



coffee break

03/2018

Lump Sum vs DCA

How To Have A Successful
Investment Experience

Breakthrough 2018

Changes in Integrated
Shield Plans and more

dear client,

February is a special month, not merely because of Chinese New Year but also due to it being the month I got married in 17 years ago. Usually my husband and I will try to take half a day off from work and the kids to spend some couple time together and celebrate our wedding anniversary. However, this year due to work and family commitments, we were unable to do so on the actual day. After checking our calendars, we applied for leave on 9th February as that was the only day when both of us do not have meetings on.

On the morning of 9th February, we awoke to the news that the US market had fallen by 10% from its peak in January and I found myself working from home all morning, coordinating with my colleagues to send out our client letter to advise calm amidst choppy waters and also mobilising our Client Advisers to contact clients to either reassure them or to do top-ups.

Thanks to WhatsApp, I was able to efficiently reach out to most of my clients, especially the newly minted ones whom I had just completed the recommendations for and who had just set up their investment accounts. One particular client was especially efficient, she managed to complete the fund transfer within a few hours. Unfortunately, there was a further complication due to a compliance requirement, but we managed to fully deploy her funds on 13th February, at which point the US markets had recovered by 3%.

My other clients were not so “successful”. By the time they decided to top-up and finalised the fund transfers, the markets had gone up. As I write this (27th February), the US markets have recovered to a level close to the 26th January peak. I am happy that my super-efficient client managed to buy at a “discount” relative to the Jan peak but this whole episode just illustrated how difficult it is to time the market. The good news is: we do not have to time the market to be successful in our investments. Research has shown that it is time in the market and not timing the market that gives us the returns. Equities reward patience. But we do recognise that our own emotions can get in the way of our investment success, and thus we suggest dollar-cost averaging as a way to get us started.

I did manage to have a late lunch with my husband at a nice restaurant and have some quality time together on 9th February, before fetching the kids in the evening for a gathering with friends. And just as the success of a long-lasting marriage lies not in how big or nice the wedding anniversary celebration is, the success of our investing journey lies not in “catching” the short-term ups or downs in the markets but having the right long-term mindset and the right portfolio.

Warmest regards,
Deputy CEO of Providend

evelyn goh





c o n t e n t

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FOOD FOR
thought



LUMP SUM VS DOLLAR COST AVERAGING



PROVIDEND 



02

how to have a successful investment experience

- Sean Cheng, Portfolio Manager

Many of us know that it is important to invest our money wisely so that we can reach our financial goals. These include goals such as retiring comfortably, funding our children's education, leaving an estate behind for our loved ones, and possibly even contributing towards charitable causes.

But how should we invest our money? There seems to be a huge number of different types of assets which we can invest into, including stocks, bonds, currencies, gold, property, structured notes, options etc. And then there are endless vehicles in which we can invest into these assets as well, such as unit trusts, exchange-traded funds (ETFs), insurance products and so on, with more being created every day. And everyone has a different philosophy. Some say you should buy low and sell high. Others say you should buy high and sell higher. What should you do?

