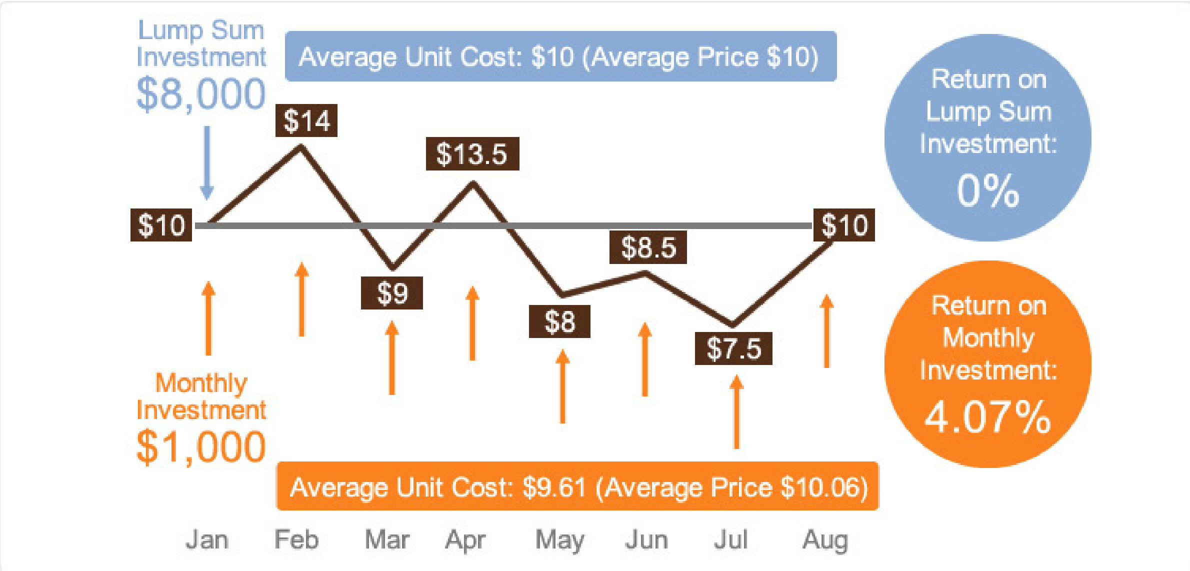
NAVIGATING THROUGH THE UPS AND DOWNS

PORTFOLIO MANAGEMENT

PREPARED BY DANIEL LEE

THERE'S ONLY 2 WAYS TO INVEST



Lump Sum v.s. Dollar Cost Avg

Bottom-Up Analysis

+ profitable if done correctly

+ suitable for all time horizon

- lesser room for mistake

Time wrongly: 0.19%

Time perfectly: 6.80%

Top-Down Analysis

+ not affected by market timing

+ tracks the fundamental returns

- requires a longer time horizon

Time wrongly: 3.40%

Time perfectly: 3.96%

**based on the price movements of World Index during 2005 to 2020*

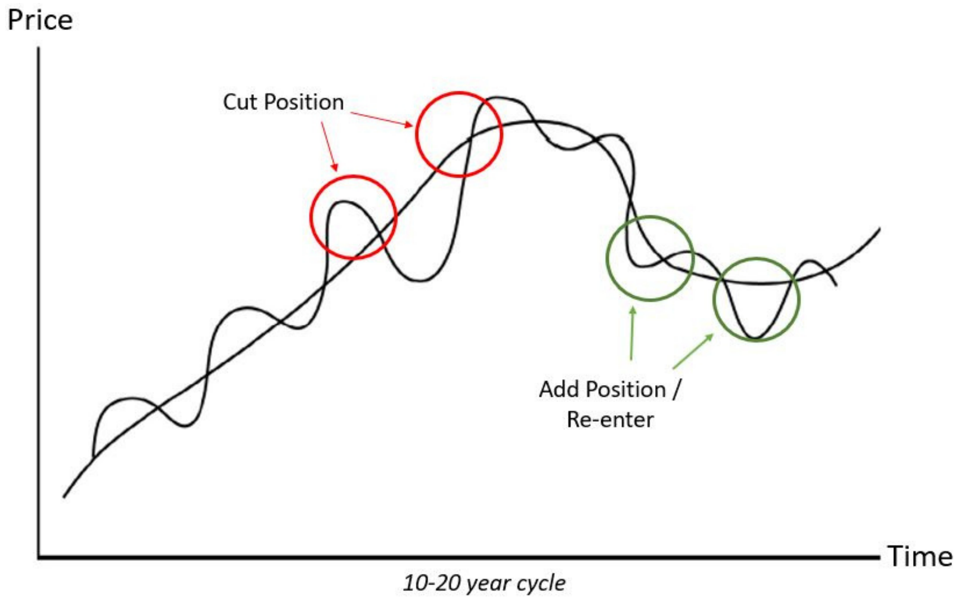
The thing about fund investing is that it's **easier to identify an exit point than an entry point** due to the nature of the analysis, instrument and underlying products.

