Make Money in the Stock Market through Booms and Busts, Good Economies and Bad

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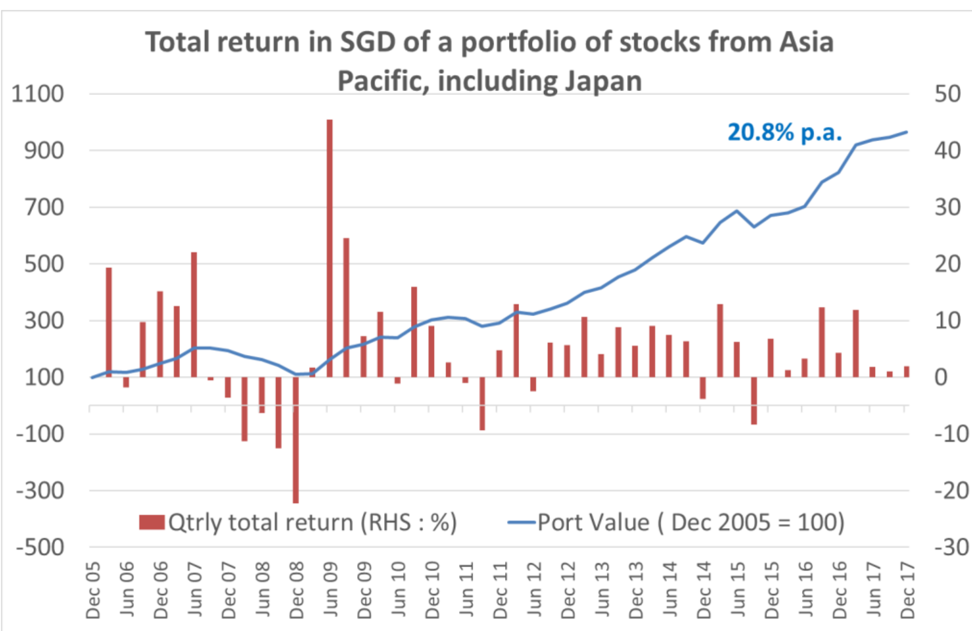

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Notes about the portfolio:

- It’s a simulated portfolio made up of stocks which meet a few “value” criteria
- The portfolio is rebalanced quarterly
- No transaction and implementation costs are factored in

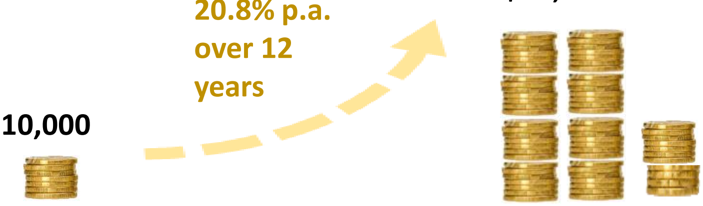
Observations about the simulated portfolio

- There were only two down years over the last 12 years
- Usually after a sharp negative period, the returns the following quarter(s) are significantly positive

$96,151

20.8% p.a. over 12 years

$10,000



More realistic, taking into consideration transaction, implementation costs:

12% p.a. over 12 years

$38,960

$10,000

31 Dec 2005 **31 Dec 2017**

How do we get there?

Things you must do

Things you MUST NOT do

First thing you must do:

