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Retirement: The investment lifecycle

October 2023



WS Global CIO Office



Current market conditions are being defined by multiple global economic forces, driven by technological disruptions, and influenced by geopolitical risks. Such an environment makes charting a course for retirement more complex than ever.

Each stage of an investor's life demands not only a reflection on age and personal priorities, but also a keen understanding of an ever-evolving global financial landscape. Each phase of life, be it the audacious ventures of youth, the strategic balancing of mid-life, or the safeguarding instincts of the twilight years, intersects with the broader economic rhythms.

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This publication examines how age-specific retirement strategies can be crafted and recalibrated amidst such unpredictability. Whether you're setting out on your investment journey, navigating the intricacies of mid-life financial planning, or fortifying assets for the golden years, understanding how to tailor your approach considering both personal milestones and ever-changing market conditions is crucial.

Investment strategy for individuals in their 20s-30s

Crafting a robust retirement blueprint

In the realm of financial planning, those in their 20s and 30s are uniquely poised. With the dual advantage of time and typically fewer financial encumbrances, individuals have the flexibility to make potent financial choices. A well-thought-out strategy during these years can set the tone for a comfortable retirement. Below is a guide to investment strategy and portfolio allocation for those on this cusp of youth and maturity.



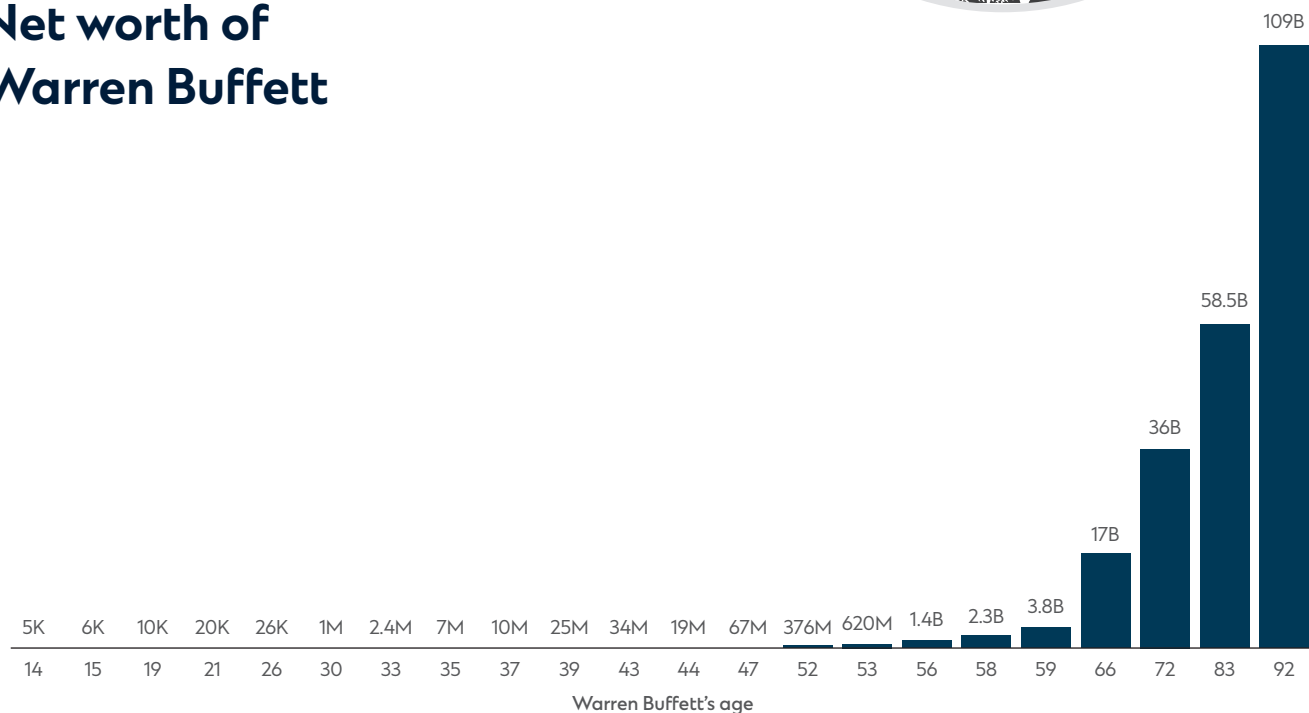
Harness the power of compounding

One of our 5 investment principles is ‘Time in the market’. Staying invested, in our opinion, maximises the probability of investment success. The longer you are invested, the longer you have to benefit from the power of compounding.

Most of us are aware of Warren Buffett’s incredible investment success. Most put this down to his ability to outperform the market by a wide margin. While this is undoubtedly true, one key factor in his favour is that he started investing when he was 14 years old. Over 99% of Buffett’s wealth was generated after his 50th birthday. Our brains are wired to think linearly, and while we theoretically understand the power of compounding, we struggle to appreciate its power.



Net worth of Warren Buffett



Source: Forbes

Therefore, starting your investment journey early is extraordinarily beneficial. It also means that if you make mistakes, you will do this with small amounts of money and have plenty of time to recover.

