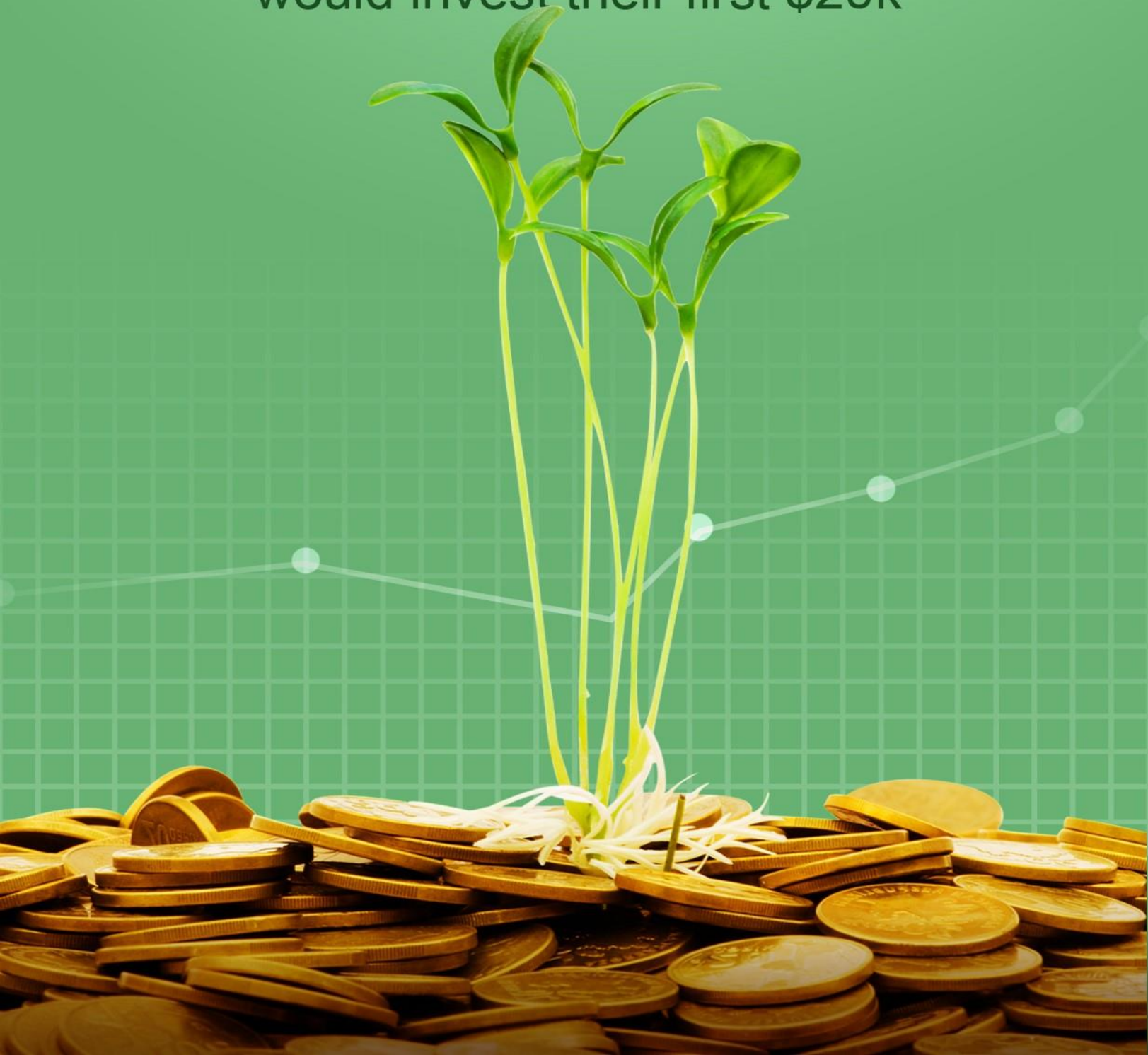


# INVESTING YOUR FIRST \$20,000

How the top Singapore finance bloggers  
would invest their first \$20k



# CONTENTS

|  |    |
|--|----|
| FOREWORD .....   | 4  |
| HOW DID THIS EBOOK COME ABOUT? .....                                   | 5  |
| ASSUMPTIONS .....  | 6  |
| DISCLAIMER .....   | 7  |
| ◇◇◇◇◇◇◇◇◇◇   |    |
| FIRST THINGS FIRST - INVEST IN YOURSELF.....                           | 8  |
| <i>By Jared, SingaporeManOfLeisure.blogspot.com</i>                    |    |
| FINDING YOUR IDEAL WEALTH MACHINE.....                                 | 11 |
| <i>By Kyith, InvestmentMoats.com</i>                                   |    |
| THE 80/20 GUIDE TO INVESTING \$20K.....                                | 17 |
| <i>By Lionel Yeo, CheerfulEgg.com</i>                                  |    |
| INVESTING YOUR FIRST \$20,000 .....                                    | 26 |
| <i>By Kevin, TurtleInvestor.net</i>                                    |    |
| HOW TO PARTICIPATE IN THE MARKET WITH 20K (BUT NOT GET INVOLVED) ..... | 32 |
| <i>By La Papillion, BullyTheBear.blogspot.com</i>                      |    |
| DISCOVERING THE PATH TO INVESTING.....                                 | 35 |
| <i>By SGYI, SgYoungInvestment.blogspot.com</i>                         |    |
| HOW WOULD I INVEST MY FIRST \$20K CONSERVATIVELY?.....                 | 39 |
| <i>By Richard Ng, InvestOpenly.com</i>                                 |    |
| IF YOU FAIL TO PLAN, YOU PLAN TO FAIL!.....                            | 43 |
| <i>By Budget Babe, sgBudgetBabe.com</i>                                |    |

|  |           |
|--|-----------|
| <b>A LETTER TO MY 24-YEAR-OLD SELF .....</b>                                     | <b>48</b> |
| <b>By My 15HWW, <i>my15HourWorkWeek.com</i></b>                                  |           |
| <b>MY \$20K APPROACH TO INVESTING .....</b>                                      | <b>52</b> |
| <b>By Brian, <i>ForeverFinancialFreedom.blogspot.com</i></b>                     |           |
| <b>HOW TO INVEST IF I HAVE \$20K? .....</b>                                      | <b>54</b> |
| <b>By Derek, <i>TheFinance.sg</i></b>  |           |
| <b>PROPOSED APPROACH TO INVEST \$20,000 FOR THE INTERMEDIATE INVESTOR.....</b>   | <b>56</b> |
| <b>By Christopher Ng Wai Chung, <i>TreeOfProsperity.blogspot.com</i></b>         |           |
| <b>\$20,000 WITH 20 STOCKS IN 20 MONTHS (THE 20:20:20 GIRAFFE APPROACH).....</b> | <b>61</b> |
| <b>By Giraffe, <i>GiraffeValue.com</i></b>                                       |           |
| <b>THE BEST INVESTMENT YOU CAN HAVE WITH \$20,000 .....</b>                      | <b>69</b> |
| <b>By Alvin, <i>BigFatPurse.com</i></b>  |           |

## FOREWORD

There are a thousand and one ways to lose money in the markets.

We all owe it to ourselves to make sure that we don't lose our hard-earned money in less than sound investments.

How do we do that?

One, we can learn by figuring things out as we go along. That involves time and usually some "tuition fees" in the form of mistakes made.

The other way is to learn from the experiences of others, through reading and reflecting on what others have done. From there, we can gather what has worked (for them) and what hasn't, and we can hopefully avoid some of the rookie mistakes and hence cut short our investment learning journey.

This ebook contains sound advice, reflections and the different perspectives of the leading financial bloggers in Singapore. It is a good starting point for someone who is about to embark on the first leg of his or her investment journey, or for those who have started the journey but don't seem to be getting anywhere.

Without any barrels to push, the views are independent.

For me, the key question investors should always remind themselves is the trade-off between risk and return. For most packaged investment products, don't just be tempted by the returns. Assess the risk part of the equation as well. What could go wrong? What is the worst case scenario? A "guaranteed" return of 12 per cent a year but a not insignificant risk of a 100 per cent loss of capital is not such a good deal.

However, this relationship of high risk high return may not always hold true in the stock markets. In the stock markets, if one looks hard enough, one can oftentimes find stocks which are relatively safe yet generate high returns over time. Such is the beauty and fun of the stock market!

*Teh Hooi Ling,*

**Head of Research, Aggregate Asset Management**

## HOW DID THIS EBOOK COME ABOUT?

The inspiration of this book came from an article in *The Sunday Times* (published on 19 July 2015) which we felt was biased toward the view of the financial advisories. Most of the interviewees featured were from major financial advisory firms and departments, where their livelihoods largely depend on selling high costs Unit Trust investments. The financial bloggers were appalled that such a slant appeared in a national newspaper, so we decided to come together and provide a much more balanced approach to investments with this ebook.

The following financial bloggers are retail investors, and we believe our situation and concerns are far more relevant to the man on the street. Most importantly, our interests are aligned.

## HOW THIS EBOOK IS ORGANISED

This ebook was not designed with a structure in mind. Each blogger has penned his or her perspective given the topic and the underlying assumptions. Despite coming from various backgrounds and having different preferences for certain investment approaches, there were common themes and very sound suggestions that permeated throughout the bloggers' writings.

The articles were published in its entirety to preserve the integrity of the message and writing style of each blogger. The articles were also arranged according to the perceived level of difficulty for a relatively new investor to pick up. Readers are recommended to read the full articles to get the entirety of the messages.

## ASSUMPTIONS

We agree that financial planning should be targeted and customised to a person's unique needs and circumstances. There is a limit to the utility of the general comments made by the bloggers. Below are a set of assumptions that we have all adopted for the purpose of our writings. You would need to discern the fit to your situation when reading this ebook.

- \$20k is an amount you do not need in the near future (such as for marriage or buying big ticket items) and is primarily reserved for retirement purposes.
- Emergency funds have already been set aside.
- No credit card debts.
- This \$20k is all cash and not CPF monies.
- Newbie with little or no knowledge in investing.
- Investing in Singapore's context.

## DISCLAIMER

There are mentions of specific investment products and various investment approaches in this ebook. They should not be taken as investment advice, but rather be digested as an idea for the reader to pursue further, either through your own research or a consultation with a qualified and trustworthy financial advisor who operates with your interest at heart.

# FIRST THINGS FIRST - INVEST IN YOURSELF

By JARED, [SINGAPOREMANOFLEISURE.BLOGSPOT.COM](http://SINGAPOREMANOFLEISURE.BLOGSPOT.COM)

*Hi! I'm Jared Seah, currently on sabbatical from full-time work. It's play time! I aspire to be like the swan that's here and gone. And if need be, I'll rather be the hammer than the nail. Yes, it's from that song. 123, Away, I rather sail away....  
(El Condor Pasa)*

Calm down now.

I can see you are full of excitement with that \$20,000 of yours.

Can't wait to put money to work is it?

Come. Sit down here with me.

Have a cup of coffee and a char shao bao. Eat!

Allow me to ask you a few questions...

## 1. KNOW YOURSELF

Think of a skill or competence, where you can crush most of your peers hands down. It can be a hobby, sports, or what you do at school or work. Anything!

Why is this so?

Did you have to spend any time and effort securing this skill or competence?

Or was it because of some natural attributes that you were born with?

Maybe a bit of both?



Have you travelled on a packaged group tour before?

If no, take some of the \$20,000 and go on one! Enjoy yourself!

If yes, have you planned and taken a DIY tour all by yourself? With no travelling companions? Just you and you alone?

No? Try it!

If you are the really timid sort of person and have never done things alone all by yourself in your life, I can recommend Hong Kong or Malaysia. Still cannot? It's OK. Don't force it. But take note of the fears and emotions that's keeping you back.

OK, now that you have both firsthand experiences of travelling on a packaged group tour and a DIY solo trip, which one would you prefer for your next trip?

Why?

Interesting...

