



Investor's User Manual to Navigating the



# BEAR MARKET



DrWealth

## 1] Where are we now?

### Where are we now?

We think the economy is already in a bear market, and the U.S. markets are crashing soon. Here's why.

But before we jump in, let's make sure we're on the same page.

So, what do we mean by a "market crash"?

To us, a crash has to be a drop of at least 50% from the peak to trough. And at the point of writing, here're how the major indices are doing;

- MSCI China: -55% peak to trough
- S&P 500: -15% peak to trough (correction zone)
- NASDAQ100: -22% peak to trough (correction zone)

Although we have seen slight rebound in all the indices, many believe that its a dead cat bounce. We're still waiting for further developments before deciding if we're out of the bear market.

In the latest twist of events, Powell's latest speech at Jackson Hole sparked a major drop in markets as he reiterate that the US central bank will keep raising interest rates.

Here's what the other indicators suggest:



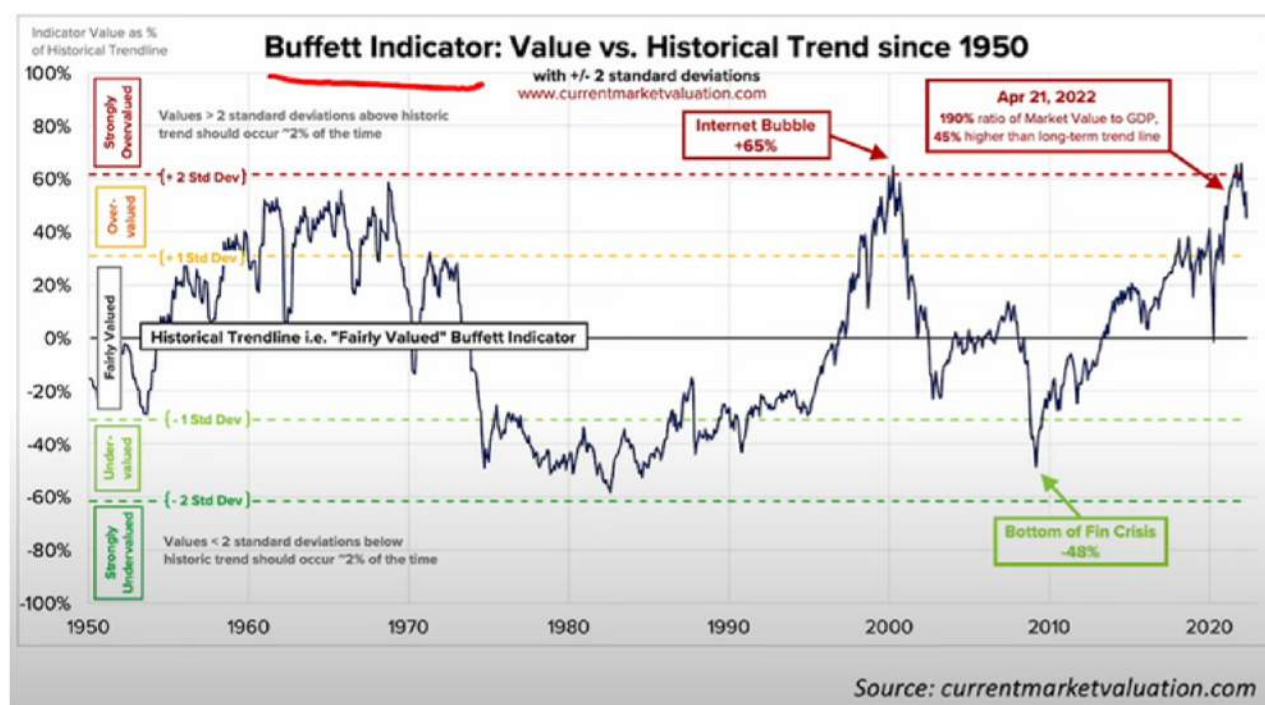
## 1) Buffett Indicator

This indicator is by Warren Buffett where he suggests comparing the total market cap of all companies (or use an index) to the GDP of the country.

He is using the market cap as a proxy for price and GDP as a proxy of value.

The Buffett indicator would give you an idea if the market is currently over- or under-valued. In a fairly valued market, the price (market cap) would be similar to the value (GDP).

Currently, the U.S. stock market is still overvalued:



## 1] Where are we now?

## 2) Market PE ratio

You should be familiar with the price-to-earnings (PE) ratio. The S&P500 market PE is the total of all the index component's PE ratio, divided by their weightage in the S&P500.

Currently, the market PE ratio is still above the historical average (~28%), which suggest that it is overvalued.



## 3) Yield Curve Inversion

This compares the 2-year and 10-year U.S. government treasury yields to give us an idea of the current economy.

By right, the 10-year bond should trade higher than the 2-year bond because over 10 years you should be compensated with more returns.

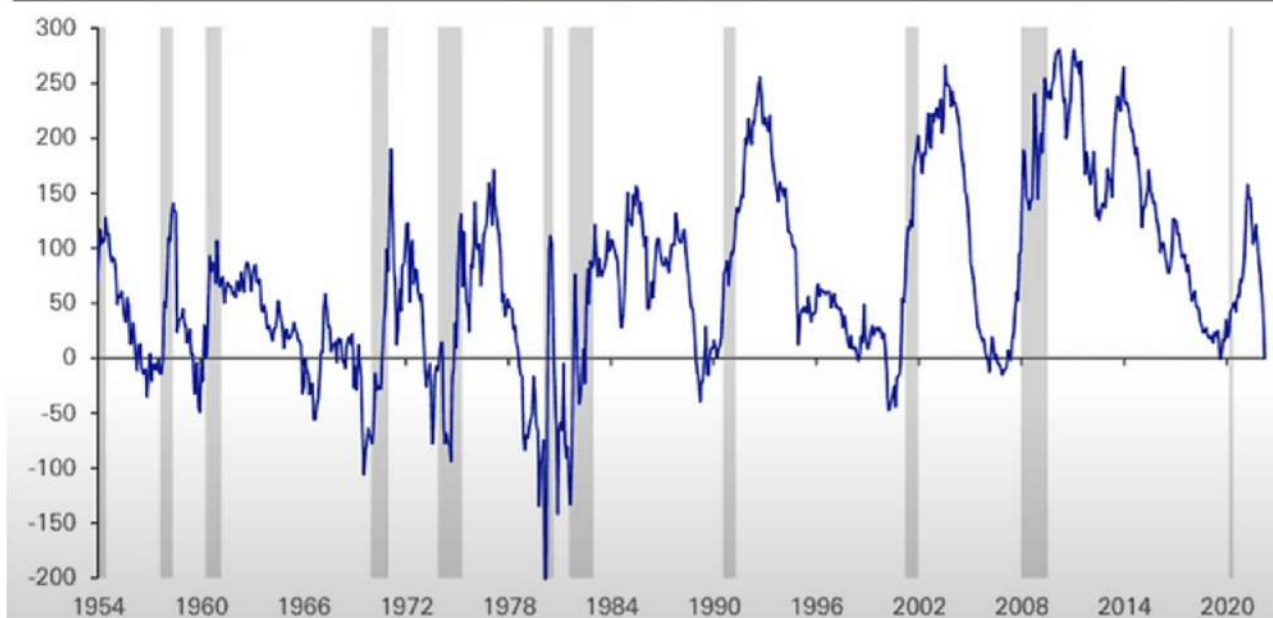
But when a yield curve inversion happens, we see 2-year bonds trading above 10-year bonds. This shows that the economy is in recession.

The most recent inversion had happened in April, 2022. The last time this happened was near 2020 when COVID-19 hit causing an economic recession, even though it was very short lived, but it did cause a GDP contract during that year itself.

## 2] 1H2022 market performance

And then now it has inverted again, suggesting that in the next 18 months, there is a possibility of a recession.

### US 2s10s and recessions – average of c.18 months from inversion to recession



Source: GFD, FRB, Deutsche Bank

## How did the markets fare thus far?

Well, 2022 has not been kind to investors. After a great run in the previous year, this year may have served as a wake-up call for many.

Nonetheless, as we approach the halfway point of the year, it is appropriate to reflect on how the stock market has performed.

In this section, we'll cover three key stock markets - US, HK and SG, share our analysis on the market performance, top performing sectors and several key stocks within each market.

But first, let's take a look at how different asset classes performed thus far:



# ASSET CLASSES REPORT CARD

Year-to-date returns as of 29 Aug 2022

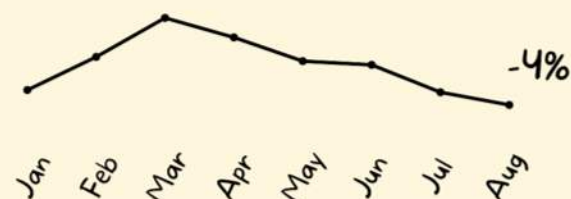
## STOCKS

Vanguard Total World ETF



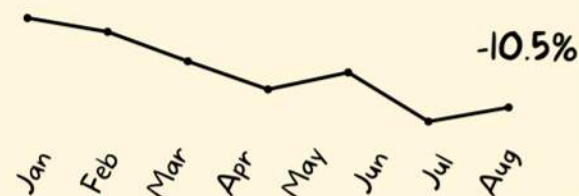
## GOLD

Gold ETF



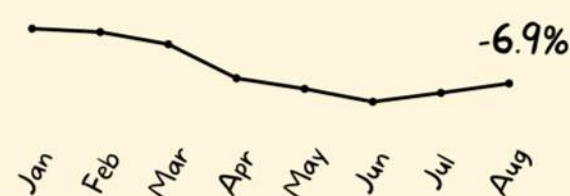
## BONDS (US)

US 7-10 years



## BONDS (SG)

SG ~8 years



## CRYPTO

Bitcoin



## CRYPTO

Ethereum



\*for illustration purposes only. line graphs are not scaled equally.

As you can see, this is a year where diversification is not working - a stock-bond portfolio will see both asset classes coming down together. Going with alternative assets like crypto has fared worse.

Next, let's dive into the performance of global stock markets.

## GLOBAL MARKETS REPORT CARD

Year-to-date returns as of 29 Aug 2022 (in their own currencies)



## 2] 1H2022 market performance

Generally Asian stocks did better than their US counterparts.

This is due to the change in interest rate environment which in turn caused a sector rotation to happen. Higher interest rates punish growth stocks while value stocks become more valuable as they are not subjected to heavy discounting of future value. Moreover, value stocks include commodities which have been benefiting from the inflationary situation.