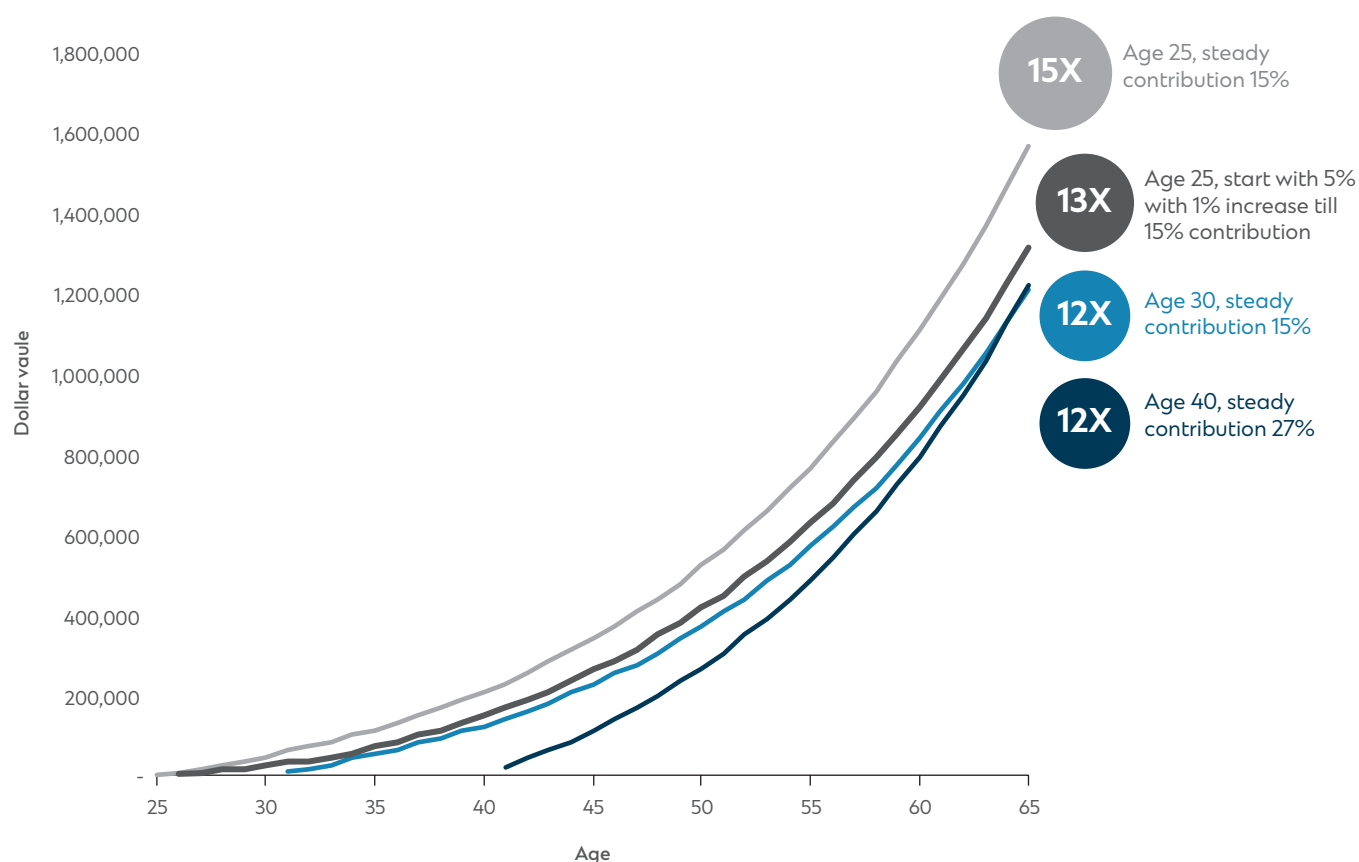
Our analysis in the figure below showed that, in many cases, if you could set aside 15% of your annual income to invest from the age of 25, you can expect to have 15 times your ending salary.

However, if 15% is difficult at this life stage, you can consider start saving what you can and work to increase that amount over time. In the same analysis, results show that by starting to invest using 5% of your annual income at the

age of 25 and incrementally increase the contribution by 1% each year until the percentage of contribution reaches 15%, you can still have an investment portfolio that is worth 13 times your ending salary.

For those that start late on the saving journey, increasing the percentage contribution significantly is one way to improve the probability of achieving the target saving amount. For example, someone that starts saving and investing at the age of 40 will have to put aside 27% of their annual salary to have the same savings as another person who starts doing the same at age 30 with only half of the contribution percentage (15%). This reinforces the benefits of starting early.

Hypothetical value of a retirement portfolio an investor can expect to have following different saving and investing plans



Source: Standard Chartered

All the calculations in this study are done based on two key assumptions: (1) Your salary increases by 1.8% per year – an average of global real wage growth over the past 15 years; and (2) Your investment can generate, on average, a return of 6% per year

Risk and diversification

At this age, one can typically afford to be more aggressive via a higher allocation to risk assets.

In the figure below, we look at a potential allocation of 80-90% in equities, with the balance in a diversified basket of cash, bonds, and gold (i.e. approximately following the simple rule of thumb of an equity percentage allocation being 100% minus your age). This can provide young investors with a high expected return potential, albeit with higher expected volatility. For example, one can consider gradually shifting to a portfolio of 70-80% equity by the end of their 30s.