## 2. CHOOSE YOUR POISON

Do you know the common investment vehicles available to retail investors?

Yes! Oh! You've studied Business Finance at Uni/Poly; and you're very familiar with the different asset classes.

No?

So of all the asset classes, why did you zero in to equities only?

Interesting...

Hey! Who am I to judge what you like what you don't like? Equities it is then.

Are you familiar with Fundamental Analysis and/or Technical Analysis?

Yes! Good, good.

No? Can you tell me why you've chosen equities as your preferred investment vehicle again?

Do you want another char shao bao? Sure? Don't be shy!

### 3. MOTIVATION

Why did you choose your course of study at school?

You heard this course once graduated can earn a lot of money?

No reason? You were just interested in the subject matter? You've never thought of how you'll get a job or how much the starting pay will be?

No choice? All other courses you cannot get in. So you just grab what's available...

Your mother told you to do so?

You don't say!

### 4. YOU BUY ME LUNCH?

What? Why so generous?

I haven't given you my expert advice yet!!!

No need?

Want more coffee?

# FINDING YOUR IDEAL WEALTH MACHINE

By KYITH, [INVESTMENTMOATS.COM](https://www.investmentmoats.com)

*Kyith is the founder of [www.investmentmoats.com](https://www.investmentmoats.com), which mentors you on Wealth Management towards the goal of Financial Independence. Investment Moats shows how you can build wealth through stock market investing, dividend income investing through a value based approach. You will also enjoy his take on the philosophy behind living a fulfilling life without a huge price tag that people normally thinks it comes with and all things money.*

If you have \$20,000 and would like to embark on using this sum to start building wealth, how would you go about doing it? Being an investor who purchases publicly-traded businesses listed on the stock exchange, I am inclined to share more about my wealth building method.

However, I am aware that at the starting stage, you might have reservations about building wealth via my way. You might have a preference for some other methods or that you have heard from your friends that you can build wealth this way, but you are unsure whether there are any truth to it.

My contribution is to provide some rules of thumb how to go about finding the wealth building methods to get you started.

## HOW TO IDENTIFY YOUR WEALTH BUILDING METHOD

It can be daunting to find out which method you should go with. There are many ways to Rome and in wealth building, what works for me might not work for you due to:

- **Different time commitments.** You might start off with more time to commit to learning, while for others they might already have a family.
- **Differing abilities to build competency.** You may already be finance-trained, or that you may be quantitatively analytical. In other cases, you might need to build up competency and this might be too much work for you.
- **Different capital requirements.** Some methods require less capital to start while others require you to save much more.

When you are not the expert, you find out and ask. There are usually three ways:

1. Find good mentor(s)
2. Go for seminars and courses
3. DIY Learning

## 1. FIND GOOD MENTOR(S)

If you are not good at something, find someone who is good at it. This rings true for wealth building as well. A good mentor can give you what worked for him in the past, what failures he had and the effort required to build wealth successfully.

Finding a good mentor would be a great option, however, fate might not bring you a good mentor and whether the mentor is good or not is debatable.

## 2. GO FOR SEMINARS AND COURSES

Going for courses is similar to that of a mentorship. By networking with fellow students, you can find like-minded friends to learn together. Usually these courses encourage the course participants to form mastermind groups.

## 3. DIY LEARNING

In DIY Learning, you do not give yourself excuses that you should wait for others to teach you. You educate yourself. This is done by going to the library to borrow

and consume books on investing, buying books from the bookstore, watch introductory videos and listen to podcasts on investing.

To go deeper, you may invest to purchase some courses (which crosses over to 2) and where you might meet mentors who can help improve your wealth building skills (this crosses over to 1).

## WHICH IS BETTER?

The positive aspects of going for courses and mentors is that the guidance tend to **prevent fatal mistakes** that you could potentially fall into, had you not had that guidance. They show you what you should be doing and what you should not do. They act as a good starting points.

However there are negative sides as well. With mentors, you are essentially pigeoned into learning a few things that your mentors dictate that you should do. You may not be suited for building wealth that way. **When you try fitting yourself to something not suited for you, the result will not be favourable.**

You will also run the risk of **group think**. In group think you tend to think this is good, this is bad, you should do this, you should do that. In most wealth building processes, things are not so simple. Things are dynamic.

DIY Learning can be slow, with a lot of testing, a lot of failures, and you do not have much avenue to clarify doubts, since you do not have access to qualified advice.

The upside is that **you learn different models and develop a sound mind to evaluate what the pros and cons are.**

DIY Learning at this point, does not sound like it is a good proposition. That is until you realize that, **the necessary ingredients to build wealth well in various wealth building methods is to be able to question, build up mental models, reflect, execute and do the hard work of finding new prospects.**

To develop that, basing your starting point with DIY Learning is the best option.

Mentors (if they can be with you along the way) are good, but most of the time, courses and mentors are only the starting point. **Often, after you go for courses and paying \$4,000, you get the idea that these are not enough.**

## A RECOMMENDED PROCESS TO IDENTIFYING YOUR WEALTH BUILDING METHOD

A conclusion that can be drawn is that the best way is based largely on DIY Learning and empowering yourself, but refining your wealth building methods with mentors and through courses.

I recommend going through the following process to identify your suitable wealth building method:

1. Read, look up, and find out what kind of wealth building methods there are out there.

The objective here is **to find out which method you feel goes with your character the best**. Often, this can be done through various mediums such as books (paper or audio) podcasts and videos

2. Speak or interact in places where mentors gather. These are likely to be folks who have made their wealth and have experience on failures and what works.

Your objective here is to clarify some of the doubts you have after going through (1). Some places where you can find these mentors are on forums or blogs that have people discussing certain wealth building methods. **If you are sincere and show humility, I am sure the majority of people will be willing to give you some advice** so that they can make your wealth building journey better than what they had suffered.

**Do not just interact with one person or focus on one wealth building method.** Have a list of questions that you can ask to help you reach a good conclusion which wealth building method is preferred.

3. Find materials on your chosen wealth building method. Study and read them.
4. Allocate a portion of the \$20,000 to get started. I suggest \$5,000.

Your objective is **to learn as much as you can from this initial investing experience**. Do not think you made money and feel you are good in making profits.

The **best lessons are usually the failures** because they ask some hard questions about yourself. Eventually, you will be making decisions on

\$200,000 to \$300,000. It is ok to lose 50%-75% on \$5,000 or even the entire \$20,000. However, I doubt anyone would want to lose that kind of money.

When that happens, it will take a long time for you to rebuild your wealth back to that amount.

5. Have a wealth system where you consistently refine and improve your wealth building method. This is a recurring effort. You will need to prioritize investing among the things you value in life.

You will create and maintain:

- a. A process to prospect trades, stocks, property and/or businesses.
- b. A system of close confidants to share your struggles, ask for advices and keep you going on this journey.
- c. Continue to improve and refine on your wealth building method.

## MANAGING YOUR \$20,000

To be honest, it is hard to think about what would amount to \$20,000. The system and framework you learn to create and the lessons learnt are much more valuable than this \$20,000.

You cannot depend on \$20,000 to generate a hell lot of money. \$20,000 looks meaningful to you, perhaps because that is at the starting stage.

Factors that impact wealth building the most are:

1. How early you start putting a consistent amount from your disposable income towards building wealth.
2. How much of your disposable income you prioritize to building wealth, before you think about spending it.
3. How you minimize costs during wealth building.

Without a consistent cash flow from your disposable income, it would be challenging to grow that sum of \$20,000 to provide you with financial security.

The way I look at \$20,000, whether I am investing in publicly-traded businesses, purchasing an exchange traded fund (ETF) in a passive portfolio, or an insurance

savings plan, I am likely to not split this up and just put them in 2 high conviction stocks, one or two exchange traded fund or a single insurance endowment plan.

I wish you all the best in your wealth building journey.



# THE 80/20 GUIDE TO INVESTING \$20K

By [LIONEL YEO](#), [CHEERFULEGG.COM](#)

*Lionel Yeo is the Chief Mischief-Maker behind [cheerfulegg.com](#), a blog that helps young executives hatch richer lives. His material has been featured on the Sunday Times, Yahoo! Finance, and KISS92. He also secretly dances in his room.*

So here's the deal:

You're a bright, young, ambitious executive. Maybe you've just graduated, or maybe you've already started working for a couple of years. You're doing well in your current job. Your boss likes you, you're doing great work, but you don't know if you'll stay at your job for the long-term.

You have big dreams. You know that you'll be successful one day - either by climbing the corporate ladder, or by starting your own business and making your ding in the universe. At the same time, you're not obsessed about work. You see the value in having a social life, exercising, spending time with your family, or *paktor-ing* with your boyfriend/girlfriend at hipster cafes.

Maybe you're also thinking of settling down, and you'd like to have enough money to have the option of retiring early.

The good news is, you're in pretty good shape financially. You're not filthy rich (the Ferrari is out of the question at this point), but you've saved up enough money for an emergency fund and you have a nice healthy \$20,000 left over that you'd like to put to good use. All those years of saving your *ang pao* money and giving tuition really paid off!

Even though you expect your income to rise in the future, you know that there's more to life than running the hamster wheel of corporate life. And you'd like to get started by putting that \$20,000 to good use so that it can grow for the long term.

You've read some newspaper articles about how to invest, but you remain skeptical. Those articles recommend investments that are dubious at best: Gold? Unit trusts? Structured products?

You know that there's *got* to be more to investing.

I've been in your shoes before, so allow me to share a simple framework on how I personally approached my investments. Hopefully, you'll find it useful and you can use it as a guide to invest your \$20,000.

## THE 80/20 FRAMEWORK

To guide us along this journey, let's turn to one of the most innovative companies in the world: Google.

Google famously has a policy where employees are allowed to spend 20% of their time working on anything they like, with whoever they want.

20% time has led to the invention of a host of great products: Gmail, Google Now, Google News, key features on Google Maps, and those creepily accurate autocomplete suggestions once you start typing in the search box.

Why does this policy work? Because it ensures that the bulk of employees' time is spent on the core business - the steady, incremental, proven workhorse that has made Google the successful company it is today. But at the same time, they recognise the importance of spending 20% of their time on innovative, transformational projects that have the potential to take their business to the next level.

We can approach our investments in the same way! Here's how I'd do it if I were you:

Allocate 80% of your capital to your "core" investments - the stuff that's proven to work. This will be boring, and you'll need to stick to it for the long term. But it works, and the good news (as you'll see later) is that once you set it up, you won't have to spend much time on it. Stick with it, and you'll almost certainly end up rich.

So what do you do with the remaining 20%? Here, you can afford to take some risks. No, I don't mean investing in dodgy Sri Lankan crab farms or questionable

MLM schemes. I'm referring to **side projects** - a business, product or skill that you can work on in your spare time, and has the potential to make you rich, or at least teach you valuable skills that you can use to level up your career in the future.

The 80/20 framework provides just the right balance between proven investments and exciting pursuits.

If that sounds good to you, read on.

## THE 80%: ALLOCATE \$16K TO AN INDEX INVESTING PORTFOLIO

So let's start with the first 80% of your capital (or \$16K of your \$20K warchest). Here are your requirements for this stash of moolah:

- You want it to work hard for you.
- You want to invest it in simple, *proven* investments.
- You don't want to see it disappear overnight. (Remember: you painstakingly saved this money!)
- You don't want to spend too much time monitoring it.

So let's eliminate the options:

- Investing in an endowment plan? Too conservative.
- Trading futures and forex? Too risky.
- Stock-picking? Too difficult and time-consuming.

Here's how I personally invest: **Index investing**.

What's that? It's a proven, time-efficient, and effective way of investing. In fact, the great Warren Buffett once said that the majority of investors should invest in indexes because that's the easiest way to beat even professional money managers:

“Most investors will find that the best way to own common stocks is through an index fund that charges minimal fees. Those following this path are sure to beat the net results of the great majority of investment professionals”

~ Warren Buffett

If index investing is so effective, why haven't you heard about it?

