First Sentier Investors 首源投資

Gaming or Investing today to become a Millionaire?

Let's assume that we are not greedy – we will settle for $10 million retirement fund before we can quit our job and enjoy our retirement. We have two ways to achieve this target, one is through buying a Mark Six ticket and hopefully we will win the jackpot. Another way is through a regular investment that typically generates return over longer time period.

Gaming – "The odds are against us"

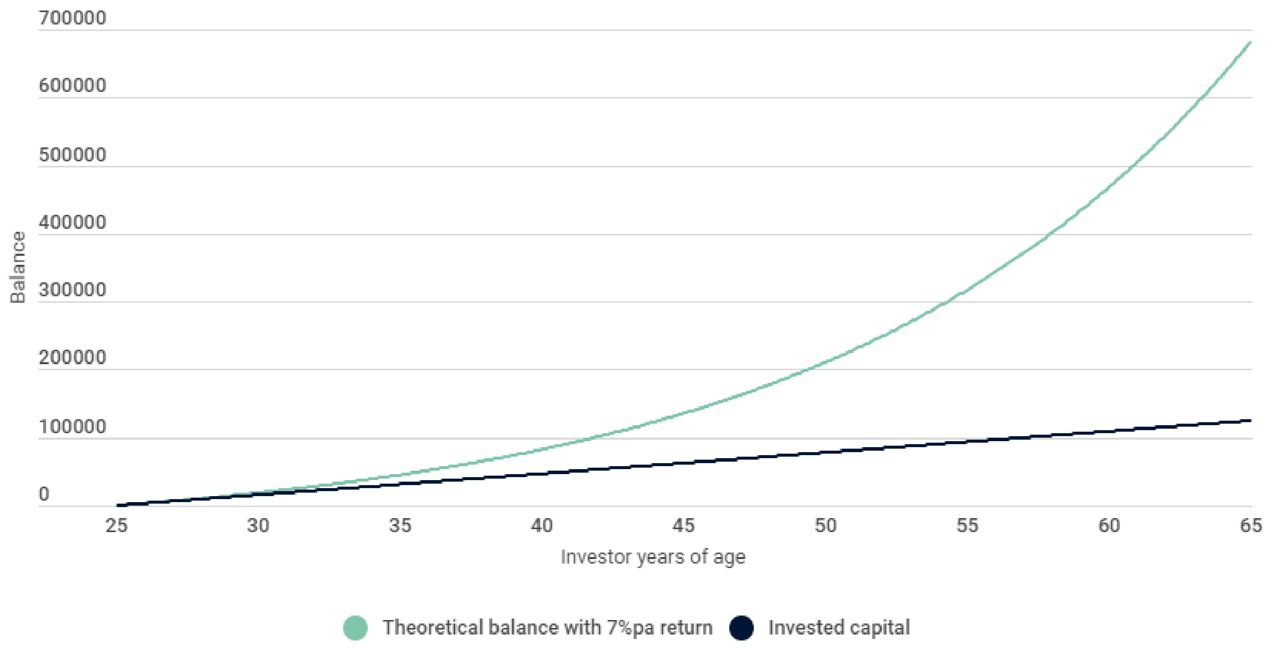
Assume there was a man who bought tickets worth nearly $60. For sure, he had a better chance of winning than someone who did with just a basic $10 ticket but, in truth, the odds were against them both. The chances of winning a Mark Six jackpot vary somewhat depending on the particular game, but are typically between 100 million to 200 million to one. Given the chances of winning a Mark Six is rather small, so it doesn't seem wise to give up one's day job, just yet.

How does investing into longer time period seem any better?

A person who consistently 'invest' ($60/per week) on this kind of money every week in pursuit of big prizes and a possible fast track to retirement. Sixty dollars a week is around $260 per month, or more than $3,000 per year. That's a lot to spend on something where the odds are so heavily stacked against the "investor".

As opposed to winning a "Mark Six" jackpot, a true investment – one where you actually own assets – typically generates positive returns over longer time periods. And the general rules of investing remarkably hold up well over time. For example: more risk, more return; there ain't no such thing as a free lunch; the magic of compound interest, etc. So, let's run the numbers…

Instead of 'investing' in the Mark Six every week, let's assume a 25-year old puts aside $60 a week and invests that money on a monthly basis with contributions of $260 until their retirement, aged 65. Over those 40 years, the 480 monthly contributions of $260 would add up to nearly $125,000; the blue line on the chart.



Next, let's assume that money is invested in a basic balanced investment product (70% growth, 30% defensive) that's invested across a diverse range of financial markets and generates an average annual return of 7% after fees and charges. This is a ballpark long-term estimate targeted by most money managers in these products. It's also one that has historically been validated. If the average annual 7% net return is achieved, after the 40 years the saver would be sitting on a nest egg of around $680,000; the green line on the chart. The saver isn't quite a millionaire, but they're nearly 70% of the way there. And with average MPF balances currently around the $300,000 mark, with some sensible financial decision making and regular contributions, that magic million might be more attainable than many people realise.

The compounding power on accumulating wealth

Simulations like this come with various caveats and disclaimers. We know that past performance is no indication of future results and that assumed investment rates of return will affect the size of a savings balance over time. Inflation will erode the purchasing power of the final lump sum too. And as Yogi Berra put it, "The future ain't what it used to be." This may bode poorly for investment returns in the period ahead given current valuations across asset classes. Finally, who knows many 25-year olds that are thinking about sensible retirement planning? Nonetheless, the exercise highlights the power of compounding and how it can affect wealth accumulation over the long-term.

With the benefits of a regular savings plan and the potential for a secure retirement, perhaps we can all afford to play the Mark Six now and again. The chances are we won't win it, but it doesn't hurt to dream once in a while.

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The Hong Kong Retirement Schemes Association (HKRSA) was established in 1996 to promote the interests and best practices of retirement schemes in Hong Kong including provident and pooled retirement funds. The HKRSA is a not-for-profit, non-political association, which represents retirement schemes and their members, providing a forum for discussion of issues of current and topical interest.

About First Sentier Investors

At First Sentier Investors, we have a commitment to follow our own path; to invest responsibly over the long-term for the benefit of our clients and the communities in which we invest.

Since our inception in 1988, we have evolved into a global fund manager with a client base that extends across Asia, Australia, Europe and North America investing in equities, fixed income, infrastructure and multi-asset solutions.

We work together across multiple global markets, with more than 900 employees collaborating to achieve our vision to be a world-leading provider of active, specialist investment capabilities.

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