Asia is dominated by value stocks and hence were not down as much as the US stocks.

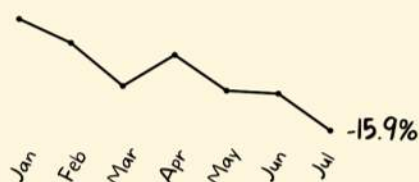
That said, many investors have exposure to the US markets thanks to the high returns we've enjoyed in prior years.

So, let's take a look at how the US markets have performed in the first half of 2022, and what we can possibly expect in the coming months.

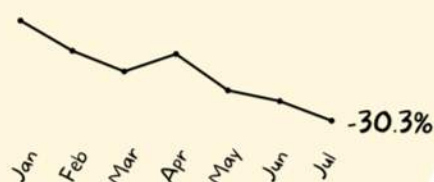
### US Market Mid Year Review (2022)

The US market ends the first half of 2022 with its worst performance since 1970 as both the S&P 500 and Nasdaq 100 fell into a bear market.

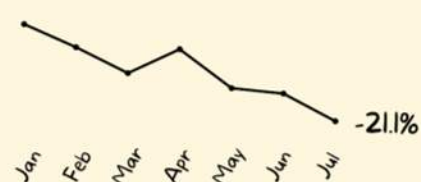
Dow Jones



Nasdaq 100



S&P 500





## 2.1] US Market Review

While all three indices are still higher than their end-2019 levels, they have given back all of their 2021 gains and have dipped into 2020 levels. It's as though 2021 had never happened...

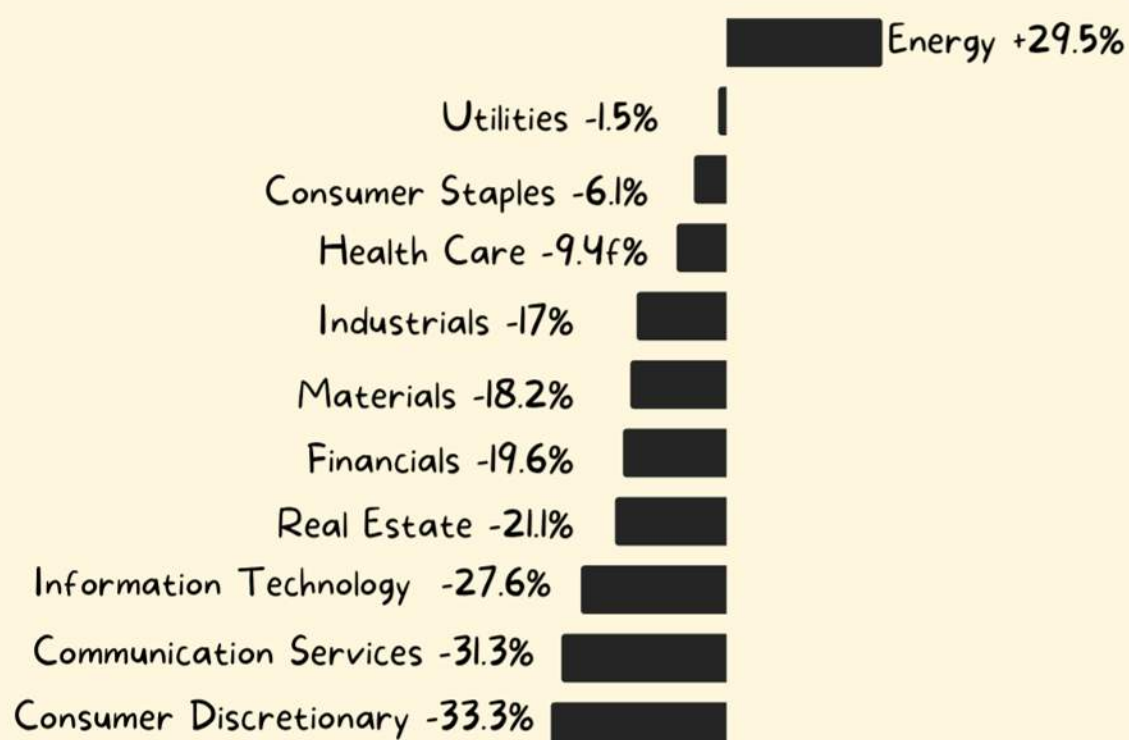
Much of the decline were either due to previous outperformance or because of macroeconomic concerns such as inflation, supply chain constraints and recession.

With interest rates rising, consumer confidence are being tested over fears of rates of job losses rising and inflation while demand has also been dialed down across various sectors.

The only clear outperformer has been the Energy sector. On the flipside, the Consumer Discretionary sector performed the worst:

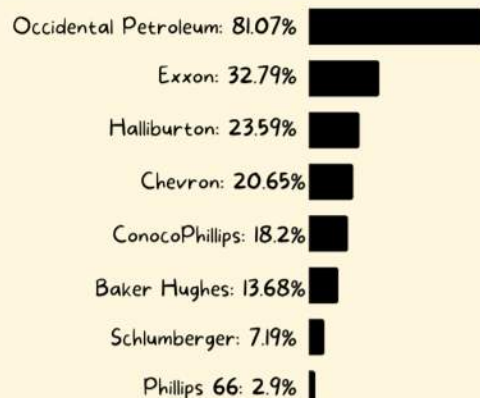
### US SECTOR PERFORMANCE

Year-to-date returns as of 4 July 2022



Let's take a look at the stocks within the best and worst performing sectors:

## BEST PERFORMING SECTOR ENERGY



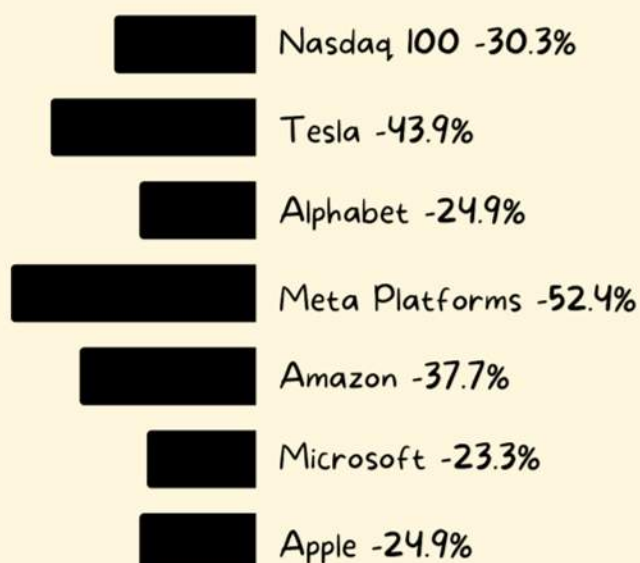
## WORST PERFORMING SECTOR CONSUMER DISCRETIONARY



Year-to-date returns as of 4 July 2022

Okay, but what happened to the top tech stocks that were making headlines for high returns just last year?

## TAMAMA 1H22 REPORT CARD



## 2.1] US Market Review

tl;dr. not too great.

While all six companies record losses, only three of them underperformed the Nasdaq 100 index decline of -30.3%, namely Tesla with -43.9%, Meta Platforms with -52.4% and Amazon with -37.7%.

The top performer of the lot was Microsoft with a -23.3% decline while the worst performer was Meta platforms (formerly known as Facebook) with -52.4%.

*Remember ARK?*

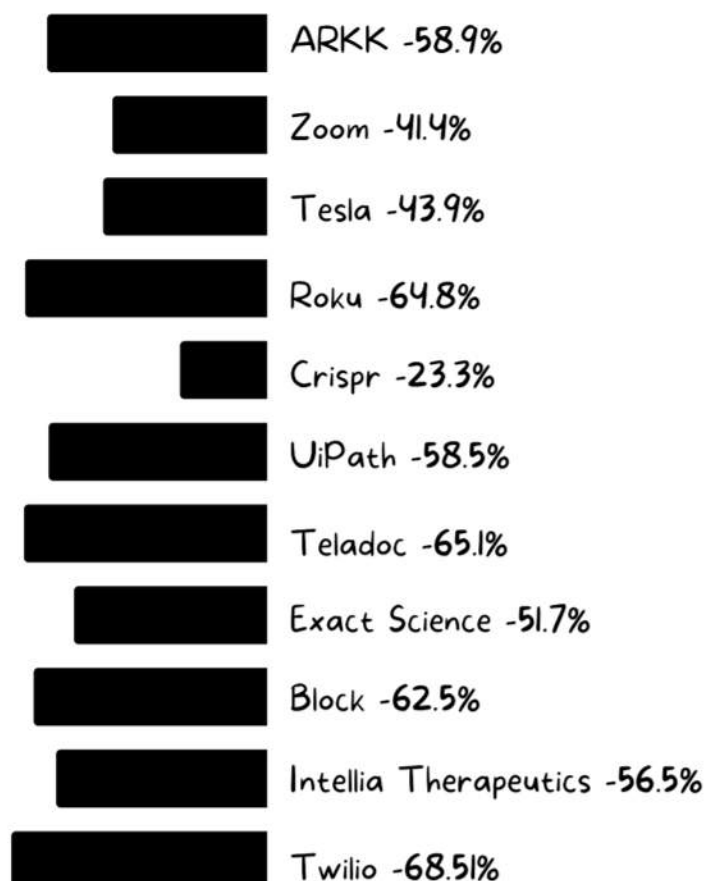
ARK invest gained popularity among retail investors as its flagship ARK innovation ETF (ARKK) delivered outsized returns between 2020 (+153%). However, it was unable to sustain its performance as the markets cooled off.

Since then, ARKK has been one of the largest underperformers in 2021 at -23.4% and in 1H2022 at -58.9%. Investors who invested \$100 into ARKK on the 1st of January 2021, would be left with just \$31.50.

Which of its underlying stocks were most to blame for its underperformance?



## ARKK ETF TOP 10 HOLDINGS 1H22 REPORT CARD



ARKK ETF's top 10 holdings account for 59.2% of the ETF. The Best and Worst performers are Crispr Therapeutics with a -23.3% decline and Twilio with a -68.5% decline respectively.

Twilio's plunge was reflective of many stocks in the high growth ARKK portfolio as sentiments for high value unprofitable growth stocks weakened. Growth rates has also come down after strong growth in 2020 and 2021 as many of these innovation stocks have found it difficult to continue its growth outperformance after two strong years.