Because it's BORING! Look - this isn't a great conversation topic at parties. Nobody ever walked into Zouk bragging about his “low-cost, diversified and passive portfolio of index investments.” I tried doing that once, and everyone around me just backed away re-e-e-a-ally slowly.

But it doesn't matter. It's boring - but it works.

At its core, index investing means selecting a portfolio of low-cost Exchange Traded Funds that track the performance of a market index like the Straits Times Index or the S&P 500.

Why do I love index investing? Two reasons:

- If you invest for the long term, you'll almost certainly be profitable.
- It'll take you less than 20 minutes a month.

Here's a cool statistic - If you invested in the S&P 500 for 20 years or more, [you always beat inflation](#), no matter when you started investing. Isn't that cool?

Wait, but isn't the stock market a “risky” investment? Well, yes and no. In the short-term (think anywhere less than 5 years), the stock market *is* risky. It can shoot up like a rollercoaster or plunge faster than Kim Kardashian's neckline. But over the **long-term** (think 20 years or more), it almost always grows faster than inflation.

Why? Because the stock market represents the economy. And the economy rises over time because businesses - as a whole - grows over time. Population growth leads to more customers. New technology leads to more efficient operations. Strong companies displace weaker ones. And over the long term, the economy rises, bringing the stock market along with it.

The best part about index investing? It doesn't take much time at all.

There's no stock-picking involved. There's no market-timing. There's no squinting your eyes trying to decipher some complicated technical chart. There's no need to follow the economic news on the Wall Street Journal.

All you need to do is to carefully select a portfolio of ETFs that track the right indexes, invest consistently every month, and then hold on to it for the long term. If you're feeling proactive, you can check in once a month just to see how your portfolio is doing, then go back to watching *Silicon Valley*.

After all, you're a young, busy executive. You have better ways to spend your time than worrying about your portfolio.

Lots of other bloggers have covered index/passive investing in this ebook, but allow me to share 2 methods on how you can implement this in Singapore:

## METHOD 1: THE REGULAR SAVINGS PLAN (RSP)

This is a great option if you want to get started as quickly as possible and you're not too worried about building the best portfolio.

In Singapore, we have an option of going for something called a Regular Savings Plan (RSP). RSPs are run by financial institutions and let you invest directly into the Straits Times Index with as little as \$100 a month. We have 4 available in Singapore:

- [Phillip Share Builder Plan](#)
- [POSB Invest Saver](#)
- [OCBC Blue Chip Investment Program](#)
- [Maybank Kim Eng Monthly Investment Plan](#)

Simply drop by the offices of any of the above financial institutions, set one up and bam! You're done. Every month, you'll have a fixed sum of money deducted from your bank account and invested into the Straits Times Index. The financial institutions will also automatically deduct a fee for this - no fuss, no muss.

(For more information, check out MoneySmart's great article on RSPs [here](#))

I love RSPs because they're a great way to get started as quickly as possible, and they're useful for investors who have very little capital (say, they can only afford to invest a few hundred dollars a month). However, they have a few drawbacks:

- They usually only allow you to invest in the Straits Times Index, which is not the most diversified (only 30 Singaporean companies!).
- The fees charged are usually pretty high as a percentage of your investments.

There's a more effective way to invest in indexes, but it takes a little more work upfront:

## METHOD 2: THE DIY METHOD

Personally, I prefer to select and invest in my own portfolio of indexes myself.

This way, I can expand my investments to indexes beyond Singapore. Think about it - Singapore's GDP represents only about 0.5% of the world's GDP. If you only invest in the Straits Times Index, you'll be missing out on 99.5% of the world's performance!

There are plenty of indexes out there that track the performance of the stock markets in the US, Europe, Australia, and even the entire world. We can also go beyond just stocks and invest in the bond market, which is an added source of diversification to your overall portfolio.

Another great advantage of the DIY method is that you're eliminating the middleman - since you're investing yourself, you can skip a layer of fees - which allows you to pump in more money into your investments.

Once you've selected your portfolio of ETFs, all it takes is to simply open a brokerage account and arrange to invest in them yourself every month. Again, this doesn't take up much time at all - I spend less than 20 minutes a month investing because all my decisions have been made upfront.

So now that you've allocated the bulk of your capital to a proven investment, you've got your baseline covered. You know that no matter what happens, you're likely to end up with a positive return.

With that taken care of, it's time to turn your attention to your remaining 20%.

## THE 20%: ALLOCATE \$4K TO A SIDE PROJECT

Once you have your core investments settled, it's time to turn your attention to something a little more exciting.

Yes, young padawan, I'm talking about **side projects**. Projects that may not necessarily succeed, but if they do, they could make you much richer. This is the stuff of movies like *The Social Network*, *21* or even *The Amazing Spider Man* (Hey, Peter Parker made his Spidey suit as a side project).

Focus on projects that may seem “risky”, but have the potential to give you disproportionately large results. Some ideas:

- Start a blog.
- Launch an app.
- Write an ebook and sell it on Amazon.
- Freelance using the skills you already have.
- Come up with a product idea and create a prototype.

The possibilities are only limited by your imagination. In the Internet Age, virtually anyone can start a website, 3D print a prototype, or self-publish an ebook on Amazon.

Why focus on side projects, as opposed to other types of investments? Three reasons:

- You'll have a chance of getting a large payoff with very little capital.
- You'll acquire invaluable skills and it looks great on your resume.
- It makes you way cooler (so you have something else to talk about at parties besides your index investments).

4 years ago, I started a personal finance blog just for fun. My posts gained some interest, so I wrote an ebook and distributed it for free. As my blog gained momentum, I went on to selling products, appearing in the media, speaking at events, and being engaged by clients.

I don't say this to brag. I wanted to show you how a virtual nobody can create a profitable side business with very little investment.

My costs?

- A hosting service (Less than \$100 a year).
- Email list provider (Less than \$70 a month).
- Blog theme (\$200).
- Courses and books on blog marketing (Less than \$3,000).

Which brings me to my next point: **How should you spend your \$4,000?**

Personally, I like to purchase courses / books / tools that will help me in whichever side project I'm pursuing.

Yes, it IS possible to research online for free, and you should definitely start with that. However, from my experience, nothing beats having an expert guide you through the process.

The trouble with pursuing a side project is that there are always things to do. Should you build a website? Should you print business cards? Which software should you use? And so on, and so on!

A course (online or in-person) or a good, practical book can guide you through the process, tell you what to focus on and what to discard for now. This will save you thousands of hours of heartache and frustration in the future. Trust me on this.

Today, you can find courses and books on practically any field you wish to pursue. Here are a few:

- Blogging: [Copyblogger](#), [Boost Blog Traffic](#)
- Self-publishing a book: [Write. Publish. Repeat.](#)
- Starting a micro-business: [The \\$100 Startup](#)
- Learning a new skill: [Coursera](#), [Udemy](#)
- Freelancing: [Earn \\$1K](#)

Of course, just because you have \$4,000 doesn't mean you need to splurge it all on a pricey course.



Instead, think of your \$4,000 as your “business fund” - a ready pool of money you can use to improve yourself and your business. Buy a course, hire a consultant, tailor a suit, take prospective clients out to coffee, attend networking events, etc.

Most people never pursue audacious projects because they *claim* that they don’t have enough money. But you’re different. You’re now your own VC and you can use that money to kick some serious butt.

Will your side project succeed?

Maybe not. By their very nature, side projects are risky. But it doesn’t matter - keep trying new approaches, new projects and new tests. With every iteration, you’ll learn something new about business, about sales, and about yourself. No endeavour is a waste of time or money. Eventually, all that accumulated knowledge will help you to find something that will succeed.

The trick here is to get started as soon as possible. Don’t get hung up about getting the “perfect” idea. You’ll learn far more by trying stuff out and testing it in the market than spending weeks in your room “brainstorming”. Remember that there’ll never be a perfect time to start, so just START! You have nothing to lose, so go for it.

## IN CONCLUSION

We-ell, that’s all I have for you today. At its core, 80/20 Investing is all about putting your time and money to good use.

Yes, coming up with a good investment strategy is important, but that shouldn’t be your be-all and end-all in life. Besides, it gets pretty boring to talk to someone who only cares about how his portfolio is doing.

Which is why I also challenge you to come up with a 20% project. Take courses. Read books. Start a business. Become an interesting person. At the end of the day, investing in yourself is one of the most valuable investments you can make.

And it’s also important to remember that life isn’t all about money. Stay healthy, spend time with the ones you love, and have loads of fun along the way.

# INVESTING YOUR FIRST \$20,000

By KEVIN, [TURTLEINVESTOR.NET](https://TURTLEINVESTOR.NET)

*Kevin is the closet writer behind Turtle Investor and a firm believer in Index Investing. By day, he is a white-collar executive in the hospitality industry. By night, he imagines himself as a wordsmith who inspires people to kick-start their own journey towards financial freedom.*

Hello There!

I am Kevin, and I write at **TURTLEINVESTOR.NET** on stuff related to personal finance with a strong focus on Index Investing. Like plenty of average Joes out there, I'm a salaried employee. In my early thirties, I'm married to a wonderful wife with no kids at the moment. I live in a cozy and lovely HDB apartment that I have no intention of moving out of for the next couple of years.

## ONE FINE DAY ..

What if.

What if I woke up one day to find \$20,000 sitting on my bedside table? Armed with the experience I have now, perhaps let me run through what I would do if I were to get hold of \$20,000 and get the chance to start all over again.

My golden rule is never to invest what I cannot afford to lose! It would safe to assume that \$20,000 is a sum of money that I can afford to invest with; it is also a sum of money that I can afford to lose. This is not my emergency fund, not my kids fund, not my rainy day fund, etc. As an eternal pessimist, I always like to consider the worst case scenario.

## UNDERSTANDING YOUR INVESTMENT PERSONALITY

Finding a **PURPOSE** to investing is important. It is what keeps me going when others give up. I don't invest just because other people are doing so. For me, the end goal is simple - I want my investments to eventually provide reliably for my lifestyle, which is not necessarily an extravagant one.

What is my **RISK TOLERANCE**? I consider myself as having a moderate risk appetite with a long term investment horizon. I find that I'm comfortable with market volatility in general. I sleep well at night even when the market drops by 10% in a single day. Can you?

As a person, I value simplicity very highly. I'm not terribly excited about the prospect of burying myself in financial charts and analysing data all day long. In fact, I have little interest in doing so! My **APPROACH** is to find a balance between achievable returns and chance of success by utilising Index Investing as my investment strategy.

## INVESTING \$20,000 – WHAT WOULD I DO?

As I have mentioned earlier, my simple approach to investment is to engage in **INDEX INVESTING**. Investing \$20,000 might as well have been investing \$2,000 or \$200,000 to me – the rationale and motivation behind the investment remains exactly the same.

## A CLOSER LOOK AT INDEXES

Let's take a step back and get to know a bit more about indexes.

By definition, an **INDEX** is just a “statistical measure of the changes in a portfolio of stocks representing a portion of the overall market.” This basically means anybody can create an index which possibly contains a set of twisted logic and ridiculous selection criteria.

For example, Twisted Timmy can pull up a list of all the hedge funds in United States. Then, he eliminates all of the hedge funds that are smaller than US\$500 million in fund size just to retain the so-called “successful” ones.

Once he is done, he meticulously selects the top holding (big means awesome, right?) in each of the remaining hedge fund and puts them in an index. Twisted Timmy can call this an index because it follows a strict methodology.

But then, does it make sense to invest in such an index?

## USING LEGITIMATE INDEXES

When I say I invest in indexes, I meant those in the most traditional sense that tracks the entire stock market. Yes, the entire stock market! Famous examples would be S&P 500 and Dow Jones Industrial Average.

SPDR STI ETF, for example, tracks the performance of the **STRAITS TIMES INDEX**, a capitalisation-weighted stock market index of the top 30 companies listed on the Singapore Exchange. In Singapore's context, the Nikko AM STI ETF does exactly the same thing as well.