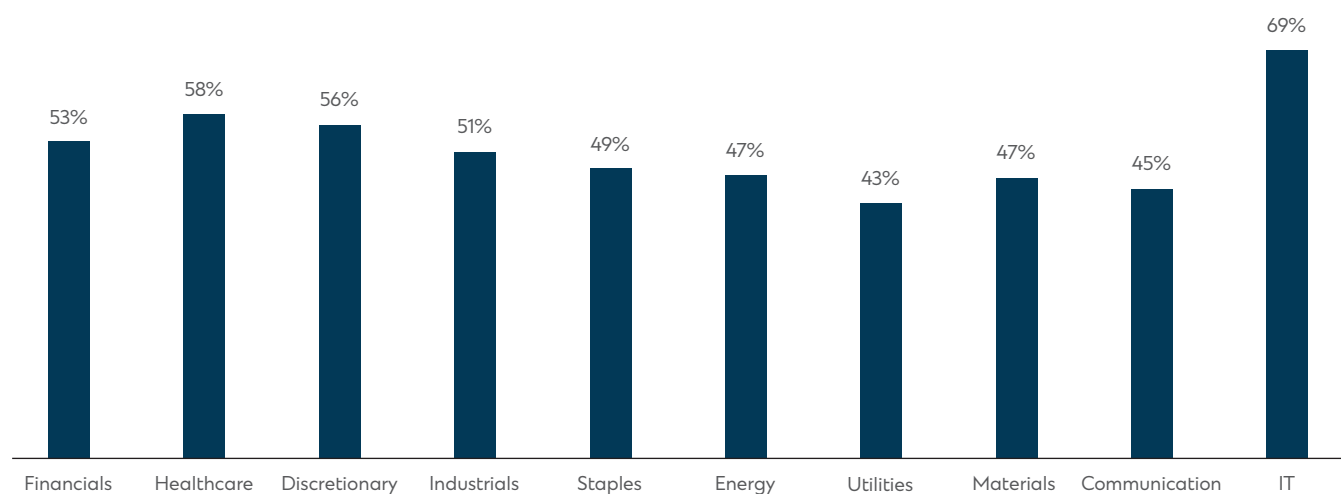
For the average investor, the size of equity allocation is the key driver of maximizing wealth accumulation, within one's risk appetite. However, equities are generally more

volatile than most financial assets. Therefore, it is crucial to maintain a diversified equity allocation to manage the risk of large drawdowns.

One simple way to do so is by spreading out the equity exposure by sectors. Historically, picking the winning single sectors or stocks consistently is extraordinarily difficult even for professionals who spend their professional lives dedicated to doing this, let alone those who are doing it in their spare time. Our analysis in the figure below shows that probabilities of most single equity sectors and regions outperforming broad equity markets consistently have been rather limited.

Probabilities of single US equity sector outperforming the broad US equity markets have been rather limited over the last 20 years

Probabilities of various US equity sectors outperforming broad US equity markets (2003 to 2023)



Source: Bloomberg, Standard Chartered



Another effective way to enhance the return potential from the equity exposure is to allocate to Emerging Markets (EM) equities. With structurally higher growth potential, supporting their earnings, EM equities can offer higher

expected return than their DM counterparts. However, historically, EM equities exhibited much higher volatility and drawdown and, therefore, require a medium to long holding period and sufficient risk appetite.

Proposed investment allocations* for 20-30s investors

	20s	30s	Changes
Bonds	<div><div></div> 5%</div>	<div><div></div> 15%</div>	↑
Equities	<div><div></div> 85%</div>	<div><div></div> 75%</div>	↓
Gold	<div><div></div> 5%</div>	<div><div></div> 5%</div>	○
Cash	<div><div></div> 5%</div>	<div><div></div> 5%</div>	○

Source: Standard Chartered

*These are indicative long term investment allocation for an average investor within the respective group age without considering his or her risk tolerance and can differ from short term tactical asset allocation. Please contact and speak to an investment advisor for a specific conversation

- ↑ Increase
- ↓ Decrease
- Stay the same

Consider low-cost implementation options (Index funds, ETFs)

In recent years, low-cost investment instruments such as index funds and ETFs have emerged as the preferred vehicle for many investment markets, especially for equity exposure.

Their primary objective – to replicate the performance of a benchmark, rather than outperform it – results in inherently lower costs.

Over the years, benefits from the cost saving can be amplified significantly thanks to the power of compounding. For this reason, many studies have shown that for many highly traded equity markets such as US equity, ETFs tend to outperform actively managed funds, largely due to their cost advantage. Investors in their 20-30s should consider the use of these passive investment instruments as part of the implementation solution for their portfolio, particularly for long horizon equity exposure.

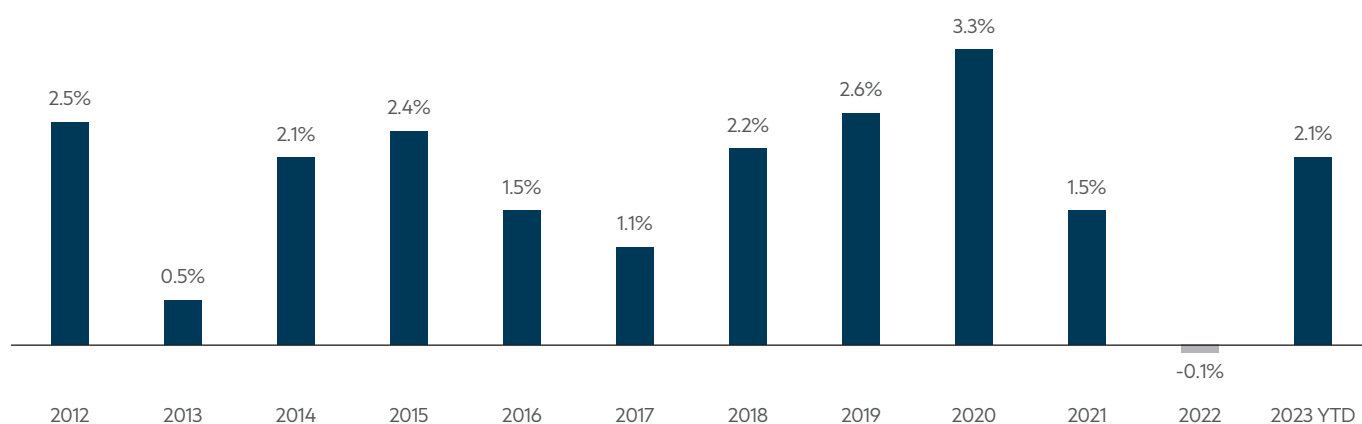
Another example of a cost-effective pathway for young investors to achieve their financial growth is by considering