Invest your funds

If you keep your funds in Fixed Deposit

$10,000

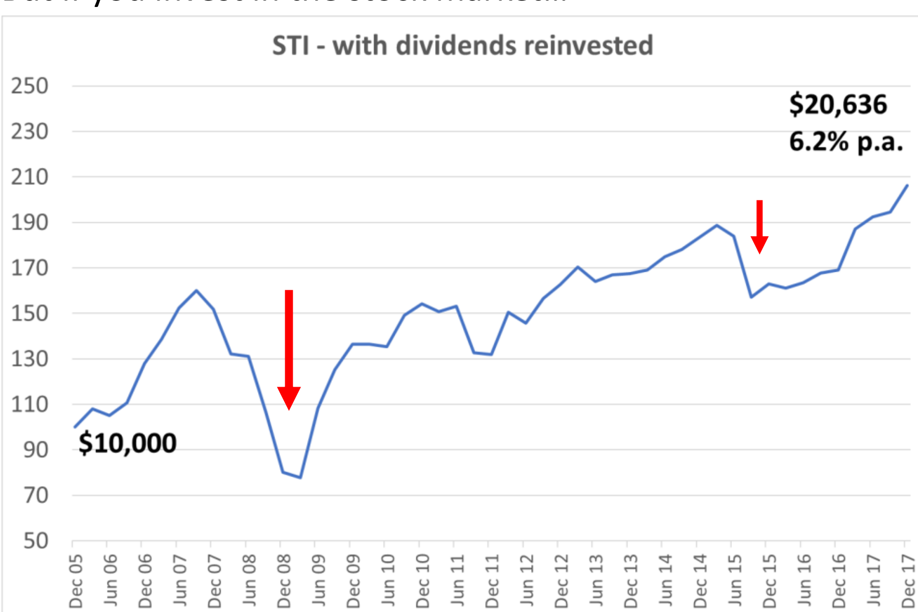
Assuming 1.5% p.a. over 12 years

$11,881

31 Dec 2005

31 Dec 2017

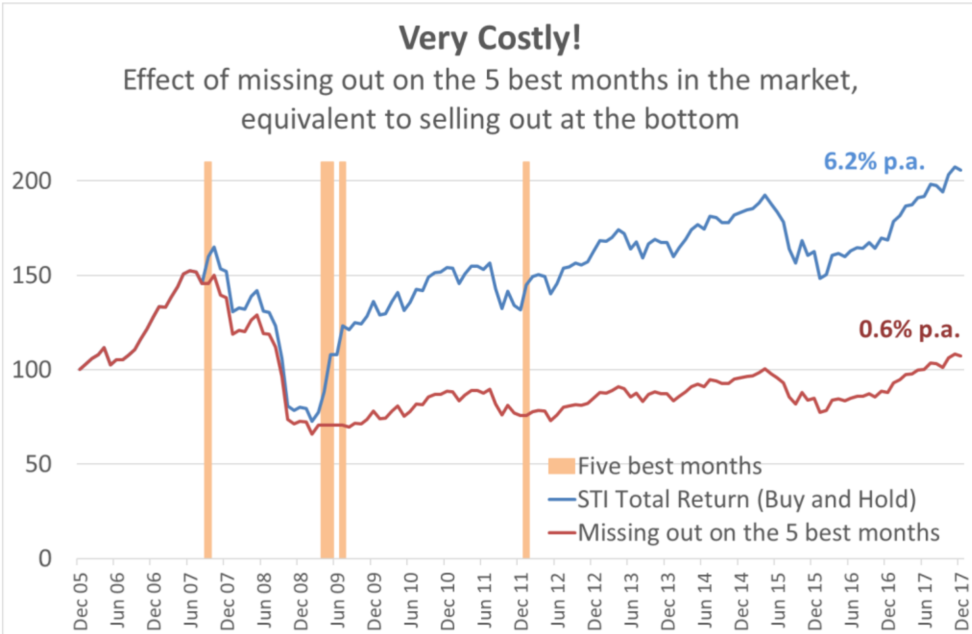
But if you invest in the stock market…



Volatility is the price for getting higher returns

We need to accept that stocks have negative returns from time to time

What you MUST **NEVER EVER** DO:
Sell when the going gets tough!



Selling after a crash is the worst thing you can do to your portfolio

You deny yourself the chance of a recovery

Ride out the tough periods

Crisis	Period	Loss during period	3 months	6 months	12 months
Iraq invades Kuwait	Aug 1990 to Oct 1990	-28%	4%	32%	25%
Asian Financial Crisis	Jul 1997 to Sep 1998	-32%	40%	46%	117%
Dot-com, Sept 11 Attacks	Jan 2000 to Nov 2001	-47%	27%	25%	1%
Enron, Iraq, SARS	Dec 2001 to Mar 2003	-19%	11%	28%	54%
Global Financial Crisis	Oct 2007 to Mar 2009	-57%	50%	70%	78%
European Debt Crisis	Jul 2011 to Oct 2011	-19%	7%	17%	21%
	Average	**-34%**	**23%**	**36%**	**49%**

Caveat: Provided the stocks you own are at no risk of going to zero
Indexes will not go to zero. If they do, it's the end of the world as we know it!

Individuals who cannot master their emotions are ill-suited to profit from the investment process – Benjamin Graham

The real key to making money in stocks is not to get scared out of them – Peter Lynch

Next question :

When do you jump into the market?

Reasons for not investing…

"Market has gone up a lot already!"

"A crash is coming! I can feel it in my bones!"

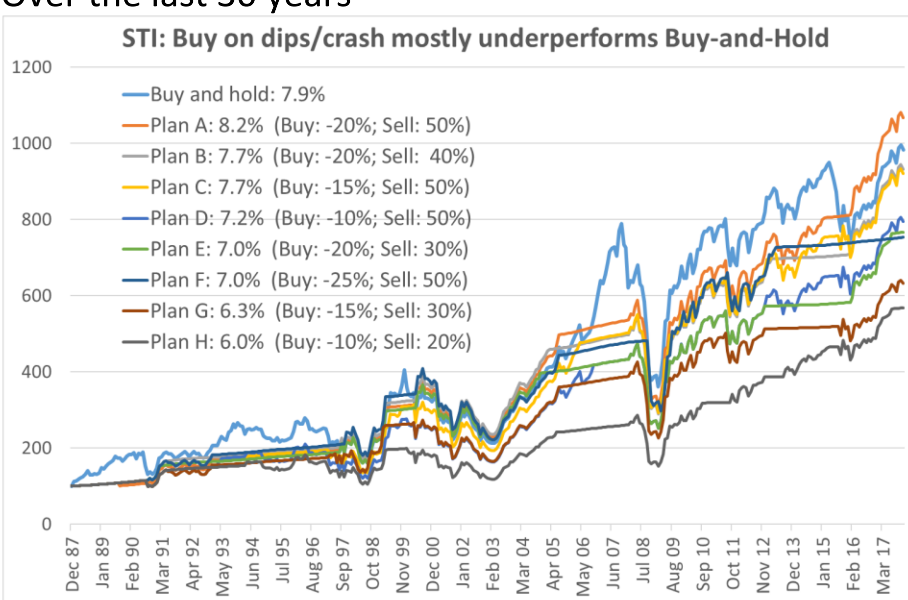
"I'll wait for market to correct before investing."

What if you wait for a dip/correction/crash before jumping into the market?

And you get out after a pre-determined % of gain

How would you have done?

Over the last 30 years



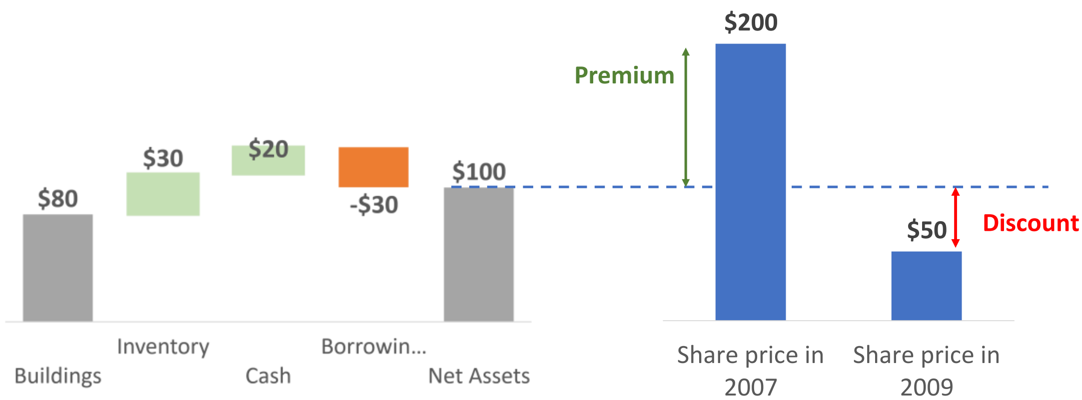
Waiting for a drop before entering the market mostly fared worse than buy-and-hold

