



# How to grow your savings to ensure an adequate retirement

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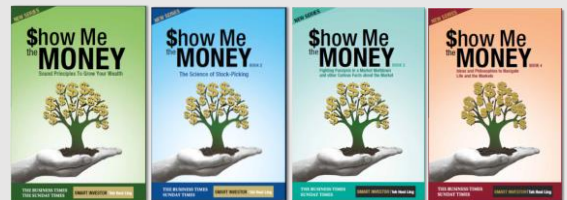
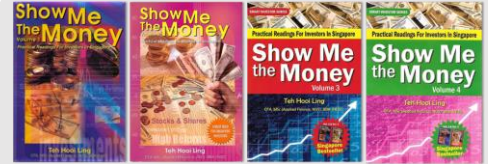
8 November 2017

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## About me

- Formerly Business Times' *Show Me the Money* columnist
- Articles have been compiled into eight books
- Now a fund manager
- Sit on the board of two non-profit organisations



## Story of a master and three servants

- Master is going away on a journey
- Gives - Servant 1: 5 talents; Servant 2: 2 talents; Servant 3: 1 talent
- The Greek word talanta literally means “weights.” Back in those days, a talent or weight was valued according to the kind of metal of which the weight consisted. It could be a talent of copper, gold, or silver. The most common talent was silver.
- After some time, the master returns
- Servant 1 manages to grow his 5 talents to 10; Likewise Servant 2, from 2 he now has 4 talents. Master says you can keep all your talents.
- Servant 3 decides to bury his 1 talent for safekeeping for his master. When the master returns, he goes and digs up the talent and he is very happy that it is still there, and happily returns the 1 talent to the master.
- The master takes the talent from him and gives to the servant with 10 talents

Everything in life, if we don't use it wisely, we lose it

Our brains

Our  
muscles

Our  
flexibility

Our social  
skills

Our writing  
skills

Our  
creativity

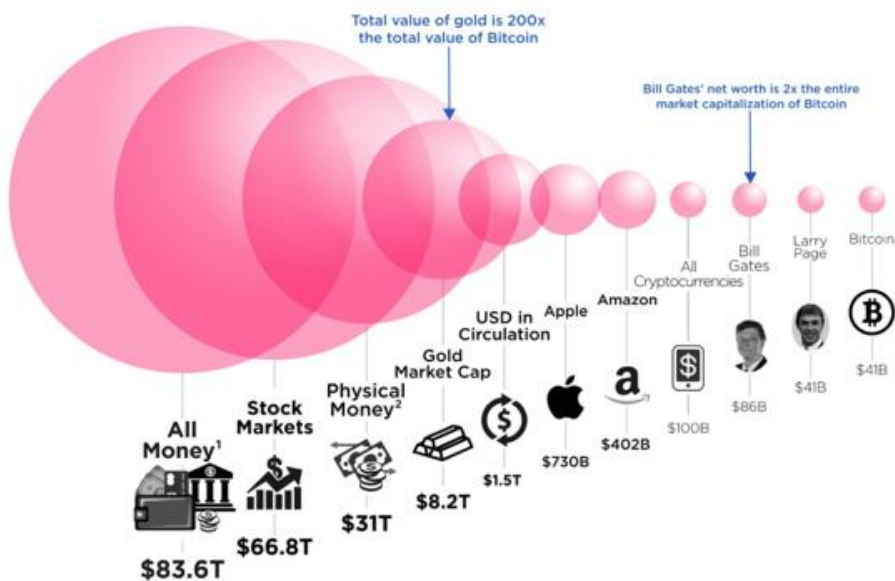
Our time

Including  
our money

Today's topic is:

# Money

## Putting the World's Money into Perspective



Sources:  
<https://howmuch.net/articles/worlds-money-in-perspective>  
<https://coinmarketcap.com>  
<https://www.forbes.com>  
<https://www.federalreserve.gov>  
<https://www.cia.gov>

<sup>1</sup> All Money = money in any form including bank or other deposits as well as notes and coins.

<sup>2</sup> Physical Money = money in forms that can be used as a medium of exchange, generally notes, coins, and certain balances held by banks.