As such, what dollar-cost averaging essentially does is that it eliminates the probability of selecting a wrong entry point. Instead, investors only need to select the right exit point.

A Hybrid Approach

(where *the advisor adds value)*

The market always moves in **cycles** and that cycle is a combination of multiple cycles (i.e. earnings, credit, etc) within the economy.



It is my job to understand the nature of the different cycles, the stage that we are in today, what it implies for future movements and position our investments accordingly.

Dollar-cost averaging will allow us to cut through the noise in the short-term and capture the long-term cycle performance.

From there, investors should cut or add more position via lump-sum investing depending on the stage of the cycle that we are at, to **protect our investments and profits** from potential downsides.

The key here is not to buy at the lowest or sell at the highest. Instead, it is to understand and identify major changes in the long-term cycle and differentiate them from short-term movements in the market.

This will help us avoid a “roller coaster to nowhere” of constantly riding the bull markets higher and bear markets lower, ending up with very little to show in the end in terms of increasing portfolio value.

IDENTIFYING MAJOR CHANGES

(protecting our capital and profits)

"A good craftsman doesn't blame his tool"

The key to making sense of the current market developments and major turning points is to be adept in both fundamental and technical analysis. It is foolish to only rely on a single form of analysis while dismissing the effectiveness of other forms of analysis.

Fundamental analysis will help us understand what is actually happening on the ground - i.e. the economy/industry/company.

Technical analysis will help us understand the psychology behind the market participants.

What we are looking out for in our investment analysis is the consistency in the signals provided by both the fundamental and technical analysis.

A price increase or decrease in the long run needs to be supported by both the market participants and the underlying fundamentals. If either one of the factor is absent or is presenting an inconsistent behavior, it may be a warning sign that the cycle is near its turning point.

As such, investing is more of an art than a science. What drives the fundamental and technical is essentially the beliefs and sentiment of the market participants (forming a feedback loop).

Having a good understanding of the current market sentiment and its effects on the fundamentals will help you identify where the major change or shift will occur. Hence, we will use a combination of both fundamental and technical analysis to support our investment decision.

AT THE END OF THE DAY

(humans are still the one running the show)

"Investing via a Robo-advisor will not help you reduce or eliminate the mistakes that was caused by your own emotions or lack of knowledge and experience"

The key difference - in my opinion - between a Robo and a human advisor lies in our strategy, how we select the underlying investment and how we manage the day-to-day operations of our portfolio.

Robo-advisors are known for being "low-cost" as they have the advantage of economies of scale and does not have to deal with the financial planning aspect behind your investments.

Robo-advisors **behave and act like a fund-of-funds manager and should be treated as such**. Leveraging on the system of a robo-advisor is the same as investing in a fund-of-funds.

That means to say that at the end of the day, **you are still the one that is in charge of your own portfolio**. You are still the one that calls the shot - when to buy and when to sell - which will ultimately determine your overall performance.

Investing is like cooking, funds are like the ingredients and the managers - the human advisor or you - are the chef. The quality of the ingredients does not matter if they are handled by an amateur chef. In the case of robo-advisor, they will not help compensate for the investor's lack of knowledge, emotion control, skill and experience.

On the other hand, having me as your independent financial advisor is like having a **private chef.** At almost the same cost, you are now able to "outsource" your investments to someone who is well verse with other aspects of your financial plan. As such, we will be in the better position to manage your portfolio in a manner that **balances between the market conditions and your own financial plans** which no robo-advisor can provide.