By using **EXCHANGE TRADED FUNDS (ETFs)** as an instrument, I can invest in all 30 companies in Singapore's Straits Times Index in a single purchase. How sweet and simple is that?!

## WHY INDEX INVESTING?

A famous quote by Warren Buffett, Chairman & CEO of Berkshire Hathaway goes like this -

"I will take the market return and be happy with it – because I know the odds of beating the market over my investing lifetime are slim."

Index Investing is the perfect option when it comes to complementing my investment personality. I agree wholeheartedly with what the Oracle of Omaha has to say about Index Investing.

I know myself well. I am perfectly contented with achieving market returns. The inherent market volatility with Index Investing is something I can easily stomach. With Index Investing, it is incredibly simple to create and just as easy to maintain a portfolio. There is no meddling with stocks selection and no timing of market.

## STARTING A BOGLEHEADS 3-FUND PORTFOLIO (SINGAPORE EDITION)

By using Index Investing as my investment strategy, the next logical step is look at portfolio construction and asset allocation to supercharge my investments.

What is the **BOGLEHEADS 3-FUND PORTFOLIO**? It is a portfolio which does not [slice and dice](#), but uses only basic asset classes. The “majesty of simplicity”, Bogleheads call it. It would typically consist of three components -

1. Domestic (Singapore) stock index fund
2. International stock index fund
3. Bond index fund

How am I going to construct and maintain my portfolio? When constructing my investment portfolio, I have chosen to take a global approach with local bias. I believe this makes the most sense.

If you think about it, Singapore is negligible when compared to the global markets. Then again, I have lived my entire life, and will most likely retire, in Singapore. Striking a balance between the two is really important to me.

An easy way to allocate assets is to use our age as the bond component, and split the rest evenly between the international and domestic stock component.

Assuming that my age is currently 30, a possible allocation can look like this, where age = bond percentage. The remaining 70% is split evenly between the Singapore index fund and World index fund. Thus, I end up with my portfolio looking like this -

1. SPDR STI ETF (ES3) : 35% [Singapore Exchange]
2. Vanguard FTSE All-World UCITS ETF (VWRD) : 35% [London Exchange]
3. ABF Singapore Bond Index Fund (A35) : 30% [Singapore Exchange]

Took all of 15-minutes to punch in the numbers and calculate the number of shares to buy for each ETF. Went ahead and click on the BUY button, and I'm done. Now, I have a low cost, well-diversified portfolio that is super easy to manage and rebalance. Phew!

## MAINTAINING PORTFOLIO : AUTOMATING BUY/SELL BEHAVIOUR

As simple as it was to construct my portfolio, maintaining it has to be just as simple as well. The key here is to balance - based on a fixed criteria rather than be swayed by market conditions and emotions.

A really simple technique we can use is based on **LARRY SWEDROE 5/25 RULE**. To quote what he wrote -

“Rebalancing should occur only if the change in an asset class’ allocation is greater than either an absolute 5 or 25 percent of the original target allocation, whichever is less.”

Let’s say we find our bond allocation increasing to 35% of our overall portfolio value due to market volatility. This is 5% more than what I had intended. This will trigger rebalancing to take place - I sell 5% of my bond ETF to buy stocks ETFs to achieve my original 70% equities, 30% bond allocation.

## PITFALLS TO INDEX INVESTING

I don’t believe that there is a perfect investment strategy. Despite the vast wealth of resources supporting Index Investing, I constantly looked for potential weaknesses with Index Investing.

**P/E RATIO** serves as a useful estimate of the “expensive-ness” of the market. Most of the time, Mr. Market goes up and down in a cyclical manner. However, when prices have reached abnormally high levels, returning to the last peak may not be merely a matter of years.

Nikkei bubble in the 1980s? P/E ratio was nearly 70.

Nasdaq dot-com bubble? P/E ratio of 175! Enough said.

Want to take a guess at Straits Times Index historical P/E ratio? Sixteen. Only.

A wise man once said, “The market can stay irrational longer than you can stay solvent.” Oh, that wise man happens to be John Maynard Keynes. With Index Investing, automating buy/sell behavior by using a fixed rule actually helps us to

sidestep a potential landmine as we are essentially buying low and selling high. However, it still pays to be aware of the stock market's "irrational exuberance".

## JUST A FEW MORE WORDS

Writing this has been harder than I thought! Trying to condense thousands of words into a single, coherent article without writing too much or too little. Hope you have enjoyed reading this piece as much as I have enjoyed writing it.

As you read through this ebook, you will undoubtedly notice the variety of investment strategies favoured by different bloggers. At the end of the day, the key point is that there are many investing styles that work over the long-term e.g. index investing, value investing and dividend investing etc. However, they will only work if we stick with them.

Do you have \$20,000 waiting for your action right now?

# HOW TO PARTICIPATE IN THE MARKET WITH 20K (BUT NOT GET INVOLVED)

By LA PAPILLION, [BULLYTHEBEAR.BLOGSPOT.COM](http://BULLYTHEBEAR.BLOGSPOT.COM)

*La Papillion is French for butterfly. The beauty and freedom of a butterfly cannot take flight without the metamorphosis from an ugly and earthbound caterpillar.*

*Who is La Papillion? Not really a caterpillar but not yet a butterfly, and so Bullythebear chronicles La Papillion's life in transition from the caterpillar to the butterfly. Similar to a butterfly floating from flower to flower, La Papillion floats from topics ranging from personal finance to market analysis. Like a caterpillar, La Papillion is an earthly self-employed private tutor who observes the world quietly and writes down life's lessons in his blog.*

Before you read this, do take note that advising anyone on something as important as personal finance requires a certain set of assumptions, because the same advice cannot be equally applied to different people.

Before you read on, I assume that you have 20k cash and have already set aside a fair amount of emergency cash. This means that you don't have to use that 20k capital anytime soon. You have also set aside another amount for milestone life goals - like your wedding, down payment for a property, renovation etc - so this 20k is really for retirement or for your children's education fund, and this goal will only take place at least 15 years down the road.

Most importantly, I assume that you're only vaguely interested in the stock market, and will rather spend an evening watching soccer than to read and dissect an annual report. This doesn't mean that you can't read one; it's just that you would rather do other things.

Ok? Ready? Let's go!



To be honest, I think 20k is a little too small to begin with. It'll be more comfortable with a sum nearer to 50k.

The reason is that with 20k, it's kind of hard to balance between returns and diversification. With 50k, you can have a broader range of things that you can do.

If you've just started on this stock market journey, I would say not to put all your capital into one single stock, or two. The risk of that company going belly-up is going to be substantially higher than the returns you are going to reap from doing a concentrated effort.

This is not God of Gamblers 4 – you don't want to do a show hand and compete against the market to see whose opinion is right, because the market always wins.

So to define the problem clearer, we need to have a portfolio of:

1. Up to 20k capital.
2. A reasonable return above inflation, which is about 3% pa.
3. Sufficient diversification in order not to have a single failure wiping out your entire portfolio.

The solution is screaming in my mind – the STI ETF!

The STI exchange traded funds (ETF) is the best solution considering these constraints because firstly, you have a basket of the 'blue-chips' stocks listed in SGX. The local banks, telecommunication and the S stocks (Singapore Technologies Engineering, Singapore Exchange, Singapore Press Holdings, Singapore Airlines etc) are all inside. But the best feature of the STI ETF is that it acts like a multi-headed mythical beast Hydra. You cut off one of its head, and another grows in its place! What this means is that should any of the index components in the STI go belly up, another one will take its place. Such reviews will take place at least once annually and whenever necessary, hence the risk of individual companies pulling your entire portfolio down is nil. This is making use of the survivorship bias of the ETF to make sure your portfolio is robust.

What about the returns? For STI ETF, the percentage returns depends on when you enter. There are two components in the returns – first is the dividend yield that you can get from holding the ETF and the other is the capital gained from the increase in price of the ETF. The capital gain part is the unknown portion, because it depends on your entry and exit price. However, the dividends yield part is about 3% pa, and this also varies depending on the cost of your purchase. Suffice to say, the returns is minimally 3% pa if you hold it for long, which beats inflation. How

long? According to my research done in the past, this will be between 10 to 15 years so that you won't see any capital loss. It's not all that bad, because during that time, you'll be getting the dividend yield which is your just rewards for holding the ETF. Some sources mention that the percentage returns for STI ETF is about 7 to 8% pa. Nah, I don't want to be a nay-sayer but it's better to say it'll be at about 3% pa to temper your expectations. It's definitely not smooth-sailing once you talk about the stock market. 7 to 8% pa are definitely not your 'normal' returns.

For such a good deal, it must cost a lot right? Nah, the total expense ratio is only 0.30% pa of the NAV of the ETF. Compared to unit trust, which can be about 1 to 3% of the NAV, 0.30% is a steal! This means that more of your investment is used to generate returns for you than to fatten the pockets of the managers of the ETF. It's not like if you pay more, you'll get better returns too. Most unit trusts have difficulty beating the STI ETF, so really, what's the point? The return of your investment is not guaranteed and can vary, but the cost of your investment is guaranteed. If in doubt, make sure your cost is minimised. Once you settle the downside, let the upside take care of itself.

I will suggest practising diversification across companies by getting into the STI ETF and also diversification across time by doing some sort of dollar cost averaging - by entering the ETF at prefixed intervals and prefixed amounts. With 20k, maybe we can spread this over 1 year, entering 5k each at 3 months interval. If the price of the ETF goes up, 5k will get you lesser units. Conversely, if the price of the ETF goes down, 5k will get you more units. Overall, this will tend to make your average price lower. The good news is that with the 100 shares board lot, it'll be a lot easier to get in with a smaller amount of capital than before. All the better to practise dollar cost averaging on this mythical hydra beast called the STI ETF!

Now of course, the above plan is assuming that you're not the God of traders, and also not the spiritual equivalent of Buffett/Graham/Dodd. If you're the former, then you have your own instruments and skill sets to fish for higher returns. If you're the latter, especially if you're from the Buffett camp (and not Graham), then you can have a concentrated portfolio and show hand on one or 2 individual companies using that 20k capital. For the rest of us, investing in STI ETF should present an elegant solution to juggle between having adequate returns and sufficient diversification to ensure that your portfolio is robust enough for any bad stock market weather.

# DISCOVERING THE PATH TO INVESTING

By SGYI, [SgYoungInvestment.BLOGSPOT.COM](http://SgYoungInvestment.blogspot.com)

*SG Young Investment is a blog on personal finance and investment. It's a journey to financial freedom. I started this blog back in June 2013 because of a passion to share on the importance of personal financial management. He was 25 years old then. He is currently an engineer and also providing freelance mortgage consultancy service. SG Young Investment has attracted readers from students to young adults who are interested to change their financial future. The sole purpose of the blog is still to continue to inspire, engage and encourage actions for a better future.*

Investing is something I discovered in my early 20s when I was in the army. I read the book "Rich Dad Poor Dad" during my army days, in the bunk, when there was a period of free time just before an overseas exercise in Taiwan. I discovered the importance of managing my money and investing at that time but didn't know how to start at all.

I'm an engineer by training and have no prior financial background to understand what is investing. Most of my investing knowledge are self-learnt by reading books, learning from other investors and also attending seminars. I went on to pursue a degree in economics which opened my mind to the world of finance and helped me understand how everything works in the financial markets as well as the economy. This to me is an important aspect of investing, as without the knowledge of how the macro economy works, it is very hard to know what we are investing in.

I started my blog, SG Young Investment, back in mid-2013 to reach out to people on the importance of managing money and investing for the future. Through blogging, I learnt a lot myself as very often, I have to research thoroughly on the topics I want to write on. Investing seems very hard to start at first as most of us will be lost on where to start. I've simplified complex financial concepts for myself

and now I share it openly with others too. Let's take a look at how to start investing successfully with \$20K.

## STARTING OUT ON INVESTING WITH \$20K

\$20K is a good sum to start investing and building one's portfolio. However, saving up \$20K is not easy for most young Singaporeans before they start full time work. I only managed to save \$10K by the time I finished National service.