From Dec 1987 till Dec 2017:									
	Buy and hold	Plan A	Plan B	Plan C	Plan D	Plan E	Plan F	Plan G	Plan H
Drawdown from 9-month peak (%)		-20	-20	-15	-10	-20	-25	-15	-10
Recovery from entry level (%)		50	40	50	50	30	50	30	20
Compounded annual return (%)	7.9	8.2	7.7	7.7	7.2	7.0	7.0	6.3	6.0
$10,000 becomes:	98,235	106,674	93,120	92,095	79,426	76,655	75,306	63,193	56,788
No. of months invested	360	223	175	257	300	161	168	211	231
% of time invested	100	62	49	71	83	45	47	59	64

What if, instead of letting your bones tell you if a crash is coming

- You based your decision on valuation
- Stock prices can’t stray too far away from economic fundamentals – stock price has to be justified by the company’s earnings, either now or in the future; or by the assets it owned
- Value has been referred to as the gravitational pull of the financial markets

Company XYZ's assets vs its share price

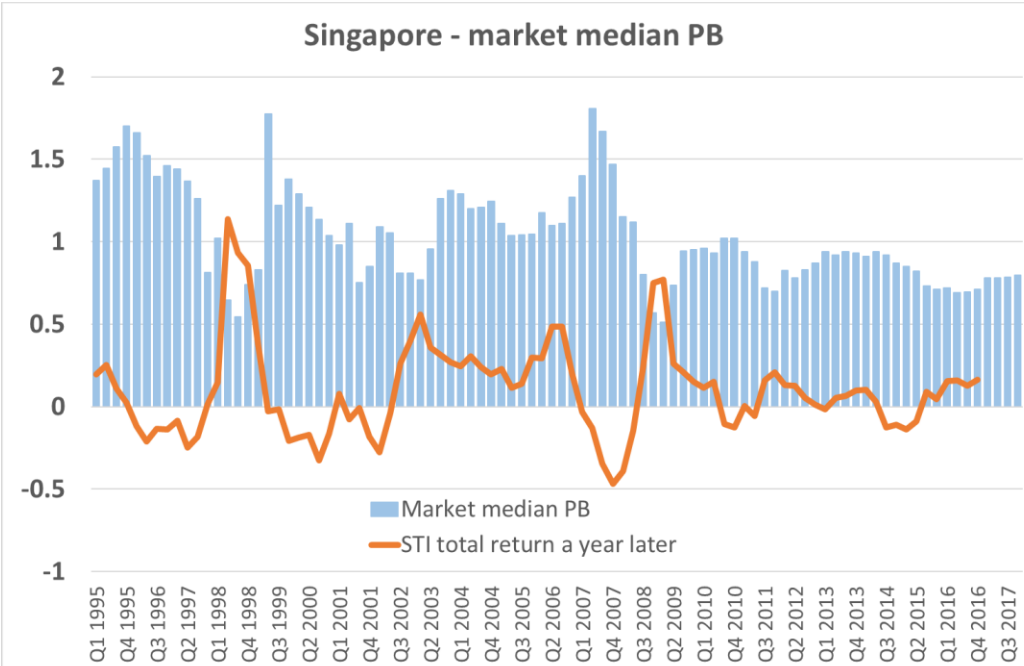


Share price/NTA or book value per share = P/NTA or PTB or PB

In 2007, PB = $200/ $100 = 2x

In 2009, PB = $50 /$100 = 0.5x

Everything else being equal, a stock with lower PB is considered to offer more value to investors, and hence should deliver higher returns



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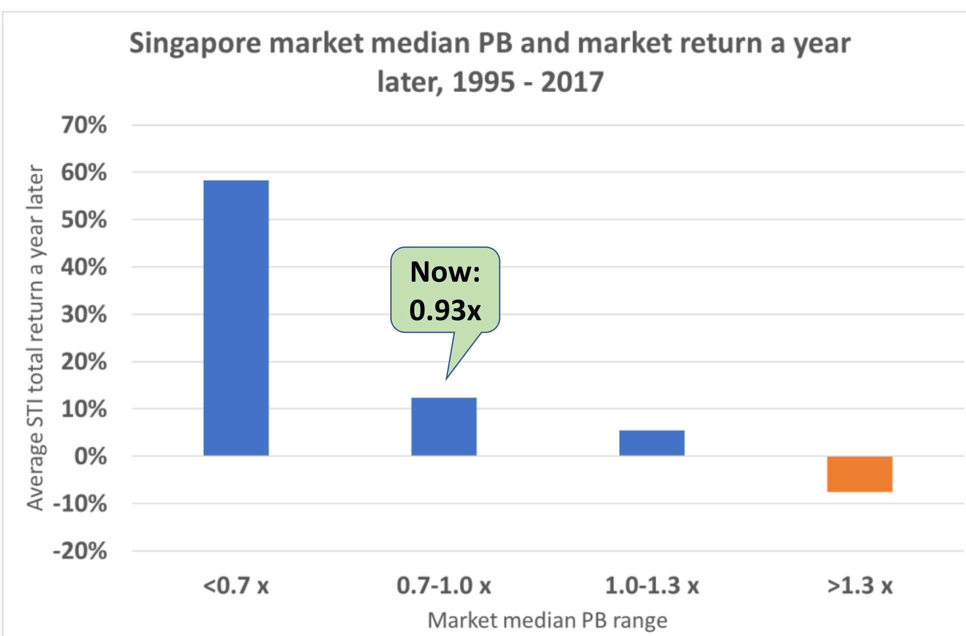

