

IN CRISIS, *Do the Right Thing*



written by Christopher Jan

At 7.15 AM on August 7th, 1974, a young Frenchman name Philippe Petit stepped out on a wire illegally rigged between New York's Twin Towers (World Trade Centre), then the world's tallest buildings at 1,350 feet high. He spent nearly an hour dancing on the wire, and then was arrested, taken for psychological evaluation, then brought to jail but was finally released. Above all, he has achieved his dream after almost 7 years of planning and preparation.

As I watched this documentary shown in a local cinema recently, I was deeply moved by Philippe Petit's passion in pursuing his calling. Despite all the difficulties he went through and what people thought of him, he still decided to do what he felt he needed to do.

As a wealth management firm, the last 9 months was a real test on our belief and courage in doing what was needed of us. When the market crashed in September last year, investors thought that the world was falling apart and many people were calling us to move our portfolios to cash as they feared the worst. When we didn't and the markets fell further, some clients were unhappy, they took their money and left us. The investments under our care went down and that affected our income greatly. Although troubled by declining revenue and client's unhappiness, we remained invested all the time and continued to

encourage clients to buy in slowly as the market saw its worst decline since the tech bubble burst in 2000.

But since March this year; the markets have rallied some 30% to 50%. It has caused many to believe that the "green shoots" of the economy is appearing and is sustainable. It is funny how things changed so fast in 6 months. The fear of the crash is now completely forgotten and many are calling us to invest more aggressively for fear of "missing the boat". But again, we didn't do it. We kept to our strategy and invested whatever new cash we have over a period of time. As a result, our portfolios' returns performed lower than the markets and we now look totally incompetent. The thought of losing more clients ran a thousand times across my mind. Why then did we insist on sticking to our belief? We did it because we know that three of the worst things to do in investing are: (1) Selling in a falling market and buying in a rising market, (2) Trying to guess when to sell and when to buy because most people (including experts) get it wrong most of the time and (3) Knowing the above two yet still go ahead to do it because of fear and greed.

In a recent study by Michael J. Mauboussin, Chief Investment Strategist of Legg Mason Capital Management, he found out that the average return of the S&P500 between 1978 & 2007 was 9.5% p.a. If you

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are able to accurately avoid the worst 50 days of the market, your returns will jump to 18.2% p.a. But while trying to avoid these bad days, if you miss the best 50 days instead, your returns will dropped to a horrible 1% p.a. Burton M. Malkiel in his book: "A Random Walk Down Wall Street" wrote that over the past 54 years, the market has risen 36 years, even in 3 and declined only 15 years. The conclusion of these studies is that if you guess wrongly, you will be in a very bad shape and chances of you being wrong are 3:1, against you. We remained steadfast in our belief because we know what clients need is only the average returns of the market or their portfolio. There is no need to take the risk of being wrong by guessing where markets are headed.

I am not saying that we should not have a view of where the market is heading. We should and in fact, we share that with our clients frequently. But there is a need to differentiate between views and actions. Views simply prepare you for the ride ahead. But it doesn't mean you need to stop moving or change your course of action all the time, especially you know that a wrong view may derail your plans.

Actually, both the clients and their advisers know the first two investment mistakes. However, it is really only the advisers who can hold the clients tightly and prevent them from committing the third. But which is easier? To give in to the client's fears to sell and join in

the market's panicked selling, leverage on client's greed and buy when the market is euphoric? Or plead with the clients to hold on tight and keep their eyes on the goal and not succumb to their fear and greed at the risk of incurring their wrath? We know the former is easier than the latter but the advisers' responsibility is to do the difficult thing because clients did not engage advisers to give them what they want but to tell them what is best for them. Moving our portfolios to cash would have been much easier, we will look smarter in front of clients, retain them and will not suffer a large drop in revenue. But we will be saving our own skin at the expense of our clients' financial future. That is why we refused to do it.

In this industry that is so compensation driven, it is already very difficult to do the right thing during good times, let alone bad times. But it is in a crisis that correct decisions are needed even more. It is a true test for investors, and especially for advisers.

In Dr. Spencer Johnson's latest book "Peaks and Valleys", he said: "Peaks and valleys are connected. The errors you make in today's good times create tomorrow's bad times. The wise things you do in today's bad times create tomorrow's good times."

In the context of the current crisis, what decisions are you as advisers or investors making today?

This is an original article written by Christopher Tan, CEO of Providend, Singapore's sole fee-only Independent Private Wealth Management Firm. The edited copy has appeared in The Business Times Weekend on 13th-14th June 2009.