This underperformance is in spite of Cathie Wood reiterating that the structural long term thesis for many of these innovation stocks continue to be intact and that current prices serve as an opportunity for the longer term.

## 2.1] US Market Review

### What should investors look out for in the US markets?

The first six months of 2022 has been a period of overall decline for the US market.

But, there's a silver lining. If one refers to history as some form of indication, there lies some hope ahead.

When the S&P 500 plunged 21% in 1H1970, it reversed those losses quickly to gain 26.5% in 2H1970. Of course, without referring to history, one would also know the concept of mean reversion and that when stocks go down, the good ones would eventually recover and even make new highs.

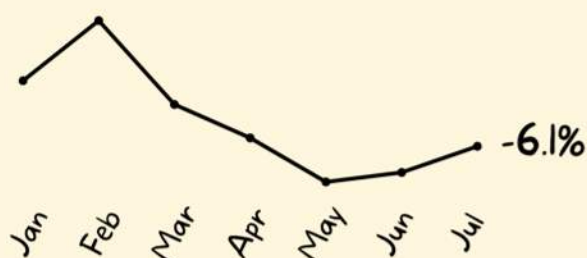
Hence, investors should bear with the pain and stay in the game. Now might be a good time to refresh your watchlist and start looking out for cheap stocks that are suitable for your portfolio.

## Hong Kong Market Mid Year Review (2022)

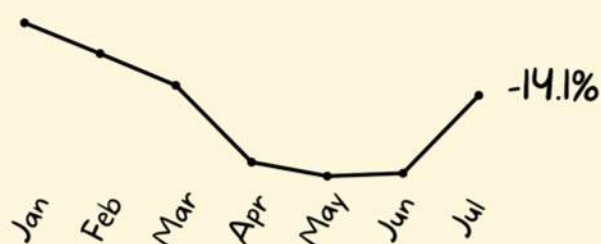
Next, let's take a look at how the Hong Kong and China markets had performed thus far. (p.s. keep reading, it's not as depressing as the US markets, i promise!)

The Hong Kong market ends the first half of 2022 way off its lows and both the Hang Seng (HSI) and Hang Seng Tech (HSTech) indices even entered a bull market as the index increased by more than 20% from the bottom recorded in March 2022.

### Hang Seng Index



### Hang Seng Tech Index



We have also noted that the China Tech regulatory risk is over and it might be a good time to start exploring the China markets.

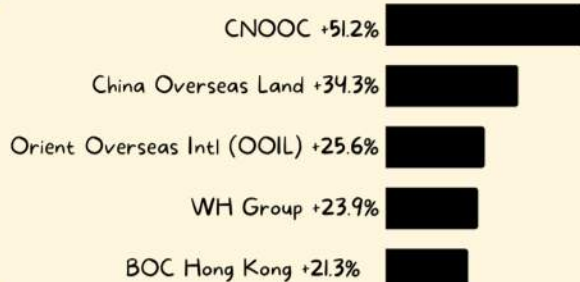
So, which were the best (and worst) performing stocks within these indices?

Let's take a look.



# HANG SENG INDEX

## TOP 5 PERFORMERS



## BOTTOM 5 PERFORMERS



Year-to-date returns as of 4 July 2022

The best performer was CNOOC as by far as Oil and Gas prices have remained elevated throughout the period.

China Overseas Land came in second due to its strong balance sheet and State Owned Enterprise heritage which enabled the company to ride through the property sector's credit crisis, continuing to outperform in terms of presales this year as buyers who had less confidence in its peers chose to purchase properties from China Overseas Land.

OOIL owns Orient Overseas Container Line (OOCL), one of the world's largest container shipping companies. Shipping was one of the industries that was a beneficiary of disrupted supply chains as cargo ship delays meant that containership rates were elevated throughout the period.

WH Group, being the largest pork company in the world, was a beneficiary of higher commodity prices and fears over supply imbalances as Russia was one of the top 5 pork producers with approximately 4% market share while Ukraine's market share was estimated at 0.8%.

## 2.2] HK Market Review

BOC Hong Kong is a key beneficiary of rising interest rates as net interest margin continues to widen gradually in the current interest rate environment coupled with positive economic sentiments in China amidst fiscal and monetary policy stimulus.

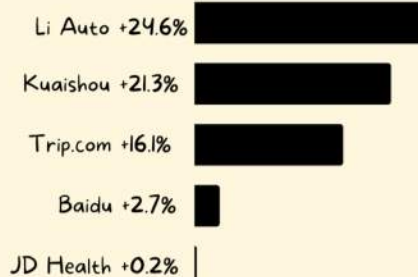
On the other end of the spectrum, we have Sunny Optical, Techtronics and Shenzhou Intl which were impacted by supply chain, inflation and recession concerns.

HK & China Gas was affected as commodity and energy prices rose sharply thus causing its margin on gas sales to shrink as it was unable to fully pass on costs. Demand was further affected by the continued COVID-zero policy in place.

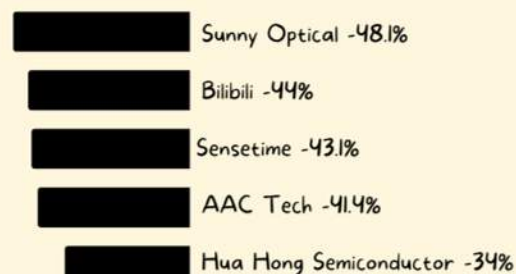
Country garden, being one of the Big 3 property developers (the other two being Evergrande and Vanke) continued to underperform as the China property market was still embroiled in a debt crisis with many developers still unable to meet their debt obligations.

# HANG SENG TECH INDEX

## TOP 5 PERFORMERS



## BOTTOM 5 PERFORMERS



Year-to-date returns as of 4 July 2022

Li Auto has been a beneficiary of China's continued carbon neutral push as the Chinese government considers extending incentives for new energy cars that were originally set to expire in 2022 so as to ramp up consumer interest in China's EV markets.

Kuaishou was one of the tech companies that was able to maintain revenue and user growth through the regulatory crackdown period as demand for its app offerings remained robust.

Trip.com benefited from a share price revival in the final week of June 2022 when China announced the reduction of the inbound quarantine period, without which it would have likely ended the half year in a negative position.

Both Baidu and JD Health were hit by the tech regulatory crackdown, however, Baidu was able to deliver revenue above analyst expectations driven by Baidu AI Cloud. For JD health, share prices recovered as the industry is a beneficiary of COVID-19 lockdowns.



## 2.2] HK Market Review

You should keep in mind that the crackdown is not quite over yet for internet healthcare platforms as China's National Medical Products Administration recently released an opinion draft paper considering the ban for third party platforms from directly participating in online drug sales.

As for the worst performers...

Bilibili was severely impacted by various issues such as the regulatory crackdown as it saw revenue growth slow significantly as companies delayed their advertising spend.

Sensetime saw its share fall of 46.8% on the last trading day of June 2022 due to the expiration of the IPO lockup period for its institutional investors and management. Excluding this one day decline, Sensetime would have ended the period much more favorably.

AAC Tech has seen margins shrink over the past few quarters due in part to the slow down in global smartphone demand and supply chain and other COVID-19 related disruptions to its operations.

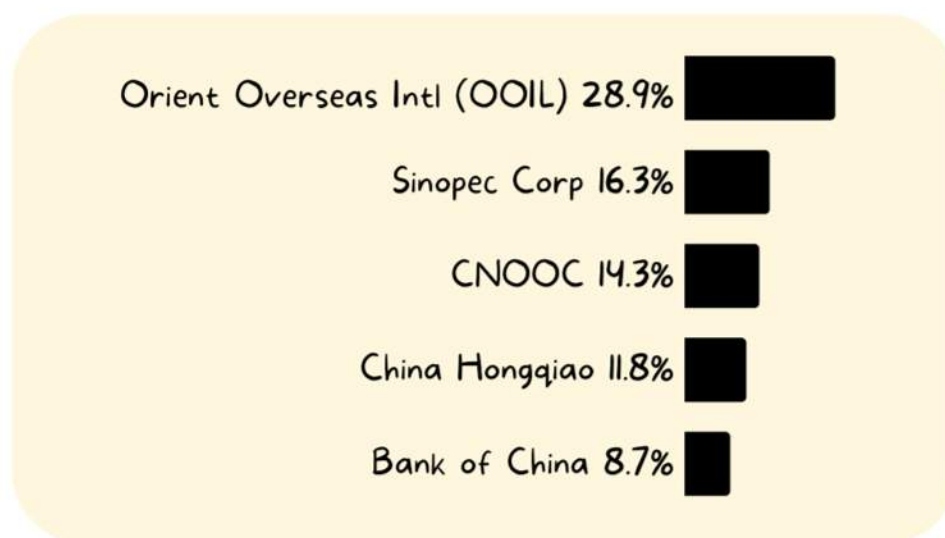
One would have expected Hua Hong Semi to perform well as it was supported by policy tailwinds as China focused more investments so as to build self sufficiency in the crucial chip sector but it was similarly affected by COVID-19 related disruptions and also concerns over slowing demand.

## 2.2] HK Market Review

The Hang Seng Index has includes a handful of dividend paying stocks that have been rewarding their shareholders.

Let's take a look at the top dividend yielding stocks on the Hang Seng Index:

### TOP 5 DIVIDEND YIELD STOCKS (HSI)



OOIL, Sinopec and CNOOC all saw much higher dividends this year as these stocks were either in the shipping or Oil & Gas industries which both saw outsized performance in recent times.

China Hongqiao, being one of the world's largest aluminum producers in the world, benefited from higher aluminum prices in the past year which saw the company deliver highest profits in the last 5 years and hence the company also rewarded its shareholders accordingly.

Bank of China has seen gradual increases to its dividend over the last five years but a lacklustre share price growth over perpetual concerns over the robustness of this Big 4 China bank's balance sheet and the need to support the China's economy meant that dividend yield remained high.

## 2.2] HK Market Review

### What should investors look out for in the HK markets?

In Hong Kong, the regulatory crackdown has probably seen its worst. With the Chinese government indicating broad based support to bolster its economy, we stated that we believe the bottom was in for most Chinese stocks.

Some of these stocks that have outperformed and may soon see its share price revert to much lower levels while other stocks that have underperformed may continue to underperform until the reasons for the underperformance are alleviated.

The markets are evolving constantly.