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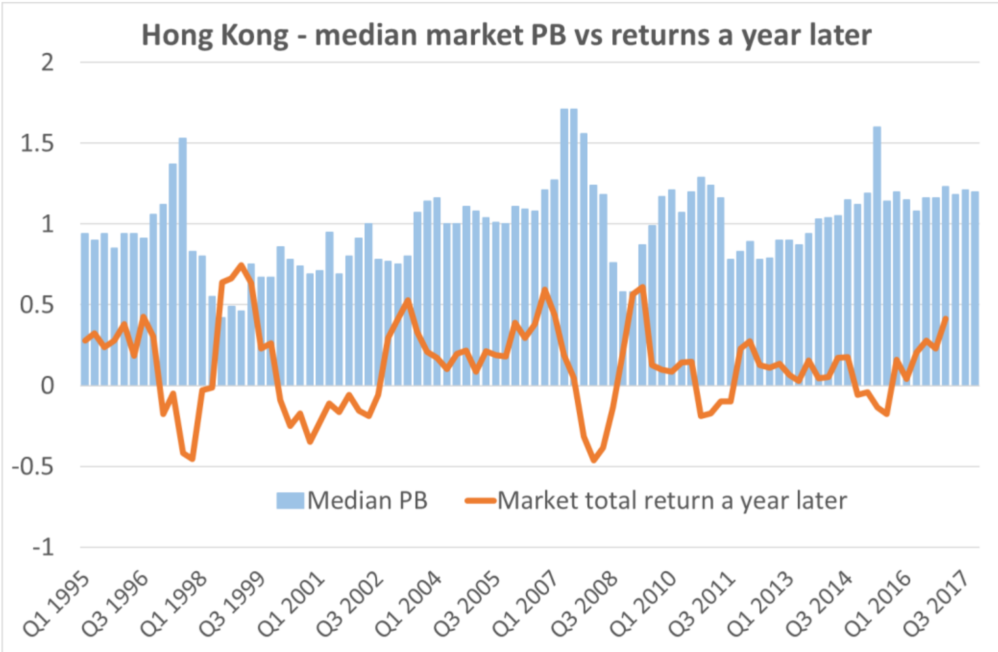

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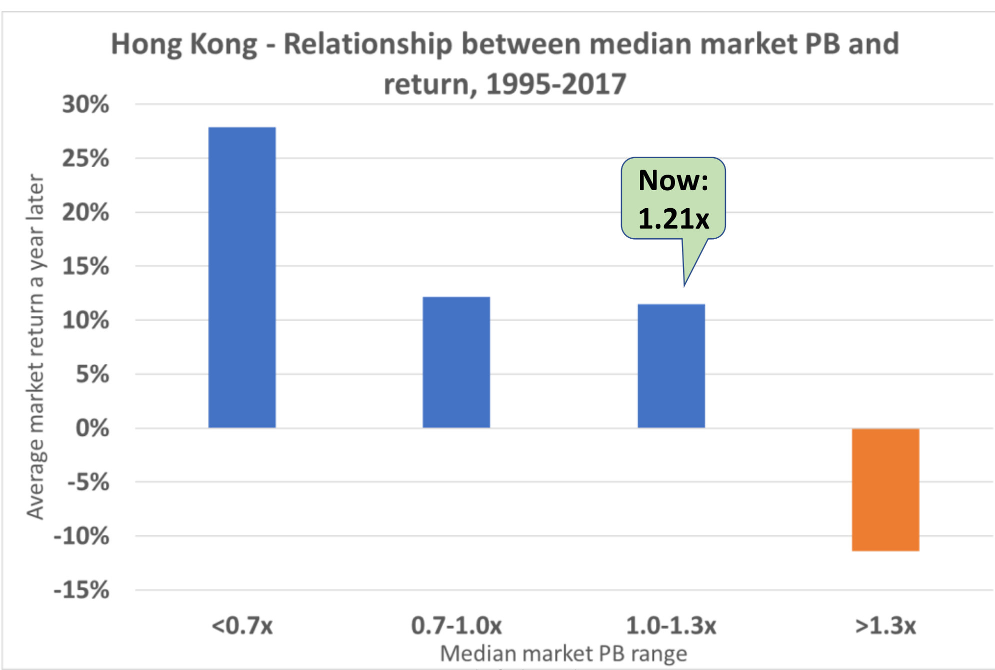

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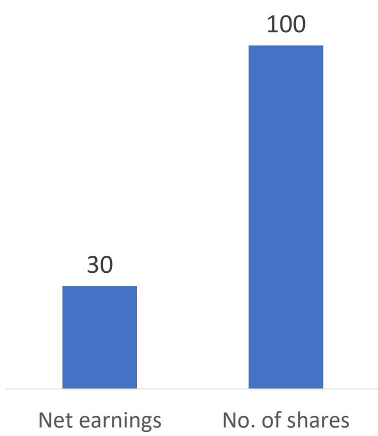
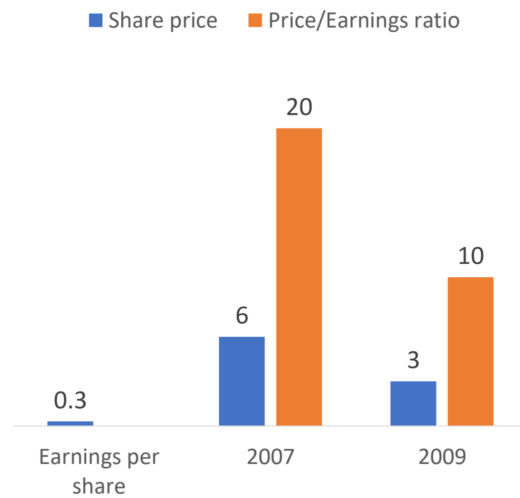
Company XYZ: Earnings vs Share Price