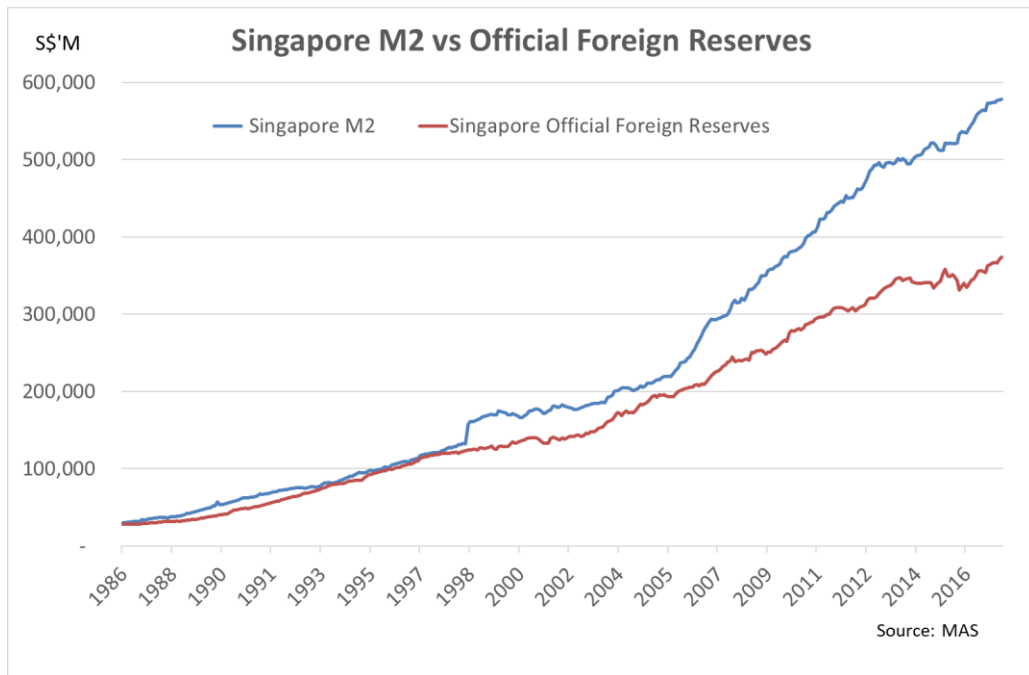
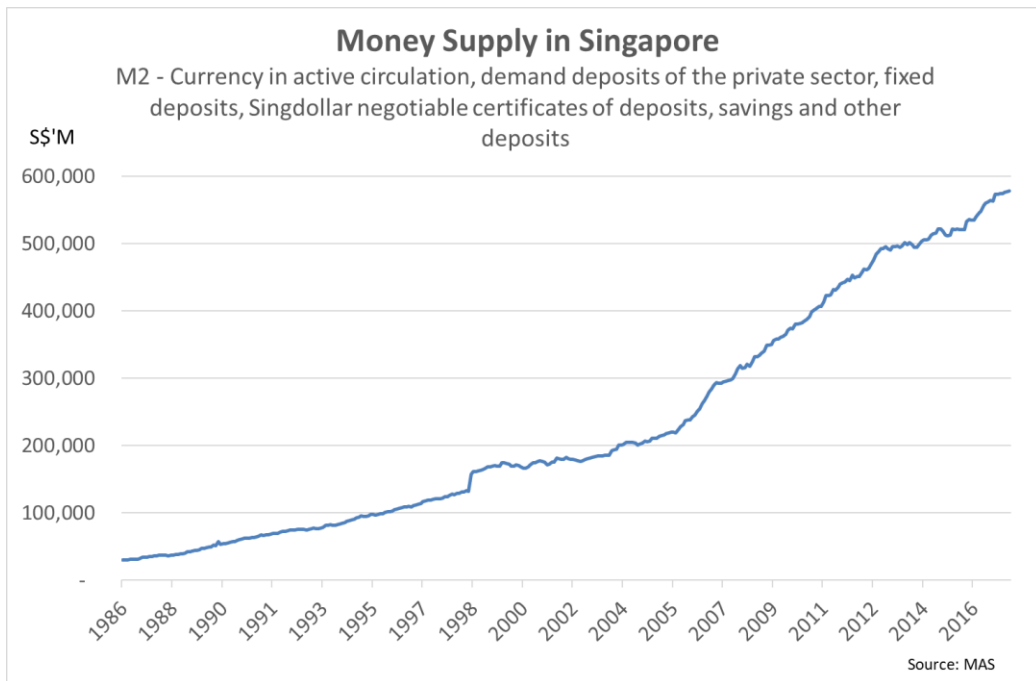
howmuch.net

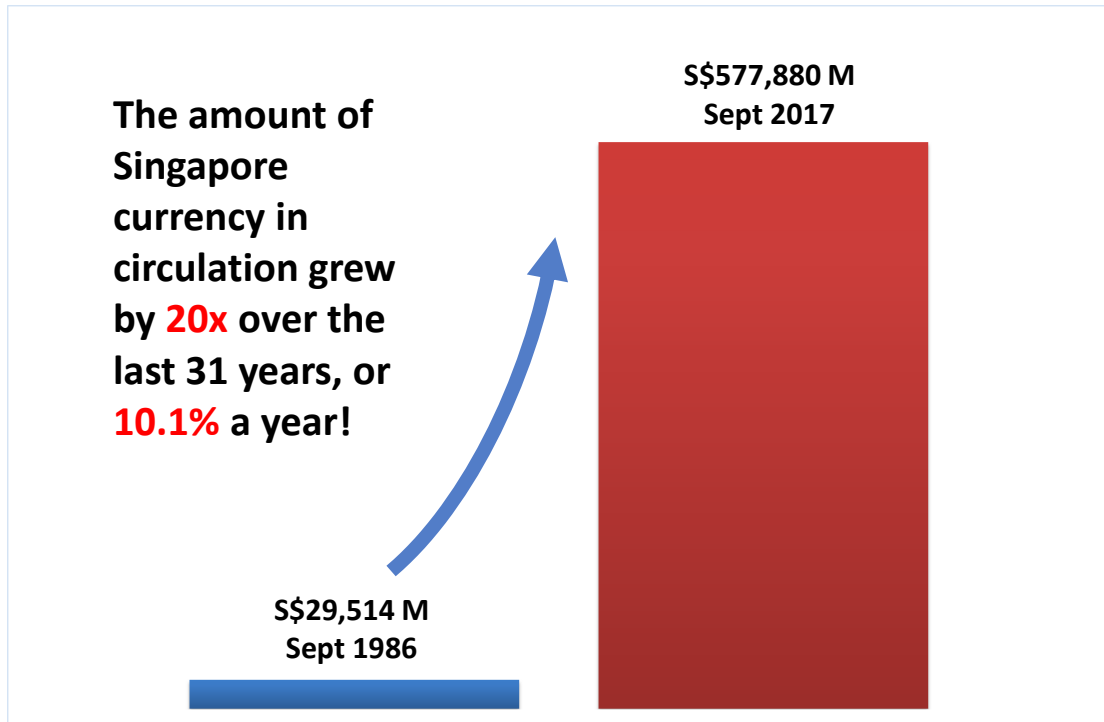
## Money is a medium of exchange



- As the economy expands, as economic activities increase, there needs to be more money in the system to ensure its proper functioning







## Real impact of increased money supply

- Back in 2006, you could get a studio apartment in Robertson Quay for **\$825,000**
- Today, you need **\$1,400,000** to get a similar unit
- An HDB flat which used to cost **\$20,000** in the 70s can now be sold for **\$500,000** or more!
- So if you are just keeping your money in the bank, and you are earning less than 1 % of interest while inflation – the rate of price increases of goods – is 2-3%, then you are losing your purchasing power over time.



