Informed Investing:
Path to Wealth Creation

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Speaker: Shane Choo

Shane Choo
Director of LifeChamp & WealthFort

- **Shane Choo** is a **financial speaker**, **trader** and **investor**, with 10 years of experience trading and investing in local and international stocks, ETF, and currency.
- He is also a **Certified Professional Trainer** by IPMA, UK.
- As a speaker, he speaks regularly for Bursa Young Investor Education seminars, investment banks and technical charting companies.
- He also designs and conducts stock simulation games and workshops for Bursa Malaysia nationwide. To date, he has trained over 10,000 individuals in stock investment.
- He is also a frequently invited guest speaker for over 20 universities nationwide to teach investment.
- Currently, he is a stock market analyst for CITYPlus FM.
- In 2015, he was acknowledged by President Obama for his work as a young leader in financial education.

What We Will Cover Today?

- ✓ The common mistakes of retail investors
- ✓ Target setting to achieve own investment goal
- ✓ The habits and traits of an informed investor
- ✓ The tips to manage your emotion when investing

Avoid Herd Mentality, Make Independent Judgement

Source: https://www.bernama.com/en/business/news.php?id=1871376

Our Lives Revolve Around Stocks

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Creating Opportunities, Growing Value

Look around yourself…

Retail Investors Do Lose Money

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Common Mistakes of Retail Investors

1. Follow the herd
2. Listen to tips and rumours
3. Like to do contra trading
4. Choice of stocks
5. No self-discipline
6. Want to make money fast
7. No patience
8. Overly greedy
9. Don’t cut loss
10. Frequently buy & sell stocks

Is Investing Risky?

Avoiding Risks in Investing

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Creating Opportunities, Growing Value

- ✕ Price crash

  Solution: Avoid bad companies

- ✕ Volatile

  Solution: Diversification

- ✕ Management breach of trust

  Solution: Select Management with integrity who looks after the minority shareholders

- ✕ Don't have first hand information

  Solution: Pay attention to corporate news and operating environment. Attend AGM

- ✕ Speculative

  Solution: Don't speculate; but invest

How much return should we target?

Target Setting

1. Determine your capital for investment (Beginning Value)
2. Think about your desired lifestyle in the future, your family planning, your children's education, your retirement and all other things you would love to do that would cost a huge sum of money. Estimate how much those would cost you. (Ending Value)
3. Determine how many years you have to accumulate that amount of money.
4. Calculate how much annual return you need to enable you to live your desired lifestyle and afford those things.
   Hint: Use a CAGR calculator to calculate your annual return. (Hopefully, it is within an achievable range ☺)

Rule of 72

$$\frac{72}{\text{Rate of Return}} = \text{Time for Investment to Double}$$

Rule of 72

$$\frac{72}{?} = 10 \text{ years}$$

Rule of 72

$$\frac{72}{14.4\%} = 5 \text{ years}$$

Habits & Traits of an Informed Investor

1. Don’t Blindly Listen to Tips

Do Your Due Diligence on Tips!