Share price/earnings per share (EPS) = PE

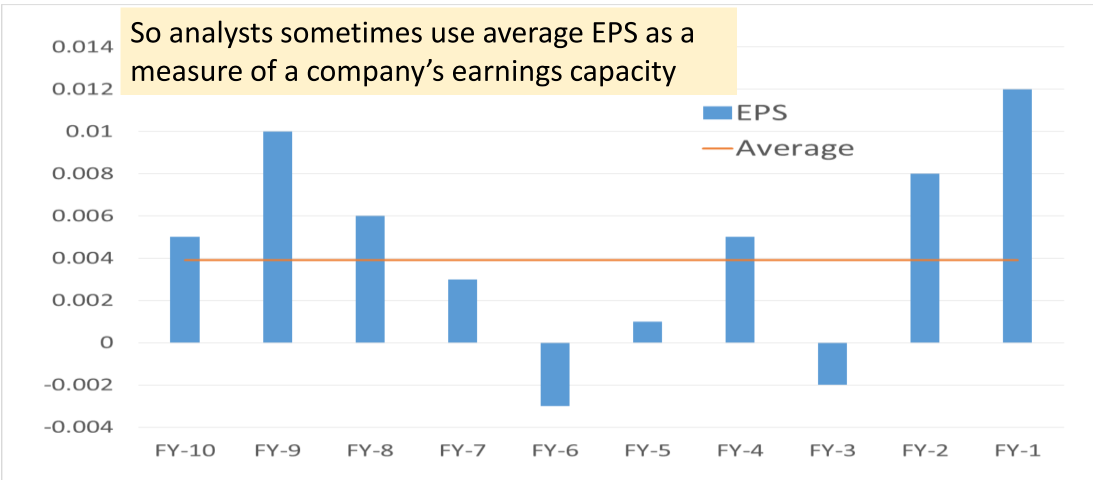
In 2007, PE = \$6/ \$0.30 = 20x

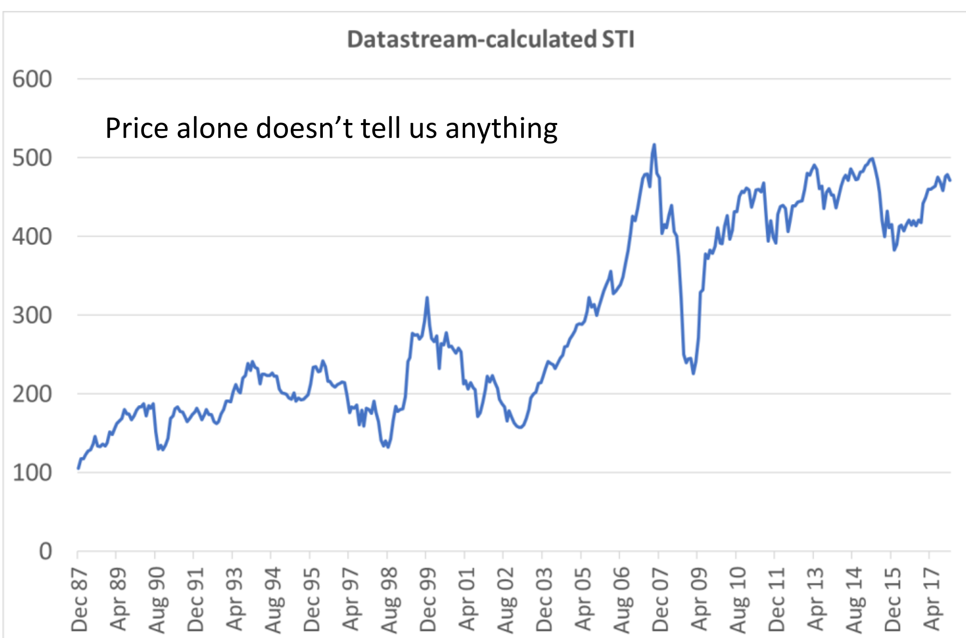
In 2009, PE = \$3 /\$0.30 = 10x

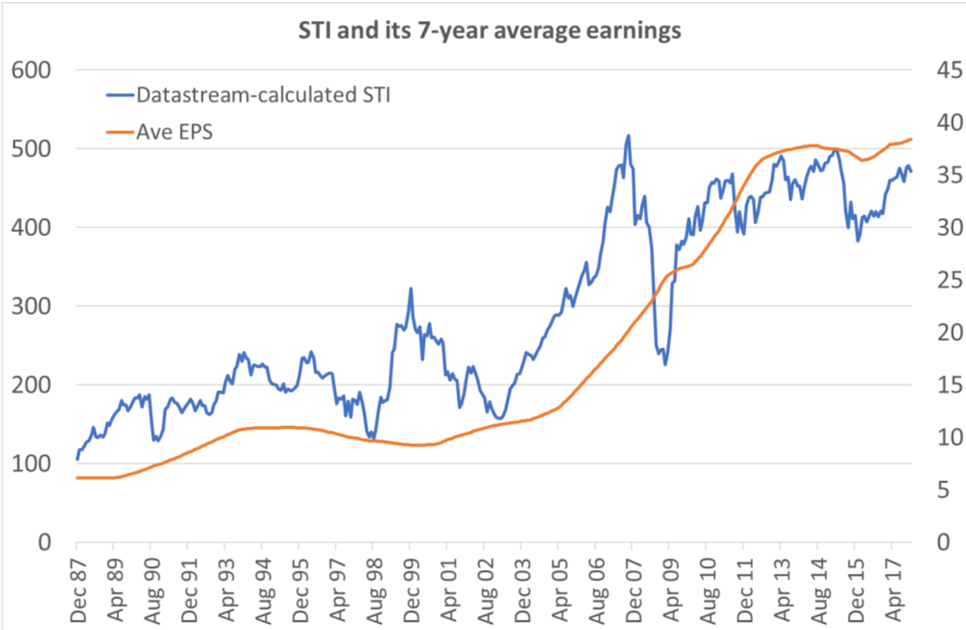
Everything else being equal, a stock with lower PE is considered to offer more value to investors, and hence should deliver higher returns

