# Coffeebreak

06/2019

Investing Is Not Just About Returns

Don't Make Long-Term Decisions
Based On Short-Term Information

We Have Crossed $300 Million AUA!

CareShield Life Will Soon Take Its Effect

PROVIDEND

# Dear Client,

Just recently, as I was browsing my Facebook, I suddenly realised that I have a private message in my FB Messenger inbox. When I went in to take a look, I was pleasantly surprised that my ex-neighbour, Marlene, with whom I grew up with during my childhood days has contacted me. Apparently, her mum saw me being featured in newspaper and wanted her to get into contact with me so that she can be reconnected with my mum. And so, a few weeks ago, my sisters, my mum and I made a trip back to our old estate to pay a visit to our ex-neighbour. I had a wonderful time that Saturday afternoon when we walked down memory lane to visit the estate that we grew up from, peeped into our old three-room flat, (and realized that the living room and kitchen tiles were still the same since we left that place some 25 years ago!) spent meaningful time catching up with our childhood friends and ate dinner at the coffeeshop which we used to eat from when we were still kids.

Janice (second from the left) and Marlene (second from the right) together with my sisters and me along the corridor of our block where we used to play together when we were kids.

I love to reminisce about the past. This is because I always walked away with either precious lessons or feeling grateful. So in this CoffeeBreak edition, we take you down memory lane back to those years when Providend first started and how we became where we are today and even crossing a new milestone in our Asset Under Advice. We also share an article that I contributed in the Sunday Times recently where I look into the past to show the unreliability of the Yield Curve as a tool to predict the future. Finally, our Deputy CEO and Chief Advisory Officer, Evelyn shares why investing is not just about returns but also about risks. History has shown us that in the long term, the stock markets always go up and as long as we are prepared to ride out the risks of investing, we will get the returns that we need.

Thank you for journeying with us all these years and for being part of our story.
Happy reading!

Warmest regards,
CEO of Providend

**Christopher Tan**

# Content



# 01

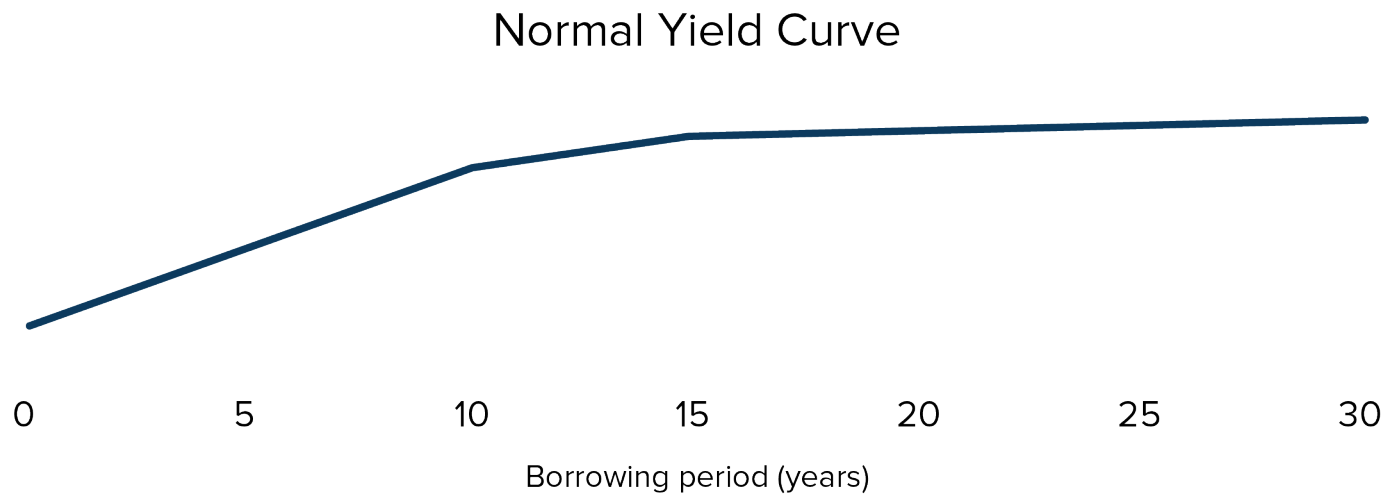
## Conversations With Evelyn Goh — Investing Is Not Just About Returns

# 02 Don't Make Long-Term Decisions Based On Short-Term Information

***Christopher Tan, CEO***

People always tell me that the financial services industry is an exciting industry to be in. Every day, either in the papers, on TV, radio or on social media, analysts will predict what will happen to the markets. Even non-professionals join in this game of guessing. In the latest run-up to where the markets will be headed, investors were using the yield curve to foretell the future of the stock markets. So, what exactly is the yield curve and how is it used to tell the future of the stock markets?