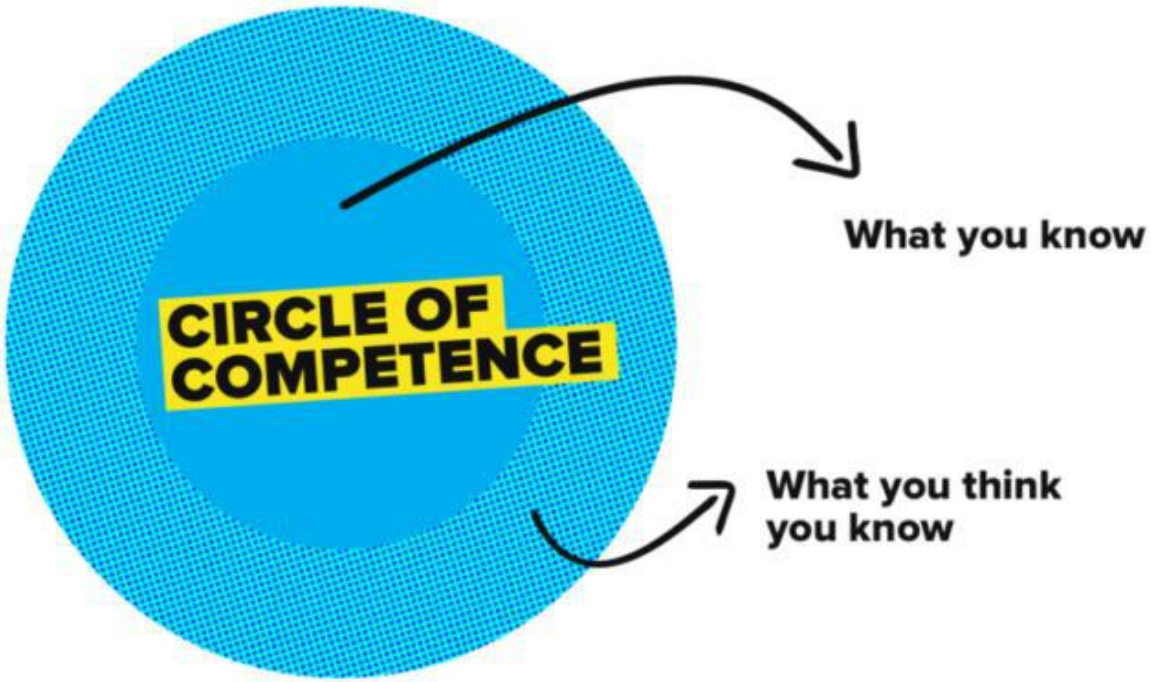
2. Don’t Borrow to Invest

Invest with the amount you can afford to lose.

Unless you really know debt leverage well (e.g. share margin financing) and are prepared for any possible adverse outcomes, then you must strictly follow these guidelines:

1. Don’t borrow >20% of your portfolio value
2. Only invest in investment grade companies
3. If possible, invest in a company whose dividend > interest

3. Invest Within Your Circle of Competence



Know your circle of competence, and stick within it.
The size of that circle is not very important; knowing its boundaries, however, is vital. ~ Warren Buffett

4. Don’t Buy Loss Making Companies

Don’t invest in consistently loss making companies, no matter how cheap they are, unless the company is in a real turnaround state.

5. Don’t Buy Inconsistent Companies

Don’t invest in companies that deliver inconsistent profit, unless you understand the company’s cyclical behavior.

6. Diversify

Diversification minimizes the impact that the performance of any one security will have on the overall performance of the whole portfolio.

7. Cut Loss

Cut loss is painful, but a necessary move when…

- The company growth outlook has changed.
- You realize you have made a wrong judgment about the company.
- The company records a quarterly loss, and the same reason that had caused the quarterly loss will still continue to dampen the stock.

Cut Loss Principles

- You don’t need to be right all the time; you want to be profitable.
- Don’t be emotionally attached to your stocks. Fall in love with the number, not the company. Because emotion clouds your judgment and makes cut loss harder.
- You should manage your portfolio like how you would manage a company. A company is supposed to make money. So make sure your portfolio does the same.
- Cutting loss can be painful as you realize a loss. But if you don’t cut loss, not only will you incur possibly more paper loss, but also incur opportunity cost.

Why do investors sell the winners; keep the losers?

Let Me Ask You...

Which Will You Choose?

A

Have a 50% chance of winning RM1,000 and 50% chance of winning nothing.

B

Sure win RM500

Let Me Ask You...

Which Will You Choose?

A

Have a 50% chance of losing RM1,000 and 50% chance of losing nothing.

B

Sure lose RM500

Prospect Theory

Which Will You Choose?

A

Have a 50% chance of winning RM1,000 and 50% chance of winning nothing.

B

Sure win RM500

Risk Aversion Bias

People tend to overweigh options that are **certain**, and are **risk averse for gains.**

This experiment was conducted by psychologists Daniel Kahneman and Amos Tversky in 1979.

Prospect Theory

Which Will You Choose?

A

Have a 50% chance of losing RM1,000 and 50% chance of losing nothing.