As of 24 Aug 2022, we saw a rebound in the Hang Seng Index which could have been due to:

- progress on a potential audit inspection deal between the China and the USA to allow USA to inspect Chinese companies audit records
- China announcing another 1 Trillion yuan of stimulus to further support the economy
- China's latest rate cut

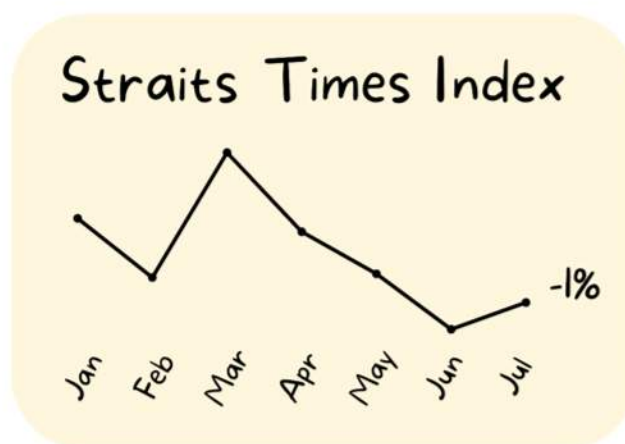
If you're looking for opportunities in this market, we shared [5 China stocks that beat expectations](#).



## SG Market Mid Year Review (2022)

Overall, the Singapore market performed well in comparison to its peers, with a year-to-date performance of  $\sim -1\%$ . (As of end July)

It should be noted that the stated return does not account for dividend yield, and if it were, the STI ETF would have returned  $+0.8\%$  YTD.



Not bad given the current market sentiments. So, which blue chip stocks did the best (and the worst)?

## STRAITS TIMES INDEX

### TOP 5 PERFORMERS



### BOTTOM 5 PERFORMERS



Year-to-date returns as of 4 July 2022

## 2.3] SG Market Review

Sembcorp Industry, a player in energy and urban development, is ranked top in the index. This is not surprising, as the company profits from higher oil prices. Other significant players in the top five are property developers, who have also benefited from rising property prices.

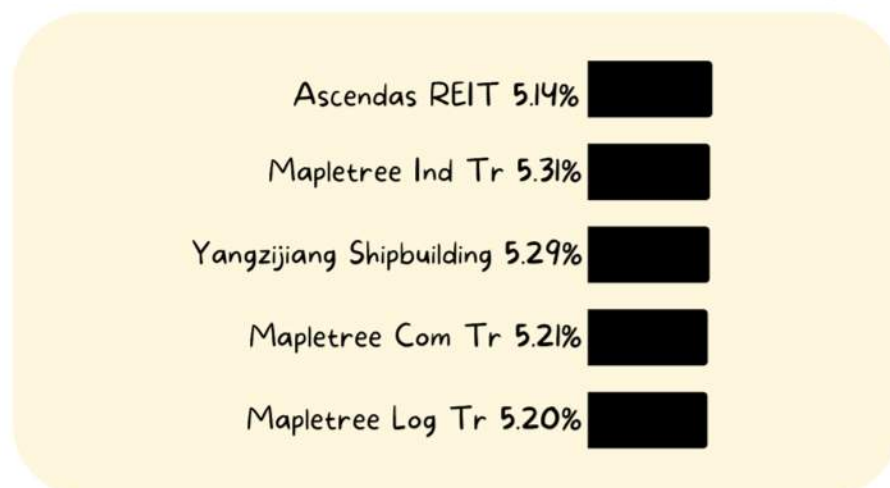
On the flip side, bottom performers include REITs, which have struggled in a high-interest environment.

It might be of interest to note that Yangzijiang Shipbuilding's 'drop' in share price is primarily due to the spin off of its investment segment, Yangzijiang Financial Holding Ltd, which began trading on 28 April 2022. If we were to combine the performance of Yangzijiang Shipbuilding and its Financial Holding, its YTD performance is +0.4%.

## 2.3] SG Market Review

Singapore investors love their dividends. So, let's take a look at the top stocks that're giving out the highest dividend yields in the first half of 2022:

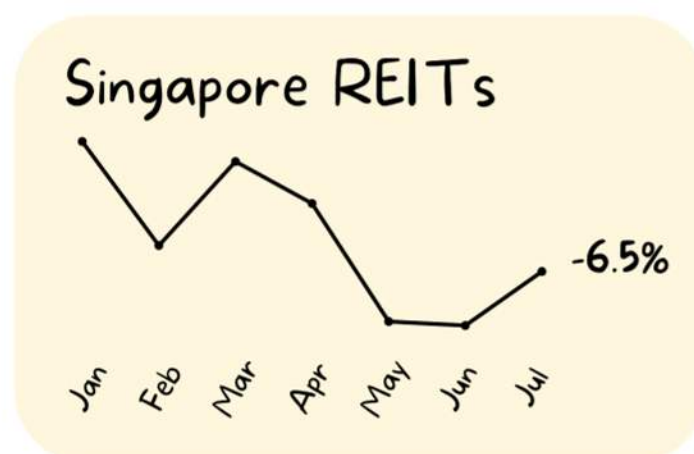
### TOP 5 DIVIDEND YIELD (SG)



Interestingly, four of the top five are REITs.

If we omit REITs from the list of top dividend yielding stocks listed in SGX, then the list will include Keppel Corp and three local banks, all of which can be examined further if you are a dividend investor.

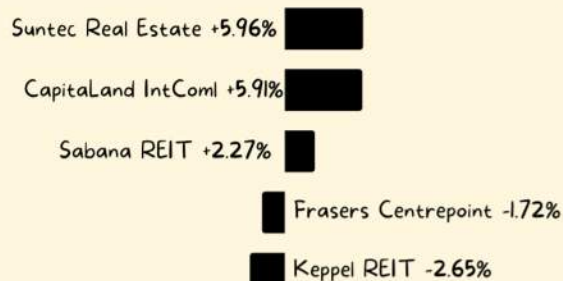
Singapore REITs are also popular choices among dividend investors, so let's examine how they've fared separately.





# SINGAPORE REITS INDEX

## TOP 5 PERFORMERS



## BOTTOM 5 PERFORMERS



Year-to-date returns as of 4 July 2022

The top five performers had two in the red in 2022, with Suntec REIT posting the highest return of 5.96% inclusive of dividend. According to this ranking, the industry that performed well was Retail and Office REITs, with three of the five REITs operating in Singapore retail malls and/or offices. This can be ascribed to an increase in interest in retail malls and office buildings as Singapore began to relax its Covid 19 restrictions.

At the bottom of the list is EC World REIT, a China-focused S-REIT that auditors recently flagged due to worries about its capacity to continue operating because a large amount of its loans are due soon. The share price of EC World REIT fell even further after its recent refinancing result was deemed 'disappointing' as what RHB has put.

Others on the list include two data center REITs that saw high valuations during the pandemic, both of which have reverted as the number of data centers developed by huge cloud providers for their own needs has increased along with the generally shift of interest among investors.

The other two REITs at the bottom are Prime US REIT, which operates primarily office properties in the United States, and Cromwell REIT, which operates offices, logistics, and industrial facilities throughout Europe.

## 2.3] SG Market Review

### What should investors look out for in the SG markets?

All in all, the Singapore market has performed well in comparison to Hong Kong and the United States. However, the market still has winners and losers. For stock pickers who have chosen the bottom few, you may have seen a loss comparable to that of the US and Hong Kong markets, demonstrating the importance of not assuming that just because a market is safer, you would not experience loss.

Additionally, when macroeconomic fundamentals improve, the US and Hong Kong markets may once again outperform Singapore. Of course, when this will occur is anyone's guess.

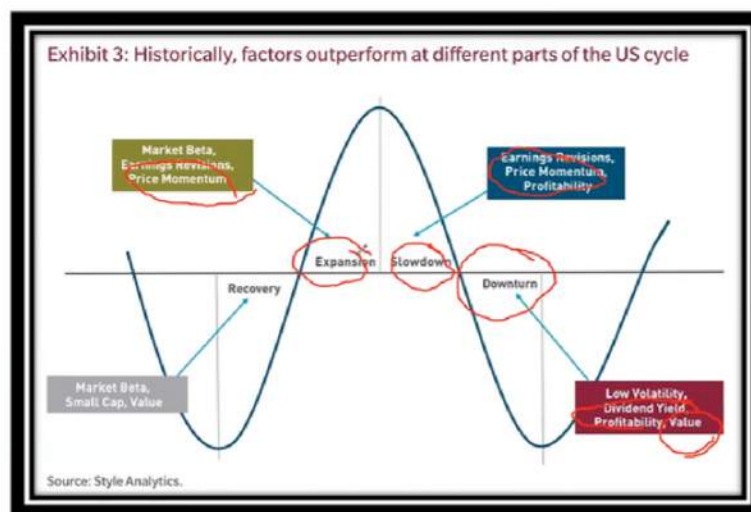
## Current Yields

- STI - 3.12%
- Hang Seng - 2.77%
- NASDAQ - 0.74%

Singapore is a market for investors searching for high yields

Singapore is also mainly attractive because of its banks and REITS which normally produce yields north of 4%.

Hence its outperformance in a downturn.



Singapore markets provide an outperformance in a market downturn. Because dividend yields and value stocks tend to do well in a downturn (*which is where we are now in the market cycle*).

## How to position our portfolio?

	Market Beta	Value	Small Caps	Leverage	Earnings Revisions	Price Momentum	Dividend Yield	Profitability	Low Volatility
■ Recovery	1.35%	0.53%	0.63%	0.06%	0.05%	-0.06%	-0.23%	-0.65%	-1.51%
■ Expansion	0.62%	0.30%	0.14%	-0.05%	0.48%	0.52%	-0.27%	-0.23%	-0.69%
■ Slowdown	-0.33%	0.22%	-0.06%	-0.15%	1.05%	0.68%	0.20%	0.59%	0.66%
■ Downturn	-1.48%	0.20%	0.07%	0.10%	0.37%	0.51%	0.71%	1.03%	1.80%

Source: Style Analytics.

Investors can bet on the recovery that's coming by looking for small cap opportunities, or on the downturn extending by investing for dividends.

Dividend investing does way better in a downturn. Hence, investors can accumulate high dividend stocks until the market bottom up, then you can pivot back into the riskier small-cap investments or growth stocks.

Alternatively, having a focus on the value factor will help you do well in most stages of a market cycle.



### 3] Why is it SG dividend stocks' turn to shine now

Chris prefers dividend stocks because he like the idea of getting a salary from his stock portfolio.

