CFA SINGAPORE INSIGHTS

By Praveen Jagwani

Some golden rules of investing

There are no short cuts to financial security. Do your homework and be patient.

WHAT does the regular Singapore investor find most daunting? For those who are not professional investment managers, is it: a) No time (to track stock prices and manage portfolio); b) Don't know what's happening or how to analyse the market; c) Don't know what makes a good portfolio or how to construct one; or d) Other issues?

Between 2016 and 2017, volunteers from CFA Society Singapore collaborated with the Singapore Exchange to run public-education seminars once every three to four months for retail investors. The answer to the question above, we found through a "live" audience survey, was "c". Almost half of those polled said the biggest challenge they faced was the lack of knowledge on what constitutes a good investment portfolio, and how to put one together. In comparison, "b" – the second most popular reason – drew just under one in four votes.

Looking on the bright side, we're heartened that investors recognise the importance of having a strong portfolio. That they name this as their biggest challenge shows that they're well aware that investment is not just about buying (and selling) the right stock at the right time, but having a much more comprehensive plan.

This year, as part of the annual "Putting Investors First" campaign that CFA societies around the world embark on around May and June, we at CFA Society Singapore have produced a succinct guide to help Singapore investors start on their investment journey.

Before one can embark on this journey, it is vital to develop a financial plan that you are happy with. People primarily do three things with money – spend, save and invest – frequently in that order. A personal financial plan therefore essentially looks at your accumulated savings (assets plus savings in the bank) as well as income and expenses. Once you have identified your main expenses such as rent, food and travel and have also allocated some money for insurance (health and life), you can begin to think of investing.

The next step is to establish your objectives. Are you investing for retirement, wedding, house-purchase or children's education? The objective will determine the time frame for the investment, as well as the amount of risk one can undertake. A good self-assessment would entail understanding one's tolerance of risk by answering questions like "How much money am I prepared to lose?", "How much return do I seek?" and "For how long am I prepared to lock up my funds?".

There are many online tools – risk tolerance calculators that are available for you to assess your risk profile – from "very conservative" to "very aggressive".

Obviously, depending upon your personal circumstances, the risk profile will be different for everyone. A 25-year-old woman in her first job will have a very different approach to risk and return than, say, a 68-year-old retiree. The young woman is capable of taking much more risk than the senior citizen. The older one gets, it becomes prudent to preserve capital as against making risky investments.

However, broadly, if one does not have prior experience in investing, then here are a few golden rules to follow:

LEARN

Read more about mutual funds/ unit trusts and exchange traded funds (ETFs) and the different asset classes. Understand their performance and fees. These are available with most banks as well as on the Internet, with some research. For local context, investors may wish to check out websites such as MoneySense (www.moneysense.gov.sg), the national financial education programme chaired by Monetary Authority of Singapore, or SGX Academy (www.sgxacademy.com), the investor education and professional training arm of SGX.

CONSULT

Consult a professional investment counsellor/ advisor on types of available mutual funds / ETFs. Start with ETFs and identify a few different asset classes you would like to hold. For example, you could have one ETF each for US equities, European equities and Asian equities. Then you could add another for Emerging Markets to balance out the risk. Alternatively, you could pick one which invests in global equities. Then look for an ETF in commodities – like base metals, precious metals and agricultural as well. You may want to include gold to the portfolio as well, since it has historically done well in times of global crises and uncertainty.

DIVERSIFY

The age-old wisdom of putting your eggs in different baskets holds true for investments as well. Even the smartest professionals cannot be certain about the future. Therefore, the best one can hope to do is spread the risks by investing in different asset classes / regions / geographies / currencies. If you are a beginner or have a conservative risk profile, then it's best to create a diversified portfolio of ETFs. Initially, you could pick, say, five ETFs and invest 20 per cent in each every month. As you gain more experience, you could opt to change the weightages as well as consider including unit trusts.

DISCIPLINE

Once you have identified your portfolio of ETFs / unit trusts, invest a fixed amount every month in this chosen portfolio. The discipline of doing this is known as dollar cost averaging; it ensures that over the long term, you gain more than you lose.

REVIEW

Every quarter, study your portfolio and see if the performance of your chosen ETFs / unit trusts is in line with the index and peer group. You don't need to make changes if the performance is not deviating too much.

If you have a risk orientation that is moderate or aggressive, then you could consider investing predominantly in unit trusts as against ETFs. With the greater choice and opportunity for return comes the corresponding risk of volatility. ETFs aim to only return as much as the index of the asset class; unit trusts aim to employ active management to out-perform the benchmark. However, it is very possible that the unit trusts fail in their stated aim and therefore one should be prepared to make losses as well. Of course, it all depends on the type of asset class.

When seeking advice from investment professionals, speak to a few different ones to form your own informed decision. The industry of financial professionals exists to serve its customers – YOU. Therefore you have a right to expect honest and objective information without use of jargon. Features of investment products suitable for common citizens should be easy to explain and you as an investor should not invest till you fully understand the details including the fees and charges.

On this journey of investing there are some don'ts as well:

GREED

Avoid the temptation to get rich quick and buying individual stocks unless you have a thorough understanding of the company, its industry, its prospects and its financial dynamics. We have all heard of a friend or a relative who made large profits from "stock tips", but any success that depends on luck or tips is extremely unreliable. Do not get trapped.

OBSESSION

Do not track your portfolio's performance every day or every week. If you have done your initial homework of constructing a diversified portfolio, and invested regularly, the portfolio will navigate the short-term ebbs and flows, to deliver a safe return in the longer term.

In summary, there are no short cuts to achieving financial security, but diligence and patience are useful virtues on this journey. The more you study and engage with investment professionals, the more likely that you will chart a gradual path to achieving your financial goals.

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