Fidelity INTERNATIONAL

12.2018

MPF-Whiz

KP Luk
Head of HK DC Business, Fidelity International

Managing your MPF in volatile markets

Escalation of the US-China trade war, coupled with withdrawal of accommodative measures by central banks, have destabilised the global economy, triggering sustained declines in global equities.

Multiple stock markets around the world have tumbled, including Hong Kong's, and the consensus is that the turbulence will likely continue in the coming year.

It's natural to get jittery amidst market volatility, but there are things you can do to help navigate your MPF through the noise.

Recognise the long-term objectives of MPF

Faced with a deluge of negative market news, investors may lose their sense of direction and be prone to herd behaviour. When asset prices fall and leads to losses on paper, you may panic and switch funds hurriedly, resulting in realised losses.

Instead, try to remain calm and understand that MPF is not speculation, but rather long-term investments for retirement.

Make decisions based on long-term benefits. If you are still confident about the outlook for a certain market or asset class, you shouldn't let investor sentiment affect your strategy.

Decisions made during market downturns often lag current conditions and are unable to cut losses – instead they may lead to missing out on a market rebound.

Rather than acting in haste, take advantage of dollar cost averaging and increase your fund holdings during market turmoil. This in turn offers the potential of returns when asset prices recover.

Remember the importance of risk diversification

According to the MPFA, equity funds accounted for 41% of total MPF net assets at the end of September 2018[1], a relatively higher proportion than other fund types. This reflects that equity funds are the preferred choice of investors.

However, these funds bear the brunt of the impact when stocks are volatile. If an MPF portfolio consists of only the same type of equity funds, a stock market crash may severely impact fund prices.

You've probably heard the saying, 'Don't put all your eggs in one basket.' In investing, this means choosing funds that are invested in different regions, industries or asset classes to reduce portfolio risk.

If you wish to reduce the effect volatility has on your portfolio, consider switching some of your accrued benefits to other more stable asset classes such as bond funds, or make adjustments to your overall investment strategy.

Review your MPF portfolio regularly

It pays to be more proactive about managing your MPF. Conducting regular reviews of your fund allocation against your investment objectives and risk preferences can help ensure that you're on track to meet your financial goals – and avoid getting swayed by market volatility.

We should take a long-term perspective when making MPF investments, making adjustments only when needed and calmly facing turbulence in the markets.

[1] http://www.mpfa.org.hk/eng/information_centre/statistics/mpf_schemes_statistical_digest/September_2018_Issue.pdf

This article was first published on 8 Nov, 2018 by Capital Weekly.