To be honest, I started investing without knowing exactly what it actually was. This is a common mistake which young people will fall into. Many also mistake trading for investing. The main motivation which gets most of us started on investing is the hope that we can make more money through it. However, this is the beginning of a huge pitfall to successful investing.

To me, investing is never about making money. We can do all our research, be equipped with all the knowledge on technical and fundamental analysis and still lose money when we buy a stock. We cannot demand money from Mr Market. It is when we lose money that we truly learn to put down our face, pride and ego that this investing is not a one-size-fit-all approach. There is never a holy grail to investing. Then, you may ask, how do people become successful in investing? Let me show you what I do and how I approach investing as a whole.

## FINDING YOUR STYLE OF INVESTING

I started putting my money into the stock market at the age of 22. I tried a lot of different styles such as trading using technical analysis, reading charts, looking at candlesticks, learning the different indicators, etc. I realised I was trading instead of investing and came to realise trading is a professional job. It is fast-paced, emotionally-taxing and I didn't enjoy it at all. Some people may enjoy it and do it well but it was certainly not for me.

I went on to learn fundamental analysis such as reading financial statements, analysing companies and also get in tune with what is going on in the world because these economic events affect the companies I invest in. This style is much slower but it suits me because I am patient enough to wait for long-term results than short-term gains. Every single one of us have different personalities and it is important to find a style which suits you. I've found the style that suits me and it makes investing very enjoyable for me.

## INVESTING IN STOCKS WITH 20K

All investors will know they can never be 100% sure the stock they invest in will make them a profit. It is thus important to minimize our risk by building a well-diversified portfolio. Here's why starting with 20K is important as this is quite optimal to build a portfolio of a few stocks. If we allocate about 2K for each stock, we can have 10 different stocks in our portfolio. The risk is reduced when we own 10 stocks instead of putting the whole 20K in just one stock. If we invest 20K in one stock and it drops 50%, our portfolio would lose 50% straight. But if we invest 20K in 10 different stocks and one of the stocks drop 50%, we would only lose 5% of our total value.

Besides diversifying, I also make sure I do not invest all my money at once. It is always better to slowly invest bit by bit so we always can buy at a cheaper price of a particular stock. Before this, make sure we have already researched on the fundamentals of the stock to check on its financial health, its profitability, its management and its business model. Then, integrate it into the whole macro economy and watch out for red flags along the way through monitoring economic situations and reading quarterly financial reports.

## INVESTING IN INDEX FUNDS WITH 20K

Index funds investing is a popular option nowadays with its accessibility and cheap fees. Most of us call this passive investing where we do not need to research on the stocks individually in order to invest in it. This is called passive investing because it can be put on autopilot as well.

Index funds such as the STI ETF is made up of 30 of the largest companies in Singapore. Investing in the fund would already be diversifying our risk among different stocks. The best thing about index funds is it is generally low-cost and we don't have to worry about any company going bankrupt. The component stocks in an index will always be updated to replace the bad stocks with better ones.

Somehow, the price of an index will always goes up as long as the country is doing well. The STI, which is the Straits Times Index, is the index of the Singapore stock market. Although the price of the index goes up and down, the general long-term trend is still up.

We can invest in index funds through various plans offered by some banks in Singapore or we can invest in the index directly from the stock market as well.

## FOCUS ON INVESTING, NOT ON MAKING MONEY

Lastly, I think it is important not to focus on making money when we're investing. Most of us start investing because of monetary motivations. However, focusing on money will set ourselves up for failure. The simple reason is because money is such a sensitive thing in our lives that when we make money, we are happy; but when we lose money, we can get very depressed. If we focus on making money in investing, we will never be able to invest with a clear mind.

You may have heard before that the stock market is dangerous and it is actually quite true for most people. There are people who get depression because of the stock market or even choose to end their lives. Focus on learning to invest well and the money will follow later. In this way, we won't be that emotional as well and will be able to invest successfully with a clear mind. I wish you all the best in your investing journey!

# HOW WOULD I INVEST MY FIRST \$20K CONSERVATIVELY?

By RICHARD NG, [INVESTOPENLY.COM](https://investopenly.com)

*Richard claims to be an average joe middle age guy who just got started his investment journey not long ago (over a year). His motto is better late than never. He started his blog, Invest Openly, around the same time he started to invest in stocks. The main objective was to share his investing journey with peers and to learn from each other along the way.*

*His invest style is more inclined to value and income investing and hence one of the key investment consideration is the dividend yield. He loves to connect with like-minded peers online or offline.*

When I was first contacted by Alvin of BFP to write an article for a mini eBook project, together with fellow financial bloggers, my first reaction was skepticism in view of my relatively-newbie status in the investment venture. However, after second thought, I decided to give it a go for the simple reason that investing is never about sharing a right or model answer but rather sharing the experience of our investment journey (as to whether we finally achieve our objectives, that is different story all together).

So here I am, sharing my view on the common theme of this eBook, “**How to invest if you have \$20K?**”, but do read it with a pinch of salt ;-)

First and foremost, let me share a little bit more about myself so that you folks can relate better to what I am going to share later:

1. I am in my mid-forties and still have a full-time job.

2. I am generally risk-averse in nature (this explains why I started investing only in recent years).

\$20K is not too big a sum and many of us should be able to amass this quantum after a few years of working and saving. So, the question is what would you do (from an investment perspective) if you have this extra cash on hand?

By “extra” I mean this amount is not part of your emergency fund and you don’t intend to use it for any other purposes in the near future. Of course, there is no right or wrong answer to such a question.

Personally, the first thing that I would do is to give a theme or objective to this sum of money e.g.:

1. Is it to grow your wealth? Hence you can be more aggressive in your investment approach.
2. Is it to beat the **inflation erosion**? Hence, investment with low volatility could be a strategy.
3. Is it to grow your **retirement fund**? Hence, investment with appropriate diversification and low volatility is the preferred choice.
4. Etc...

Just take as an example, in the current phase of my life, my themes/objectives for this sum of money would be for:

- (2) To beat inflation erosion AND
- (3) To grow my retirement fund.

With these objectives in mind, I need to find the investment vehicles which are more stable and less volatile. Also, since I have only less than 20 years to reach the official retirement age (62 years old in Singapore’s context), my other focus is that these investment vehicle(s) must be able to generate additional **regular income** (in the form of dividends or coupons) to supplement my upcoming CPF Life monthly instalment payments.

With all the themes/objectives being set, the next step is to source for possible investment opportunities, which is a piece of cake (I am just kidding). There are so many investment vehicles available in the market - ranging from Gold, Forex, Stocks to Bonds - it is kind of mind-boggling if we don’t know where to start.



With the knowledge of my risk appetite and objectives of my capital, the two investment vehicles I would definitely consider are:

1. **ETFs** (Exchange Traded Funds) AND
2. **REITs** (Real Estate Investment Funds)

In terms of distribution, I am inclined to invest 50% (\$10K) in each of these funds. This will ensure enough diversification and still maintain a sizable capital in each of the funds.

## WHY ETFS (EXCHANGE TRADED FUNDS)?

Unless you are a Warren Buffet to-be who is pretty good in picking the right stock(s) and at the right time, one of the key challenges for many retail investors (myself included) is none other than “*What stock to buy?*” That’s where ETFs come in handy; it saves us the time and effort in assessing each individual stock and just focus on the composite of the stocks instead.

In Singapore alone, there are many ETFs to choose from, but among them all, two of the main ETFs (tracking the performance of the STI aka the blue chips) to consider are: **SPDR ETF (ES3)** and **Nikko AM STI (G3B)**.

Besides the potential capital gain, most ETFs do distribute dividends like their individual dividend-paying stocks. For example, the SPDR and Nikko AM STI both distribute semi-annual dividends to their shareholders every year.

Lastly, with the recent reduction of the board lot size (from 1,000 shares to 100 shares), it makes investing in ETFs more accessible to retail investors.

## WHY REITS (REAL ESTATE INVESTMENT FUNDS)?

REITs investments have been gaining popularity among the retail investors in recent years in view of its mouth-watering dividend yield potential (6 to 7% dividend yields from the REITs is not uncommon; this is where it helps to beat inflation). Also, with the stricter regulations that REITS managers need to adhere to - e.g. the maximum gearing ratios, the minimum dividend distribution ratio, etc -it makes REITs investments seem a little bit safer than an individual stock (at least that is how I feel).

One of the other key features of REITs investments is their quarterly dividend distribution. With a more frequent dividend distribution, it fits well in being part of a

portfolio that helps to generate regular income. As an icing on the cakes, most of the dividend income from REITs are tax-exempted. There are more than 30 REITs in Singapore alone, so we are truly spoilt for choice.

Also, with the recent reduction of the board lot size (from 1,000 shares to 100 shares), it makes investing in REITs more appealing to the retail investors.

So, that's all I have to share at the moment. Hope to see you around in one of the personal finance seminars, workshops or gatherings.

Now, the ball is in your court!

If you have \$20K extra cash now, what would you do?

# IF YOU FAIL TO PLAN, YOU PLAN TO FAIL!

BY BUDGET BABE, [sgbudgetbabe.com](http://sgbudgetbabe.com)

*Otherwise known as the girl who saved \$20k in a year, Budget Babe is a former straight-A student who later realised academic success does not guarantee future financial stability. A strong believer that financial success can be learnt, she now writes to help her readers take charge of their lives and money. Budget Babe has since been featured on The Straits Times, AsiaOne, Lianhe Wanbao, Cleo, The Women's Weekly and Mediacorp 98.7FM.*

## BACKGROUND

Would you believe me if I told you I used to fail mathematics all the time?

When I first started out, my biggest struggle in investing was having to deal with the numbers. Get me to read annual reports and I'll happily digest them, but run through financial statements?

No way.

Having taught General Paper for seven years, it has become a regular affair for me to be always analyzing and evaluating issues in our world today.

My weakness is in the numbers, so I try to make it up with something else. These analytical and evaluative skills (trained through years of learning and teaching the General Paper subject) are now my main "weapons" in approaching my investments. While others may use fundamental analysis, technical, macro-analysis or even a series of foreign mathematical formulas that I can't quite understand, my approach is to combine (i) sound fundamental analysis, (ii) an appreciation for the business and (iii) my very own evaluative skills.

Once you know your own strengths and weaknesses, you'll be better placed for success in your investing journey.

## STEP 1: GETTING EQUIPPED WITH INVESTING KNOWLEDGE

George Martin once said, "Knowledge is a weapon. Arm yourself well before you ride forth to battle".

Do you sit for your national exams without studying? Surely not. In the same vein, you need to make sure you arm yourself with knowledge when you choose to invest. This is your hard-earned money after all.

There is a wealth of investment books out there written by investment gurus well-respected all over the world. My favourite are works by Warren Buffett, Peter Lynch and Benjamin Graham.

If you're not one for thick books and you prefer bite-sized knowledge over time, I quite like reading financial blogs, where the authors are normally generous in sharing their knowledge. Many financial bloggers not only give sound investment advice, but they also tend to do a great job at summarizing or simplifying key lessons that they've picked up along the way. I follow a small handful of financial bloggers whom I respect for their analytical skills when it comes to selecting stocks. Sometimes, you might even get a peek into their minds when they share about any recent actions they've made on the stock market.

Are investment courses a good source of knowledge? Perhaps, but not all of them. Go for trusted names, such as BigFatPurse, where the folks practise a type of value investing that I agree with. Personally, I'm wary of courses who claim to offer you an "easy" way to make money, because the truth is that investing is NOT an easy process at all. If you're looking for a magic formula, you'll be disappointed.

There is no substitute for hard work. If you want to succeed in investing, you MUST be prepared to do due diligence.

Finally, the most important knowledge you must have is with regards to the tool you're buying into, be it bonds, stocks, REITs, or any other investment vehicles. The annual report is a good place to start, but you should not end your knowledge journey there.