robo-advisors to implement part of their investment. Robo-advisors can be an option for those seeking a hands-off yet highly efficient and affordable investment solutions as they can offer automated portfolio management rebalancing with options (in some countries) to optimize for tax efficiency.

For those in their 20s and 30s, charting a path to retirement may seem daunting. However, with a blend of discipline, continuous learning, and strategic diversification, it's possible to build a resilient financial future. Time, at this juncture, is an unparalleled ally, and optimizing its potential can yield rich dividends in the golden years.

ETFs can be a more effective option of implementation where markets are efficient

Relative performance of US ETF versus US ETF funds



Source: Standard Chartered, Morningstar, as of 30 June 2022. US ETF refers to the iShares MSCI USA ETF; US Funds performance is the category average of the Morningstar EAA Fund US Large-Cap Blend Equity peer group. Morningstar Peer Group Averages are equal weighted averages of comparable funds with similar strategies, placed in the same fund category computed by Morningstar, Inc.

Investment strategy for individuals in their 40s-50s

Navigating the critical path to retirement

As individuals approach their 40s and 50s, the financial landscape invariably shifts. Navigating the investment landscape at this stage is a delicate balancing act. These decades, often marked by peak earnings and growing financial responsibilities, demand an investment approach that harmoniously combines growth aspirations with risk mitigation. With the horizon of retirement approaching, yet still affording a degree of aggressive pursuit, tailoring a strategy that's both cohesive and comprehensive becomes pivotal.



Gradual shift from accumulation to preservation









If the focus during earlier years is on aggressive accumulation, as one sails into the 40s and 50s, that focus should start shifting gradually toward preservation.

However, with typically more than two decades of working left until retirement or more than 50 years of total time horizon ahead, it is crucial to maintain the growth potential of your portfolio through an appropriate allocation to equities.

In the figure below, we suggest investor in their early 40s should still have high tilt toward equities. For example, by the time one approaches their late 50s, an asset mix of 50% to 60% equities is likely more appropriate, in our view.

The reallocation from equities into bonds allows for the increase in capital preservation. To ensure investments continue to grow at a healthy rate, investors of this group can consider incorporating high yielding credit. These bonds with lower credit quality usually exhibit a risk/return profile close to equities with relatively lower drawdown risks thanks to the buffer provided by the high yield on offer.

Proposed investment allocations* for 40-50s investors

	40s	50s	Changes
Bonds	 25%	 35%	↑
Equities	 65%	 55%	↓
Gold	 5%	 5%	○
Cash	 5%	 5%	○

Source: Standard Chartered

*These are indicative long term investment allocation for an average investor within the respective group age without considering his or her risk tolerance and can differ from short term tactical asset allocation. Please contact and speak to an investment advisor for a specific conversation



Increase



Decrease



Stay the same

Stay diversified globally (across bonds and equities)

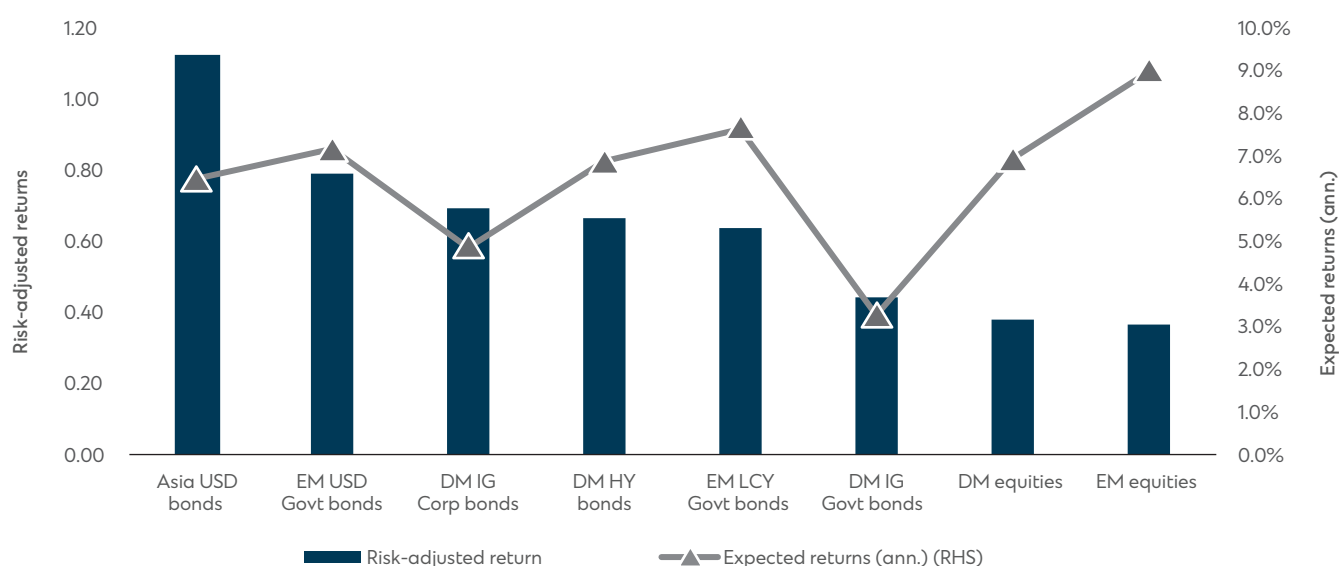
While the principle of diversification remains consistent across ages, disciplined implementation becomes vital during this phase to achieve the optimal upside capture of equities/risk assets with minimized downside risk.