But earnings can be volatile year to year

	FY-10	FY-9	FY-8	FY-7	FY-6	FY-5	FY-4	FY-3	FY-2	FY-1
EPS	0.005	0.01	0.006	0.003	-0.003	0.001	0.005	-0.002	0.008	0.012






STI and its 7-year average earnings
Datastream-calculated STI
Ave EPS
600
500
400
300
200
100
0
45
40
35
30
25
20
15
10
5
0
Dec 87
Apr 89
Aug 90
Dec 91
Apr 93
Aug 94
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Apr 97
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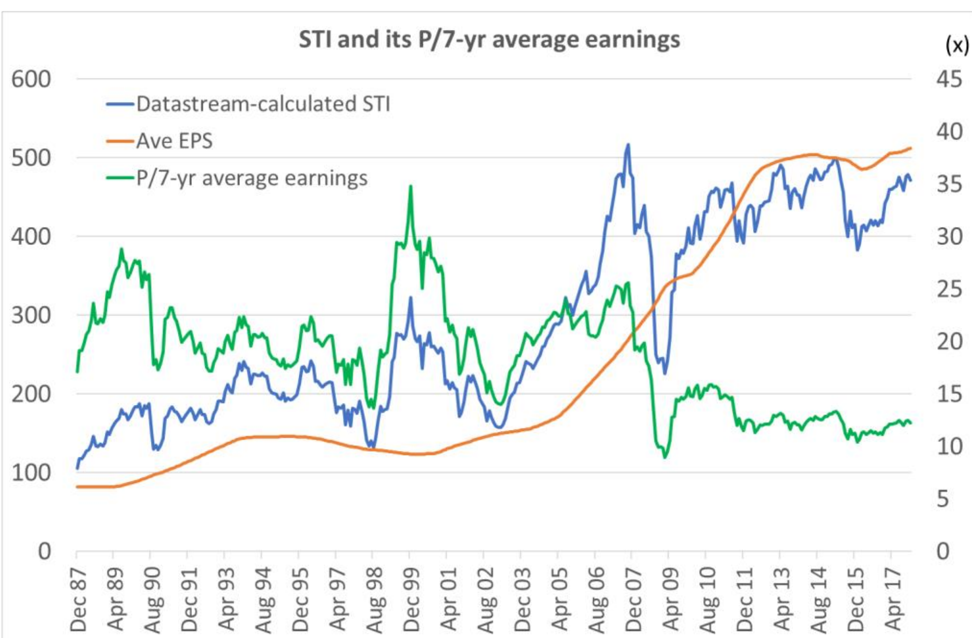
STI and its P/7-yr average earnings
(x)
Datastream-calculated STI
Ave EPS
P/7-yr average earnings
600
500
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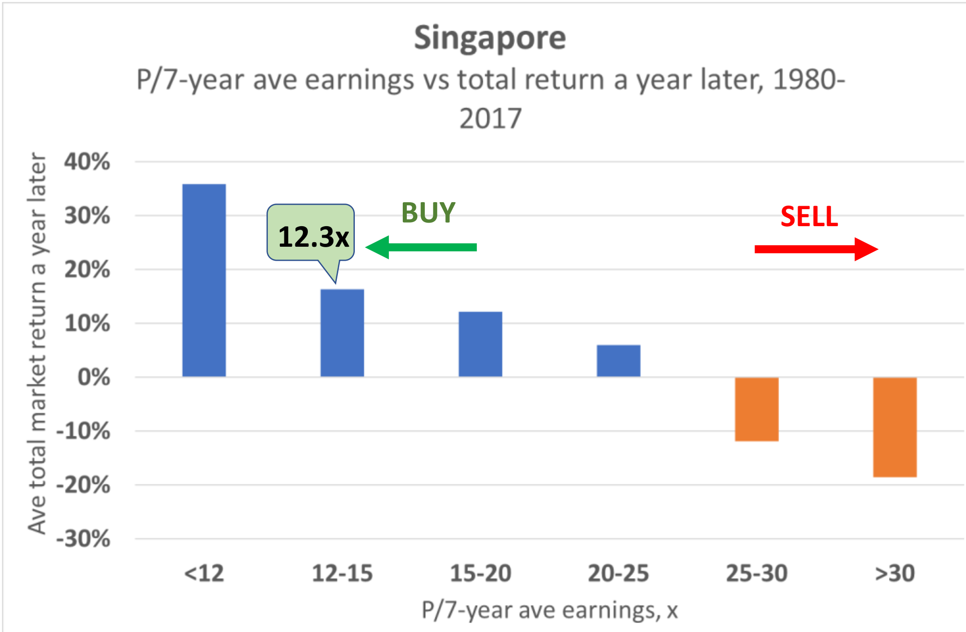

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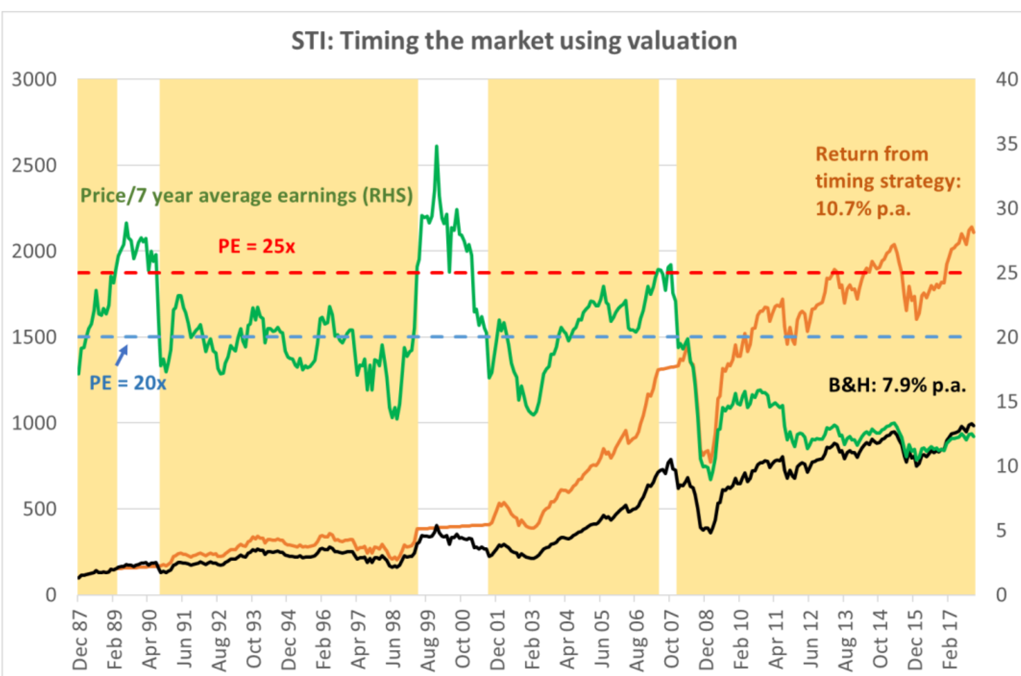