## The takeaways?

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- We need to grow our money in order to preserve our purchasing power
- The point of saving is so that we can use the money to buy something in the future
- When we want to use our money, we want our money to have the same purchasing power as when we started saving it, if not more
- Fiat money is not a good store of value

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## What is a good store of value?

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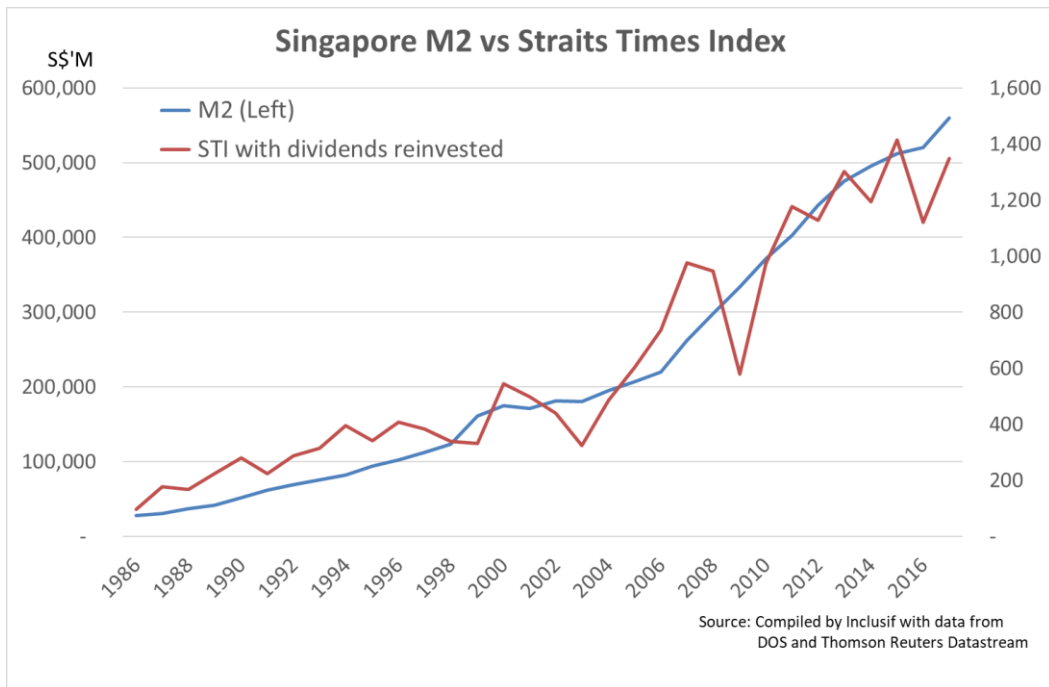
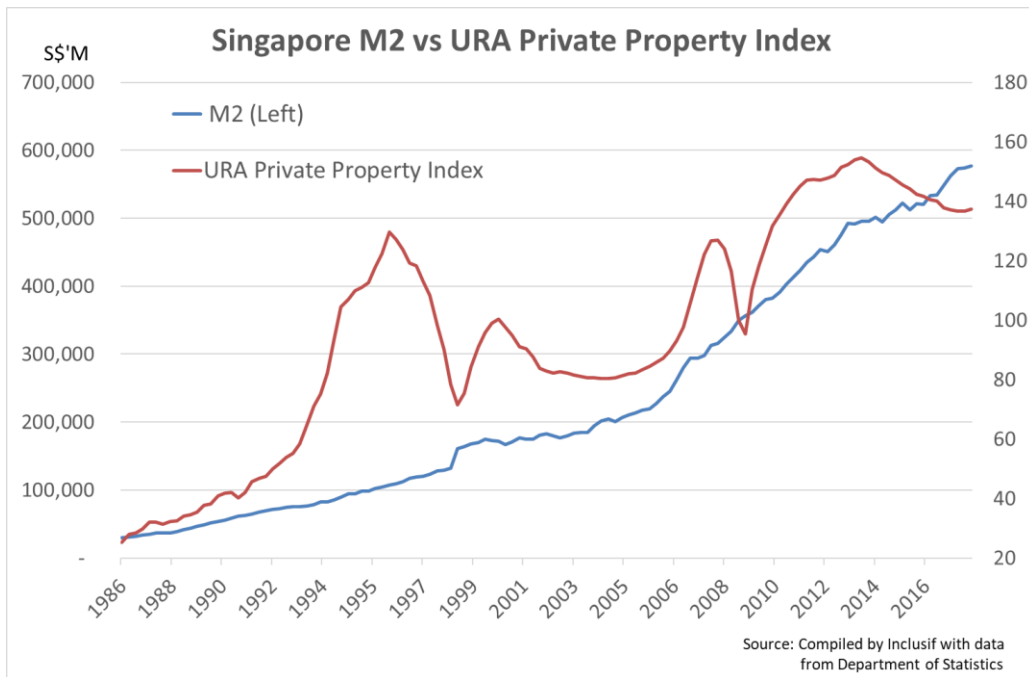
It's something that will maintain or better still appreciate in value over time