Addressing Common False Beliefs

False belief 1:

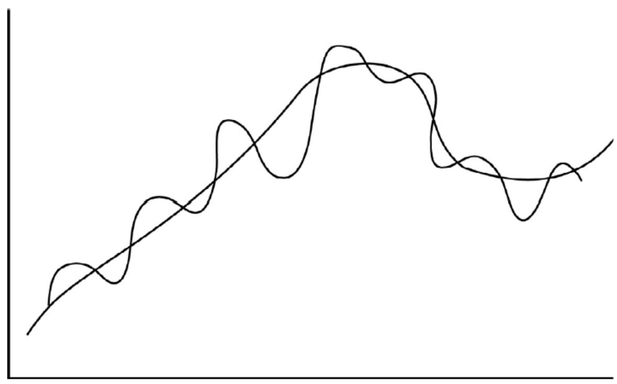
"The market will always go up in the long run"

This is obviously not true. Its as good as saying that trees will continuing growing every year - till a day where it reaches the moon.

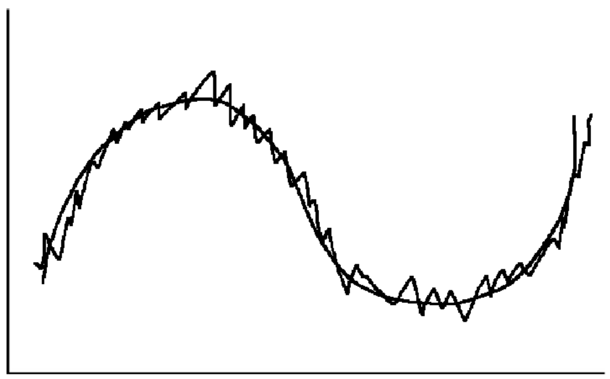
Whether the "market" will grow **depends on the underlying exposure** and how they behave to external developments.

As such, its important to understand the two types markets - developing and developed market - and where their "growth" comes from - is it internally driven or externally driven?

Generally, developing and developed market will exhibit this form of price behavior/cycles in the long-run:



Developing/Emerging Markets (i.e. Asia)



Developed Markets (i.e. EU/US/SG)

That said, as investors, we should select the underlying investments that **best suit** our financial plans rather than working with a false belief that all markets will go up because that is simply not true.

Developing markets offers a higher return potential as it captures the growth of the underlying society and economy as they develop overtime.

Developed markets on the other hand does not offer a high return but provides stability in the form of prices and dividend payout.