Within equities, Developed Markets (DM) equities should account for a large part of overall equity allocation. However, we believe the case of a significant Emerging Markets (EM) exposure remains compelling to boost the overall portfolio's returns. However, for their volatile characteristics, we believe an allocation of 10 to 15% of EM equity should be optimal for investors in the 40-50s age group.

At this stage, another effective way to enhance the total return potential of an investment portfolio without taking excessive risks is to diversify fixed income assets into EM debt including EM USD Government, EM Local Currency Government and Asia USD bonds. Based on our latest capital market assumption* (CMA), these assets offer one of the best risk-adjusted returns, largely driven by the high level of yield on offer.

Emerging market assets, especially within bond markets, offer attractive risk-adjusted returns

Forward looking risk-adjusted returns and absolute returns of various asset classes



Source: Mercer, Standard Chartered

*Capital Market Assumptions are expected returns, standard deviations, and correlation estimates that represent the long-term risk/return forecasts for various asset classes.

Substitute part of growth equity with high dividend equity

Toward the final years of their 50s, many investors can begin gradually transitioning from aggressive growth assets to more stable income-generating options.

In such scenarios, high dividend equities can be a great substitute for a growth focused equity allocation.

Steady income stream: As retirement inches closer, the allure of a consistent income stream becomes paramount. High dividend equities, by nature, distribute a portion of their profits back to shareholders. This can provide investors with a regular income, supplementing other retirement inflows.

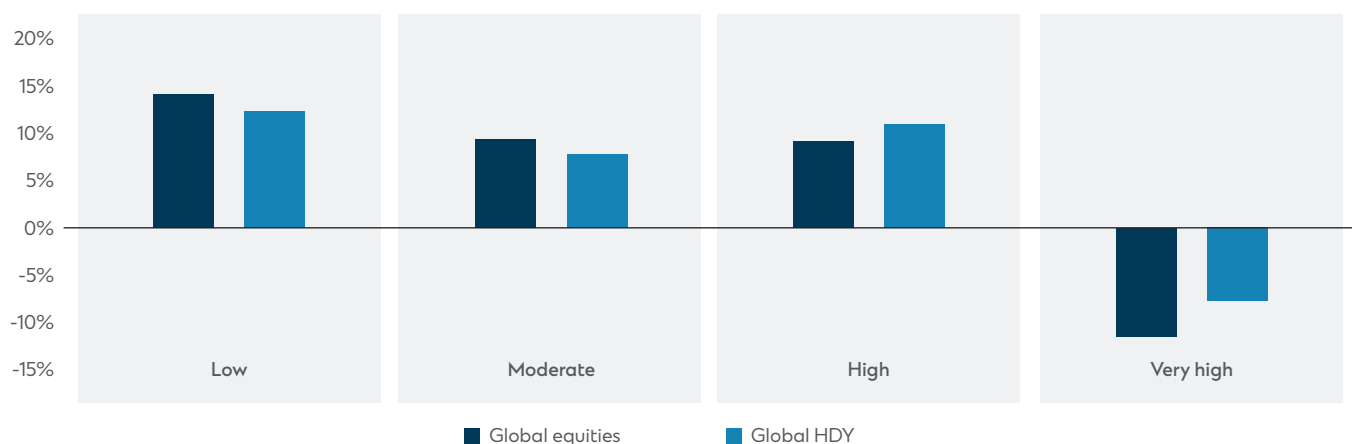
Potential for capital appreciation to hedge inflation: In more moderate manner (than most growth-focused equity), high dividend stocks with positive capital appreciation remain an effective hedge against inflation.

Diversification: High dividend equities tend to have positive tilt toward value stocks which generally are more defensive than growth stocks. Therefore, they can offer great diversification benefits, thereby reducing the concentration risks associated with growth stocks that dominate the broad equity markets.

For their dual benefit of offering higher stability (than growth-oriented equities) and positive capital growth, investors in their late 50s can consider substituting 20% to 30% of the total equity allocation with dividend-paying equities. This reallocation, in our views, can help improve the overall portfolio's defensiveness without compromising the overall growth potential substantially.

High dividend equities tend to be more defensive than growth-focused equities, especially in high and very high inflation environment

12-month returns of dividend-paying equities and global equities in different inflation regimes. Data as of 30 June 2023



Source: Bloomberg, Standard Chartered

Introduce private assets

Beyond traditional stocks and bonds, an allocation to alternative investments, like real estate, commodities, and private assets, is worth considering.

One important benefit that alternative assets offer is the ability to enhance a traditional portfolios’ return potential. Generally, the enhancement of return comes from the exposure to a differentiated set of strategies, manager expertise, a broader universe of investments as well as compensation for lower liquidity and higher complexity risk (when compared with traditional liquid assets).