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So that we can maintain or have greater purchasing power in the future

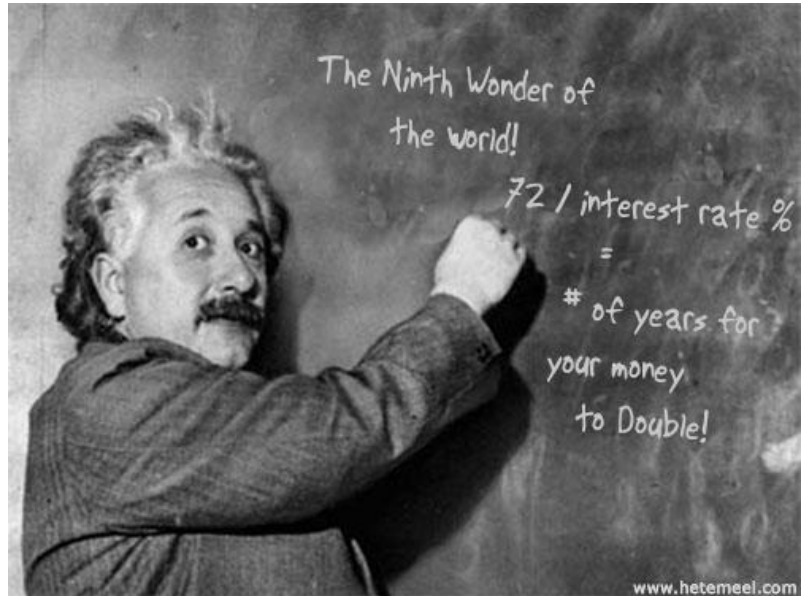
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Historically in Asia, asset classes that have proven to be good stores of value include real estate, equities



## How do you grow your money?

- First thing, understand **compounding**.
- It's the most powerful force in the universe!



## Two keys to unlock the magic of compounding



**Time**



**Rate of compounding**

## Two friends...

	<b>Cha</b>	<b>Ban</b>
Started saving at age:	• 19	• 26
Savings:	• \$2,000 a year	• \$2,000 a year
Period of contribution:	• Age 19 – 25	• Age 26 – 65
No. of years of contribution:	• 7 years	• 40 years
Total contribution:	• \$14,000	• \$80,000

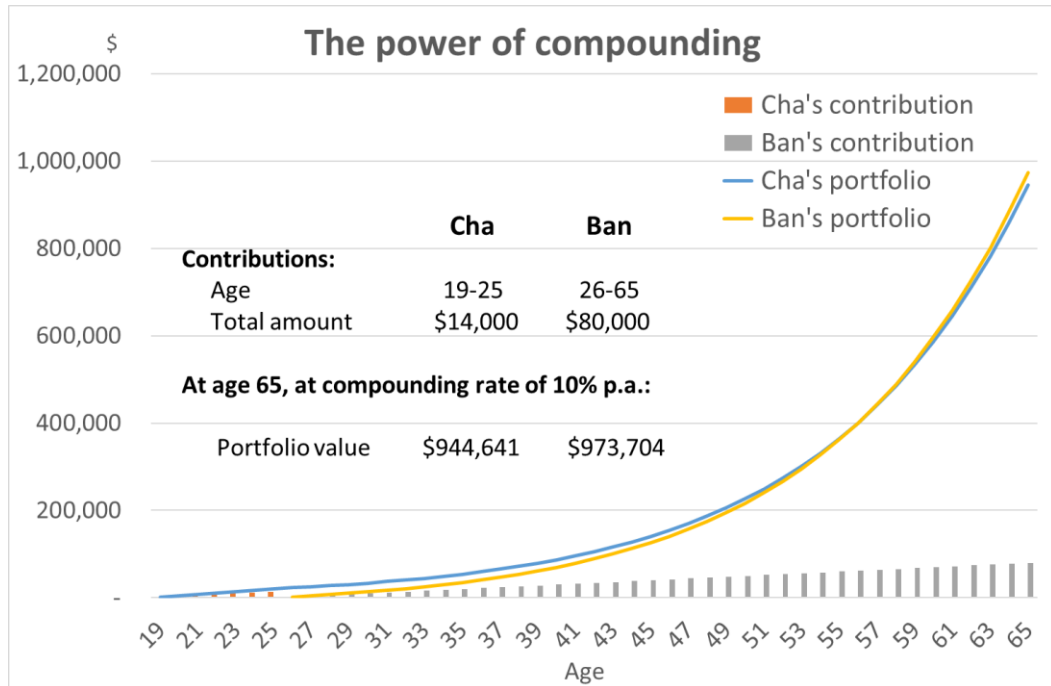
Assume both are able to compound their money at 10% a year

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## At age 65, whose portfolio is bigger?

- Cha's or Ban's?

