

LESSONS FROM THE LAST 12 MONTHS



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PLANNING...

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The last 12 months must have been the toughest period of my life, both personally and career wise. One year ago, when Lehman Brothers fell, the financial markets went along with it. It has been 12 months of fears, pains and lessons learnt.

There were plenty of fears, especially in the initial months when there was no recovery in sight and as a financial institution, you don't know how long you can go on, with falling revenues and low staff morale. There were a lot of pains, as you witnessed the hard earned money of your family of clients, going down each day. It was even more painful when a small number of clients gave in to their fears and got out of the market. What was especially difficult for me, was when we were misunderstood, while we were trying very hard to do the right thing. But I believe that in all crises, you learn precious lessons. So for me, rather than focus on mistakes of the past, it is more important to use it as a basis to move forward.

Understanding Needs from Wants

In his book "Enough", John Bogle, founder of Vanguard opened with a story of how at a party given by billionaire hedge fund manager, whose guests included Joseph Heller and Kurt Vonnegut, Vonnegut noted that the party's host had made more money

in a single day than Heller had made in a lifetime from his novel "Catch-22". Heller then responded by saying: "Yes, but I have something he will never have...enough." The story struck me as much as it struck Bogle.

Enough is an important concept about coming to grips with what you really need and want in life, and your responsibility to self, family, career and community. This crisis is a result of the financial sector losing their bearings because we want "more than enough". It is about investors craving for "more than enough returns". It is also about financial advisers educating our clients that they should go for "more than enough". We spend a lot of time focusing on getting best investment performance for clients. We preach "beat the market", "beat our competitor" and "best performing funds". What about what's best for the client? What we have done is for self-interest and not stewardship. Sometimes, it is alright to be average, if it is enough for clients.

I have since decided that we will focus on good old-fashioned and boring financial planning, assessing with the client their required rate of return to achieve their financial objectives and manage their monies simply to meet this. We must focus on being best for the client and not best amongst our peers. Because being best, sometimes has a price to pay and clients pay it.

Case 1: Balanced Portfolio - Regular Savings Plan				
Start Date:	Jan-08			
Base Sum:	\$70,000			
Monthly HSP:	\$6,000			

Date	Capital Invested	Market Value	P/L	P/L%
End Oct 08	\$116,800	\$73,660	(\$43,140)	-36.93%
End Feb 09	\$140,200	\$89,724	(\$50,476)	-36.00%
End Sep 09	\$182,200	\$166,629	(\$15,571)	-8.55%

Case 2: Balanced portfolio - Lump Sum				
Start Date:	Sep-06			
Base Sum:	\$585,346			

Date	Capital Invested	Market Value	P/L	P/L%
End Oct 08	\$585,346	\$469,156	(\$116,190)	-19.85%
End Feb 09	\$585,346	\$442,752	(\$142,594)	-24.36%
End Sep 09	\$585,346	\$558,061	(\$27,285)	-4.66%

Case 3: Aggressive Portfolio - Lump Sum				
Start Date:	Nov-04			
Top up:	2005, 2006			

Date	Capital Invested	Market Value	P/L	P/L%
End Oct 08	\$238,175	\$200,123	(\$38,052)	-15.98%
End Feb 09	\$238,175	\$182,194	(\$55,981)	-23.50%
End Sep 09	\$238,175	\$251,813	\$13,638	5.73%

Beware of Opportunists and Ignore Noise

Over the past 1 year, we suddenly saw a lot of articles saying that asset allocation is dead, buy and hold is dead. A lot of new products like recovery funds started springing up to capitalise on devastated investors who want to recover their money fast. It was like in 2002, when a lot of capital guaranteed funds started to emerge, to satisfy fearful investors who have lost a lot of money during the internet bubble and post Sept 11 crash. Beware of opportunist in adverse times. Where were these proponents before the crash? Where are they today when markets seem to have stabilized?

Over the past 12 months, we lost some clients to these proponents. They sold their investments and held cash, waiting for the right opportunity to enter again. Unfortunately, many missed the upturn that came in March this year. For those of our clients that stayed invested and kept investing, they have definitely done better and are nearer break even point. (See table).

Buy and hold is not dead, eventually, we have to realize that it is fundamentals that drive returns. It is clear for the past 100 years that security returns are closely related to corporate earnings, level of interest rates, inflation and taxes, costs of capital, current and expected rates of economic growth and supply and demand. But it is also clear that market can become so irrational (just like the past 12 months) and so frightening that investors bail out before they can witness the recovery. Good asset allocation will moderate that volatility so that clients can have a smoother ride in the long term and good hand holding by advisers help clients hang on. We must learn to ignore the noise that

the market generate, and stick on to doing what has always worked in the past and will work in the future. Avoid quick solution and “miracle drugs”.

Loving What You Do & Holding Client Hands

My father had a heart attack recently. His heart condition was very bad and the doctor advised a bypass. But because he is 80 years old, it was too dangerous for him to do so. So there is nothing we can do except hope that the worst won't happen. As my father goes through the many visits to the doctor each month, he is upset and angry at times, because he is frightened but yet doesn't know what to do. Occasionally, he may show his displeasure at the doctor. Thankfully, his doctor is a professional that simply listens, shows his compassion and advises him gently on how he can cope with his weakening heart. He knows the fear of his patient, and my father is coping better because of that.

During the course of 2008 -2009, we have in many occasions have to deal with angry clients. But we know that behind every angry client lies a frightened individual. Our job as professional advisers is to allow them to vent their anger, share their fears, but at the end of the day, hold their hands and lead them through the crisis. This requires advisers to really love what they do, and never give up on their clients no matter what happens.

Over the past 12 months, we have had countless face to face meetings with clients, held client briefing sessions every 2 months, communicate monthly via our newsletter, and for myself, write personal letters to clients. These things aren't easy to do, but I am glad we did, as a majority of our clients are still with us today, and staying invested.

Although no one loves to go through crises, the last 12 months have made us stronger as a firm as we strengthen our processes, reviewed our service standards, beefed up on our investment committee, but more importantly, help us grow as an individual. As a CEO, I now have another crisis (and a very big one) under my belt.

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