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The value of having an investment approach that you can stick with come rain or shine has never been more apparent than over the past three years.

Trust the market, don't try to outguess it

The right investment approach should be consistent with long-term stock and bond market returns. **By David Booth**

THE financial advice industry in Singapore is undergoing a fundamental transformation from ringing up sales to building relationships in which the adviser sits on the same side of the table as the client.

In the decade since we established roots in Singapore, a dramatic shift is taking hold in how investor wealth is managed in ways that are similar to what we have seen in other countries.

These changes reflect a gradual shift from the old, high-cost model of transactional (commission-based) product-led selling, based on attempts to outguess the market, to a conflict-free fee-based service grounded in goals-based investing advice that puts the consumer first.

Three specific developments stand out for us in Singapore. First, the investor community is becoming more inquisitive and well-informed with far greater demand for transparency and evidence around investment solutions, which are now available to retail investors.

Second, the conflicted industry incentives which resulted in people being shoehorned into high-commission products are giving way to a model that prioritises the best interests of the client and better aligns the way advisers are paid for services. This new model stems from the idea that putting clients' needs first, coupled with efficient, low-cost access to stock and bond markets, is a successful formula for both clients and advisers.

The third development is that investors are waking up to the difference between short-term speculation and disciplined, long-term investment. For instance, many Singaporeans are already well-versed in the long-term benefits of disciplined investing through the CPF Investment Scheme.

The value of having an investment approach that you can stick with come rain or shine has never been more apparent than over the past three years. We have seen a global pandemic, the rise and fall of meme stocks, the boom and then crash in cryptocurrencies, major geopolitical uncertainty, the resurgence of inflation to levels last seen in decades ago.

Yet over that period, there has still been a positive return from global stock markets. The conclusion that many people reach is that it is unrealistic to think they can outguess the markets through stock selection and timing decisions. But neither is just tracking an index an ideal approach.

Sensible and sound investment philosophy

Instead, the right approach is to, first, make sure you have an investment philosophy that is sensible and based on sound principles. Second, make sure your plan is realistic and matches where you are in life. Even the greatest plan in the world is no good if you can't stick to it through tough times. Having the right financial adviser in your corner can help here. This should be someone whom you trust to understand you, your circumstances, goals and risk appetites but who also trusts the market themselves.

The right investment approach should be consistent with long-term stock and bond market returns. That means you are trying to capture the returns of the market rather than attempting to outsmart it.

Initially, the attempt to work with the market rather than try to outguess it was confined to index funds, a development I was involved in right at their birth half a century ago. But additional research since then has showed that there is a way to improve the results beyond indexing and traditional active management in pursuit of higher expected returns, while adding value through daily implementation using a systematic yet flexible approach.

It is unrealistic for people to think they can outguess the markets through stock selection and timing decisions. But neither is just tracking an index an ideal approach.

This is in stark contrast to the dominant investment style within Asia which focuses on attempts to time the market and pick individual stocks as the way to wealth.

We know through substantial research that there is little evidence of people enjoying consistent success with these approaches. They get distracted by the daily noise of the markets and end up paying too much in fees and trading costs.

So stock pickers and market timers try to outguess the market and look for what they believe are pricing mistakes, while index trackers have limited flexibility. The good news is you can trust the market, without merely tracking it, and you can do better than the market without trying to outguess it.

If you accept these fundamental principles of markets and how they work, you owe it to yourself to find an adviser who does too. So trust the adviser who trusts the market.

Fortunately for people in Singapore, those types of advisers are growing in number and putting their clients at the centre.

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