#### **Why Singapore provides advantages to dividend investors?**

- no capital or dividend tax
- no estate taxes.
- outperforming the other markets in the current markets during a downturn

As a dividend investor, one of the key criteria you want to look at is the dividend yield.

But that's not all.

We've all heard of high dividend stocks flopping and crashing, leaving investors with a larger capital loss than what their dividends can cover.

Chris shares the details of how he and his students pick the safest and most reliable dividend stocks that continue paying them even during the market downturns. You can join his [live webinar here](#).

### 3] How did we get here?!

## How did we get here?

There were three major issues that are weighing down the market currently:

### 1)Russia-Ukraine War

It doesn't seem like the war is going to end anytime soon as Ukraine continue to put up a fight against Russia.

But due to the war, many companies have pulled out of Russia and that have affected their financial results. Examples include Netflix and Google which have lost significant revenue from the Russian market. This goes to show that the impact of this war has seeped into the fundamentals of companies listed on the U.S. stock market. And the drop in their fundamentals translate directly to a fall in stock prices, weighing down the market.

Another major impact of the war are the sanctions. Countries rely on trade to drive revenue and growth and sanctions generally take some business off the table. Some companies will be hurt more than the others, depending on the exposure to Russia itself.

The last impact is that of the commodity supply. Both Russia and Ukraine export a significant volume of commodities to the rest of the world. Russia provides oil and gas and Ukraine is the source of commodities like corn, wheat and fertilizers. This break in the supply pushes up crop prices because fertilizers are needed for all the crops.

### 3] How did we get here?!

And all this will cause the inflation worsened because even before the war, the inflation issues have already been ongoing. But this war will cost the supply to get squeezed even more and this way prices will go up. And if the war doesn't end anytime soon, then the commodity prices are not likely to come down anytime soon. And inflation will continue to creep up.

## 2)China Covid issue and economic slowdown

While the rest of the world are opening up, China is closing down. They are locking down the key cities like Beijing, Shanghai, and even Shenzhen which is affecting their economic growth.

China has already projected a lower economic growth target in 2022 at a 5.5% even though they did 6% in 2021. In the face of the lockdowns, analysts and economists pessimistic about whether China can really hit the projected 5.5% growth in 2022.

At the same time, China is the factory of the world. They make a lot of things and export them out. But with lockdown, factories are not operating which could cascade the supply chain problems for the rest of the world. If supply chain becomes a problem, prices will rise further.

## 3)Inflation

The U.S. inflation has hit a high of 8.5%:



### 3) Inflation

The U.S. inflation has hit a high of 8.5%:



The issue didn't occur overnight, it actually started back in 2021. But at that time, the federal reserve was not so concerned as they saw it as a transitory issue due to Covid lockdown.

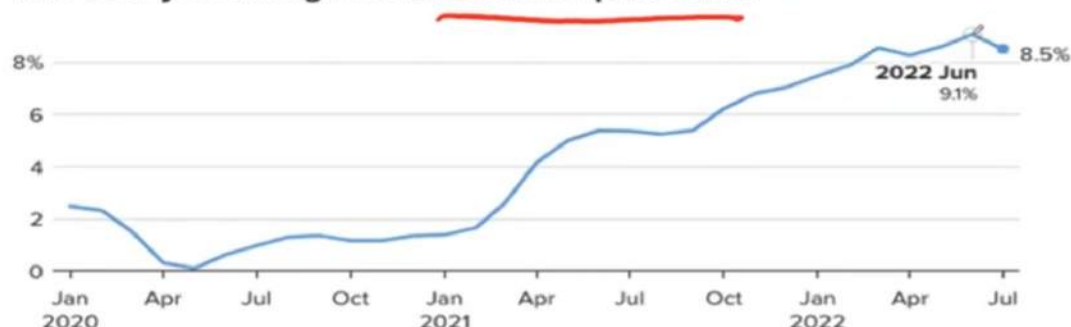
But their tone changed at the end of 2021 where they dropped the term "transitory", and inflation had become the number one enemy of the federal reserve.

And now at 8.5% inflation rate, it is the highest in about 40 years. The first two issues above could worsen the issue as the global supply chain could undergo another shock.

Hence, at the point of writing, inflation doesn't seem to be able to go away. And the federal reserve is now trying to raise interest rates.

As of 10 Aug 2022, July CPI had dropped. It looks like inflation has peaked and is likely stabilising:

**Year-over-year change in the consumer price index**



Note: As of Aug. 10, 2022.  
Seasonally unadjusted.  
Chart: Gabriel Cortes / CNBC  
Source: U.S. Bureau of Labor Statistics



That said, although it does seem like inflation has peaked, it remains high as compared to last year:

	1-month return	1-y return
Coal	-12%	+134%
Natural Gas	+36%	+100%
Wheat	-5%	+45%
Oil (Brent)	-9%	+41%
Rice	+5%	+26%
Coffee	-1%	+21%
Lumber	-9%	+19%
Nickel	+0.4%	+14%
Corn	-20%	+13%
Palm Oil	+1.3%	-6%
Copper	+2%	-15%
Iron Ore	-3%	-35%

Inflation will likely remain high, even if it doesn't go up in the near future.

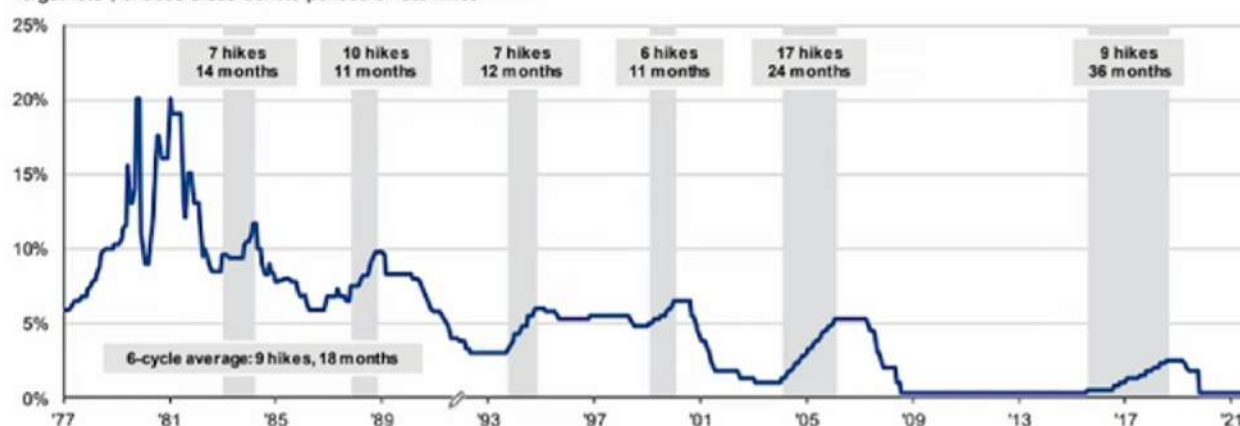
Hence, high prices will continue to hurt us, at least in the coming months.

## How will the rise of interest rates hurt us as investors?

In the seventies, there was a period of high inflation rate where interest rate went as high as 20%:

Federal funds rate

Target rate\*, shaded areas denote periods of rate hikes



Source: JP Morgan's Guide to the Markets 2Q2022

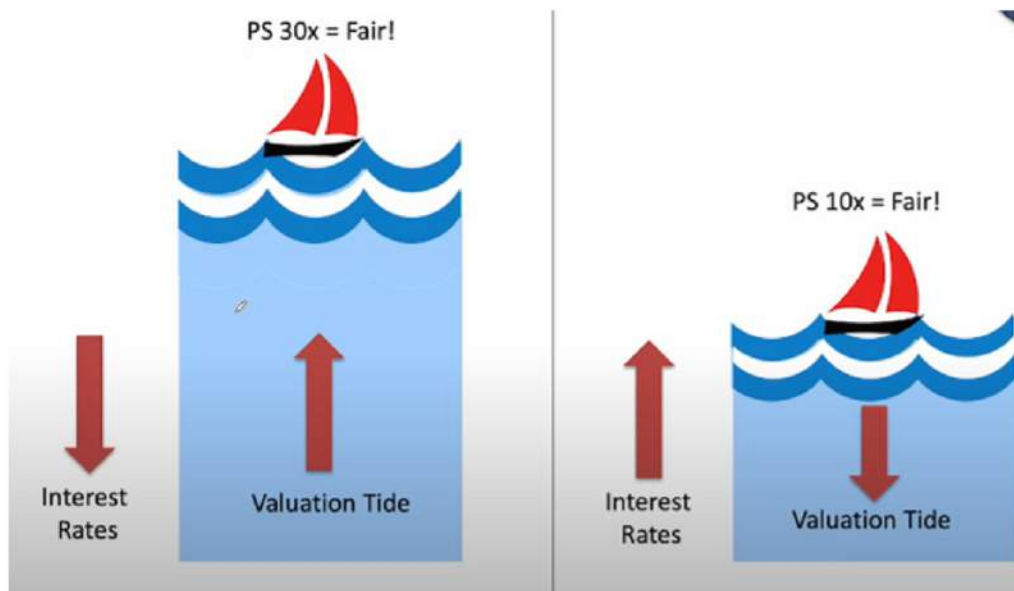
But since then, interest rate has been low for a long time.

In fact, we have been enjoying close to zero interest rate since 2008, which was when the great financial crisis occurred. Fast forward today, with inflation rising, they have to increase the interest rate and that'll affect how we invest.

For example, growth stock valuations are out of whack. As interest rate is a critical element when it comes to valuing a growth stock because we value growth stock by discounting its future value using interest rate to get a present value.



When the interest rate is high, you'll have to use a greater discount rate which pushes down the present value of growth stocks.