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The first key:

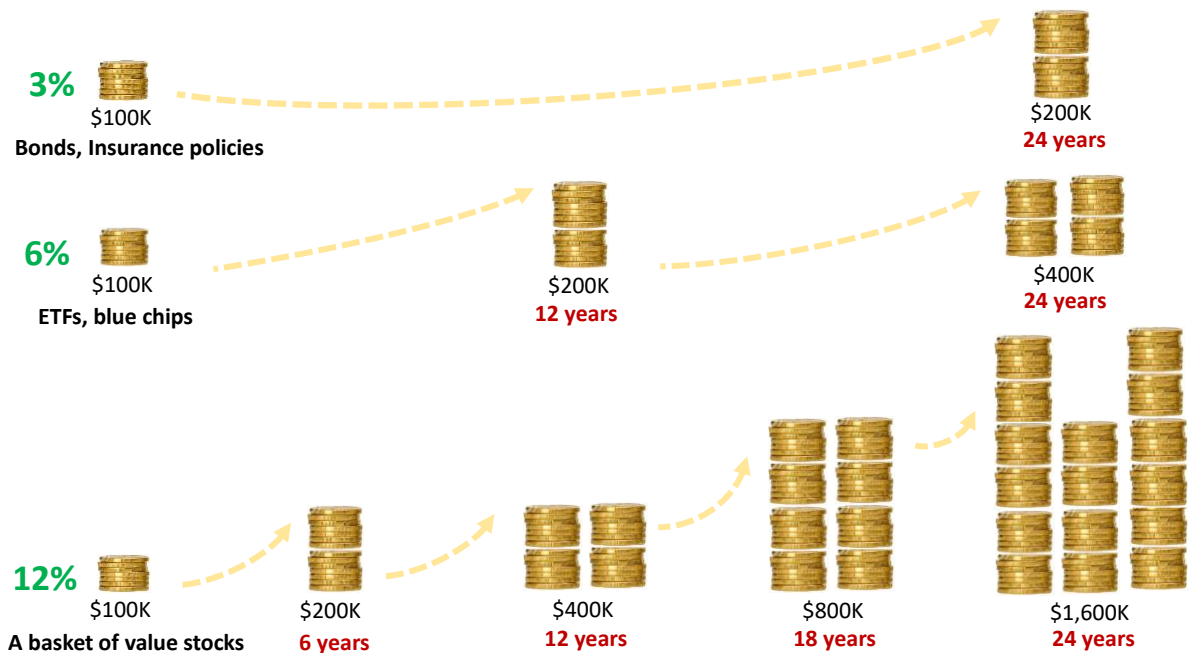
**Start early!**

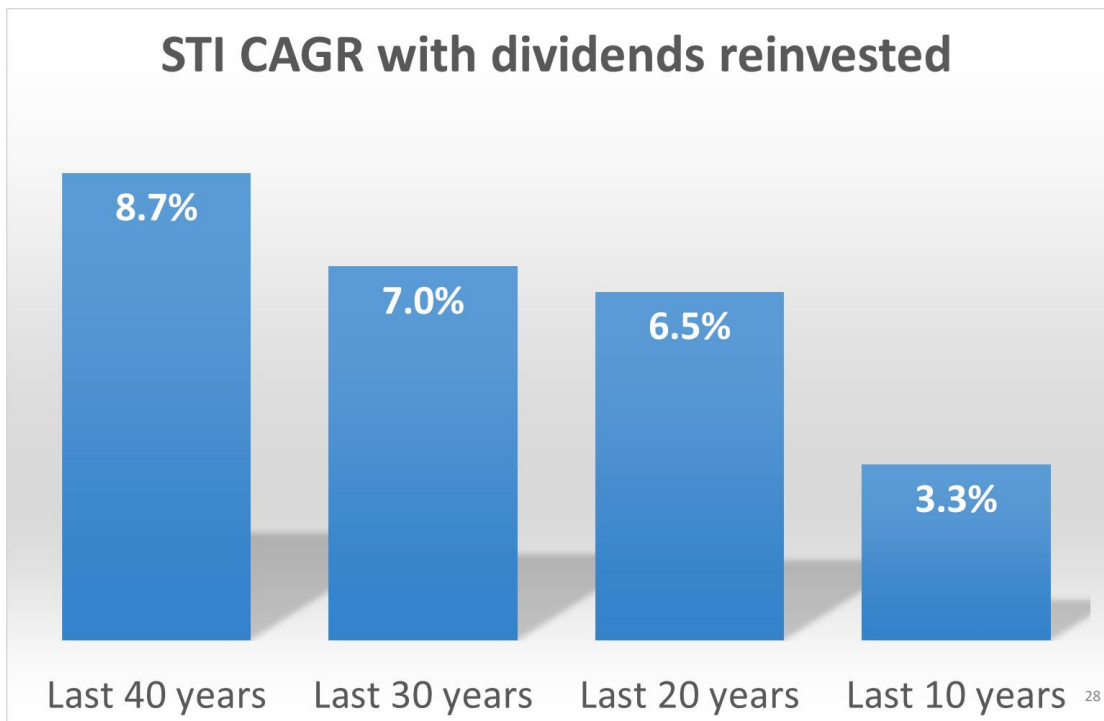
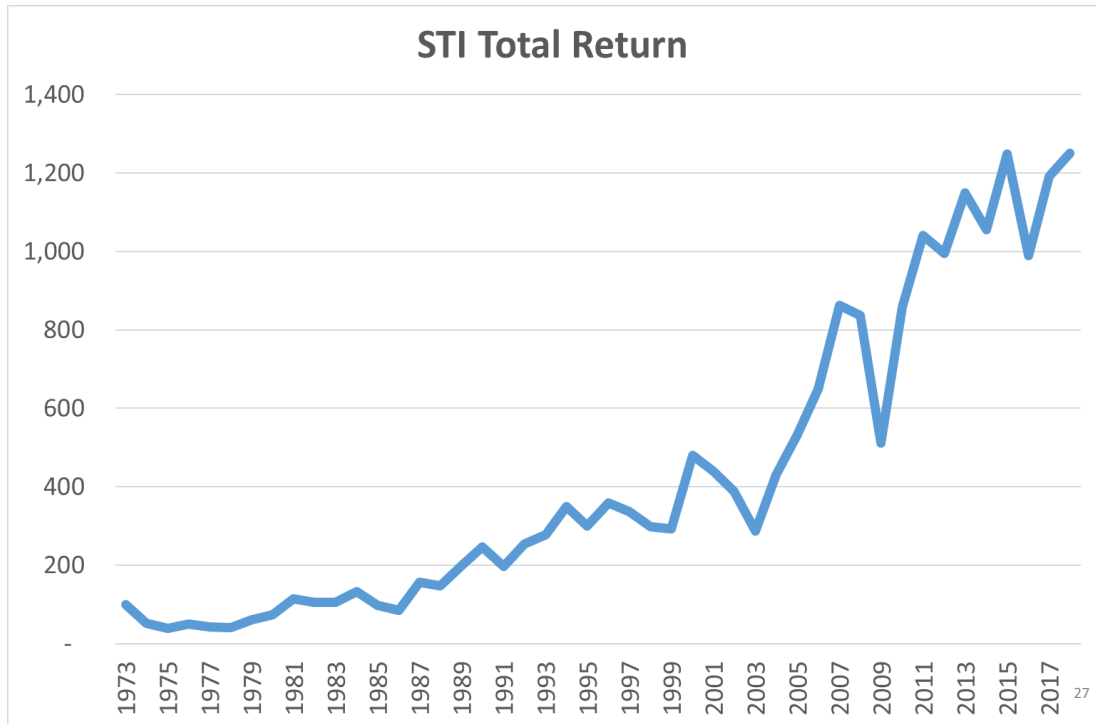
The second key is the rate of compounding