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You can significantly enhance your returns by avoiding severe correction from an overpriced market

From Dec 1987 till Dec 2017:										
	Buy and hold	Plan A	Plan B	Plan C	Plan D	Plan E	Plan F	Plan G	Plan H	Plan I
Drawdown from 9-month peak (%)		-20	-20	-15	-10	-20	-25	-15	-10	Buy when PE<20x
Recovery from entry level (%)		50	40	50	50	30	50	30	20	Sell when PE>25x
Compounded annual return (%)	7.9	8.2	7.7	7.7	7.2	7.0	7.0	6.3	6.0	10.7
$10,000 becomes:	98,235	106,674	93,120	92,095	79,426	76,655	75,306	63,193	56,788	211,034
No. of months invested	360	223	175	257	300	161	168	211	231	309
% of time invested	100	62	49	71	83	45	47	59	64	86

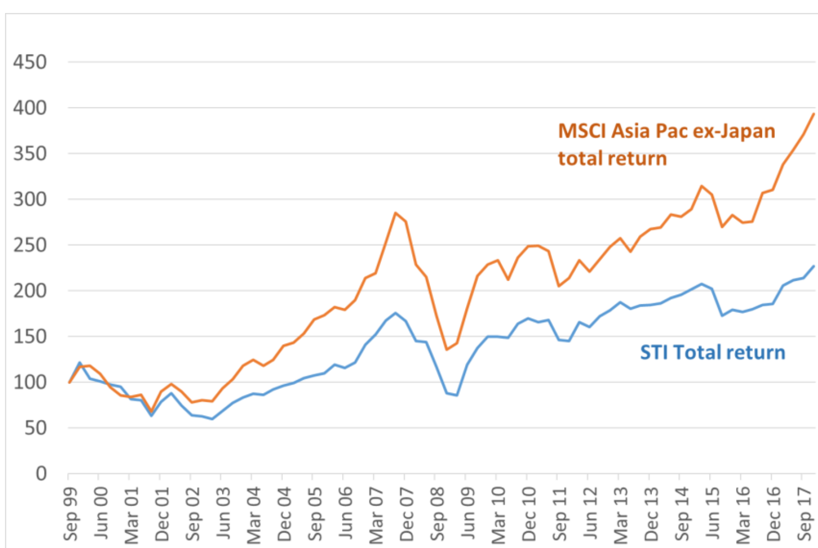
Recap

- You need to make your money work for you
- When you put your money in the markets, you have to endure the volatility
- Don't sell out after the market has crashed
- Don't try to wait for a dip before entering the market, always be guided by valuation

Next step to getting higher returns:

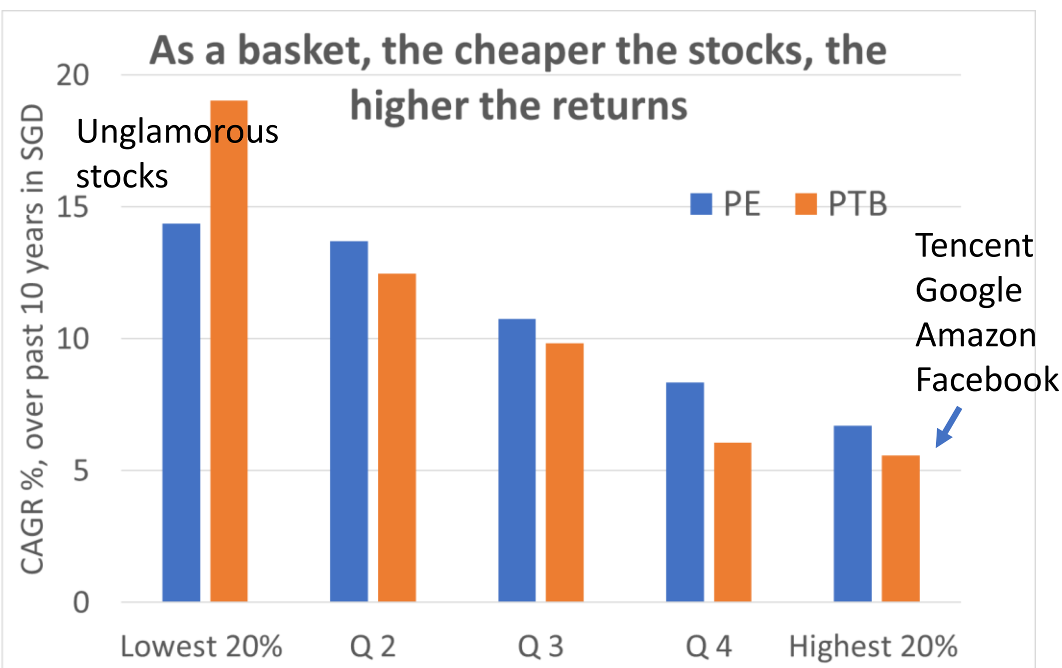
Don't restrict yourself

Extra returns from investing in other markets



Next…


VALUE


As a basket, the cheaper the stocks, the higher the returns
CAGR %, over past 10 years in SGD
20
15
10
5
0
Unglamorous stocks
PE
PTB
Tencent
Google
Amazon
Facebook
Lowest 20%
Q 2
Q 3
Q 4
Highest 20%