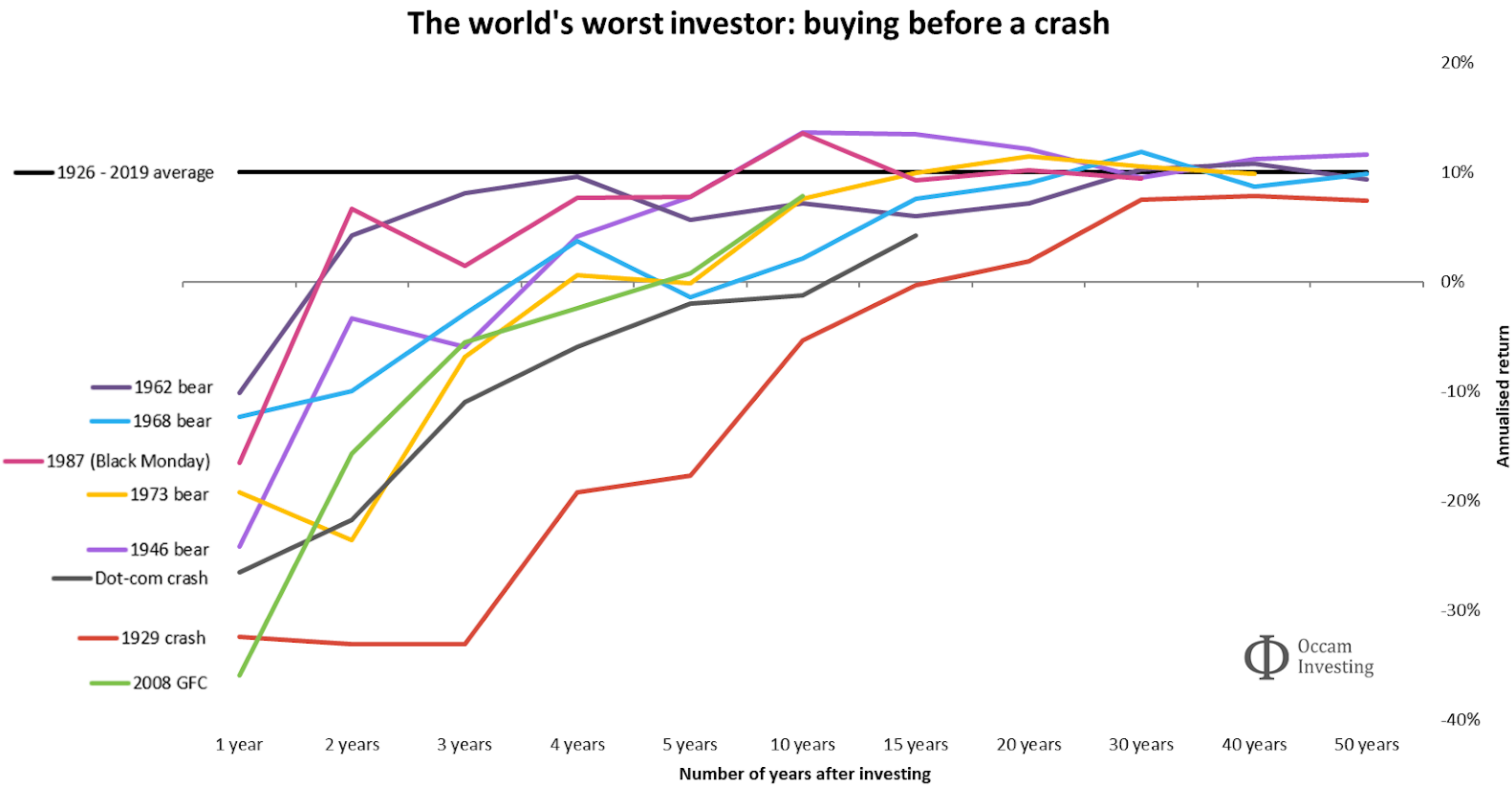
False belief 2:

"Focus on time in the market and not timing the market"

This statement is a tricky one, while time in the market is extremely important, timing the market is also crucial in **helping you protect your profits and capital -** instead of always being 100% invested

Investing long term is not just buying and keeping it for (x) years. That is as good as saying cooking is just dumping in the ingredients and blindly leaving it for (x) minutes under the open flame.

The key about learning to "time the market" is not to buy at the lowest or sell at the highest. Instead, it is to understand and identify major changes in the long-term cycle and differentiate them from short-term movements in the market.



When you sit through a crisis, you have not lost money, instead, you have lost time. Proper portfolio management and market timing will help you avoid situations where you will have to delay your financial plans every time the market goes through an economic downturn.

False belief 3:

"The stock market is a forward looking indicator of future economic performance"

One of the most common phrases that was often used to justify deviations between current economic performances and market price actions is the phrase that the stock market is forward looking.

While there are some truths behind the statement, it is important to understand the distinction between causation and correlation. The stock market is not an indicator of future economic performance, in fact it is the **causation of future economic performance** - theory of reflexivity by George Soros .

You got to understand that what drives consumption, production and economic activities in general are the actions of the market participants - basically you and I.

As such, the short term performance in the stock market serves as an indicator of general market sentiment and if the overall market sentiment is positive, businesses and consumers will be more willing to invest and consume as a result of wealth effect, vice-versa.

Their actions will then have a direct implication on the actual fundamental performance which will reinforces whatever beliefs that they previously had about the market therefore resulting in a feedback loop.

The key here is understanding if the **beliefs** that the market participants so dearly rely on for their investment decision is one that is **sustainable** or one that is operated based on false belief as that will help assist us in discovering the stage of the cycle that we are potentially at today.