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MPF - Whiz

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Why too much of a good thing can be bad for your investment portfolio

Ah, the good old days. In recent years there has been growing nostalgia for Hong Kong culture such as food, art and traditions. The love for anything local has also extended to investments: many Hongkongers choose to invest a large proportion of their MPF in the local market.

Familiarity plays a part. We tend to stick to what we know, enjoying the safety and security of a psychological "comfort zone". With many MPF members planning to retire locally, it seems to make sense to save and invest within Hong Kong's borders, rather than venture into foreign markets.

However, in investing, as in life, it is possible to have too much of a good thing.

Most eggs in two baskets: Hong Kong market and equity funds

According to MPFA data, about 60% of all MPF assets are invested in Hong Kong, significantly higher than other geographical areas.

Many MPF members also tend to be aggressive and have a higher appetite for risk: 68% of total MPF assets are invested in equity funds. This proportion is significantly higher compared to pension schemes of other countries.

A concentrated portfolio not only increases the risk of amplified losses, but also might be missing out on higher potential returns from other market segments.

Diversification: capture better returns while minimizing risk

Concentration risk can be avoided by broadly diversifying one's portfolio across asset classes and regions. Stocks may offer the potential of high returns, but they are relatively more volatile as well. If you have a lower risk appetite or are retiring soon, consider choosing multi-asset funds which invest in different asset classes. You could also rebalance the proportion of equity funds and bond funds in your portfolio for greater stability.

To capture growth opportunities in overseas markets, Hong Kong MPF members have a choice of hundreds of MPF Funds that cover various markets, such as North America, Greater China, Japan and Europe.

In conclusion, remember to consider a wide range of assets when building your MPF investment portfolio. Allocate your investments appropriately across different regions and asset classes, according to your individual risk appetite and retirement goals. This increases the chance of higher potential returns while diversifying investment risk at the same time.