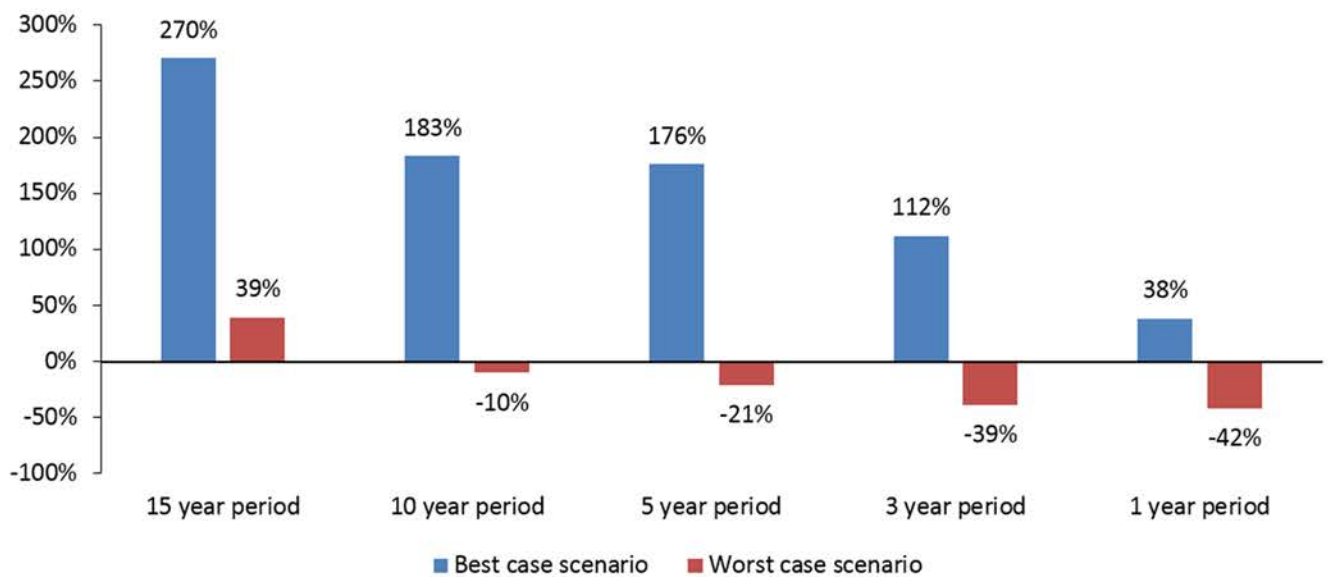
At Providend, if we were to boil down our investment philosophy to just one concept, it would be that is based on Evidence.

With that in mind, our research has led us to believe that there are three features of a successful investment experience: having the Right Mindset, the Right Portfolio, and the Right Advisor.

Right Mindset

The first step towards successful investing is to have the mindset that your aim is to build long term wealth. Though this may sound obvious, the reality is that many people do things that do not actually help them to build long term wealth. For example, they focus on what the stock market is going to do this year, or next quarter, next week, or even today! As a result, they tend to jump in and out of the markets, trying to predict market highs and lows. However, the evidence tells us that investing for the short term is a loser's game and that your odds of building long term wealth are greatly increased when you stay invested in a suitably diversified portfolio for ten years or more.

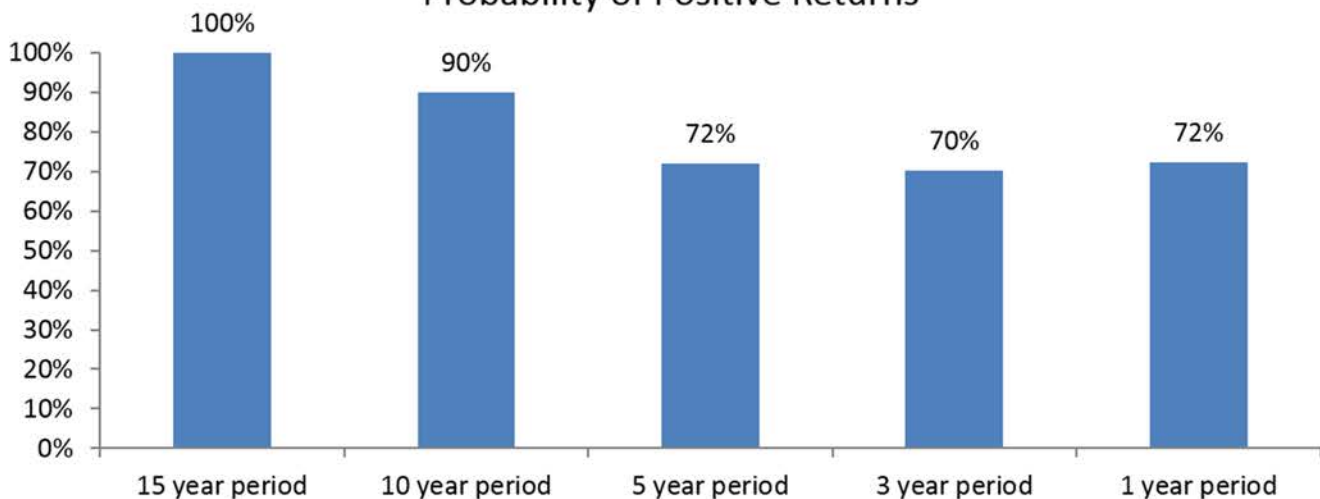
Best/Worst Case Scenario Total Returns Across Time Horizons



Source: Bloomberg. MSCI All Country World Index. Returns in SGD. Period measured from 1988-2016.