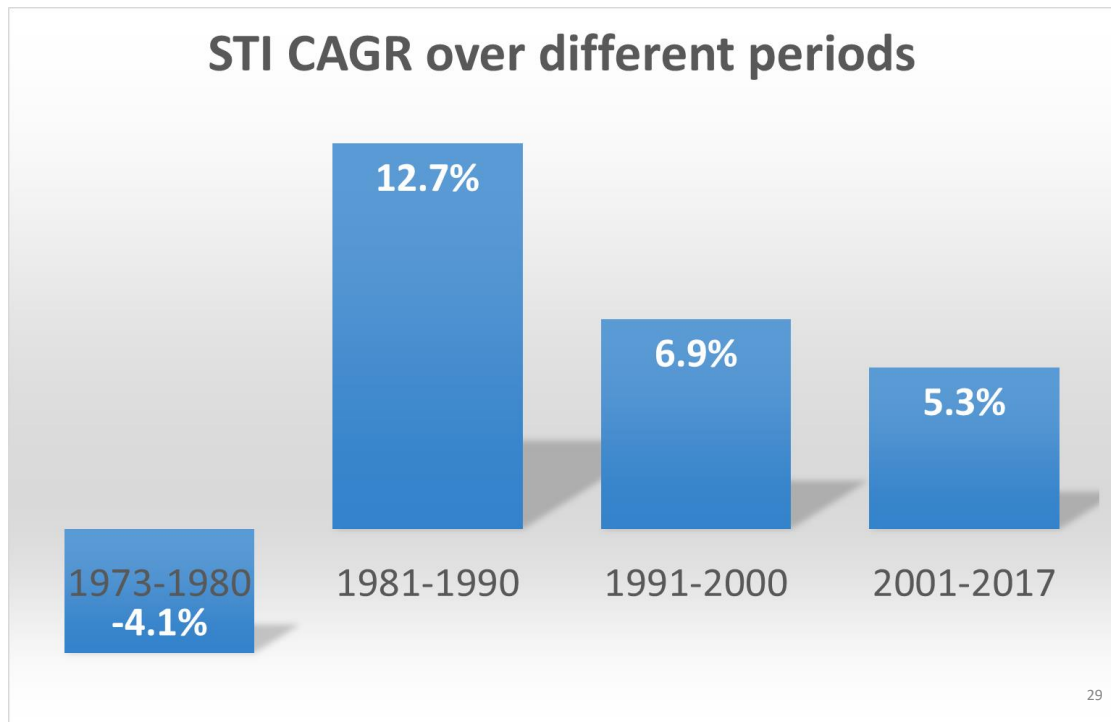
### Rule of 72:

*72/rate of compounding =  
no. of years for your money to double*

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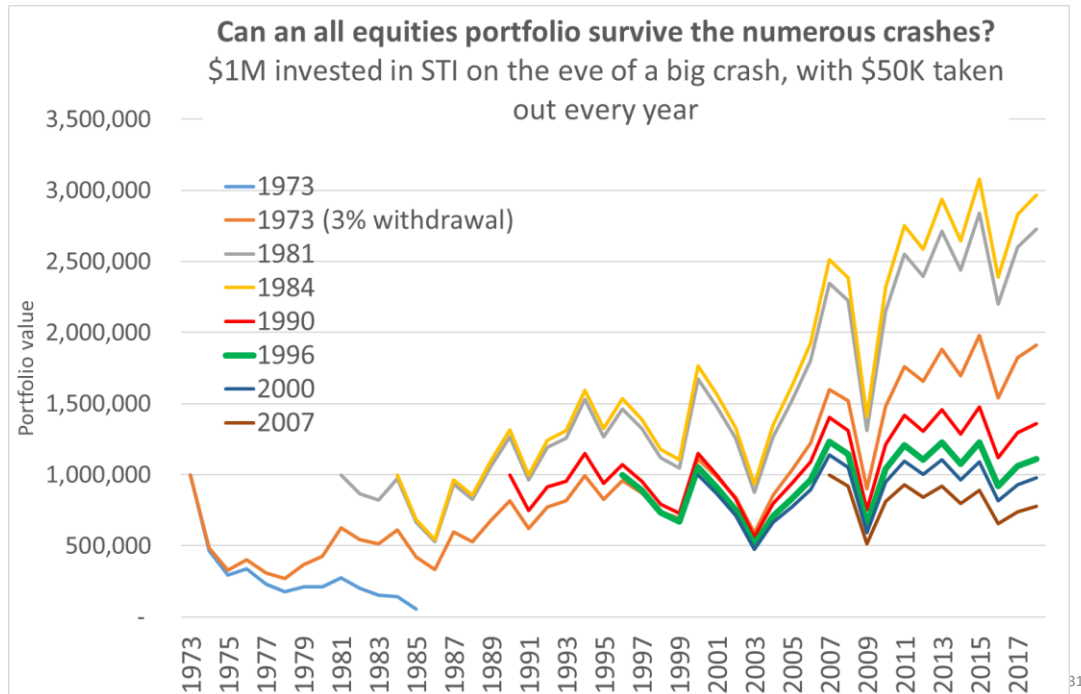






