small Change BOOK 2

Turning cents into dollars

THE STRAITS TIMES

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CONTENTS

Foreword *6*

Preface *8*

Part 1 – Beliefs

1 Doing good brings goodness *12*

2 Knowing when enough is enough to get by *15*

3 What it takes to be rich *18*

4 Keep good friends – and good stocks *21*

Part 2 – Advice

5 Lessons from fallen financial idols *26*

6 The best investors stay hard-headed *29*

7 Lessons from the financial crisis *32*

8 Tips for the novice investor *35*

9 Trump your inner miser *38*

10 Buy Prada shares, not Prada shoes *41*

11 For investment ideas, watch a movie *44*

12 If in doubt, sell half *47*

13 In investing, stick to the best companies *50*

14 The case for buying Asian stocks *53*

15 China's economic miracle: Seeing is believing *56*

SAMPLE CONTENT

03
WHAT IT TAKES TO BE RICH

A friend tossed a question at me: What does it take to be wealthy?

It had me stumped. Once you would have been considered rich if you had $1 million. But when even mass market condos change hands at that price or more, having $1 million does not seem like a big deal any more. So trying to draw a line between the rich and everyone else can be unclear.

In the United States, Swiss lender UBS said the magic number is US$5 million (S$6.3 million), following a survey it did with its well-heeled clients there.

My gut feel is that if a similar poll were held here, we would arrive at the same ballpark figure of $5 million as our benchmark for defining a rich person. This is in view of the high property prices in Singapore.

What intrigues me more is the definition used by UBS to define wealth.

Now, in Singapore, most people will assume that you are rich if you have achieved the five Cs – hold a lot of cash, own a fully paid-up condo or landed property, drive a luxury car, have membership at a prestigious country club or two, plus a high spending limit on your credit card.

But for the 4,450 high-net-worth clients surveyed by UBS, the perception of wealth is quite different. Emily Pachuta, head of investor insights at UBS Wealth Management Americas, said: "Investors are telling us that wealth isn't just about money. It is about having no financial constraints, holding a lot of cash, and taking care of the family."

SAMPLE CONTENT

16
THE ATTRACTIONS OF DIVIDEND STOCKS

If you managed to secure a slice of the five-year bonds issued by the Housing Board just over a week ago, you really will not have much to show for your efforts. The annual payout is just 1.11 per cent, hardly sufficient to offset your loss in purchasing power, with inflation running at 4 per cent.

But if you put your money into a unit trust or an investment-linked insurance product, the outcome could be worse. Fund research company Lipper reports that in the second quarter, an investor would have lost about 4.06 per cent, on average, on funds approved by the Central Provident Fund for investments.

This, then, is the dilemma facing investors: Keep your money in a bond and you find its value slowly eroded by inflation; invest in an equity fund, and you run the risk of losing part of your capital.

As an alternative, some analysts have suggested buying into investment-rated companies offering relatively high yields. Robert Buckland, Citi Research's global equity strategist, wrote: "Equities now trade on dividend yields above local bonds in all the major markets. This has not been seen consistently since the 1950s."

Certainly, the case for investing in equities has never been more attractive. By some estimates, there is US$2 trillion (S$2.49 trillion) of cash sitting on the balance sheets of major companies worldwide. This suggests that even if the world economy were to slip back into recession, there is little risk of these companies going bust, or even cutting their dividend payouts, because they are protected by fortresses of cash.

SAMPLE CONTENT

21
ARE THE BEST DAYS FOR GOLD OVER?

How times change: At the start of the year, the bet was whether gold or platinum would hit the unheard of US$2,000 an ounce first. Now it is a race to the bottom. Both are fast heading to US$1,000 and all the talk is of worse to come even if that support benchmark is breached.

Depending on which wire report you read, gold is suffering its biggest rout in percentage terms since 1971 or it could be 1920, after plunging 7.1 per cent to a three-year low of US$1,202.50 last week. Swiss bank UBS – one of the biggest gold bulls – has slashed its forecast from US$1,750 to US$1,050 while Credit Suisse set a target of US$1,150.

Holding gold had been a good bet over the past four years, as the US Federal Reserve and other major central banks depressed interest rates effectively to zero to try to restore the global economy to health. But those bets are off after the Fed flagged its plan to "taper" off its massive US$85 billion (S$108 billion) monthly bond-buying programme. That sent long-term bond prices plummeting and caused bond yields to go up, and thus be more attractive as a place to park your cash. Gold, on the other hand, has become a lot more painful to hold, as it offers no returns other than a possible appreciation in price.

It is the speed at which gold has plunged in price that raises more concern. Prices have crashed an eye-popping 35 per cent since hitting a high of US$1,798 an ounce last October. The sell-off exacerbates concerns that the US Fed may be pushing the global economy into a deflationary slump where falling prices dampen consumers' appetite to spend.

SAMPLE CONTENT

25
SELL IN MAY? EXPERTS ARE DIVIDED

The old adage "sell in May and go away" played out according to script in the past two years, and this has investors wondering if 2012 will make it three years in a row.

So far, the signals are mixed. Trading for May kicked off on a positive note last Wednesday, with the benchmark Straits Times Index (STI) gaining 0.9 per cent, following upbeat manufacturing data in the United States. But the disappointing April US job data and uncertain outcome over the French and Greek elections have put a dampener on investors' risk appetite. As such, the big question is whether to take money off the table and pocket the gains enjoyed in the first quarter, given concerns of a summer swoon.

Experts are divided. Phillip Securities' managing director, Loh Hoon Sun, for one, believes that the "sell in May" strategy may not work this year. He said: "This is the last year of US President Barack Obama's first term and he will do his best to stimulate the US economy to get re-elected. That should be good for global stock markets."

Any market downside may also be limited by the so-called "Bernanke Put", named after the US Federal Reserve chairman Ben Bernanke, as stock prices derive support from the US central bank's readiness to prop up the US economy, he added.

But Markus Rosgen, Citi Investment Research's chief Asian strategist, noted that the period between May and end-September has historically been the weakest season for equity markets. "That has been the case over

SAMPLE CONTENT