Perhaps the greatest investor of all time, Warren Buffett, put it this way: "Rule no. 1: Never lose money. Rule No.2: Never forget rule No.1." How might we accomplish this? Well, using data going back to 1988, if you had invested in a global equity portfolio over a ten year period, 90% of the time you would have enjoyed positive returns with the average ten-year holding period return being 5.68% per annum. That's not bad, but if you had invested for fifteen years, you would have always enjoyed positive returns, with an average fifteen-year holding period return of 5.16% per annum! (This is despite this period featuring two of the largest market crashes in history – the Dot.com bust in 2000 and the Great Financial Crisis of 2008). Investing with a long term mindset clearly has its advantages.

Probability of Positive Returns



Source: Bloomberg. MSCI All Country World Index. Returns in SGD. Period measured from 1988-2016.

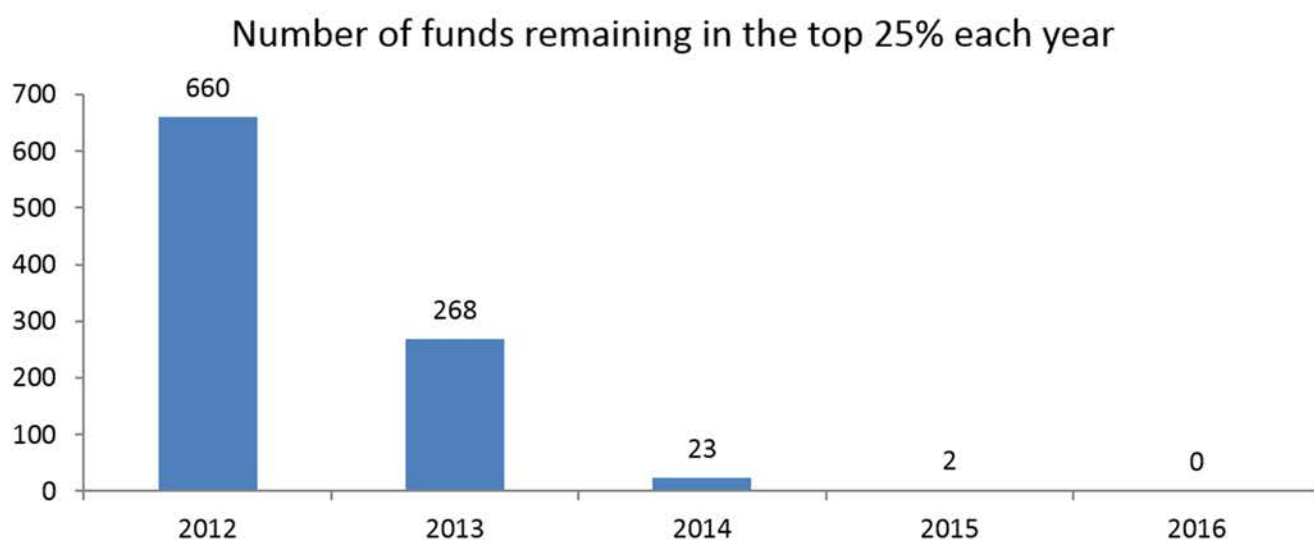
According to a study by Dalbar, as of 31st December 2015, the 30-year average annualized S&P 500 return was 10.35%. However, the average equity mutual fund investor's annualized return was only 3.66%. The main cause for this underperformance was discovered to be due to investors having a short-term focus and trying to time the market, with average investors seldom staying invested in their funds for more than four years. When you take into account the effects of compounding, the difference is hugely significant. For example, \$100,000 compounded at 3.66% per annum over thirty years would have turned into \$293,992. At 10.35% per annum, it would have turned into \$1,919,420! There's little doubt that one can retire a lot more comfortably with the latter amount.

So the Right Mindset is one where you aim to give yourself the best odds of investment success, to have the conviction and discipline required to invest for the long term (especially when markets decline!), and to allow the magic of compounding to build long term wealth for you.