## STEP 2. CRAFT YOUR INVESTING TIMELINE AND GOALS

Before you start, you must first have a plan for your investment journey. What led you to want to invest? Are you investing to beat inflation rate, grow your retirement nest, or are you hoping to get rich from investing? What is your investing time frame?

For me, my destination is clear: I invest to grow my passive income to a level where it covers my living expenses with extra to spare. Right now, I am still in my mid-20s, so time is on my side.

Thus, knowing that my investments are for the longer-term in mind, I do not worry too much when the market drops and my portfolio experiences paper losses. Stock prices are but noise. I try to focus on finding great companies that are either trading below fair value or have potential for future growth.

Do I worry? Certainly. After all, I am only human, with emotions to feel anxiety, sadness, anger, disgust and joy (yes, that was an Inside Out reference, haha). But I try not to let my emotions get the better of me. When I own a great company, I sleep well at night knowing that my diligence and patience will be rewarded over time.

What is YOUR aim?

## STEP 3: HOW MUCH WILL YOU INVEST?

I saved \$20,000 within my first year of work on a monthly pay of \$2,500 a month. Many people think that is impossible (just take a look at the comments on my blog), but if I can do it, so can you.

But if you think \$20,000 enough to invest, you're dreadfully wrong.

Imagine if you're starting at the age of 20, and lucky enough to generate a consistent investment return of 7% annually on your investments. In 40 years, that will grow to almost \$300,000. Sounds good, doesn't it?

Let's put that into perspective, when you're 60 years of age and all set to retire, you only have less than half a million for 25 more years of life (presuming you live till 85, and the truth is, most of us will live longer than that). With increasing inflation rates and the rising costs of living, do you think \$1,000 a month will be sufficient?

I doubt so.

Now imagine if you continue to save \$20,000 every year. You'll be looking at \$4.5 million instead of \$300,000 after 40 years. How does that sound?

Or, accounting for the fact that your savings might potentially drop because you'll soon be saddled with housing loans and the cost of raising children, imagine if we set a minimum of \$10,000 savings annually. This will give you \$2.5 million instead, a sum that most Singaporeans agree should be the minimum sum one needs to have a decent retirement.

This \$20,000 is all but the first step towards your journey of financial freedom. If you keep up your discipline in saving and spending prudently, you're in good hands for the next 20, 40 years...or perhaps even the rest of your life.

## STEP 4: ALLOCATING YOUR MONEY...THE BUDGET BABE WAY

Acknowledge that you're still a beginner and that there are many others who know much more about the market than you do. There are also people who have insider information on certain stocks, so they will always have the upper hand.

Yes, life is unfair. Deal with it.

But as a beginner, there's still a way you can make money from investing while honing your skills. Choose a good exchange-traded fund (ETF), such as the STI ETF – which is a basket of the top 30 biggest companies listed on the SGX – and allocate **30% of your money to the ETF**.

ETFs are a good choice because they help you to diversify your risk across 30 different stocks, thus your potential losses (but also profits) are balanced out. At the same time, the basket of companies are typically strong, blue-chip stocks, which means they will hardly ever fail. You essentially have close to nothing to worry about.

But while ETFs are generally one of the safest options on a stock market, they can also be viewed as boring by investors who want to choose their own stocks. If that describes you, this is where you can consider real estate investment trusts (REITs), which typically pay out a large portion of their rental earnings.

It is not rare to find dividend yields for some REITs in the range of 4% to 7%, which makes for a pretty good return on your money. Here's where you can **allocate another 30% of your money to a REIT**. If you put \$6,000 in a REIT that consistently pays a 6% dividend yield, your money will grow to over \$7,000 within 3 years (assuming you reinvest the dividends paid out). Imagine this sum compounding over a longer period of time!

Finally, with the \$8,000 left, this is where you can look out for value stocks that are currently underpriced by the market. Some of the value stocks I generally love have names that are almost unheard of by the general population, because that's how under-the-radar they are. If you've picked a true value stock, in the long run, the market will return the stock's share price to fair value.

How dedicated are you to investing, and what is YOUR plan to succeed?

# A LETTER TO MY 24-YEAR-OLD SELF

By **My 15HWW**, [my15HourWorkWeek.com](http://my15HourWorkWeek.com)

*After working in a cubicle for the best part of 4 years, Mr 15HWW managed to accumulate a small stash that could potentially provide for his basic expenses. He then decided to "quarter-retire" at the age of 29 as he wanted more time to pursue his many diverse interests outside of traditional employment. He currently works as a freelance tutor and writer in his transition to semi-retirement.*

*Join him as he chronicles his journey to create his permanent 15 Hour Work Week. With his guide, an alternative path of semi-retirement could be made earlier and easier for you.*

Dear 24-year-old self,

I know a lot about you. You might not believe it, but in fact, I probably know you better than even you yourself.

## YOUR SITUATION

Financially, you're way ahead of most of your peers. Being a full-time tutor and part-time undergraduate (at the expense of dating girls in a hall) for the best part of 3 years, you have set aside emergency funds of close to \$10k and even accumulated \$20k for your investments. All these at the tender age of 24, when you're still a Year 4 student.

Just two years ago, you did not have the funds to invest in the local stock market, when the STI Index was languishing below 2,000 points in the aftermath of the Great Financial Crisis. Its subsequent spectacular recovery passed you by, and you were left cursing at the missed opportunity.



But even though you have a little more in funds now, you're terribly out of place. While your peers are busy searching for internships at top firms or securing cushy employment, you're thinking of how to deploy your hard-earned \$20k to good use. Few are interested to discuss, much less advise you. And it does not help that you are slightly confused.

Having devoured most of the mainstream investing literature by your late teens (yeah, you are a real geek), you realised that there are basically two different philosophies governing the entire investing universe. And it appears that you have to decide between becoming a Boglehead or a student of Buffett.

A decision akin to choosing between saving your mum or your wife in that typical drowning situation. And the most difficult part is that both camps make so much sense.

## BOGLEHEAD VS BUFFETTOLOGY

Warren Buffett made his fortune picking stocks, buying exceptional businesses at bargain basement or even fair prices and then simply holding the shares forever. Many academics who cling on to the efficient market hypothesis attribute his six decade-long success to a 3 or 4 or 5 or 6 (you get the drift) sigma event or simply luck.

But that's simply absurd. He and his buddies have repeatedly and consistently achieved higher returns than the market average (we're talking about decades here). But the important question is, are you as good or even nearly as good as him?

Probably not. It's also true that mathematically, it is impossible for everyone to perform above average, although there's nothing to stop everyone from thinking that way. So John Bogle introduced passive index investing funds to save the average Joe from himself. His argument was that if most of the fund managers (with all their powerful tools and brilliant theories) have statistically underperformed the market return in the long run, what chances do the average Joes have?

In comparison, Bogle's Vanguard funds or similar instruments like ETFs would achieve average market returns since they are buying all stocks in proportion to their weight in the market. No stock picking here. Investors also save on the high management fees that's typically charged by the mutual funds.

So, unless you are convinced that the fund manager is the next Buffett, Lynch or Templeton, you should really avoid paying a huge fee to someone else to manage your hard-earned money. That's the common ground both camps are firmly on, since even Buffett admitted that retail investors who behave like children in the market are probably better off with index funds.

So if you're average or have no interest in understanding stocks beyond the superficial, it's really best to stick with Bogle's suggestion: Passive Investing.

## MY ADVICE

Instead of having to settle on one at the age of 24, why not perform both strategies and then observe which option is more suitable for you over the long run?

After being a silent reader of local investment blogs for some years. I know you are not content with being average and would like to try your hand at prospecting businesses. **Set aside \$15k for this purpose. This amount of money should allow you to purchase 4 to 5 stocks and give you a taste of an attempt at value investing.** The expenses would also be kept to a manageable 1% over 4 or 5 trades. As for the remaining \$5,000, use it to start the Philip ShareBuilder Programme, where you could accumulate the STI ETF on a monthly basis, leveraging on any potential benefits of dollar cost averaging at the same time. This is simply passive investing in the 30 largest stocks listed on the local exchange and requires little effort on your part. You get immediate diversification. And to limit the costs and fees to 1%, **put in \$600 a month.**

Yes, I understand that within a year, the \$20k would be entirely used up and invested. But seriously, \$20k is likely to be a small stepping stone for you. You will be entering the workforce within a year and there will be opportunities for you to accumulate even more money in due time.

You would probably only need to be more aware of asset allocation when you have accumulated an amount equal to a year worth of your salary, somewhere in the region of \$50k. That is when it would be prudent to invest a portion in some bonds, or even set aside as cash to take advantage of rare opportunities.

For now, just plan for the entire \$20k to be in the market. Even if the worst happens (extremely unlikely) and you lose this entire \$20k, time is on your side. You will earn back this sum of money easily. The most important thing is to learn more about yourself and your abilities at the start of this lifelong investment journey.

Otherwise, how are you going to accumulate enough wealth to allow the future you to plan for an early semi-retirement and a 15 Hour Work Week?

With Love,

My 15HWW

# MY \$20K APPROACH TO INVESTING

By BRIAN, [FOREVERFINANCIALFREEDOM.BLOGSPOT.COM](http://FOREVERFINANCIALFREEDOM.BLOGSPOT.COM)

*A Path to ForeverFinancialFreedom (3Fs) is a story about the journey of a person striving towards life beyond the corporate world and rat race, also known as financial independence. Brian is currently a salaried employee working in an accounting profession, married and blessed with a beautiful wife and son. With strong motivations and desire towards growing wealth in order to lead a more meaningful lifestyle, he hopes to attain his dream and goal in a few years to come.*

\$20K is not a small amount for anyone who just started investing.

You might be eager to start compounding those returns in the long run and start imagining in your head the amount growing to \$30K, then \$40K, and then what you would do once the amount grows bigger.

At this moment, stop and ask yourself truthfully if you are financially-savvy enough to earn those returns. If the answer is, it feels too easy to earn those returns in the short run, then you are probably earning them through luck, which most of the time happens to investors in a bullish market.

It is too easy to read up on a few forums and discussions and get swayed by the emotions of herd investing. Herd investing is a comfortable approach because everyone is going in the same direction. This analogy is drawn from a study in California where there are fires in the building and everyone started to run for the same exit. It definitely takes more than courage to brave through a different direction than what most retail investors are preaching. Emotional and psychological investing take years to polish and even the best fund managers out there may fall victim to their own emotional attachment.

When I started investing, I committed the same fallacy as what I've just preached. Back then, there was so much talk about CapitaMall Asia, and I kept averaging down blindly during the Eurozone crisis. Having limited funds to average down further, I got scared in the pants and started to release them in batches at a loss, thinking things would get uglier. Of course, as we know in the later stage, the share price converged back to its fundamental value and they were subsequently delisted at a premium.

If I were to repeat the same circumstances, I would use the money to attend a reliable course, whether they are technical or fundamental, and stick to the strategy which suits my personality. I would also start to put a sum of money into some of the better blue chip stocks with predictable cashflow and dividend history, so to get a feel of the market. For example, Singtel or Starhub would fit the bill nicely in this case.

I would avoid going into speculative stocks such as Noble, Golden Agri and volatile stocks such as banks, as a beginner investor would probably not have the stomach to withstand the volatility of the market at an early stage.

If one prefers, he or she can also choose to invest in an STI ETF, especially if timing or research preference is an issue. Do take note though that this is usually a reliable but boring method of investing.

Ultimately, it is about knowing yourself, knowing whether you enjoy investing and knowing whether you are able to make money work harder for you in the long run. Grow your wealth, enjoy the journey. Don't fret too much about it.

# HOW TO INVEST IF I HAVE \$20K?

By DEREK, [THEFINANCE.SG](https://thefinance.sg)

*Derek works as an IT engineer who has a passion for anything to do with finance and investing. When he is not reading up on finance and investing news in Singapore, or doing anything geeky, he will spend his time exploring new sights and sounds e.g. a new café, visiting a new exhibit or going for a musical. He is also an avid soccer player and long-time Manchester United fan. He once said that watching a soccer match can sometimes be more exhilarating than a plunge in the market!*

I am no investment guru and I am not going to dish out any sound advice. What I can is to share my investment journey and you can decide if it is suitable for you.