One consideration before investing in this type of assets is liquidity risk. It could take months or years to liquidate the assets. Often, there can be lock-up periods or redemption caps. Hence, this is only suitable for those with sufficient liquid assets to support their obligations. In an ideal scenario (without any constraints), we believe the optimal

allocation to (semi or) illiquid alternatives investment should be around 20-25% of the overall investment portfolio.

The decades of the 40s and 50s can serve as the bridge to retirement. The choices made during this period can significantly influence the quality of retirement years. By focusing on a balanced asset allocation, maximizing retirement contributions, minimizing debt, and preparing for healthcare expenses, individuals can ensure they are well-positioned for a comfortable and secure retirement. The journey may seem challenging, but with meticulous planning and informed decisions, a serene financial sunset is achievable.

A proposed allocation* to private assets for 40-50s investors

Liquid assets	Liquid assets + private assets	Changes
<div><div></div>100%</div>	Liquid assets <div><div></div>75%</div>	↓
Bonds <div><div></div>35%</div>		
Equities <div><div></div>55%</div>		
Gold <div><div></div>5%</div>		
Cash <div><div></div>5%</div>		
	Private equities <div><div></div>13%</div>	+
	Private credit <div><div></div>6%</div>	+
	Private real estate <div><div></div>6%</div>	+

Source: Standard Chartered

*These are indicative long term investment allocation for an average investor within the respective group age without considering his or her risk tolerance and can differ from short term tactical asset allocation. Please contact and speak to an investment advisor for a specific conversation

↓ Decrease

+

Add

Investment strategy in retirement

Navigating financial stability in the golden years (60s and beyond)

Stepping into retirement heralds a new chapter in one's financial journey. With the focus shifting from wealth accumulation to wealth preservation and consistent income generation, investment strategies need recalibrating. While risks need to be minimized, ensuring that portfolio growth outpaces inflation is equally paramount.









Rebalance to cash-like and fixed income for capital preservation

The primary concern for retirees is to safeguard their life savings. This often means rebalancing from equity to cash and fixed income.

Equity allocation remains critical in retirees' investment portfolio. The longer the expected duration of retirement, the higher the suggested allocation to equities. Depending on individuals' immediate need for liquidity and risk tolerance, we propose a (wider) range of 10% to 30% for cash, 35% to 45% for fixed income and the remainder for equity. Cash and cash equivalent exposure here can be in form of pure cash, short term fixed deposits, and money market funds with high liquidity.

Proposed investment allocations* for investors in their 60-70s and above

	60s	70s and above	Changes
Bonds	 45%	 35%	↓
Equities	 45%	 35%	↓
Cash	 10%	 30%	↑

Source: Standard Chartered

*These are indicative long term investment allocation for an average investor within the respective group age without considering his or her risk tolerance and can differ from short term tactical asset allocation. Please contact and speak to an investment advisor for a specific conversation

↑ Increase

↓ Decrease

○ Stay the same

Tilt exposure to high quality assets

While entirely forsaking equities can be detrimental to any retiree's investment due to inflation, being selective in risk taking is extremely important.

One way to participate in equities' upside potential without taking excess risks is using high quality assets such as high dividend, value, or quality equities. Historically, these assets have lower downside capture (with the broad equity markets) than growth focused equity.

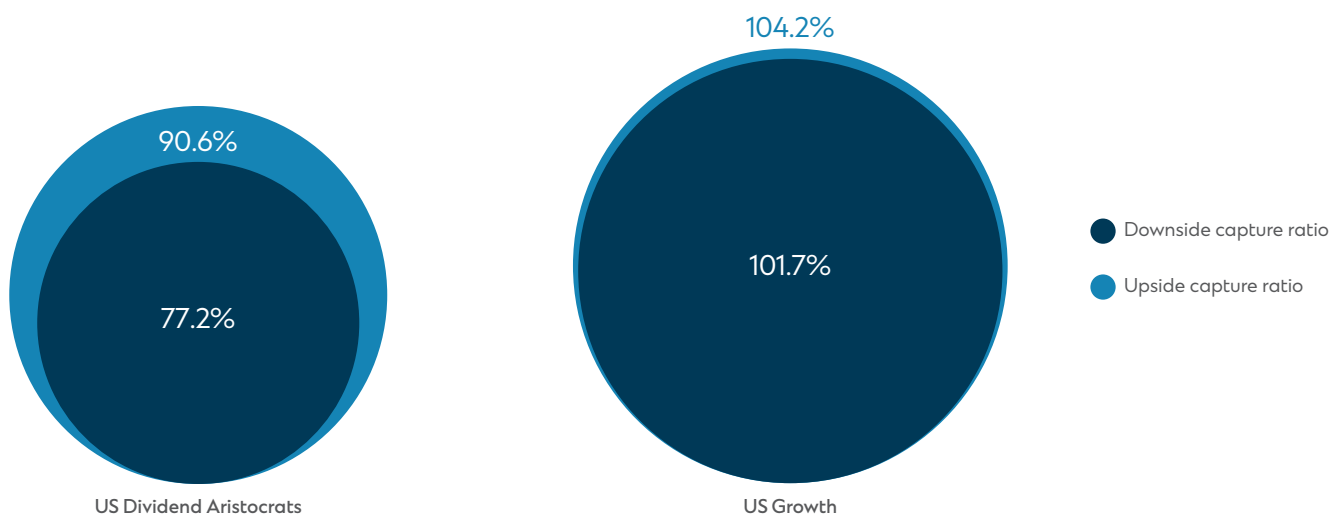
Alternatively, investors can continue rebalancing from growth focused equities into high dividend equities. Within dividend-paying equities, we like 'Dividend Aristocrats' – i.e. companies that have demonstrated their ability to not

only pay out consistently, but also increase dividend size throughout the years. Historically, these dividend growers tend to have solid balance sheets and a strong track record of being resilient in market drawdowns.