Right Portfolio

In our opinion, the Right Portfolio is one that is evidence-based. Evidence-based investing makes use of the best evidence that is currently available in the design, implementation and management of the investment portfolio. In order to have the conviction to stay invested for the long term, the Right Portfolio should also have evidence of a strong track record that has lasted across decades. (After all, you're likely to be investing in it for decades!)

Many investors tend to invest into funds based on their performance over the past few years, thinking that it means that the fund manager has the skill that will allow him to continue to outperform in future. However, studies have shown that the recent performance of top performing funds is not a good indicator of how well they will perform subsequently. Even professional fund analysis programs such as Morningstar's popular star rating system have not been found to be able to predict future fund performance with any reliability. This can cause investors to pull out their investments whenever the funds underperform, and reinvest into the next fund that had a good track record in the past few years only for it to underperform subsequently and then repeat the process—paying unnecessary switching fees, feeling emotionally distressed, and continually receiving poor returns on their investments.



Source: S&P Dow Jones Indices. Data as of 30th June, 2017

It's no good investing for the long term in a portfolio that consistently underperforms. That's why at Providend, we use cost-efficient, globally diversified portfolio strategies that have been proven over decades to deliver satisfactory returns to investors over the long term in a risk-adjusted manner. As the saying goes, "If I don't look busy, it's because I did it right the first time". With our evidence-based approach, our clients understand that they can invest once and just sit back and relax thereafter.

The Right Portfolio also has to be the right one for you. It has to be suitable for your unique circumstances in terms of your specific goals, time horizon, and of course your need, ability and willingness to take risk so that you can always sleep well at night while you are invested.

Right Advisor

Evidence has also shown that having the Right Advisor to guide you along your financial journey can also help you to achieve better returns than you would attain by yourself. Vanguard estimates that the best practices in wealth management can add about 3% in net returns. Basically, we define the Right Advisor as someone who

is honest, independent and competent, and whose interests are totally aligned with yours. The Right Advisor will help you to select and implement the Right Portfolio for your particular needs and goals, and aid you to have the Right Mindset along the journey towards your financial goals.

If you are looking for the Right Advisor whom you can trust to look after your family's financial needs, it only makes sense to engage an advisor whom you can be certain is incentivized to work for you, rather than for him or herself. We believe that a fee-only business model promotes that independence and objectivity, which is why Providend is a fee-only financial advisory firm. In fact, we are Singapore's first—and probably still the only—fee-only financial advisory firm.

Conclusion

Ultimately, investing is a game of probabilities. You might invest with a short term horizon, and try to time the markets by trying to pick market highs and bottoms, and be successful in achieving your financial goals. You might choose a portfolio that has performed well over the past few years that still continues to outperform for many more years. You may find a financial advisor who is incentivized to meet sales targets, and yet recommends cost-effective investment solutions; or find one who has the skill to pick long term outperforming fund managers and consistently time the markets for you to achieve superior performance.

But what are the odds of that happening?

Invest with the Right Mindset, with the Right Portfolio, and with the Right Advisor to guide you along your investment journey, and give yourself the greatest probability of reaching your financial goals and enjoying a successful investment experience.

Invest with Evidence.

Invest with Conviction.

Invest with Providend.



03

*providend
annual retreat*

B R E A K T H R O U G H 2 0 1 8





Anywhere also can play

While waiting to board our flight to KL, a few of us found this refreshing yet nostalgic arcade game to kill some time in T4 waiting area. Germaine and I decided to put our teamwork to test on this Super Mario like game.

Initially, we struggled with the control of our characters, Mario and Luigi (I have no idea the name of our characters) and kept having to restart the game. But I remembered we fared not bad in the end, to everyone's surprise!

Cheers,
Loh Yong Cheng
Client Adviser

Jin Ho Jiak! (very delicious in hokkein)



This photo was taken on the first meal upon arriving The Saujana Hotel, Kuala Lumpur. It was a sumptuous huge set of Japanese meal and from our expression; you could tell how amazed we were with the serving portion! The meal was really awesome and delicious..

Our retreats has been our yearly affair. Am always grateful to be able to join retreats as it is not just a time for our CEO, Chris to share the goals we want to achieve for the year as a company but also a time of bonding, reflection and a chance to get to know our fellow colleagues better and deeper! Hope you had a good start of the year too and here wishing all our clients a very blessed year 2018 ahead!