I think most experts will say that \$20K is too little to create a proper portfolio of stocks and the STI is your best bet. Such advice is sound but may not suit everyone...at least not for me. I started dabbling in stocks with less than \$10K and while the STI ETF already existed then, it never crossed my mind as a suitable investment product. When you are young, you feel that you can do anything and with your Midas touch, every stock you pick will turn on to be a multi-bagger right? Wrong! I made many mistakes and would have been better off with just buying the STI ETF but I have no regrets. The mistakes learned proved to be invaluable in my investment journey. If I could turn back the clock to my first \$20K, this is what I would do...

I will split it the amount into 70/20/10.

The first 70% (or \$14K) in blue chips. The companies listed in the STI is a good start. This will be the foundation of my investment portfolio. The key here is to buy stocks that allow me to sleep well regardless of the market conditions. A simple way is to identify companies that have gone through a few recessions and still pay a steady stream of dividends. This was how I went through the subprime crisis.

Some will comment that \$14K is too little to buy blue chips. That may be true in the past as the minimum number of shares I could buy then was 1,000 shares. Stocks like DBS at \$19 were simply out of my reach.

However with the reduction of the board lot size to 100 shares this year, it is now possible to construct your own mini STI index.

Brokerage fees will be a major hurdle but if you are comfortable in using a custodian (your stocks are held by the broker), Standard Chartered Bank Online Trading offers one of the lowest rates.

The next 20% (or \$4K) will be in speculative stocks. This is where I will learn the most and I am prepared to lose the entire amount. Some call it paying your 'school fees' and can be or should be avoided. However, I have yet to know any investor who did not pay their 'school fees'. Some people probably spend \$4K or more attending investment courses. I would rather read up on my own and spend the money learning the hard way. The emotions in dealing with money cannot be taught and one can only learn from experience.

I will put the last 10% in cash and/or bonds. Here I will learn to invest in less volatile financial instruments. The Singapore Savings Bond is ideal for parking the funds here. It is a pity that I did not have it then and I parked my funds into a Money Market Fund. This fund also serves as a war chest and teaches you when and how to use it.

My journey does not end here. Relying on just 20k alone will not be sufficient for me to retire and live off my dividends. I often hear of people saying how they missed a multi-bagger and if they were to put all the money in that stock, they would have made lots of money. Theoretically it is possible but realistically, will I have the guts to put all my money into an unproven stock? I want to be able to sleep peacefully at night.

In addition to the dividends, I will be looking at how else I can continue to grow my investment portfolio. A good starting point for me is to treat it as forced savings where I allocate a sum of money into the investment portfolio every month.

In summary, my aim for the first \$20K is to create a “learn as you invest” portfolio. The journey does not end here. From the first \$20K, the next challenge is how to grow it on a consistent basis by injecting fresh funds in the beginning, and then purely by dividends or capital growth.

I wish you well in your investment journey!

# PROPOSED APPROACH TO INVEST \$20,000 FOR THE INTERMEDIATE INVESTOR

By CHRISTOPHER NG WAI CHUNG, [TREEOFPROSPERITY.BLOGSPOT.COM](http://TREEOFPROSPERITY.BLOGSPOT.COM)

*Chris is a personal finance author with three published works and have spent 15 in years in Information Technology. He gained financial independence at age 39 and he is currently enjoying my reinvention as a Law student in the SMU Juris Doctor or JD programme.*

*Growing Your Tree Of Prosperity is a blog which details his journey of continuous and never-ending improvement. His conviction is that the ability to gain financial independence is a skill which can be developed in ourselves by exercising personal discipline, self-reflection and observing the movements of the stock markets.*

Many Singaporeans find themselves in the office much longer than their counterparts in other countries. For this hard work to pay off, Singaporeans should give themselves an opportunity to retire early. Having some remaining time in our lives being beholden to no employer would allow us to have a good rest, or even reinvent ourselves. After 14 years in the IT industry, I am now back in SMU studying for a Law degree.

This brings us to a working definition of financial independence: You can be considered financially independent if your investment income exceeds your living expenses.

I expect the other bloggers to have a lot of great advice for beginner investors which include the use of STI ETFs along with some fixed income instruments like the SGS bonds. Instead of adopting a similar approach, I would propose a different way for the modern, Internet-enabled, intermediate investor.



By adopting these steps with a \$20,000 portfolio, an investor can secure about \$1,400 to \$1,600 of dividends a year. Scale this to a \$300,000 portfolio and the expenses of a frugal single person can be adequately covered by his or her dividend payments.

Key elements of intermediate investing:

#### a) Decide on a theme

The first thing an intermediate investor has to do is to decide on an investment theme. If you follow BigFatPurse, their theme is deep value. BigFatPurse delves deeply into a company's balance sheet and tries to buy a dollar for a few cents. The result based on my backtests on Bloomberg are devastatingly effective.

My personal theme is different - I invest for dividend yields which are designed to pay often enough such that the cash flows replace a full time job. For capital growth, I prefer to stick to building my human capital by developing a legal career eventually after my graduation from SMU.

#### b) Determine your asset classes

The modern investor has many options. If, like myself, you only stick to high-yielding investment opportunities in Singapore, you can view your asset classes as follows :

## HIGH-YIELD DIVIDEND STOCKS

This forms the equity component of the portfolio. I typically hunt for mid sized firms which can give out 6-8% dividends every year. According to a paper by Roger Arnott, a Clifford Asness entitled *Surprise! Higher Dividends = Higher Earnings Growth*, when a company is forced to pay dividends through a higher payout ratio, there is evidence that it actually grows faster as managers work harder because of a more disciplined business environment.

## REAL ESTATE INVESTMENT TRUSTS (REITS)

The special feature of REITs is that the government will allow tax advantages if they give out 90% of the income they receive from rental payments.

REITs were very resilient in the last economic recession of 2008/2009. At the bottom of the market cycle, REITs could be purchased with yields exceeding 10%.

This current downturn has resulted in plenty of investing opportunities and this time round, we get to balance the trusts which deal with Singapore property along with trusts which deal with foreign property.

## BUSINESS TRUSTS

Business trusts, unlike listed companies, are allowed to return to investors operating cash flows rather than just accounting profits which results in an asset class which is high yielding.

These are the higher-risk investments which allow investors to invest in broadcasting companies as well as shipping companies. Business trusts have a big role to play in a yield portfolio and can yield 10%-13% in some parts of the market cycle. but these can be very risky investments with very little opportunity for capital growth.

## PEER-TO-PEER LENDING

The new kid on the block which allows investors to have high-yield bond-like returns of the 6-8% variety which come in the form of peer-to-peer lending websites like Moolahsense which allows us to lend to struggling SMEs. These loans can be profitable in small quantities if one can also stomach the risk of an occasional default.

This allows an intermediate investor to role-play a banker of sorts.

### c) Diversify

The next step is to spread your investments across these asset classes and counters so that you will not be subjected to the idiosyncratic risks of the companies you own.

If we diversify \$20,000 across these four asset classes, we get to put \$5,000 in high-yielding stocks, REITs, business trusts and peer-to-peer lending campaigns.

We can then split \$5,000 across 5 stocks/campaigns in each category.

This can result in a portfolio of 20 counters which is designed to pay out \$1,400 to \$1,600 over the next year at different times.

**d) Backtest your results**

It is possible to just stop here and just start investing your money by opening a brokerage account. But intermediate investors can go one step further to backtest or simulate their results.

Bloomberg terminals are available in the National Library for a semi-expert to construct and test out their investment ideas. As an SMU student, I have access to hours of Bloomberg terminals every day.

To convince myself that my SGX portfolio makes sense, I use the “EQS” function on Bloomberg to construct stock filters. In this example, I look for the stocks yielding over 4% in the local markets as projected by all the stock brokers who monitor Singapore stocks. I then add another filter to ensure that these dividends can be sustained by the company’s free cash flows.

Within 5 minutes, the Bloomberg terminal would inform me that had I constructed this portfolio 10 years ago I would have a portfolio which returns about 15% a year with a semi-variance or downside of about 12% - which is not bad for an investment strategy.

As a precaution, I run the same strategy over the Hong Kong stock market and find similar returns which are stronger than the market average.

**e) Rebalance**

The next question is how often you should rebalance your portfolio. One approach is to rebalance annually if you have access to a device like a Bloomberg terminal.

I would rebalance by only selling holdings whose yields have dropped and replace them with new counters with higher yields.

We dividend investors can be a lazy bunch.

**f) Do not use leverage**

As an intermediate investor, your goal would be to reach financial independence faster than your peers so you are not expected to achieve returns of fund managers and hedge funds.

As such, you should avoid the use of margins and leverage as they can affect your psychology.

## SUMMARY OF THIS APPROACH

Intermediate investing is about developing your particular style and then sticking to it until you are able to reach your life goals.

Using my approach, it is possible to attain 8% yields in the current market conditions. A single working person who has a portfolio size of \$300,000 can attain a monthly investment income of about \$2,000 a month.

This is enough to pay off a substantial amount of expenses allowing your entire pay packet to be farmed back to buy even more investments. The road to millionaire-dom will then be secured.

This strategy works best if you can stomach the rollercoaster ride of the market during a recession.

# \$20,000 WITH 20 STOCKS IN 20 MONTHS (THE 20:20:20 GIRAFFE APPROACH)

BY GIRAFFE, [GIRAFFEVALUE.COM](https://giraffevalue.com)

*GV is an ACCA graduate and the author of GiraffeValue, a systematic deep value investing blog. He's currently writing a definitive guide to Singapore stocks investing in his blog. And he often says, "that's the best guide. But my only question is, will you miss it?"*

All right, this is my take for that. This is not what I think is right or what the general consensus is. But this is what I would do if I were to start all over again with \$20,000 investable capital.

Before I dive in further, let me set your expectations right. You are not going to get rich by investing, as investing only creates a sizeable wealth when your investments reaches a critical mass. And the yearly returns will never get you there.

Next, risk expectations. A good rule of thumb is 50%. The stock market is volatile - a decline of over 20% is not uncommon. And a sudden unpredictable crash that halves your investment portfolio should not come as a surprise when it happens (I'll talk about the psychological part later).

The above declines may often last for 1 to 2 years.

## A LITTLE HISTORY OF STOCK MARKET PRICES & RETURNS

Here is a little history of the market prices in the Straits Times Index and the expectation of returns. If you access YahooFinance and enter the STI index, the below is what you'll basically see:

From 1990 to 1996 = The market doubled

From 1996 to 1998 = The market dropped by half(65%)

From 1998 to 2000 = The market tripled

From 2000 to 2003 = The market dropped by half

From 2003 to 2007 = The market tripled

From 2007 to 2009 = The market dropped by half (58%)

From 2009 to 2011 = In just two short years, the market doubled and recovered close to where they were. Not to mention that it was the “worst recession since the great depression”, a phrase that is often used by the media.

I'm not trying to connect all the events as if they are all predictable. They are not. For example, from 2009 to the present, after a long 6 years we still haven't seen the market tripling. And at the time of writing, the market has dropped close to 20% from its high.

The questions as to whether will the market drop to a level that is half from its previous high, or would the market rebound back to the price level that is triple that of 2009?. These are not questions we should be asking - those are the topics of debate for the economic philosophers.

What you need to know are facts, not opinions or forecasts.

The fact is, markets have halved and doubled or tripled plenty of times in history. The fact is, you cannot expect to see your portfolio in green all the time. Unexpected corrections (10-20% decline) and unpredictable crashes (50% decline) happen throughout the history of stock markets.

You have to be mentally prepared for that. Despite all these ups and downs, you could have still made an annualized return of [7%](#) over the past 10 years if you had invested in the STI ETF. I know it is psychology, and I'll address it later.

Let us get into the market for a little bit, before I talk about my investment approach.