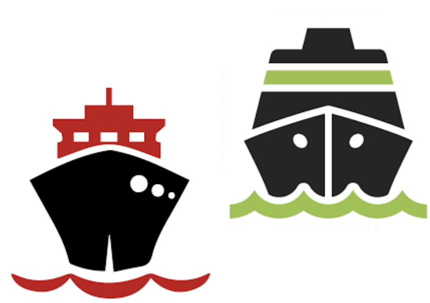
Growth Investing

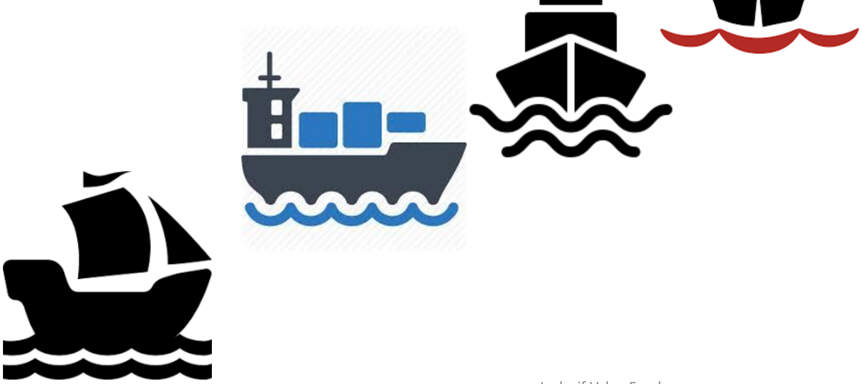
- Need to have special skills
- Have foresight to identify which company will be able to make it
- Out of many at the starting point, only a handful succeed

Deep Value Investing

- Just pick as many stocks that meet the criteria!
- Based on the statistical phenomenon "law of large numbers" – the more observations we make, the closer our sample to the population, the greater the certainty of constructing a portfolio that will outperform the market

Taking many small boats, riding many small waves to get to our destination





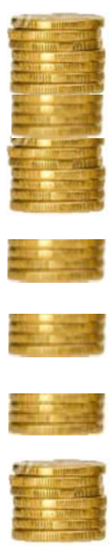
Another analogy of the process

Buy a basket of eggs at a reasonable price – ensuring that stocks and market valuations are reasonable

Wait patiently for the eggs to hatch and the chicks to grow

When ready, sell the chickens at higher price without any attachments and buy more eggs. Repeat.

Putting everything together:



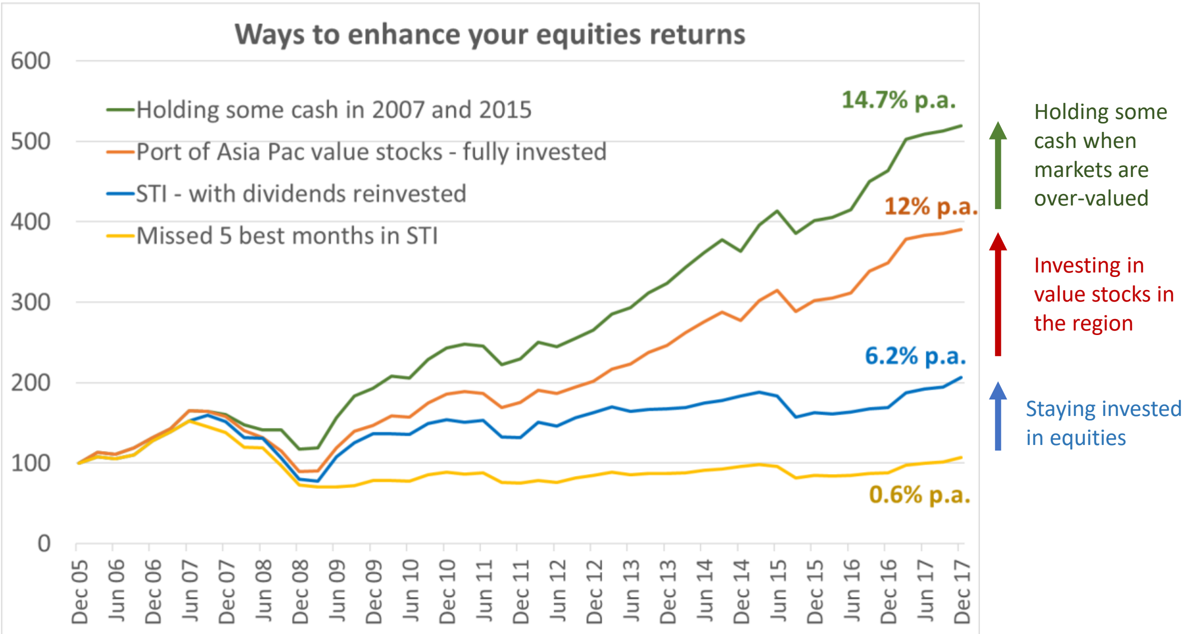
Total return: 10 to 15 % p.a.

Able to time the market using valuation: + 1 to 3 % p.a.

Using value investing process, buy cheap stocks, sell when they are no longer cheap : + 2 to 3 % p.a.

Exposure to more markets : + 2 to 3 % p.a.

Equities exposure 5 to 6% p.a., provided you don't do anything silly like selling after a crash



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What it takes

01	02	03
Be invested	Be disciplined	Be rational. Don't be ruled by your emotions

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> There are no bad days in the market. When the market is down, you've got bargains, and it's lovely to think of what you are buying at low prices. When the market is up, the bargains have gone, but you're rich – Bruce Greenwald

Thank you!

Feedback