Investing

PREFACE

Perhaps because I started building my business with SGD 6,000, habitually I always think about the power of even SGD 1,000 in building returns. When I see the reckless money being spent and invested, I lament the lack of understanding and appreciation of what they are giving up.

Before you learn how to make money, every dollar saved is every dollar earned. Pure saving will not build wealth and will in fact hamper your wealth accumulation if practiced in isolation. I would see a frugal lifestyle as the basic building block to be a successful investor. When I see a fund manager who lead flashy lifestyle and entrepreneurs who have no idea of cost management, I usually walk away.

Frugality in lifestyle allow clarity of mind and spirit, However, as your wealth level evolve, money as one of your assets should also evolved differently. Money for daily living where one lead a frugal life need not constraint the way you gift to the under privileged and the needy. Likewise, I would not buy a SGD 10,000 watch for myself, but I would gift a SGD 100,000 watch to a special partner for their help in building our business. I have lost millions investing in enterprises I believe in and I have no regrets, but the lessons I learnt from it must be worthwhile.

This book is dedicated to my mother whom I have learnt my life lessons from and whom entrepreneurship has brought us all in extreme poverty, and to all the young people including my children whom I hope can benefit from it.

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Philosophy & Psychology

<u>What are Investments?</u>

Investments, unlike gambling or wagering a bet, have no 'win' or 'lose'. Profits are generated from investments because the underlying business or products grow in value and their investors gain as a result through distributions of profits in the form of dividends, and through the increased value of the business as its assets become more productive. In theory, capital should flow into productive assets and avoid unproductive assets. However, in the real world the opposite usually takes place and lead to financial crises due to the mis-allocation of capital.

It's not about winning and losing, but about increasing your net worth over a period of time. What is your net worth? It includes:

- Money
- Knowledge
- Portfolio
- Assets base

<u>Be curious</u>

Curiosity killed the cat. However, a curious mind is an essential trait of a good investor. Why did the market behave in a certain way? Why are people buying / selling a particular security? Why did the currency rise / fall on that news?

Being curious will stimulate you to look for answers. While digging for answers, you will generate more questions. Ultimately by piecing data together, you will develop a better understanding of the relationship between the different components of the market.

<u>Sentiments v Facts</u>

- Always look at the facts – they provide valuation and entry-levels
- But ride on sentiments – they provide opportunities

<u>Being *honest* about being *wrong*</u>

- Knowing when you are wrong is important – it allows you to cut losses. For this, you need to know which data to track to determine whether your assumptions and view still hold
- Watching the rates of change (1^{st} and 2^{nd} derivatives) help determine if you are wrong
- Read quality journals, the FT and WSJ, not The Straits Times
- It is important to know **why** you made an investment decision as it will be easier to reflect on it for future decision making
- Day to day monitoring is important, but not of your portfolio, but rather your assumptions. Hence, define your assumptions, and monitor them
- "I'm rich not because I am right all the time, but because I know when I am wrong" – George Soros

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- Identify trusted source of information to base on your judgment on.   E.g., an economist with unbiased political analysis vs CNN which is pro- republican, etc.
- Do NOT follow blindly what you either read or hear

How to view a crisis

- "Reconstruction will take time, therefore it is important to have enough food and resources. Stay away from the crisis zone. Meanwhile lookout for opportunities."
- "Financial crisis, like all crises are never permanent. Their effect is however more permanent to some than others." – DT
- DO NOT AVERAGE DOWN
- DO NOT PANIC, go thru the reasons and assumptions on why you invested and ask yourself whether they are still valid
- 'Bad times' are good. They provide choice investment opportunities and lots of time to decide
- Crises are always about leverage and liquidity.

What to invest in?

- Invest based on your strengths. E.g., Are you familiar with shipping and China? Do you have privy access to the workings and intricacies of that industry?
- Invest in something which you are comfortable to invest more in even if prices come down further
- Know what you are investing in and understand the risks of the investment. Monitor those risks.
- Assets that give dividends, and appreciate in value over time through innovation, gains in market share, which generate more cash as they grow are investable. Otherwise, it's merely an investment in an asset bubble.

Hard work

- Don't believe in luck
- Hard work can trump luck when it comes to investments
- Don't worry excessively, always look at the facts and be prepared. Go through the drills.
- No greed, no fear - just plain numbers crunching and clear analysis
- Open your ears, ask, observe, listen, read

Timelines and goals

- Because economy moves in cycle, its important to add a time horizon into your investments considerations and assumptions
- Build your portfolio around your investments needs
- Dun set unreasonable goals. The best investor in the world only makes a 20% return a year but he does it for years and years!
- It is about consistency, risk management and discipline. Do not be distracted by people who tell you they've made a 100% return, or more, because they cannot never repeat the feat.

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Ten trading rules

1. Invest within you means
2. Don't enter/exit positions every day
3. Be bullish in a bull market, and be bearish in a bear market
4. Study the underlying conditions, and make them your allies
5. Be patient, plan and execute if you are sure about your view
6. Pyramid up in bull market, pyramid down in bear market
7. Test your trades
8. Don't buy a stock if it comes too easily
9. Operators like to sell on the way down after pushing to peak ("pump and dump")
10. Buy when stocks are trending up without big reasons, sell when stocks are trending down without big reasons

Recognising other market different participants and their behaviour

- Investors
- Business owners
- Stock market operators
- Syndicates
- Financial intermediaries – broker, banks
- Derivative products intermediaries
- Market makers
- Promoter
- Investor relations
- Professional speculators
- Retails investors
- Funds and fund managers
- Traders
- Retail investors/speculators

Genuine investors are business owners who grow their business and long term investors who invest because they believe the business they invest in can grow over time with the right capital from investors. The rest are speculators and intermediaries trying to profit from the underlying assets or businesses.