The yield curve is basically a chart of U.S. government bonds of different maturities ranging from three months to thirty years. Normally, because bonds with shorter maturities have lower yields than bonds with longer maturities (just like fixed deposits with shorter maturities give a lower interest than fixed deposits with longer maturities), if you plot a chart from shorter to longer maturities, then the chart has an upward slope from left to right. But when bonds with shorter maturities have higher yields than those with longer maturities, we say that the yield curve is inverted (see chart 1).



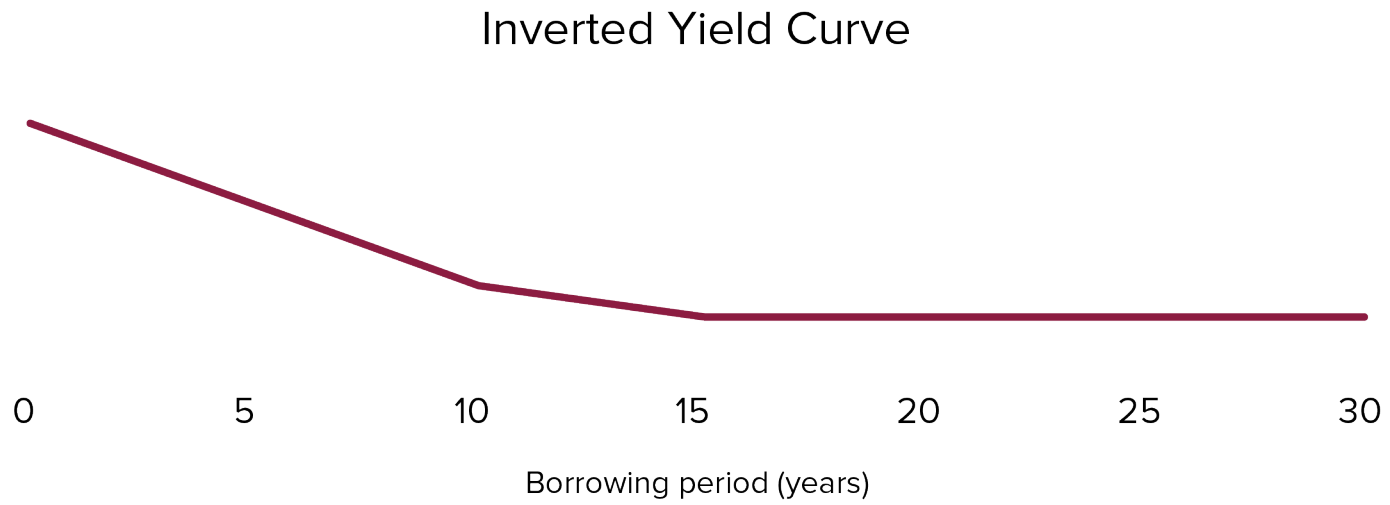




Chart 1

Why would a yield curve invert? You see, from the bond investor's point of view, the price of long-term bonds is driven by the economic outlook. When the economic outlook dims, inflation expectations are lowered making bonds attractive (as bond coupon rates are fixed, higher inflation is bad for bonds and vice-versa). So, investors will buy these bonds thus pushing up the bond price and pushing down its yields (when the price of an asset goes up, the return, or yield, falls). From the stock investor's perspective, if he is expecting slower economic growth and stock prices to fall as a result, he will rush to buy longer-dated bonds to protect his capital. When that happens, it drives prices of the longer-dated bonds up and thus yields fall. So, whether you are a bond or stock investor, the yield curve inverting signals a possible recession and investors use it to predict a stock market crash.

And on 22 March 2019, the yield curve inverted when the 3-month U.S. Treasury bill yield was higher than the 10-year U.S. government bond yield. It stayed inverted for 5 days.

But what is the track record of using the yield curve as a prediction tool?

