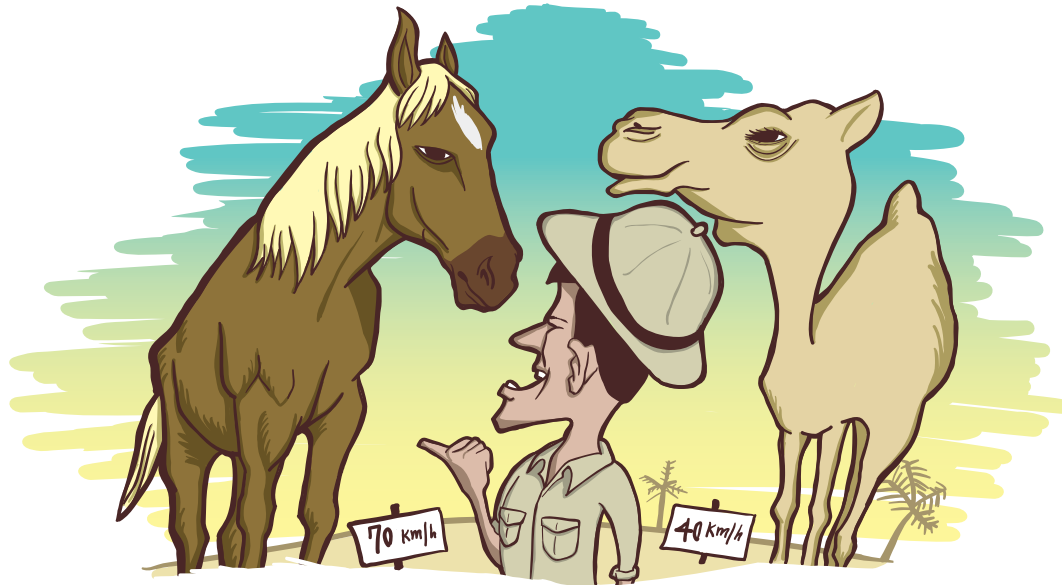


Don't Miss The BIG PICTURE

By Eng Tiang Chuan



Dear, let's just rent this horse to speed up our travelling time.

Instead of making money, many investors have done exactly the opposite. One of the reasons is the focus on the returns instead of the outcome.

Many investors do not have an idea of why they want or need to invest. The typical answer when asked the objective for the investment would be "To make money!". Absolutely, no one in the right mind would invest to lose money; there are many other easier ways of achieving that. However, a great number of investors would end up doing exactly opposite of what they first set out to do. Why is this so? The simple answer is that they have missed the big picture.

FOCUSING ON RETURNS

Flip through the finance section of any print or electronic media and one would be overwhelmed with materials on the latest

best-performing stock, fund or asset class. Similar advertisements can be found on public transport, advertisement billboards and premises of financial institutions. After disappearing in 2008, such phenomenon is again making a comeback due to the remarkable rebound in 2009. (Please refer to the table which illustrates the performance of major indices for the past two years.)

Such media spotlight is evident throughout the distribution channel. Backed by the sheer amount of marketing materials and superior recent performance, many investment advisers would readily recommend the hot fund. These efforts clearly work as investors have been happily lapping up it all up,

choosing to invest due to the recent good performance.

The most simple of disclaimers found on regulated collective investment products – "Past performance is not indicative of future performance" – serves as a constant reminder to the investor. This simple yet profound caveat is often hidden among the fine prints and largely ignored. With the excitement of investing into a recent top performing fund, the warning is likely to be ignored even if prominently displayed. The numerous investment scams that have surfaced have a similar trail: They too readily boast of great performance.

History has shown that many of today's

INDEX	PERFORMANCE IN 2008	PERFORMANCE IN 2009
US S&P 500	-38.5%	20.7%
Europe (DJ Stoxx 600)	-46%	28.3%
Japan (Nikkei 225)	-42.1%	13.7%
Hong Kong (Hang Seng Index)	-48.3%	48.6%
India (SENSEX)	-52.9%	85.2%
China (HS Mainland Composite Index)	-48.9%	50.4%
Singapore (Straits Times Index)	-49.2%	64.5%
MSCI World	-42%	28.6%
MSCI Emerging Market	-54.5%	70.7%

Source: iFast Financial

laggards are yesterday's best performers. Research done by John Bogle, founder of Vanguard Group, revealed that the top 10 funds among 851 equity funds during 1997 to 1999 dropped to the bottom 60 from 2000 to 2002. These funds were focused on hot sectors involving Internet, telecom and technology. Barksdale and Green's study on the rolling 10-year performance of 144 institutional equity portfolios from 1975 to 1989 showed that portfolios that finished the first five years in the top quintile were the least likely to finish in the top half over the next five years.

Numerous other studies have showed similar results. Despite the clear indications, investment advisers have made recommendations based on recent performance and hype. It takes two hands to clap. Investors, lured by the potential returns, have joined in the big party. All the marketing hype has clouded the investor and resulted in the

wrong focus. For too long, advisers and investors have missed the forest for the trees, chasing performance instead of focusing on the outcome.

FOCUS ON THE OUTCOME

Investment is akin to embarking on a long journey. Starting with a destination in mind, one would know what to plan and prepare for the journey. Likewise, if the investor is focused on the outcome or objective, he too can prepare in advance. Common objectives include retirement and child education. For the High Networth Individuals, issues like legacy or perseveration of purchasing power may be of a greater concern.

With the right focus on the outcome, appropriate asset allocation and investment strategies can then be formulated. The downside risks should also be taken into account during the investment planning process. Emphasis should not be on the past

performance alone. All of these may sound unexciting. Well, it is supposed to be that way. Investment is not about excitement. It is about meeting the objective.

An exciting investment that goes up 100 per cent in one year and dropping 60 per cent in the next does not leave the investor with a net 40 per cent gain. In fact, there is actually a 20 per cent loss. On the other hand, a boring portfolio that grows by just 6 per cent in the two years would give a 12.36 per cent return.

CONCLUSION

Despite the alluring prospect of making superior returns, isolated recent good performance is but a red herring. Focusing on returns would likely move the investor away from his intentions. As what the Price of Morocco in Merchant of Venice realized, all that glitters is not gold. ■

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