B

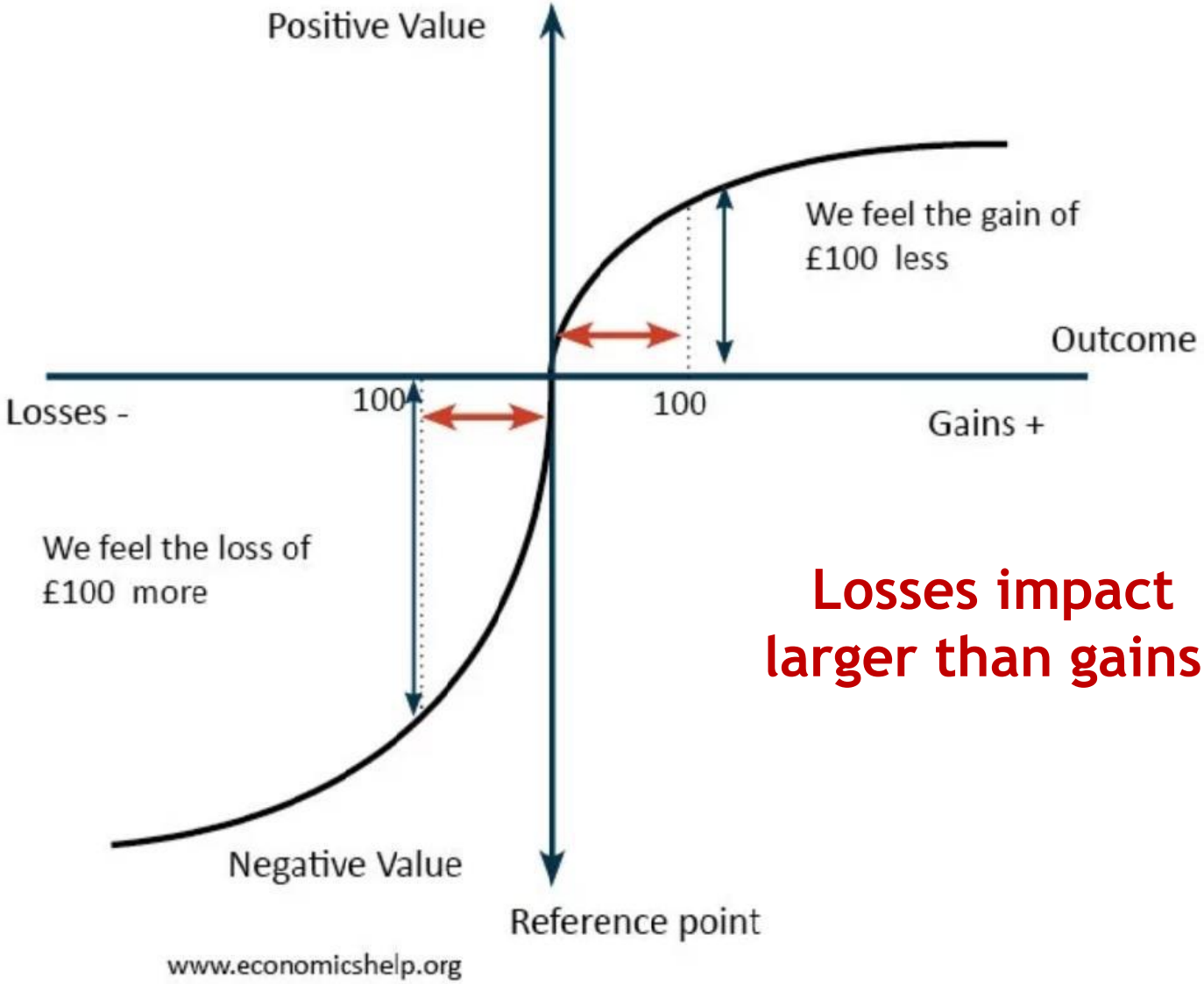
Sure lose RM500

Loss Aversion Bias

People tend to take risk to avoid losing money.

This experiment was conducted by psychologists Daniel Kahneman and Amos Tversky in 1979.

Prospect Theory



Losses impact larger than gains.

Managing Emotions

What emotions do you feel when you invest in stocks?

4 Emotions

Fear

Greed

Hope

Regret

What is Fear?

Fear is when you get emotional about every little price action of the company that you just bought.

Fear is when you hear some negative rumours about a good fundamental company that you bought, and sell the company short without doing much due diligence about the rumours.

What is Greed?

You buy into a company whose...

- Share Price: RM1.40
- EPS: RM0.20
- P/E: 7

When the share price increases to RM3.40; while there is no increment of EPS (P/E: 17), but you don't sell because you still want to earn more, that is **greed**.

What is Hope?

Hope is when you realise you had made a wrong judgment about a company or the company's fundamental deteriorates, but you still hold on to your paper losses, waiting for it to turn around one day.

Hope is when you invest in companies without doing much due diligence, merely hoping that lady luck is with you.

What is Regret?

Regret is when you notice the share price still goes up after you sell your stocks.

Regret is when the share price still goes down after you buy the stocks.

Emotions through Investment Cycle

Managing Your Emotions

How to have emotional detachment when investing:

- ✓ Be **disciplined** and follow your investment plan.
- ✓ Don't invest with the money you can't afford to lose.
- ✓ Don't chase the price. If you miss a price, let it be. Opportunities are everywhere. Move on to a new company or wait for the price to come back down. Chasing the price is a symptom of greed.

No matter how good you are, there will be stocks that you will lose money on, in the short term. Have faith in your judgement and keep holding on.

The key is to make losses small part of your portfolio and profits big part of your portfolio. Losses are just the costs to make profits.

Managing Emotions

When you
MAKE MONEY

When you
LOSE MONEY

You're **NOT** on track to successful investing.

Managing Emotions

You're **ON** track to successful investing…

When you
MAKE MONEY

When you
LOSE MONEY

Thank you