Cheers,
Josephine Yeo
Head of Client Service
Management Team





The Artist

We were having an awesome time during our daily games session. I was trying my best to get my team to guess the correct words with my "Pablo Picasso" drawings. Needless to say, they were unable to appreciate my drawings and could not guess the word. The games session was just one of the many moments of fun and laughter in this retreat. I thoroughly enjoyed the retreat from beginning to the end.



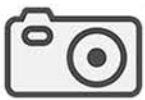
Cheers,
Amos Goh
Insurance Planner



Challenge Accepted

On the third day of our retreat, most of us participated in an aerial obstacle course called *Skytrek*. It is located in a scenic forest setting providing tree-to-tree zipline adventures. Despite the slight drizzle throughout the whole course, it is definitely a great way to bond, have fun and overcome our fear of heights with each other!

Cheers,
Nataly Ong,
Brand Management Executive



Finale Night

On the Finale Night, it was a tradition for us to put up a performance on the history of Providend. Everyone's skits were so interesting with such flair and finesse. Along with the movie characters ranging from martial artists to super heroes. Not to forget the hidden MediaCorp Artist we have in our midst! A fantastic way to end our last night in KL.

Cheers,
Teng Wei Hao
Web Developer



04

changes in integrated shield plans

As you may be aware, the Health Insurance Task Force (HITF) has recommended that from 8 Mar 2018, full riders, also known as zero co-payment riders, for the Integrated Shield Plans be abolished as a measure to rein in healthcare inflation and to discourage overconsumption, over-servicing and over-charging of medical services.

Insurers will introduce new riders by 1 Apr 2019 that require policyholders to make at least 5% co-payment on their hospitalisation and surgery bills subjected to a maximum amount per policy year. Do note that these limits would apply only for pre-authorised treatments and/or treatments by the insurer's approved panel of doctors. If not, the policyholder may have to foot a bigger portion of the bill out of their own pockets. More information on the actual co-payment and cap figures will be made available as the insurers launch their new riders.

For new applicants (from 8 Mar 2018 to 31 Mar 2019):

You will still be able to apply for a full rider during this period. However, you will be required to transit to the new riders that require co-payment upon its renewal from 1 Apr 2021.

For new applicants (1 Apr 2019):

You will only be able to apply for the new riders that require co-payment. No full riders will be available.

For existing policyholders with full riders (as of 7 Mar 2018 or earlier):

The changes do not apply to you for now. You will still be able to enjoy the benefits of your full rider even after the new riders are released.

However, it is still up in the air as to whether the insurers will mandate all existing policyholders with full riders to switch to the new riders in the future. Therefore, we would recommend that you wait till the insurers have released more information before making any policy alterations. Do speak to your advisers if you have any concerns about your policies.

04

coffee express



CPF members aged 55 and above can make a lump sum withdrawal of their CPF savings within the same day using PayNow, starting from 26 March 2018.



The top marginal Buyer's Stamp Duty (BSD) rate will be raised from 3% to 4%, and applied on the value of residential property in excess of \$1 million to those acquired on or after 20 Feb 2018.



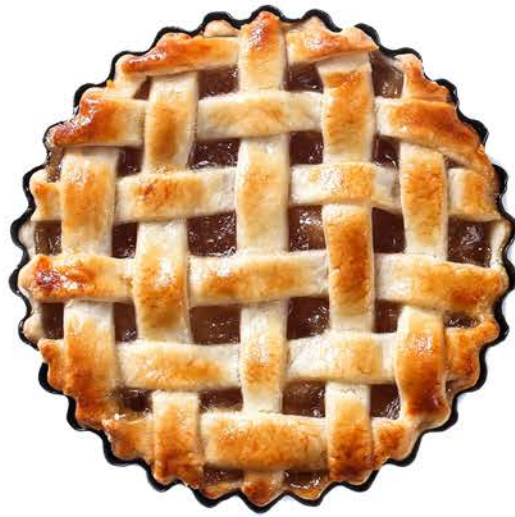
Goods and Services Tax (GST) will be raised from 7% to 9%, sometime in the period from 2021 to 2025.



From 1 Jan 2020, GST will be introduced on imported services such as consultancy, applications and music purchased from overseas suppliers.



A one-off SG Bonus of \$100-\$300 will be given to all Singaporeans aged 21 and above in 2018.



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see you latte!



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