## Can you put all your savings into the stock market?

- Say you are retired and have \$1M. You want to take out 5% or \$50K a year to fund your retirement.
- Instead of the bank, you decided to put the entire \$1M into the Singapore stock market. Unfortunately, the time you entered the market coincided with a market peak.
- Can your \$1M last you for as long as you live?



<b>An all equities portfolio for retirement</b>							
<b>A five per cent withdrawal is "safe" enough</b>							
Retired on 1 Feb:	1973	1981	1984	1990	1996	2000	2007
	\$'000						
Initial portfolio value	1,000	1,000	1,000	1,000	1,000	1,000	1,000
<b>At 5% withdrawal</b>							
Amount withdrawn:	650	1,800	1,650	1,350	1,050	850	500
Portfolio as at 26 April 2017	Port depleted in 85	2,726	2,967	1,361	1,112	977	777
Portfolio at its lowest		528	544	565	508	477	513
<b>At 3% withdrawal</b>							
Amount withdrawn:	1,290	1,050	990	810	600	510	270
Portfolio as at 26 April 2017	1,913	5,982	5,561	2,845	2,057	1,627	1,045
Portfolio at its lowest	272	610	581	768	624	525	545
Source: THL, Inklusif Capital							

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## In investing, how do you ensure a decent returns?

1. **Don't over pay**, buy when price < value (even for good stores of value; those who invested in private properties in mid 90s had to wait some 15 years for prices to get back to their entry levels)
2. When you follow the crowd, you will likely end up overpaying
3. When you overpay, you will suffer permanent loss of capital
4. When you **buy when price < value**, the price may get lower, but this is temporary
5. Be patient, take the long term view!
6. Always understand what you are buying – how a company makes its money, or an investment scheme generates its return. If it's too good to be true, it probably is! Always use economic fundamentals to arrive at an asset's value
7. Don't just look at the return, **look at the risks involved as well**. If you are promised a 20% return, but you can potentially lose 100% of your capital, then it is not a good investment
8. **Differentiate between a good process and luck**. A good process means it is repeatable over long periods of time over many trades. (First servant, could it be luck?)


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# How do we determine value of a company?


- You look at **the assets** that it owns relative to the stock price
- You look at **its earnings** relative to its stock price
- You look at **its dividend payout** relative to its stock price
- Everything has to relate back to the price you are paying!

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## Company XYZ




\$80 m




Loan: \$30 m



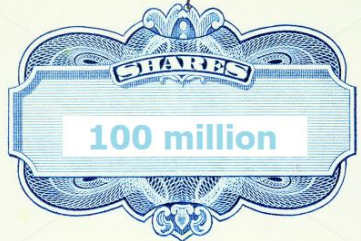


\$20 m



\$30 m

**Total net assets:**  
\$ 100 m



**Net tangible asset per share**  
 = \$100 m / 100 m shares  
 = \$ 1 per share

**Q: If in the stock market, the shares are trading at \$0.50, is that a bargain?**

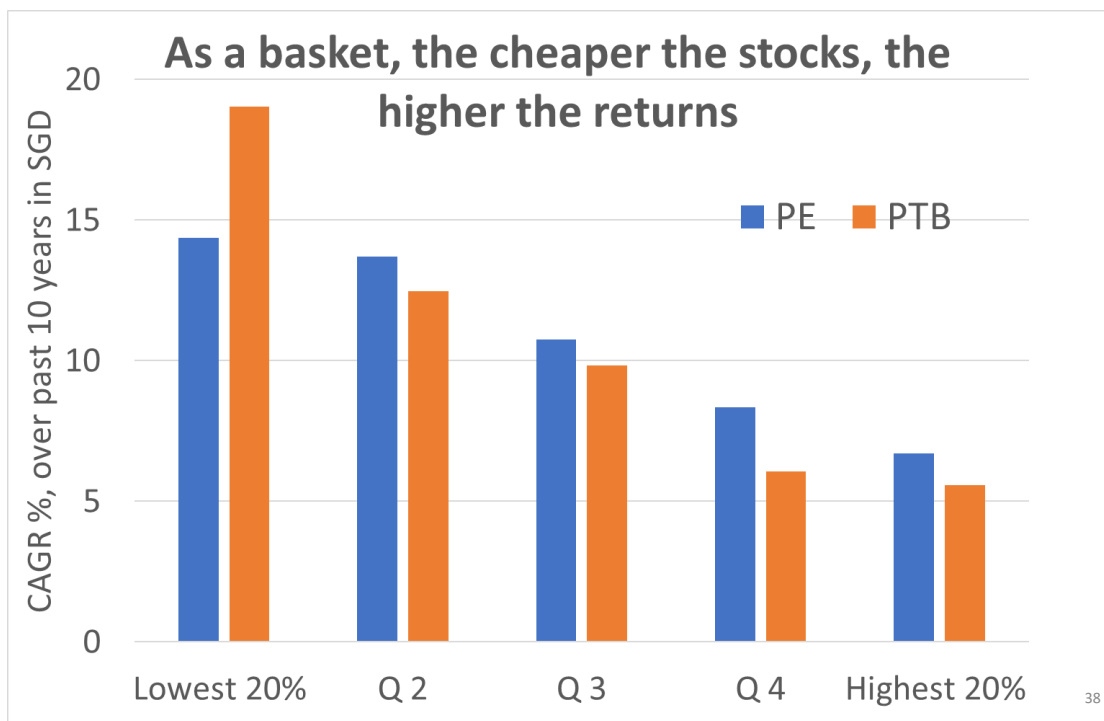
**Q: If the shares are trading at \$2, is it still a good buy?**