The historical data tells us two things. First, that yield curve inversion has not been reliable for predicting stock market crashes (defined as a decline of 20% or more, a.k.a. a bear market). Out of the 8 times the yield curve inverted from 1976 to 2018, the stock market only crashed 3 times within 2 years of the yield curve inverting. Second, regardless of whether the yield curve inverted and/or whether the market crashed, the stock market rose in the long run.

| Number of times the yield curve inverted between 1976 to 2018* | Number of times the stock market crashed within 2 years of yield curve inversion** | Number of times the stock market didn't crash within 2 years of yield curve inversion** |
|---|---|---|
| 8 | 3 | 5 |

Table 1

Data source: Bloomberg.

* Most investors use the 2-year government bond yield as the short-dated bond, and the 10-year government bond as the longer-dated bond to observe yield curve inversion. The number excludes inversions with negative yield curve spreads that do not exceed -0.10% before turning positive again; and where the yield curve spread turns positive again (with a spread of less than 0.10%) before inverting, the subsequent inversion is also excluded. This removes a large number of inversions that may be deemed to be insignificant.

**A stock market crash is defined in this instance as a bear market—meaning a decline of 20% or more.

So, does that mean that tools like the yield curve and economic data are useless? To say so would be to make the right observation but with the wrong conclusion. What do I mean? You see, all of us have a financial equation in our lives, one part of which is short term and another part is long term.

The short-term part is your income minus your expenses, or your surplus. How much surplus you save in the short term is the result of your financial planning decisions.

The long-term part is how you grow your short-term surpluses into a future nest egg through compounding returns, and this is your long-term investment strategy.

The thing is, many people do not realise that tools and data that tell us how the economy might be in the short-term are meant to help us make short-term financial planning decisions (on income minus expenses) and not influence our long-term investment strategy (on accumulating towards our goal). They are using the right tools for the wrong purpose!

Scores of data tell us that throughout and despite the recessions, geopolitical situations or natural disasters that happen from time to time, stock markets always rise in the long run. This is because the one thing that drives long-term stock market returns is earnings. Earnings are driven by demand and demand is driven by population growth. And the fact is, world population growth is increasing. So, if you ignore short-term noises and stay invested for the long run, you will get the returns you need. But to do that, you must make sure that you get your financial planning right. If data and tools tell you that there might be a recession, make good financial planning decisions such as:

1. Protect your income – this is perhaps not a good time to change jobs.
2. Be prudent in your expenses – this may not be a good time to buy big-ticket items or to take huge loans
3. Ensure you have an emergency fund – have at least 6 months of your expenses in cash/near cash instruments
4. Lower your expenses further if possible – so that if you lose your job and take one with a lower pay, you can better cope with it
5. Lower your expenses further to build up cash, or don't spend the bonus you just received – so that if the market really crashed, you can invest even more when stocks are cheap.

In the course of my career of more than two decades, I have learnt that to attempt to guess where the markets are going and try to time it, is futile. We should rather invest based on solid evidence that spans across markets and over time. These sets of evidence tell us that to have a successful investment experience, you should diversify your investment across securities, asset classes, and markets. Use low-cost instruments to execute your strategy and stay invested for the long haul. Do not change your long-term investment strategy just because of occasional noises. To use short-term information to make long-term decisions would really be unwise. I know this sounds boring. But if you want excitement, go to the casino instead.

# 03 With Plenty Of Hard Work And Undying Grit, We Have Crossed $300 Million AUA!

***Nataly Ong, Brand Management Lead***

Earlier this year, Providend reached a milestone that would have seemed impossible when we first started almost twenty years ago: Asset under advice (AUA) of SGD$300 million and more!

For those who are unfamiliar or have forgotten, back on 11 September 2001, the celebratory yet fateful day when Providend first signed our office lease, it was also the day terrorism changed the world we lived in.

## The September 11 Attack

Nineteen terrorists who were members of Al-Qaeda, an Islamist extremist network, hijacked four commercial airplanes. In a coordinated attack, the hijackers intentionally flew two of the planes into the Twin Towers of the World Trade Center, and a third into the Pentagon. Learning about the other hijackings, passengers and crew members on the fourth plane launched a counterattack, spurring the hijacker pilot to crash the plane into a field in Pennsylvania. Nearly 3,000 people were killed on that day, the single largest loss of life resulting from a foreign attack on American soil.

Due to the 9/11 attack, also coined as the worst and most audacious terror attack in American history,  the new Financial Advisers Act, which was to be implemented that year in Singapore, was unfortunately delayed till October 2002. It was only in May 2003 that Providend' s application for the license to give advice was approved and the company ready for operation. In the interim 2 years without the license, our hands were tied, and our staff of just over 10 people and their families suffered as they took home very little or even zero income.