Another way to improve robustness of the portfolio is by tilting toward Investment Grade (IG) bonds. Specifically, it translates to relatively higher allocation to DM IG Corporate bonds within DM bond markets and Asia USD bonds within EM bond markets.

Historically, 'Dividend Aristocrats' equities had lower downside capture ratio with the broad US equity than Growth-focused equity

Historical upside and downside capture ratios between S&P 500 Dividend Aristocrats and S&P US growth equities with the broad US equities (January 1994 to June 2023)



Source: Bloomberg, Standard Chartered

Progressively trim risks that are no longer suitable

Retirement can span decades. With increasing life expectancies, there is a risk of retirees outliving their savings. Shying away from taking risks is not a sustainable option.

However, the key here is to be selective. Here are two (out of possible many more) risks that are no longer suitable for investors in the 60s+, in our view.

Liquidity risk

Liquidity risk can be a major threat to financial security and peace of mind during retirement. If an investor's retirement savings are tied up to assets that take a long time to sell or that require a substantial markdown in value to be converted to cash, it can have significant negative impact on retiree's life by failing to pay for regular living expenses and/or unexpected critical events. For this reason, we believe it makes sense for investors at this stage to incrementally reduce their exposure to illiquid assets such as private equity, private credit, and real estate funds. Any exposure to alternative investments should be

implemented via fully liquid or semi-liquid products (for example, monthly liquidity).

Concentration risk in single securities, sector, or industry

Picking the winning stocks or equity sectors/industries consistently over many years can prove challenging. Historically, most equity sectors fail to outperform the broad equity markets consistently and potentially can experience much larger drawdowns due to industry-specific idiosyncratic risks. While some investment themes might do well over the long term or can resonate well with investors for personal reasons, it is important for investors in the age of 60s to minimize large exposures to individual securities, single sectors and/or single industries or themes. Diversification is the best friend of all retirees.



Practise discipline with withdrawals

As retirement can last up to three decades or more, withdrawal strategies are as important as the investment strategy.

Often many retirees overspend during their retirement period. There is also the reality that an investor's spending will increase slightly each year with inflation, and the investments need to keep up. In general, there are four common withdrawal strategies investor can consider.



Fixed percentage strategy

Consider a strategy where you extract a consistent percentage from your retirement nest egg each year.

The actual dollar figure you withdraw will hinge on your portfolio's value at that time. A practical example of this strategy is the 4% rule that has long been heralded as a gold standard in retirement planning. Investor can also consider adding a certain percentage (i.e., 2%) to account for inflation each year.

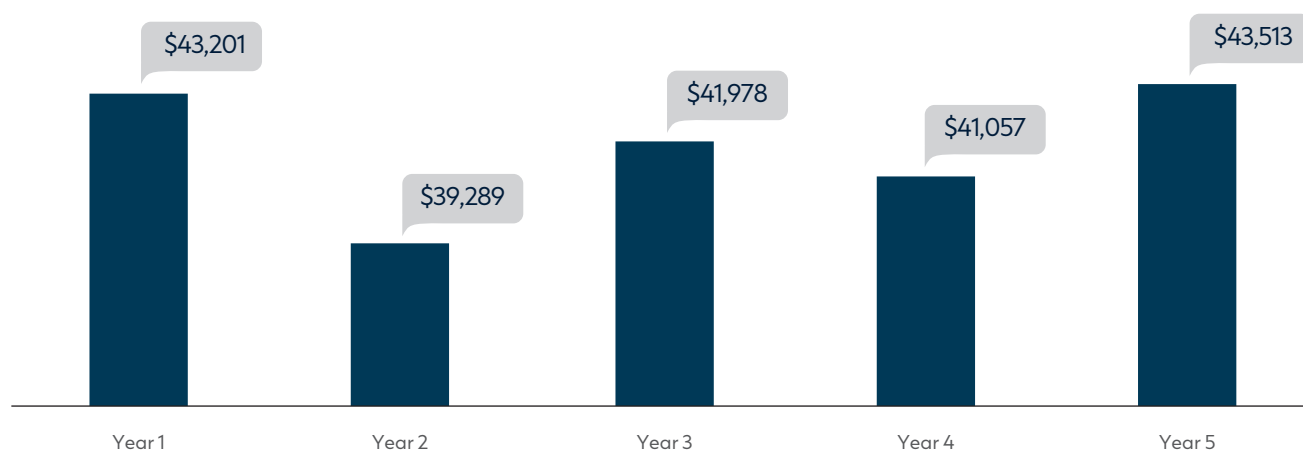
For instance, with a USD 1 million portfolio and a 4% annual withdrawal, you'd tap into USD 40,000 in the first year. The following year, the amount drops to USD 37,998, adjusting for inflation, and so it fluctuates each year.

Clearly, setting the right withdrawal rate each year is extremely crucial. When your chosen percentage sits below

the anticipated returns, arguably, your retirement plan will not be optimized financially. However, if the rate is set too high, investor might see their resources dry up quicker than anticipated. Moreover, periods with high market volatility could lead to significant fluctuation in the annual withdrawal sum.

While the appeal of this approach lies in its simplicity and adaptability, adopting this strategy requires regular adjustments and calibration (at least once a year) to guard against undue risks.