**Share price/NTA = P/NTA**

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## Company XYZ

- Net profit: \$10 million
- Shares issued: 100 million
- Earnings per share:  $\$10 \text{ m} / 100 \text{ m} = 10 \text{ cents}$
- If in the stock market, the shares are trading at \$1
- Then the Price/Earnings or **PE ratio** =  $\$1 / 10 \text{ cents} = 10 \text{ times}$



## Low PE or Low PTB stocks

- These are the value stocks which are out of favour, or do not capture the imagination of the general investors
- Statistically, the chart earlier shows that **the more of such stocks you can have** in your portfolio, **the more certainty you have to get the returns as indicated** in the various tests

## High PE or High PTB stocks

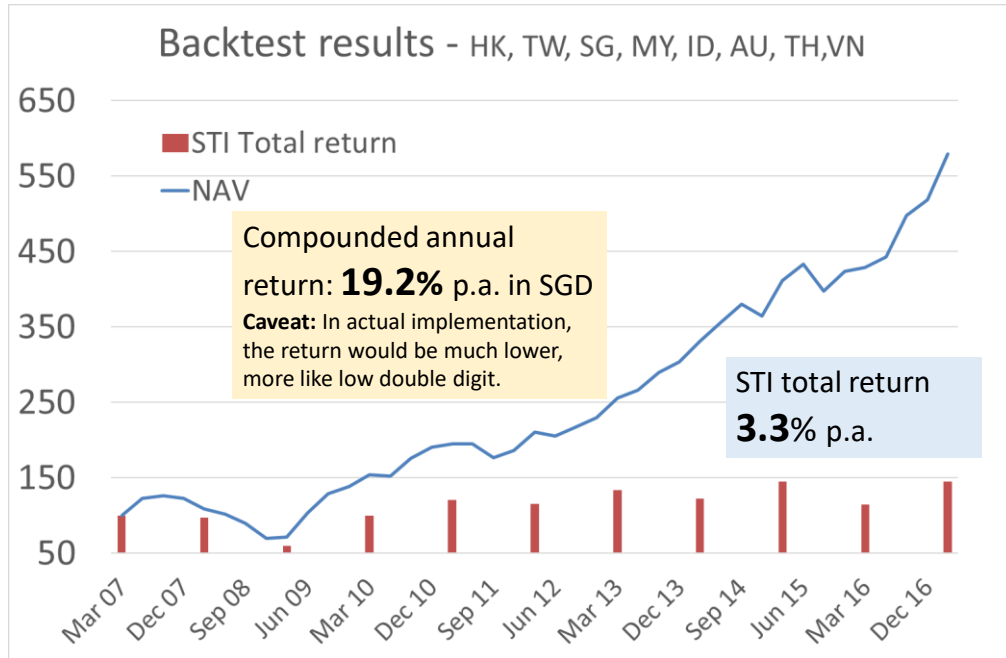
- These are the high growth, glamour stocks, e.g. Tencent, Alibaba, Uber, Facebook etc
- Statistically, **as a big basket**, such stocks don't give as good a return
- To get the super normal returns of stocks like Tencent, investors need to have **superior skills** to pick the few that will do extremely well out of the many promising companies out there

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## General guidelines on how to select stocks

Select	Select	Select	Select	Select
<ul style="list-style-type: none"> <li>• stocks which are cheap relative to its net assets or net earnings</li> </ul>	<ul style="list-style-type: none"> <li>• stocks with low borrowings</li> </ul>	<ul style="list-style-type: none"> <li>• stocks with long track record</li> </ul>	<ul style="list-style-type: none"> <li>• stocks that generate cash from their operations</li> </ul>	<ul style="list-style-type: none"> <li>• stocks that pay out their cash generated to shareholders in terms of dividends</li> </ul>

Using the guidelines above, this is the return you can get based on back test



## Other sound principles of investing

Don't put everything in one basket – diversify, diversify, diversify

Don't pay more than what an asset is worth, better still get a discount

When there is the Great Singapore Sale, many go on a buying spree. A crash is the time the stock market is having a big sale. Be ready and willing to buy then

Always remind yourself that owning a share in a company makes you a fractional owner of that company. Companies own buildings, cash, operating businesses. As long as a company doesn't owe more than it owns, it will not go to zero.

Always beware of the costs, and the incentive of the person who is trying to sell you an investment product

***If you work because of passion, because you get fulfilment out of it, then money is a by-product of that process.***

***Remember:***

***Money is a means to an end***

***(we earn money because it enables us to buy things we need, do things we want whether now or in the future)***

***Money is not an end in itself***

***(i.e. making and accumulating money should not be a life goal)***

***We are defined by what we do, what we give,  
not how much we have!***

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*Generosity brings wealth,  
learning brings wisdom*

*May your wealth and wisdom compound with time*

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