## Sticking Out Like A Sore Thumb

As the first and only fee-only financial advisory firm in Singapore back then (and even till now), industry watchers and competitors scoffed at the idea of our unique advisory model. They all felt that Singaporeans would never pay a fee for advice. Cynics predicted that Providend would not survive beyond 6 months, doubting that the compensation from fees would ever be enough to sustain the company.

2 • THEEDGE SINGAPORE | MAY 26, 2003

CAPITAL | PERSONAL FINANCE

**Critics say that even if the local market is ready to pay a fee for advice, many IFAs in Singapore will still resist the move towards a fee-only model because revenues generated by commissions are too lucrative to forgo**

PROVIDEND

DIVERSE PERSPECTIVES • ONE STRATEG

*Cheritopher Tan, CEO & Co-founder*

And they were not wrong. Giving up the lucrative commissions proved to be very difficult for Providend in the months ahead. Month after month, our people and their families suffered as they survived on meagre salaries.

**But, miraculously, we survived.**

## The Global Financial Crisis

Then came the Global Financial Crisis in 2008. With the most massive bankruptcies in United States history- the collapse of Lehman Brothers roiled global financial markets for weeks, given the size of the company and its status as a major player in the U.S. and internationally. It ultimately led to an economic and political reckoning where trade fell in every country.

By the third quarter of 2008, the banking crisis in the U.S. and its ripple effects had greatly stressed the Singapore economy, causing it to be the first country in East Asia to succumb to recession. Our investment portfolios were hit by great volatility and some of our clients became fearful and withdrew their assets.

Thankfully, most of our clients chose to stay on.

In return, we devoted our time to allaying their fears and revised their financial plans to ensure that they would still be able to realize their goals post-crisis. It took a lot of courage to bear the brunt of their frustration, but it was important for us to remain committed to their goals and was also a valuable experience gained.

SEPTEMBER 16, 2008

Excerpt


Holders of Lehman-linked structured products leave a briefing by DBS Bank

### The perfect financial storm

EVEN though it wasn't an official working day, Sunday September 14, 2008 will go down as one of the most dramatic in Wall Street's history. After marathon emergency meetings that weekend, US Federal Reserve and the US Treasury announced that they would not bail out Lehman Brothers, at the time the world's fourth largest investment bank. Lehman was thus to become the latest to file for bankruptcy after Bear Stearns and other smaller institutions.

That same day, insurance giant AIG – believed to be in danger as well – was reported to have approached the Fed for some US$40 billion in short-term financing to shore up its capital. Another large bank, Washington Mutual, was also said to be in deep trouble. Merrill Lynch – the world's largest brokerage, however, was to be saved through a takeover by Bank of America.

By taking the position that banks and broker-dealers would have to find their own "white knights", the US authorities have taken a gamble; they stand to be vindicated if the Lehman bankruptcy does not lead to massive systemic damage. After all, Lehman's positions have to be liquidated in a difficult market.

## Fast-Forward To 2019

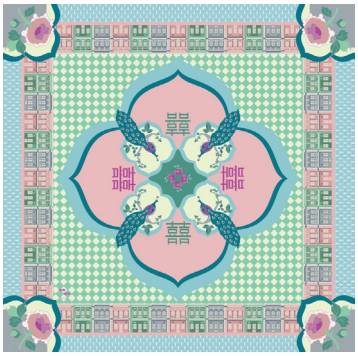
In retrospect, albeit the fact that we had to contend with plenty of challenges over the years, our breakthrough achievement of $300million in AUA embodies Providend's relentless pursuit towards excellence in always looking after our clients' interests as we uphold our values of never doing anything that will put our clients at a disadvantage.

Today, we have reached yet another milestone as a fee for service firm, because the people at Providend shared the same belief and passion for the business and because of our clients who have placed their trust in us. We have not only grown together on this journey but together, we have taken a stand in Singapore, proving that honest, independent and competent advice will work.

# 04

## Coffee Express

- Make your CPF Nomination and take advantage of the Lasting Power of Attorney
- Top up your iFAST investment cash account to enjoy the interest rate of 0.4% p.a., which is higher than typical bank account
- CareShield Life will take effect in less than 6 months
- MayBank Passion Plus joins as a member of banks' dedicated schemes for Singapore's aging population



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## See You Latte!

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