



INSIGHTS FROM
CFA SOCIETY SINGAPORE

By Dexter Tiah

Financial advisers can add value during turbulent times

They can help keep one on track to achieve financial goals, and provide advice on asset allocation and strategy

SINGAPORE investors are generally resourceful. They source for investment opportunities from friends, family members and online blogs. Despite having access to multiple sources of information, a 2020 CFA Institute survey revealed that the confidence of Singapore retail investors in making investment decisions is lower than the global average.

This lack of confidence is an opportunity for financial advisers to “close the gap” by rendering sound financial advice to increase the probability of retail investors achieving their financial goals whatever they may be – retirement adequacy, emergency funds accumulation, deposit for real estate purchase, etc.

If financial advisers cannot add value, retail investors have 2 options. Either shop around for a competent adviser, or alternatively, invest in low-cost index funds that yield market returns. After all, do-it-yourself passive index investing can outperform active investing over the long term.

Should retail investors choose to engage financial advisers, perhaps they should remind themselves how advisers can add value (and hence the reason for paying fees) especially during turbulent times.

Looking into clients' changing circumstances

During turbulent times such as now, some investors are considering or have considered liquidating or unwinding all investments due to the ongoing Russia-Ukraine war, record-high inflation and recession fears. They are not alone. Globally, there is a wave of pessimism in capital markets today. Others are toying with the idea of postponing new investments until the capital markets bounce or bottom out.

Whatever the decision, financial advisers do check in with investors on whether they are ahead of, on-schedule or behind schedule on long-term financial goals. Exiting risky assets may be prudent. And that may be the right decision. But advisers are also cognisant of the opportunity costs of compounding returns that may be sacrificed. Or postponing investment decisions may lead to retirement goals being derailed.

Financial advisers also look into their clients' changing circumstances. In the event of material changes to the investors' goals or personal circumstances, adjustments are usually needed to achieve existing goals. Hence, be it in the short term or long term, a competent financial adviser can help keep investors on track and disciplined



Financial advisers can play devil's advocate to challenge the investor's decision to sell during turbulent times. PHOTO: PIXABAY

on their investment journey.

Provide independent advice on asset allocation and strategy

In the recent bull market, cryptocurrencies and technology stocks outperformed significantly. Cathie Wood's flagship Ark Innovation ETF, which invests in crypto and technology stocks, chalked up 153 per cent gains in 2020. Other cryptocurrencies and technology stocks had similar outsized returns.

Naturally the quantum of returns attracted many. And there are retail investors who screen investment products based on returns and decide to plough a significant percentage of funds into these concentrated risk positions. Unfortunately, “buying high and attempting to sell even higher” (a form of momentum strategy) can lead to disastrous outcomes when there is a change in regime. The same Ark Innovation ETF is down almost 50 per cent year-to-date (as of June 2022), and an investor who invested at the peak would have been left with substantial unrealised investment losses.

How can financial advisers add value in these circumstances? They are able to provide the Singapore investor with a sound approach to asset allocation. By diversifying into risk assets and funds using the adviser's model portfolio, the investor can avoid concentrated positions and keep tabs on the market.

In addition, with investors being plugged into the ecosystem and with access to a broader spectrum of investment products, they can be more acquainted with investment strategies via an industry practitioner. Financial advisers can also,

for example, explain how technology stocks stack up against returns from investing in Reits. This will give the investors a more holistic appreciation of the capital market.

Help manage emotions

The 2 emotions that have the largest impact in investing are fear and greed, and these emotions manifest themselves many times over in turbulent markets. This can easily lead to irrational decisions that can have adverse permanent consequences on investment portfolios.

For example, when the Covid-19 pandemic ensued in the first quarter of 2020, many countries imposed lockdowns. Stock markets declined more than 10 per cent on the worst-performing day in March 2020. Fear reigned. Many investors sold down to prevent further losses.

There were also the heady days of meme stock trading in 2021. Hedge funds were betting on meme stock GameStop to tumble as the counter was obviously overvalued. But retail investors on Reddit continued to accumulate Game Stop in anticipation of hedge funds being forced to close their short positions at an even higher price.

Having a financial adviser at hand can help investors manage their emotions. When markets tumble they can be a sounding board for investors. Financial advisers can play devil's advocate to challenge the investor's decision to sell during turbulent times. They can also put out scenarios such as staying invested to allow the portfolio to recover for investors to consider.

Similarly, financial advisers can challenge the notion of investing or speculating in meme stocks. Should the client wish to delve into speculative trades, perhaps a much-smaller allocation may be appropriate depending on the person's risk appetite.

In summary, a competent and empathetic financial adviser can add value to investors especially during turbulent times. Although there are additional layers of fees involved in engaging these professionals, the services rendered can more than justify the fees. Hence, investors should consider engaging a financial adviser. If they already have one but do not feel that the adviser is performing, then they should consider shopping around for a new adviser.

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