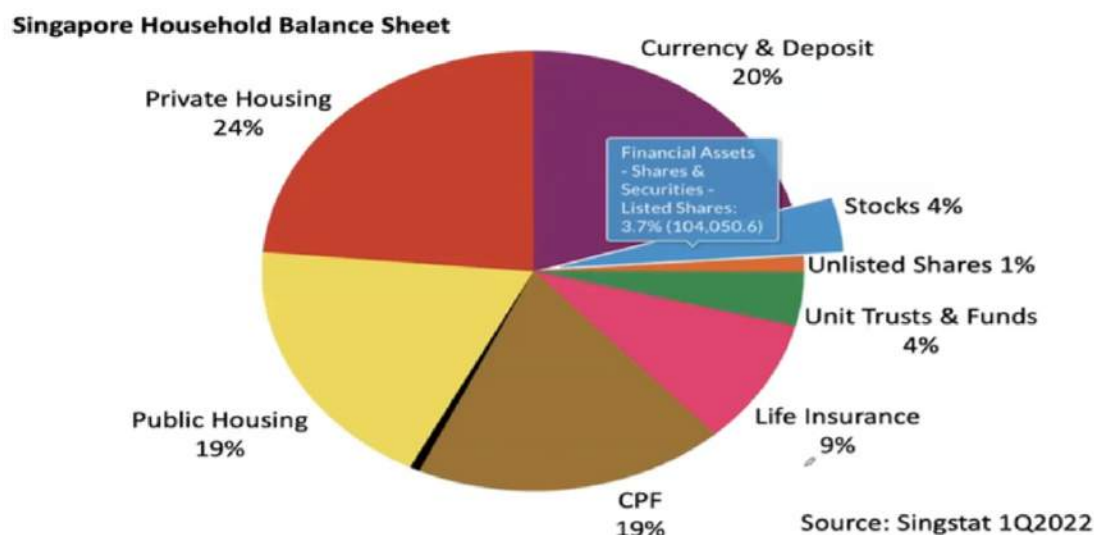


## What to do in the current bear market?

Many investors have never been through a true bear market nor a hyperinflation. Hence, it's normal to feel lost.

Here're 10 ways to help you handle the bear market, depending on your situation:

## 1) Find your sanity



If you are slightly worried but it isn't affecting your well being, you can alleviate your anxiety by zooming out and look at your overall net worth.

In Singapore, the average household assets consist of over 40% in housing, 20% in cash and less than 5% in stocks. A stock market crash is not going to harm a typical Singaporean's net worth.

Of course, the average can be misleading and you may have a bigger allocation to stocks. Even so, you will still have other assets to cushion the drop in stock value.

Zoom out and it's usually not as bad as it looks.

You're doing okay!

Stay sane, and use this bear market to find opportunities to tap into.

## 5] How to handle the bear market?

### 2) Dollar Cost Average

If you're already doing this, continue to do it - it is most advantageous to do DCA when the market is crashing. In fact, it is the only time it would beat lump sum investing.

You must continue and not stop.

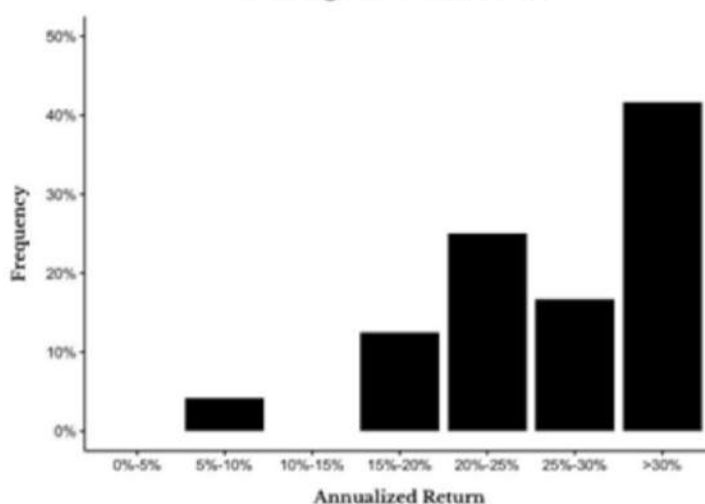
Each month with the same amount of capital you can buy more stocks - \$500 buys 500 shares when share price is \$1. Same \$500 buys 1000 shares when share price is halved.

Keep buying as long as you have income coming in.

when the US stock market lost 50%...  
the future annualized returns usually  
exceed 25%!

May the odds be ever in your favour!

Annualized Returns After Buying  
During 50%+ Drawdown



DrWealth



### 3) Buy The (big) Dip

Based on historical data, if you buy when the market goes down 30%, your potential annualised returns are about 5 - 10%:



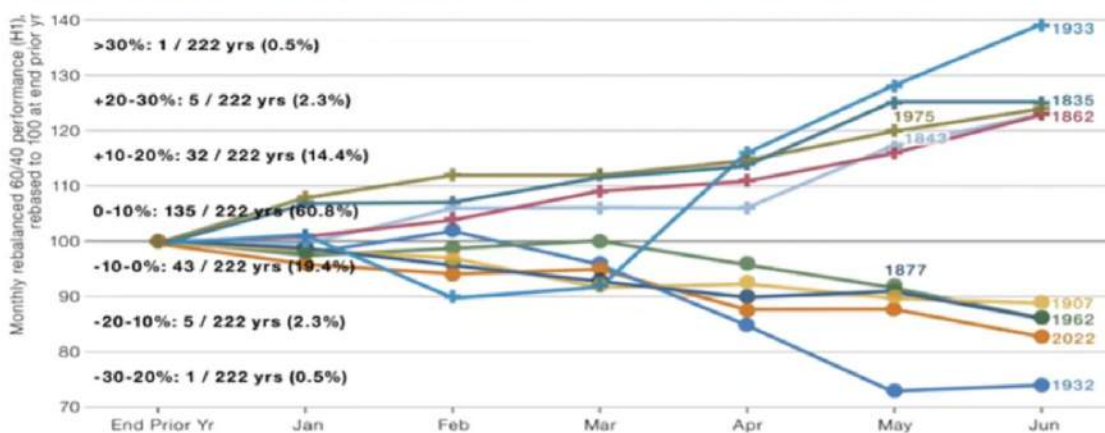
And if you buy when the market goes down 50%, the chance for annualised return of >30% is about 40%!



Most investors tend to wait till its too late to get in. If you get in at -50%, you are more likely to catch the dip then trying to catch the rebound.

## 4) Rebalance your funds

Figure 1. Top and Bottom Five years of US 60/40 Portfolio Returns from 1800 to Present

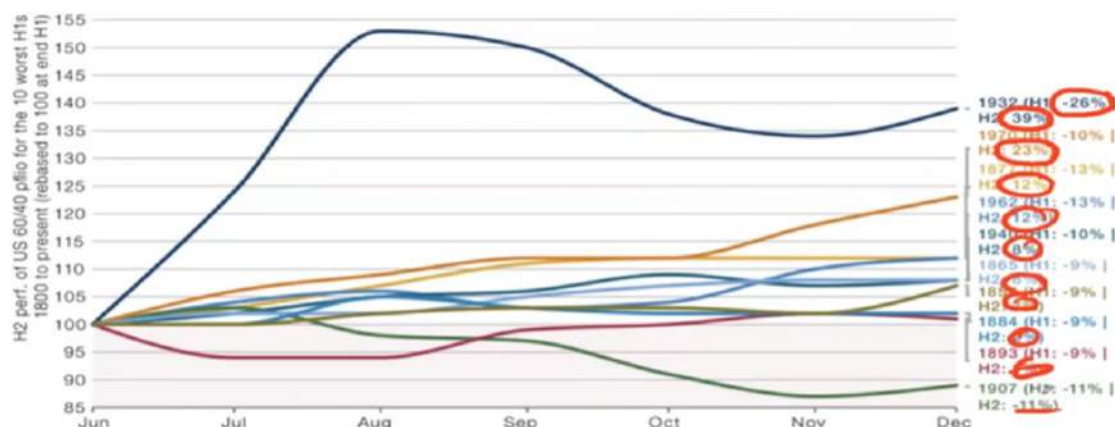


Source: Shiller database, GFD, Bloomberg, Man DNA. As of June 2022.

This year, the common 60(stocks)/40(bonds) portfolio suffered one of the worst performance in history.

But the good news is...historically when the 1st half of the year is bad, the 2nd half of the year returns would be better:

Figure 2. H2 Returns of US 60/40 Portfolio After the 10 Worst H1s Since 1800



Source: Shiller database, GFD, Bloomberg, Man DNA. As of June 2022.

2H22 could be better for investors.

Hence, keep your faith and rebalance your funds so that you can capture the potential upside.

## 5] How to handle the bear market?

### 5) Cut losers, buy winners

No one builds a perfect portfolio, there'll always be ways to improve on it.

If there are some stocks you wanted to buy but didn't get the chance to buy, a crash often presents the opportunity.

But what if you do not have enough cash?

Look at your current holdings and sell those that are less attractive to the ones you want to buy.

These may stop you...

**Anchoring Bias:**  
But I bought at \$10!



**Loss Aversion:**  
Selling at \$5 means  
I lost \$5,000!



**Endowment Effect:**  
No way this is  
worth \$5



Yes, you might sell them at low prices but you get to buy the better ones at cheap prices too. It is just our price anchoring, loss aversion, endowment effect and mental accounting that are playing tricks in our head.

Remember, money is fungible. You don't have to make the money back from the same stock.

Aim to build a better portfolio.



## 5] How to handle the bear market?

### 6) Hold

If you find the market crash manageable, you can just hold onto your investments that are meant to be held long term.

If you have done your due diligence, you should be confident to hold on to the investments and ride out the crash. If you are right, the investments will recover and surpass the previous high.

### 7) Reduce market exposure if worried

If you are really worried about losing a lot of money, close some positions and reduce your market exposure. I know it isn't easy to cut losses but if you don't, the worry will grow with the losses and eat you inside.

It is not worth losing your health over your wealth. No health, no wealth.

Get your priority right. Live and fight another day.

Some will say think long term and just hold. This is assuming you can mentally and emotionally able to handle the volatility. We are all different and there's no shame in doing the right thing for yourself.

## 8) Stop speculating

If you have been speculating stocks and have no intention to hold them long term, you should own up and sell.

Don't hold on to speculative stocks long term because a handful of them will not be able to recover to the price you buy. You have to realise the capital loss sooner or later, might as well sooner and you can redeploy the capital elsewhere.

The exception is when you have apportioned a small part of your portfolio to deliberately bet on speculative stocks and are prepared to lose it.

If so, just continue to hold because the amount is too small to harm your core portfolio long term.

## 9) If you're invested in ETFs and unit trusts...

If you are invested in well-diversified ETFs and unit trusts, you can continue to hold them long term. They are eventually tracking the markets and markets are resilient.

Some individual stocks may not survive but the markets always survive unless it is the end of the world. If so, we all die and it doesn't matter anymore.

## 10) If you're investing via an advisor..

this is the time where you may find it comforting that someone is handling it on your behalf.

You may even want to talk to your advisor and get his or her recommendation. The advisor can also serve as a counsellor if you are feeling worried about your portfolio.