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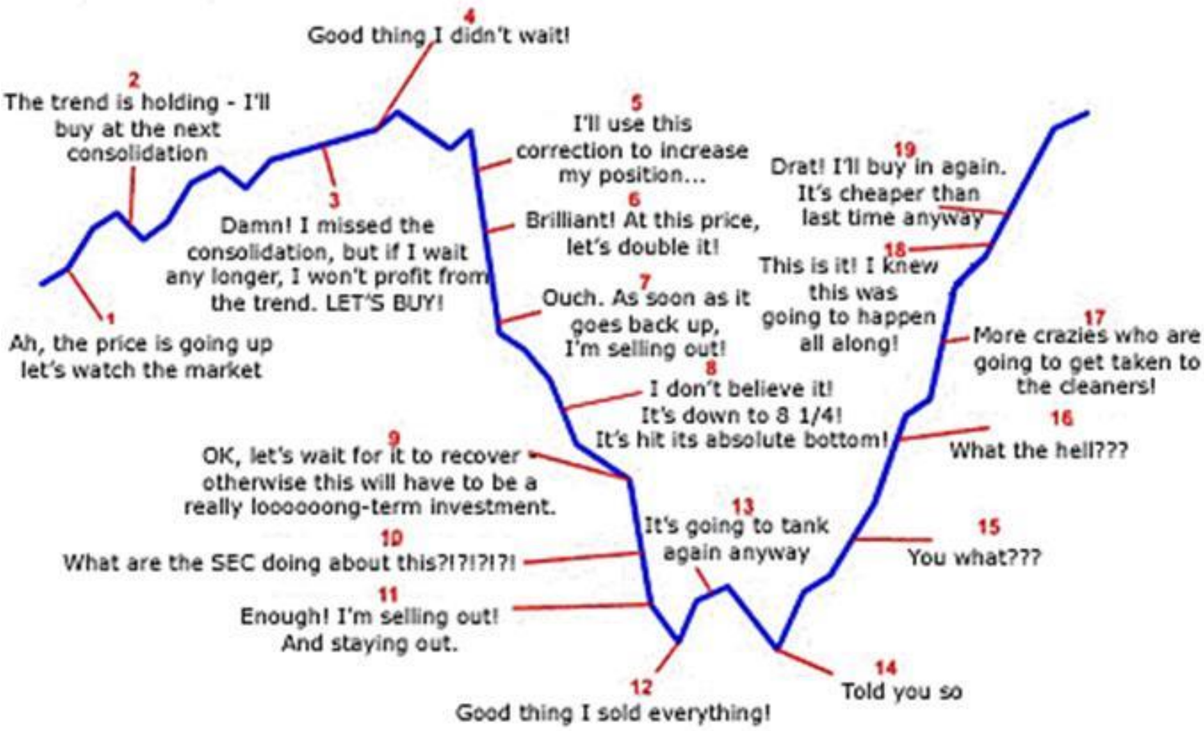
Typical retail investor behavior (to avoid)

Why do retail investors always lose?

- They catch the wrong part of the cycle
- They take a long time to decide to lend to a friend in need, but yet they can write a big cheque for investments without knowing what those investments are, most are really base on hearsay, empty promises and wishful hopes for good returns
- Their investing behavior is dependent on their emotions. They buy when they feel good about their salary. Thus, they invest when they should be saving so as to invest when assets are cheap. They sell when they worry about losing their jobs when in fact they should buy because the facts have changed, and not be forced to do so when their job security changes. To manage emotion, invest with money you can live without.



Your most important asset

You guard your house, and you protect your assets. But how well do you protect your most valuable asset? I.e., your brain. Don't allow useless thoughts to waste your energy and corrupt your system. Once decided, focus all of your energy into following through.

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<u>Investment style</u>

There are predominantly three investment styles to choose from.

(1) Macro, top down
(2) Momentum trading or trend following or pure technical investing
(3) Bottom up approach of individual company stock-picking

We will focus on the macroeconomic top-down style of investing. This approach includes (a) understanding the current macroeconomic environment, (b) anticipating the next important macroeconomic event and (c) deciding on an investment strategy to suit.

CONCLUSION

One of the questions I expect to be asked is, "is Bitcoin considered a bubble and is it an investable class and base on your philosophy of investing in productive assets, why did you invest in BTC?"

The basic of my consideration of a new asset class I want to evaluate is firstly: demand and supply. Does this asset has limited supply but potentially inelastic demand? What does this demand build on? When I looked at BTC, it fulfils all the criteria of a new investments class that will only continue to appreciate although the speed of appreciation is beyond my forecast.

The use of BTC as a trusted medium of exchange is its ultimate core proposition and its value supported by limited supply and fragmented ownership, another key consideration when deciding to invest in a newly created asset class. This is important because it means the economic value created by BTC will not be manipulative and hence sustainable to unnecessary speculation.

Unlike many traditional analyses, I believe BTC can be a productive asset once it is harmonized into a digital economic ecosystem. When I invested in BTC in 2014, I was convinced BTC will be a asset class and form part of the payment infrastructure. When I started ICHX in 2017, I know we will be one of the reasons why BTC will go on to hit new high no one can ever imagine.

I have the fortune and opportunity to invest in technology since 1998, and I have participated in many investments that has given me returns beyond my more optimistic forecast. The value of BTC and ICHX will also I belief, go on to a value beyond my prediction.