An illustration of a fixed percentage (of 4%) strategy



Source: Standard Chartered

Illustrative dollar values are calculated based on the assumption that investor's portfolio value (of USD 1 million) can fluctuate based on the following hypothetical rates of return - 8.0%, -9.1%, 6.8%, -2.2% and 6.0% from year 1 to year 5 respectively

Fixed dollar amount strategy

Opting for a fixed annual withdrawal, say USD 50,000, and revisiting the figure every three to five years brings clarity and predictability to retirement finances.

It's a structured path that eases budgeting and, in some cases, offers seamless federal tax handling. However, a static sum may lose its purchasing power due to inflation. Also, a turbulent market could force you to sell a bigger chunk of your assets to adhere to your fixed withdrawal, posing risks to your financial bedrock. The key is to strike a balance while staying vigilant to the market and inflationary trends.

An illustration of a fixed dollar amount strategy



Source: Standard Chartered

Income only (but not principal) strategy

This strategy was created based on the assumption that your retirement nest egg, rather than diminishing, has the potential to grow over time.

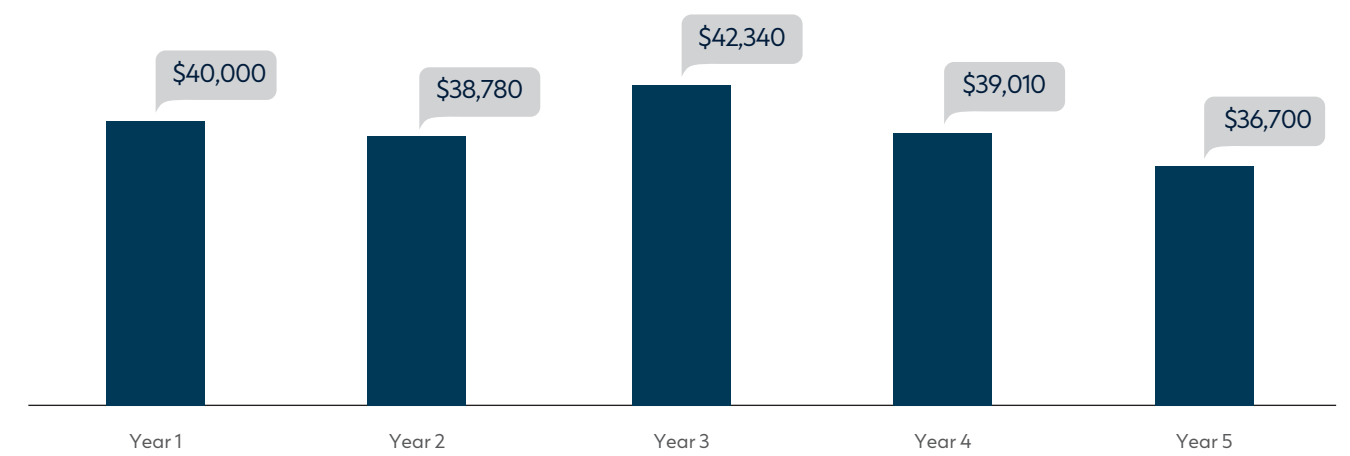
In such instances, you can consider this model where only the income generated by your investments, like dividends or interest, is tapped into. This means your core investments, the principal, remain untouched and can continue to compound.

By leaving the principal untouched, the heart of your investment remains robust, giving it room to appreciate and grow. However, as the dollar amount you can take out depend on market conditions, it can create uncertainty in planning.

Similar to other strategies where take-out amount relies on the market performances; investors must accept the risk and inconvenience of inconsistent withdrawal. With prices generally rising over time, there's the potential that your withdrawals might not always keep up, affecting your purchasing power.

In essence, income only strategy offers a delicate dance between preserving capital and enjoying its yields, but its success hinges on market rhythms and the ever-changing pace of inflation.

An illustration of a withdrawal plan relying solely on dividend and interest of the investment



Source: Standard Chartered
Illustrative dollar values are calculated based on the assumption that investor's portfolio value (of USD 1 million) can pay out a hypothetical income of 4.0%, 3.9%, 4.2%, 3.9% and 3.7% from year 1 to year 5 respectively

Three-bucket strategy

This withdrawal strategy is constructed by segmenting your retirement nest egg into three distinct ‘buckets,’ each tailored for a specific need.

Immediate need bucket

This can be considered as your financial safety net that is stocked with cash to cover three-to-five years of living expenses.

Intermediate stability bucket

Comprising predominantly fixed income securities, this reservoir aims for a balance between growth and stability.

Growth-driven bucket

The third bucket takes on more risk, populated mainly by risk assets such as equities, with hopes of generating higher returns over time.

The idea is to withdraw your income from the first bucket, which is continually replenished with earnings from the others.

Withdrawing your funds this way can provide peace of mind since it reduces the chance that you’ll run out of money. It can also prevent you from needing to sell investments during a market downturn for cash. Over- or underestimating how much to put in each bucket, though, can make this strategy less effective. While comprehensive, this strategy demands attention and meticulous management. However, for those willing to invest the time, it promises a blend of security, growth, and control.

Conclusion

Our investing journey is as multifaceted as the stages of our lives. Central to a robust financial future is understanding and adopting the right asset allocation for each stage, ensuring an optimal blend of growth potential and stability, of wealth accumulation and preservation. For retirees, choosing the right withdrawal strategy is pivotal in ensuring financial well-being during retirement. Yet, amid all the market uncertainties, one truth stands resolute: the importance of staying invested. It is not about timing the market, but time in the market.

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