He or she can think more objectively and make sure you don't make rash decisions.



## What to expect going forward?

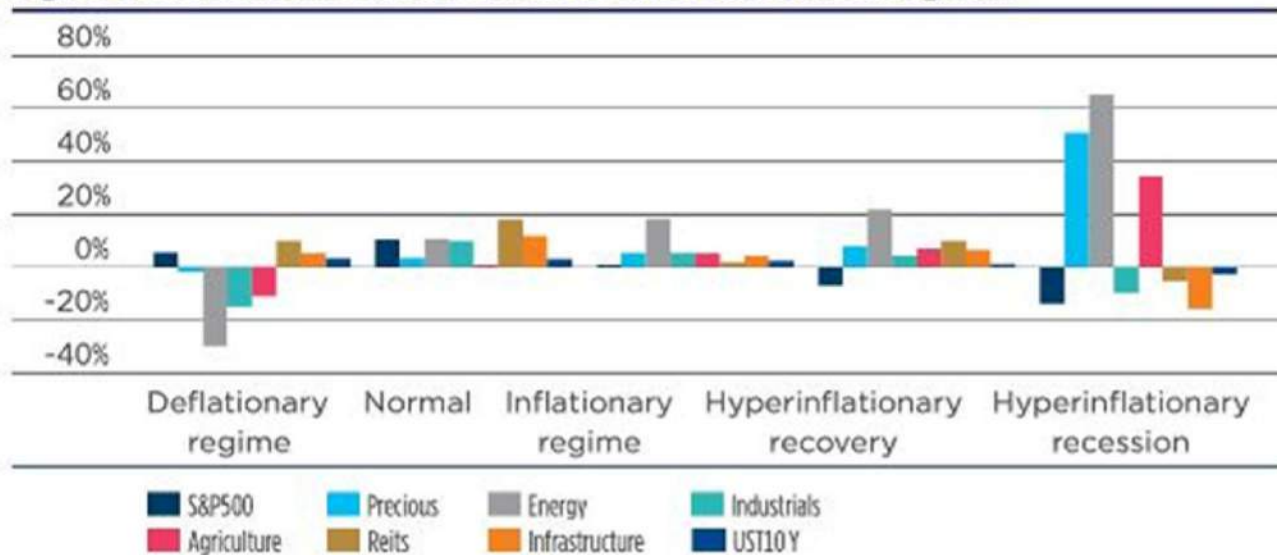
Now that we've covered the 10 ways to handle a bear market, let's explore what we should brace ourselves for going forward. And what could happen to our portfolios.

P.S. these are just my thoughts, they may or may not come true.

## Where we are now?

Here's how different asset classes perform in the different markets:

**Figure 8: Financial assets real returns in different inflation regimes**



Source: Amundi Research. Data as of 24 April 2019. S&P500, US global REITS from global financial data; US T10yrs from Bloomberg; global infrastructure (equities), total returns series proxied by a basket of 50% utilities and 50% transportation; precious metal: GSCI Precious Metals Total Return Index, proxied by gold before index starts; Energy: GSCI Energy Total Return Index, proxied by Brent Crude Oil before index starts; Industrial metals: GSCI Industrial Metals Total Return Index, proxied by copper before index starts; Agriculture: GSCI Agriculture Total Return Index.

## 6] What to expect going forward?

We know that we are an inflationary market currently. You feel it when you top up petrol, dine out or even when shopping for certain groceries.

But as the world waits on bated breath for updates each week, there might be a chance that we could move into hyperinflation or a recession.

And that will affect how we invest.

Why?

Here's a thought experiment:

### **What would you do if the Singapore Government pays you 5% interest?**

Singapore 10-year bond yield is at 2.73% now and a 5-year high. One year ago, it was at 1.99%. The increase might look small in terms of numbers but a butterfly effect exists - yield changes affect all other investments.

Singapore doesn't manage the interest rates but the Singapore Dollar exchange rate against a basket of currencies. USD is one of the currencies that the Singapore Dollar is benchmarked against and thus Singapore has been inheriting the rising interest rates from the US.

With more rate hikes in the US, Singapore bond yield is likely to go up further.

Let's do a thought experiment and assume that the Singapore 10-year bond yield hits 5%. How would this change the financial landscape?

## 6] What to expect going forward?

REITs will underperform. Most investors buy REITs because of its high dividend yield. The more popular REITs have saw price decline as the bond yield climbed. These REITs are yielding 5% and more currently.

If the SG bond yield is at 5%, REITs are not going to be attractive investments at 5% dividend yield. This is because the SG bonds are relatively safer investments. Some investors are likely to dump REITs and buy the bonds. Why take more risk for the same return?

The REIT yield has to be higher than the bond yield to justify for the additional risk. Hence REIT prices should fall for the yield to go up to say 8%.

This will apply to all other dividend yielding stocks in Singapore. I picked REITs because they are generally higher yielding instruments and would hence suffer a bigger impact from rising bond yields.

Those who have existing Singapore bonds would see capital losses. This is because bond prices move opposite direction to interest rates. The newer bonds are being issued at higher interest rates and to make lower-coupon bond attractive to a buyer in the secondary market, it has to be sold at a discount such that the yield-to-maturity matches the prevailing coupon rate.

Singapore Savings Bond (SSB) is an exception because the bond price is always fixed at par. And its interest rates would rise in tandem with the SG 10y bond yield.



## 6] What to expect going forward?

With both stock and bond prices going down, diversification wouldn't save a portfolio this time. Assuming you built a portfolio consisting of STI ETF for stocks and ABF Bond ETF for bonds in a 50-50 allocation, you would have lost 5.7% year-to-date (STI ETF is up 2.4%, ABF Bond ETF is down 8.1%). One would have to wait past the inflationary period to see the diversification work again.

We should expect banks to increase the interest on all savings accounts but they will delay it as long as possible or increase as little as possible. But once one bank raises the rest are likely to follow in order to keep customers.

But it is more likely the loan rates will increase first and at faster rates. Be it business, car or mortgage loans, all are expected to rise. It is already happening - the 3-month SIBOR rate in April 2022 has doubled since Jan 2022. This would reduce consumption of high-value goods that needed loans and affect business growth. In turn, it lowers the GDP growth of Singapore.

Hence, don't belittle the rising bond yields that is happening now. It will impact all our lives one way or another.

## The situation is still unfolding...

At the point of writing, we remain in an inflationary environment but as policies are being update, the situation could change.

If inflation continues to increase, we could end up in hyperinflation. And if recession kicks in with the inflation, we could move into stagnation.

We hope the options along with the historical data provided above will come in handy for you as the markets continue to evolve.

## 7] What should you be doing now?

So, what are some actions should you be taking now?

- If inflation has peaked and interest rate risk is gone...
  - Buy long-term bonds, physical properties, REITs, high-growth stocks and crypto
  - Sell commodities
- Reverse the above if inflation risk comes back
- If recession comes
  - Buy defensive sectors such as consumer staples, big tech and utilities
- If none, bull is back!

However, tactical actions can only help you in the short term, and it is very difficult to identify which scenario will unfold in reality.

We lean towards a more strategic investing style.

## How to execute strategic investing that helps you decide how to best position your stock portfolio in any market?

### 1) Trade with the Trend

There are 43,248 stocks in the world. But, few stocks are meant to be held long-term.

Some stocks are meant to be **bought and sold**.

And most stocks should be ignored.

## 8] How to execute Strategic Investing?

So, how do you find stocks that should be bought and sold in the short term? (here, I'm referring to holding period of weeks and months)

### We use momentum trading.

The idea here is to trade with the trend - i.e. buy high and sell higher. (We do not short the market as it takes more technical know-how to capture returns safely.)

This has been proven historically:



And has been providing returns for our portfolio:

### What is high became higher

Name	Symbol	A/Price	Close	P&L+Div%	Adays
CF Industries Holdings Inc <span>Earnings</span>	USX CF	65.031	107	+65.00%	147
ConocoPhillips	USX COP	71.28	101.56	+43.83%	140
EOG Resources Inc	USX EOG	90.368	121.76	+39.71%	133
ICL Group Ltd	USX ICL	9.451	12.6	+36.10%	126
Suncor Energy Inc	USX SU	25.739	34.06	+33.62%	119.8
Teucrium Commodity Trust - Tso	USX CORN	22.485	29.67	+31.96%	84
Chevron Corporation <span>Earnings</span>	USX CVX	133.91	171.83	+29.38%	77
Vertex Pharmaceuticals Incorpo <span>Earnings</span>	USX VRTX	244.483	282.52	+15.56%	77
iShares MSCI UAE ETF	USX UAE	16.635	18.99	+14.16%	84
The Hershey Company <span>Earnings</span> †	USX HSY	212.152	226.98	+6.99%	25.2
Archer-Daniels-Midland Company <span>Earnings</span> †	USX ADM	89.881	95.93	+6.73%	19.3
Altria Group Inc <span>Earnings</span> †	USX MO	53.49	55.22	+4.39%	23.6
Targa Resources Corp †	USX TRGP	76.057	79.05	+3.94%	19.4
Perusahaan Perseroan (Persero)	USX TLK	31.85	32.91	+3.33%	28
The Allstate Corporation <span>Earnings</span> †	USX ALL	137.251	141.74	+3.27%	24
Meridian Bioscience Inc	USX VIVO	26.74	27.39	+2.43%	21
Woodside Petroleum Ltd †	USX WOPEY	25.47	24.3	-4.59%	14

\*do not take this as financial advice, this data may not be valid when you read this.

That said, we're in a critical period as the S&P 500 is not out of the woods yet. We'll need to watch the markets closely and get in when the time is right.

Alvin shows and explains the details of how this is executed at this [live webinar](#).



## 8] How to execute Strategic Investing?

So, how do you find stocks that should be bought and sold in the short term? (here, I'm referring to holding period of weeks and months)

### **We use momentum trading.**

The idea here is to trade with the trend - i.e. buy high and sell higher. (We do not short the market as it takes more technical know-how to capture returns safely.)

## 2) Value Investing

Momentum trading allows us to capture opportunities in the shorter term. Value investing lets us capture returns from stocks that are meant to be bought and sold, in a longer term (i.e. years).

*Our definition of value stocks are highly discounted stocks. They are usually unattractive, beaten down stocks.*

Singapore and Hong Kong markets present the most value opportunities today.

Alvin shares how we screen for and calculate the valuation of such value stocks in this [live webinar](#).

