the amount of returns you want from your investments.

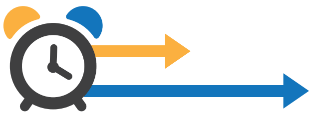
You will learn more about investment charges in the next module.

PART 4: MONITORING YOUR INVESTMENTS

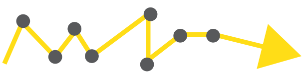
You should continue to monitor your investments after you have started investing. You may also wish to pay attention to the following situations:

i. Has your investment goal changed?

ii. Has your risk tolerance level or financial situation changed?



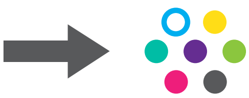
iii. Has your investment horizon changed?



iv. Has your investment portfolio been performing poorly?

If the answer to any of the questions is "Yes", you should consider adjusting your portfolio to suit your new needs. For example:

i) Adjusting the proportion of investments in the different asset classes



ii) Diversifying your investments further

PART 5: RISK TOLERANCE QUESTIONNAIRE

You may use the following questionnaire to assess your risk tolerance level or the amount of risk you are comfortable to take.

Please answer the five questions below and note the points given to the answer you have selected. You will need to total up the points from all five answers to get your score.

A

Depending on the products you have invested, the value of your investments can remain stable (slow but steady increase), or it may rise and fall quickly in response to market movements. In general, investments that fluctuate (rise and fall sharply within a short time) have the potential to earn higher returns. However, they are also more risky. Are you willing to accept a fall in the value of your investments?

POINTS

1	I cannot accept any fall in the value of my investments, even if this means that my returns will be small.
5	I am willing to accept occasional falls in the value of my investments, as long as my savings are in safe, high-quality investments and are expected to increase in value over time.
9	I am willing to take on more risk and accept large falls in the value of my investments, to get higher potential returns.

PART 5: RISK TOLERANCE QUESTIONNAIRE

B

Some investments may keep your money "safe", but may not earn a high return. At the same time, goods and services will cost more over time due to inflation. Choose the statement that best describes your investment approach.

POINTS	
1	The amount I invested should be 100% safe, even if it means my investment returns would not keep up with inflation.
5	It is important that the value of my investments keep up with inflation. I am willing to risk an occasional fall in the value of my investments so that it may grow at about the same rate as inflation over time.
9	It is important that the value of my investments grow faster than inflation. I am willing take on more risk in order to achieve this.

C

The value of some of your investments will rise and fall over time, in response to market movements. What is the maximum loss of value you could accept in any one-year period?

POINTS	
1	0%
3	5%
5	10%
7	20%
9	30%

PART 5: RISK TOLERANCE QUESTIONNAIRE

D

Two investment products, A and B, have the following features:

- Investment A provides an average return of 3% per year. It also has a very low risk of you losing a small portion of the amount that you invested.
- Investment B provides an average return of 7% per year. However, you may lose up to 20% (or more) of the amount that you invested in any year.
- How would you choose to invest your savings in these two products?

POINTS

1	100% in Investment A and 0% in Investment B.
3	75% in Investment A and 25% in Investment B.
5	50% in Investment A and 50% in Investment B.
7	25% in Investment A and 75% in Investment B.
9	0% in Investment A and 100% in Investment B.

PART 5: RISK TOLERANCE QUESTIONNAIRE

E

You may be expecting to use the monies that you invested and the returns earned for some purpose (e.g. for daily expenses when you retire, to pay for your child's university fees, a family holiday etc.). To what extent are you able to forgo the use of these monies?

POINTS

1	No, I cannot forgo the use of these monies at all (e.g. the monies are for my daily expenses when I retire.)
3	I can forgo one-third of these monies.
7	I can forgo two-third of these monies.
9	I can forgo the use of these monies totally (e.g. the monies will be used to pay for a holiday, which I am willing to give up).

PART 5: RISK TOLERANCE QUESTIONNAIRE

You would have to total up the points from all five answers to get your score. Possible range of scores is from 5 to 45. In general, the higher your score, the more comfortable you may be with taking on higher risk in your investments to achieve higher potential returns over the long-term.

Your Score	Risk Category	Investment Time Horizon
38 to 45 points	Higher	Long term (10 or more years)
30 to 37 points	Medium to High	Medium to long term (5 years to less than 10 years)
20 to 29 points	Low to Medium	Short to Medium term (3 years to less than 5 years)
5 to 19 points	Lower	Short term (less than 3 years)

Important note:
This questionnaire is designed to provide basic information to CPF members. It does not take into account your individual financial situation.

Besides risk tolerance, you need to consider your investment time horizon (i.e. the time you have before you need to use the money from your investments) to determine your suitable risk category. In general, the longer your investment time horizon, the higher the risk you are able to take since you can ride out the ups and downs of the market. Hence, a higher percentage of your investments may be in higher risk products like shares.

SUMMARY

In this module, you learnt about:

- What investment risk and return is
- The relationship between risk and return
- What you need to consider when you invest

When you invest, do note:

- All investments come with risks.
- Your investment decisions would impact your retirement nest egg.
- Only invest when you:

  1. can take the risk of investments;
  2. can afford to invest;
  3. have the time to monitor your investments; and
  4. are confident of earning more than the CPF interest rates.

Please go through the next module to understand the investment products under the CPF Investment Scheme (CPFIS).

The content of this module is prepared with references from MoneySENSE.