Interview with Dr Wealth 17 May 2018

Let's start off with a quick introduction about yourself, who you are, where were you from and what are you doing now? (lead on question: why start a fund?)

My first career was as a financial journalist. I stayed there, in one newspaper i.e. The Business Times for 22 years.

I've always been fascinated by the investing world, the financial markets. So while in Business Times, I did my CFA and I did my Master of Science in Applied Finance. After that, I started the weekly investment column, Show Me the Money. Articles from that column have been compiled into eight books.

During my time as a columnist, I was approached by various financial institutions to join them. None felt quite right.

That was until in 2013 when a proposal came for me to join a start-up boutique fund. Up till that point, I had only one employer – SPH and I only had one job as a journalist. Now I have the opportunity to be a partner in a fund management firm, an entrepreneur.

I've read and believe that in life, we are more likely to regret things we didn't do rather than things we did. So I took the dive. It was rewarding in many sense of the word, I learnt so much, I grew so much as a person.

Last year was another big turning point in my life. I decided to leave that partnership and set up my own fund. I'm now manager of a no-management fee, performance only Asia value fund called Inclusif Value Fund.

How would you describe Inclusif Value Fund investing style and methodology?

Inclusif Value Fund is a quantitative value fund.

What that means is we do a lot of research to find out what factors drive stock returns over time. For example, we and a lot of academics have found that stocks that are cheap, whether measured against the assets the company owns or its earnings, generate higher return over time. So we look for stocks that are cheap. We then overlay a set of quality criteria on that, like in addition to being cheap, we want stocks to have low borrowings, stocks that generate cash from their business, and stocks that have good corporate governance etc.

As long as a stock meets our list of criteria, we will add them to our portfolio. We don't try to forecast the future. Using this process, we have accumulated 640 stocks in our portfolio.

There are 14,349 stocks listed in the markets we look at. So we now own about 4.5% of stocks in our universe.

Our research shows that stocks that meet our set of criteria have generated double digit annual compounded return over the last 10 years. The more stocks which meet the criteria we are able to add to our portfolio, the higher the probability that we will be able to generate the returns as exhibited by the results of our research.

I know that Inclusif Value Fund has zero management fee but only takes performance fee. It is rare to see a fund that does this. Why do you structure it this way?

As mentioned, we have done a lot of research on the process and we have seen the process work in practice. So we are confident that our process will generate positive return over time. As such, we are willing to take the risk and show investors that we have skin in the game as well. If we don't make money for you, we make nothing. We have to fork out money from our own pockets to pay for the expenses incurred in running the fund.

All of us like the idea of fairness. I think this structure is fair. From the investor's point of view, why should I pay the fund manager if you didn't make me any money, or worse, if you lose me money?

But if you make money for me, I'm more than happy to pay you a bonus. Until you do, you haven't earned your keep.

Wouldn't you be concerned that during bad years you would have to cough up the operating costs from your pocket? And the markets may take a while to recover before you get to take in fees again?

We deal with this in three ways.

Firstly, we only buy stocks which are really really cheap. For example, if the company owns properties, has cash and other assets net of all borrowings worth $1 per share, but in the stock market its shares are trading only at 50 cents. These are the types of companies we would buy. When you buy stocks that are so cheap, the downside is somewhat protected.

Even if there are some severe market dislocations, and the prices of the stocks we own continued to fall, the decline will be temporary. When things normalise, the price will rebound.

Next, if we can't find any cheap stocks to buy, then we will hold more cash. A prolonged decline is more likely to happen from lofty levels than from depressed levels. With the cash, we will re-enter the market when we think it is cheap enough. We will also encourage investors to put in money into the market when prices are low. This way, when the market recovers, we will be able to earn some fees.

Finally, over the long term, markets tend to go up. Over the last 40 years, there were 60% up months and 40% down months. So the odds are in our favour.

Also, over the last 40 years, markets have not seen a sustained decline that lasts significantly more than two years.

As long as we make sure that we have reserves that can last us more than three years, we should be fine.

One question we often received from investors is that, small individual investors have no chance against the big players i.e institutions - do you agree with that and why? (follow up question: what should an individual investor do?)

No, I don't agree with that. Individual investors are nimbler. They can buy into small cap stocks which big institutions find hard to get in because of their size.

The disadvantage individual investor may have is in terms of diversification. If you don't have a big enough fund size, you can't diversify as widely as you should in a cost-effective manner. Without enough diversification, the risk of your portfolio may be higher.

Individual investors should always be keenly aware of the price they pay for stocks. Try not to overpay.

Many investors have their own criteria when choosing a fund manager. Now I would reverse it and you get to choose your investors. Describe your ideal investor.

Our ideal investors are those who understand our process and have a long-term horizon. They also aren't the jittery sort, those who panic in the face of short term market volatility. Volatility, as we always tell our investors, is the price to pay for higher returns from the equities market. Better still, we like investors who top up when there is a crash in the market. 😆

So the ideal investors are those who only put in money and never withdraw?

LOL! No, no, no! Investors should save and grow their savings with a purpose in mind. For example, retirement. So when they reach retirement, they can start withdrawing their funds. But not in one shot. They can do the regular withdrawals, say 5 per cent a year, to meet their retirement expenses. The rest of the money, they can let it grow. This way, investors can be assured of they will not outlive their money.

We know that the finance industry is filled with men, do you encounter any disadvantages in your work?

That's the reason why I set up Inclusif Value Fund, so I can create the culture I want for the team. It's always nice to be your own boss, and to be able to set the tone, the direction and the values for the team.

I felt that it was phenomenal to raise over $100m AUM within a year. What were some of the success factors in your opinion?

There are a few factors.

First of course, I think we offer a great value proposition, with a very fair incentive structure that aligns our interest with that of the investors.

Second, many investors have followed my columns previously and understand our investment process which is a very sound one. They know that I'm diligent in doing the research and that my analysis is always very well-reasoned and backed up by evidence.

Third, many have seen how the process work in the previous fund. So they have confidence in us even though we are a new fund.

Fourth, some investors like to join a fund right from its inception. We offer them that opportunity, with the added comfort level that this is someone who has been around for close to 30 years, someone who has spent all that time trying to understand the market and someone who is still constantly learning and someone who is not in this for a quick buck.