## WHAT EXACTLY IS THE STRAITS TIMES INDEX?

The boring part: An index that tracks the price of the 30 Singapore largest companies by market capitalization. And there is an exchange-traded fund that you can buy/sell in the stock market that replicates the price of the Strait Time Index.

Interesting part : how most people fail to question how the heck is the STI ETF able to yield a 7% annualized return over the past 10 years with the below brainless or even lousy criteria:

1. Only invest in 30 largest market capitalization stocks in Singapore
2. Using a market capitalization weighted portfolio
3. Substitute any company that does not fulfil point 1

Are point 1 and 2 good criteria? Really? Since when has expensiveness alone become a buying criteria? I've not come across any investment books that suggest that. Point 2 is even worse, as it says to ramp up your buying when stocks prices are going up and keep selling when the price of stocks are going down (Buy more High, Sell more Low).

So the view of Buy Low, Sell High is not part of the STI methodology. Despite the above mentioned drawbacks, it has still delivered a good 7% annualized return over the past 10 years.

By the way, this is not an opinion but simply facts. What is even more ironic is that most investors, even professionals, are struggling to beat the above lousy criteria.

## THE UNINTELLIGENT INVESTOR

There's a research done by [BlackRock](#) which shows that average investors only managed to perform at 2.5% annualized returns, which is only slightly above inflation. One member in the ValueBuddies forums commented

"Average investors are dumber than a piece of goldbar i.e 2.5% vs 5.8% return respectively."

Maybe that is just a one-off research, why don't you try to Google "average investor performance"? You will see how many reports suggesting the same.

You might have thought, maybe that doesn't happen in Singapore. Well, there's a report from the CPF Board showing the performance of CPF members using their CPF money to invest in stocks. And the outcome is: 40% of its members are losing money while only 15% of members are making above 2.5%.

Simply put, the average investors failed to beat a simple, mechanical and lousy criteria of the Straits Times Index.

## A CREATIVE TWEAK

So one day, someone thought of doing a tweak on point 2. Instead of using a market capitalization portfolio (Buy more High, Sell more Low), one uses an equally-weighted portfolio. Still not exactly a Buy Low Sell High strategy, but at least it is not increasing our buying on expensive stocks.

The conclusion turned out to be that an equally-weighted STI outperforms a market-cap STI portfolio. Boring Investor blog has a [post](#) on it while the Motley Fool has [one article](#). I believe *Show Me the Money* by Teh Hooi Ling or one of her online articles has detailed this as well.

## ELEPHANT IN THE ROOM (BUT WE ONLY SEE ANTS)

Too often we have overused words like "market return", "market" or "index" too much that we have forgotten that it is based on a very simple and mechanical approach to stock selection.

The "market" that we often refer to in Singapore is known as the Straits Times Index. And the STI is:

1. Invest in 30 largest market capitalization stocks in Singapore
2. Using a market capitalization weighted portfolio
3. Substitute any company that does not fulfil point 1.

Nothing more.



## EXTENSION OF THE CREATIVE TWEAK

Since a little tweak in the criteria of STI, from a market capitalization weighted portfolio to an equally-weighted portfolio has been shown to outperform the former.

Doesn't it make more sense to change the first criteria as well? Since buying stocks based on its expensiveness is a really lousy criteria (with full respect as it still yields an annualized 7% return, and is smarter than a piece of goldbar as well).

The below are a basic framework and criteria that I have concluded after reading numerous papers, reports and books that have proven to beat the market consistently, even on a risk adjusted basis:

- A portfolio of stocks with at least 20 counters that possess low price to a fundamental ratio i.e P/E, P/B, P/FCF, EV/PBIT, etc
- Annual rebalancing
- Equally-weighted portfolio
- Apply a simple and mechanical approach to investing with little human intervention
- Avoid any form of qualitative assessment, estimation or forecast

The Straits Times Index by itself is the best example of a simple and mechanical approach to investing which has proven to outperform the average investor.

The average individual often tries to use their personal judgement on stock investing and often get themselves into behavioural errors and overestimation of their ability to pick the right stocks, hence resulting in serious underperformance even against the simple and mechanical approach of the STI.

## SOME MATERIALS FOR YOUR EASY REFERENCE:

1. Show Me The \$ by Teh Hooi Ling, in particular, the article of 'Price to Book, Worth a Look"
2. [The Scientific Approach to Achieving Double Digit Returns Using Value Investing](#) by Eric Kong
3. Report [What Has Worked In Investing](#) by Tweedy, Browne Company LLC
4. The Little Book That Still Beats the Market or [Joel Greenblatt's Market Secrets](#) by Joel Greenblatt
5. Deep Value, [Deep Value Investing](#) or [greenbackd.com](#) by Tobias Carlisle
6. [Old School Value Stock Screens Performances](#) by Jae Jun

## \$20,000 WITH 20 STOCKS IN 20 MONTHS

The below are the simplified steps I take to build my personal portfolio. It may not be the most optimal. And should you have a better way to go about it, do it by all means.

1. Get a screener to screen out the lowest P/E & P/B stocks. I'm using ShareInvestor.com
2. Remove S-chips and stocks with high debt to equity ratio i.e  $>0.4$
3. Put a weighting score to P/E & P/B, sum up and sort based on the lowest score. i.e  $(P/E * 0.4 + P/B * 0.6 = Y)$
4. Do a dollar cost averaging of \$1,000 on the stock with the lowest score in each month. Commissions should be about \$1.80 via Standard Chartered Bank in each of the \$1,000 you invest.
5. Minimum of a 1-year holding period for each stock. So when you reach your 21st month, do the above screening process again. To check whether the first stock that you bought still fulfills the lowest 20 score; if it doesn't, substitute it with the new candidate that is within the lowest 20 score (may add in fresh capital as well).

If it does, then hold it. You may inject fresh capital as well.

Using dollar cost averaging approach, prevent yourself from making mistakes on a large sum of money at one go.

In the early phase of your investment, you are very likely to make mistakes. And you definitely do not want the mistakes to be costly.

## BE A LEARNING MACHINE

By stretching it to a 20 months period, you are allowing yourself to build on your conviction and at the same time, increase your knowledge on investing.

At this phase, you should act like a sponge - absorb information as much as possible. But unfortunately, not all information are equal, some may even contain “viruses” that can be very detrimental to investors.

Stay cautious on Warren Buffett books. It is very easy to fall into Buffett’s trap. Avoid reading too many investment books and economic news. These can do more harm than good.

My alternative is to read papers, studies and reports, particularly their backtest results, and the reasons why other people aren’t doing it. The above mentioned resources are a good place to start with. For lighter versions, you may listen to [TheInvestorsPodcast](#) - you may subscribe to it on your Apple Podcast and listen while you are commuting.

Lastly, one of the most important thing is invest time in your MS Excel skills. You need to know your total performance and how to use a tool to do basic analysis.

## HAVE AN ALGORITHMIC BRAIN, NOT HUMAN BRAIN

Some may have thought of asking, isn’t qualitative assessment based on judgment and estimation value-adding to the investment process? Unfortunately, in the majority of cases, value destroying is the likely outcome.

By following a simple and mechanical approach you prevent yourself from making the behavioural errors the majority of investors made, hence you are able to exploit their mistakes to your advantage.

Wait, how about the China slowdown and the Fed interest rate hike? The STI does not care about those things and still yields 7% CAGR, so why should you?

## HOW MUCH CAN I MAKE?

Whether you like to hear it or not, investment returns is not something that is predictable nor can it be guaranteed.

Some reports may show that you are able to achieve CAGR of 10%, 15% or even 20% by doing the above. And, it would be superficial to conclude that this is the kind of return you can achieve.

It is not that simple. There are a million factors that cause the investment return to be what it was, and past performance is never an indication of future performance.

The same for the STI's annualized return of 7%.

There is no way we can tell that in 2016, the STI return will be 7% or that in the next 10 years, its annualized return will be 7%.

But what is clear is that despite all the economic complexities, the STI beats inflation. It beats the performance of average investors and it beats most asset classes.

Holding a portfolio of stocks with the above mentioned criteria beats STI.

That's all.

I wish I had read the above article one year ago. I'm just so jealous of you now. Well that's life I guess.

You beat me this time.

# THE BEST INVESTMENT YOU CAN HAVE WITH \$20,000

By ALVIN, [BigFatPurse.com](http://BigFatPurse.com)

*Alvin founded the BigFatPurse.com in 2007 in the spirit of sharing his investing experience. He believes a minimum level of financial literacy is necessary to enable people to be functional with money. He is also the author of two books, *Secrets of Singapore Trading Gurus* and *The Singapore Permanent Portfolio*.*

I started investing in stocks with less than \$20,000. My investment account grew over time as I socked more money from my salary and I could not remember at which point in time the account had \$20,000. But I definitely remember I was young and ambitious, and have always been fascinated by the dynamics of the financial markets.

When I just started out, buy-and-hold investments looked too boring to me. I saw 10 percent returns as mediocre and I believed I could achieve more. A quick mental accounting told me that I could only double my money in 7 years at that rate.

I told myself that since I was going to take risks anyway, I should leverage up and time the market, making money *faster*. My investment journey began as a trader, relying on technical analysis to make buy and sell decisions, and using leverage to enable me to buy more stocks than my capital alone allowed.

The first strategy that I had learned was trend following. The mantra was to buy a stock that has shown momentum on the uptrend, and short a stock if there is momentum on the downtrend. I would get out of a position if the trend reversed. I would ride the trend as long as the trend persisted.

Sounds good? It was easy to understand but very difficult to implement. This is because the accuracy is very low and I had to close positions with losses most of the time and even consecutively at times. The strategy requires numerous small losses and few big winners to be profitable. It was going against human nature.

At the same time, I had also taken a course on fundamental analysis whereby investors attempted to buy stocks at prices below their underlying value. It was much more difficult to understand than technical analysis as the financial statements and jargons were overwhelming to me who had no finance knowledge. It took me many years to really appreciate the strategy.

Another challenge was that waiting for a stock to realise its value could take a long time, and being a young investor, patience wasn't what I was willing to offer.

Everybody loves passive income. I would need a lot of capital to invest for dividends if I were to quit my job. A leveraged alternative was to sell options. Since most options expire worthless, it has a high probability to make small amounts of money selling these options. A few thousands of dollars could be made and an average of 2 percent per month return on capital would mean 27 percent per year! What a difference leverage could make!

Truth be told, I had a lot of winning months and over time I allocated more capital to options selling. I got greedier and bolder and took up an oversized position on one trade. That trade blew up my entire account of S\$108,000 because I had forgone all the risk management principles of position sizing and cutting losses.

It was proof of overconfidence bias. I had always viewed myself as a very rational person and I would not let greed or fear interfere with my trading decisions. It was a stark reminder that I too, like other humans, experience ups and downs in the cycle of emotions.

These leveraged trading strategies will work only if humans are able to stick to the risk management principles ALL THE TIME. But we know to err is human, and a blow up can be happen on any trade. Leverage is risky and I kid you not. Learning the lesson, I eventually gravitated towards value investing, where no leverage would be taken for all my positions and be more conservative with my approach. I learned to respect risk.

You might be able to resonate with parts of my story. Some of you may want to try a lot of strategies and possibly be in a dilemma. Some of you may want to take leverage to increase your returns. Of course I would say learn as much as you can from others' mistakes. But no lesson is as memorable as the one which you go through yourself. Telling a kid not to touch the hot kettle would not be as effective

as the kid who actually touched it. So I say, if you want to try, go all out and do it. If you want to fail, fail fast and fail cheaply.

To really answer the question of investing your first \$20,000, I would say treat this as school fees for investing. Use it to learn about yourself because no one can teach you that. Use it to attend classes if you want to. Use it to leverage, or to invest in whatever strategies you want to try.

Be prepared to lose this \$20,000 but get as much lessons as you can from it. Some of you may disagree with me that it wasn't a prudent way to use this amount of money. But it could be well worth it because the value from these lessons would be worth more than this \$20,000.. and it might be the best investment you ever make.