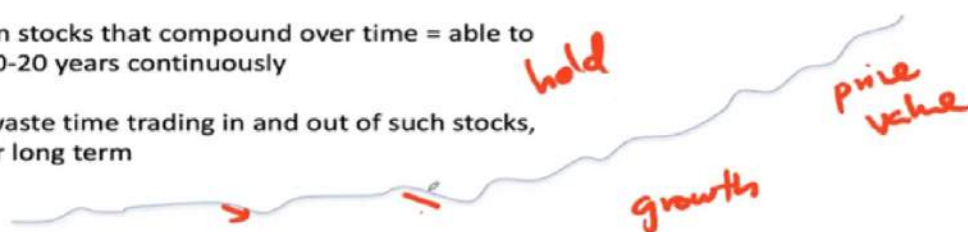
## 3) Lindy Growth Stock Investing

Remember that there are some stocks that are worth holding long term?

## 8] How to execute Strategic Investing?

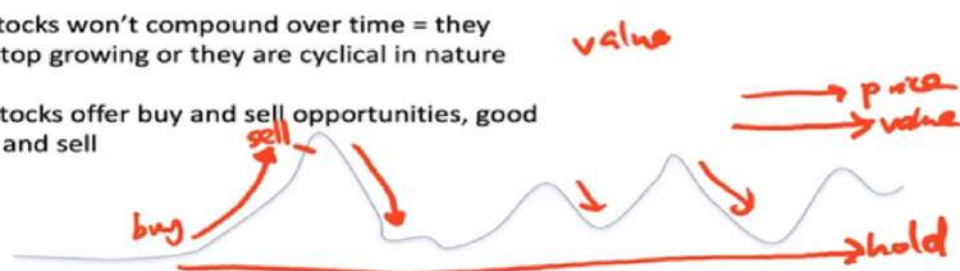
Invest in stocks that compound over time = able to grow 10-20 years continuously

Don't waste time trading in and out of such stocks, hold for long term



Some stocks won't compound over time = they either stop growing or they are cyclical in nature

These stocks offer buy and sell opportunities, good for buy and sell



We aim to buy and hold Lindy Growth stocks over the long term.

These are the modern "Warren Buffett" stocks, and we don't bother to sell them as long as our investment thesis stands.

The key characteristic of these Lindy Growth stocks is that they do not rely on change for their business to continue growing.

"Buffett added that they are slim in their ability to predict where change will lead. **Thus, they are much better at products where change will not mean as much:** soft drinks, candy, shaving, chewing gum. **There's not a whole lot of technology going into the art of the chew.**" - Berkshire Hathaway AGM, 1996.

In short, we avoid uncertainty in such long term growers.

And these stocks are usually in the China and US markets. Alvin shares how we find and analyse Lindy Growth stocks in this [live webinar](#).

Yes, markets are not looking very good:

### **Macro Climate [Not Financial Advice]**

- ETH vol still low , looks dull
- Risk markets fell overnight
  - Rate hike slowdown hopes diminished
- CPI still elevated
- Ukraine War
- Regulators coming in after LUNA / 3 AC Saga

While CPI has lowered, it remains high. With the latest comments about inflation remaining high, hopes of a slow in rate hikes were dashed and the markets dropped again.

In the cypto markets, we are facing the aftermath of the LUNA/3AC saga - from closing of centralised lenders to regulators stepping in.

In addition to the bearish macro climate, many cryptocurrencies fell by >90%.

So, is crypto still viable?



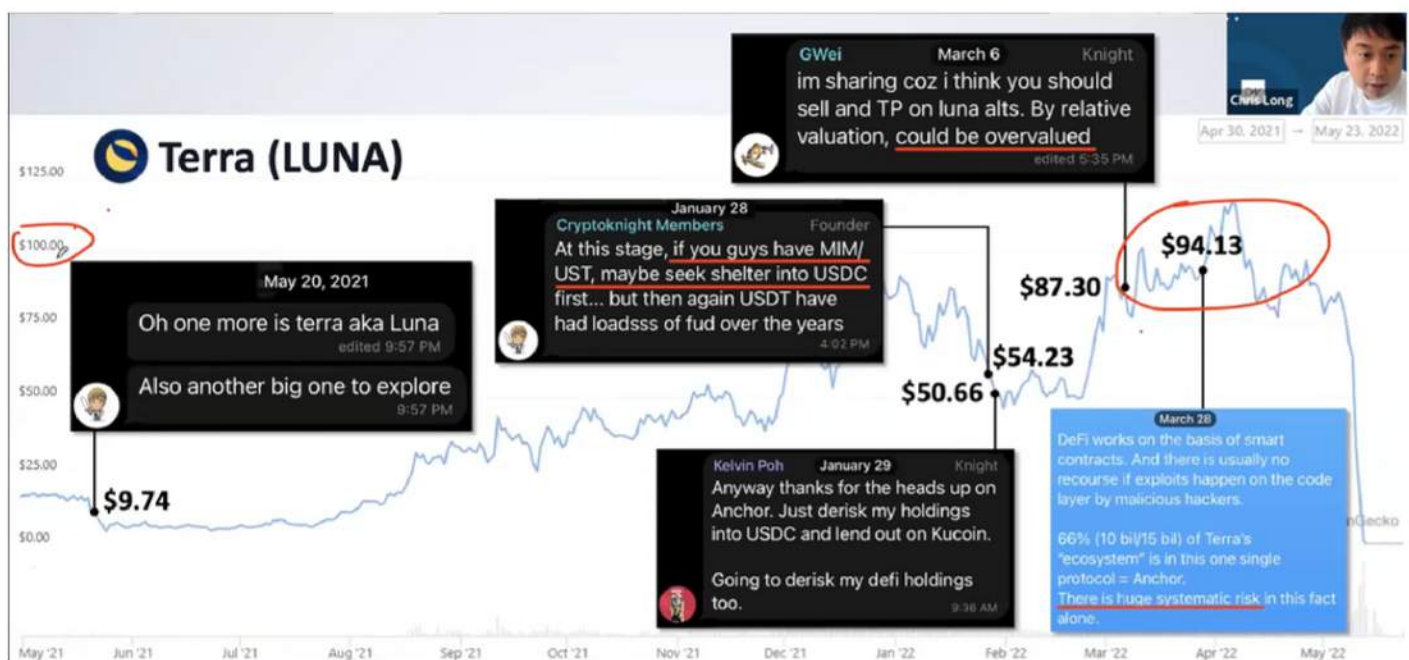
## The LUNA/3AC disaster

You've probably heard of the LUNA crash, how it brought down several big funds and companies and its impact on retail investors like us.

Chris points out that this saga was a credit crisis - *and credit crisis are not limited to cryptocurrency, it is part and parcel of the financial markets.*

**And all the key information were out there.**

If you had read the white paper or followed the right sources, you would have understood the risks and read the undercurrents:



Crypto will rise again and similar risky projects would surface in future.

Always remember to do your own due diligence!

## 9] Is crypto still viable after the crash?

Chris Long is...

### "Bearish short term, Bullish long term"

There are two types of crypto investors:

#### 1) Those who are already invested

If you have been taking profits along the way, you would recognise that the current markets provide a good opportunity for you to get in cheap.

#### 2) Those who are brand new

Many crypto investors regret not getting in earlier. The current bear markets offer depressed prices for you to take advantage on.

So, how is Chris Long managing his portfolio today?

#### 1) Concentrate on Big Caps

BTC and ETH are currently his focus.

#### 2) Size correctly

Crypto is risky, you should size your positions accordingly so as to manage your risks.

#### 3) Asset allocation

Crypto should be a portion of your asset, not your entire portfolio. You should allocate a comfortable amount instead of betting your hand.

#### 4) Look for lower risk moves

Airdrops, NFTs, short-term trades using previous profits.

## What's in crypto's future?

Temasek says they do not own Bitcoin, but reports suggests that they are prepping for tokenized assets.

DBS' CEO is invested into Bitcoin and believes that:

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Tech Talk

### *Blockchain will power 'the back office of the world' in 5 to 10 years: DBS Bank CEO Piyush Gupta*

DBS Bank CEO Piyush Gupta cuts through the crypto-blockchain mumbo jumbo, and explains why he bought Bitcoin, which could provide a store of value like gold.



Business

NFT startup Immutable valued at US\$2.5 billion in Temasek-led financing

Australian NFT startup Immutable has raised fresh funding from investors led by Singapore's Temasek in a round that values it at US\$2.5 billion, the company said on Monday, as it taps a surge in interest in cryptocurrency and NFT ventures.

Investors in the US\$200-million funding round include Mirae Asset, ParaFi Capital, Declaration Partners, Tencent Holdings and others, Immutable said.

To us, crypto's future remains bright with enterprise adoption growing despite the market downturn.

If you hold the same view and want some exposure to cryptocurrencies, join the [upcoming masterclass](#) to get your fundamentals right before putting any money in.



## How's the markets doing now?

Year to date, commodities are still outperforming. And in a rare scenario, STI's lack of movement made it an outperformer in the current bearish markets:

### Rebasing Chart YTD – (19 August 2022)



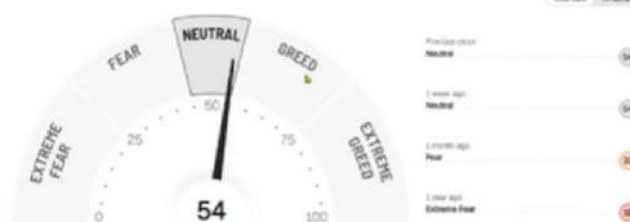
Tech stocks continue to underperform the markets. Robin believes that its not time to get into tech stocks just yet.

According to CNN's Fear & Greed Index, the markets are now 'Neutral':

### Fear & Greed Index – Neutral (19 August 2022)

#### Fear & Greed Index

What emotion is driving the market now?  
Labels: FEAR, NEUTRAL, GREED



Source: CNN Business

But Robin warns that we may not be at the bottom yet, instead we are only hitting a resistance zone. There may be another bearish period in the short term ahead.

## Where's the markets going?

It's anyone's guess. But according to Robin, there's an imminent correction on the way:

### Nasdaq 100 28 Jun 2022 – Where Do It Go From Here?



On top of that, the Russia-Ukraine conflict continues on and its impact continues to linger.

Europe is running out of gas and Russia may cut off supplies to them in the coming winter. If this happens, gas prices will go up.

But we are in a volatile period where the markets can go in any direction in the short run.

For the latest actionable insights & updates on the markets, join in Robin's [live webinar](#).