INVESTOR LETTER
July 2019

Dear Investors,

The first six months of 2019 was the best performing first half of the year in decades despite newspaper headlines on trade wars and economic slowdowns. As this gloom perpetuated in the general media, we look at how our portfolios have done from January to June. After all fees, our global multi-asset FGO and FGO+ funds returned 7.22% and 9.68%, while our Asian equity FAM Asia Fund returned 12.69%. One might ponder how investments can be profitable amid ongoing bad news, and if fundamentals matter when it comes to investing. The fact is fundamentals do matter; the key is being able to discern which fundamentals are impactful, instead of being affected by noise created by certain headlines.

When we started this series of letters, I took for granted that everyone was already convinced that investments were a necessary part of personal finance. That's why I discussed topics such as negative compounding, volatility, free cash flow, and risk management. Perhaps this was due to my occupational hazard, being immersed in investments all this while. A recent survey done by OCBC as part of their Financial Wellness Index[1] found that one in three adults does not invest or find ways to grow their money, even regarding investing as a form of gambling. More worrying was that around half do not have passive income, and could not stretch their savings beyond six months. It then dawned on me why one of the most common questions we get is "when should I invest?"

When should I invest?

The unspoken question behind this is "will I lose money when I invest now?" Evidently, this would stem from an aversion to loss, which is a natural instinct. Human beings are naturally drawn to lowest risk in order to survive, and hence investors choose cash as a default. But is holding cash really the lowest risk?

Take two individuals: Investor A, who is parked in cash and looking for an opportune time to enter the market. Investor B is an unlucky investor who entered the market at the peak, for example in 2007, arguably the worst point. How long would it take for both of them to double their investment?

As shown in the table below, Investor A would need 50 years based on SGD fixed deposit rates today. Despite getting invested at the worst time, Investor B would need 10 years to double, which is a fraction of the time compared to Investor A.

Table 1 Number of years needed to double investment capital

Option	Time needed to double
Fixed deposit SGD	50 years @ 1.4%
Cash USD	29 years @ 2.4%
Equities	10 years if bought at peak of market in Oct 2007

[1] https://www.ocbc.com/simplyspoton/

Source: Bloomberg, Finexis Asset Management. Fixed deposit SGD rate based on Singapore DBS Bank 12 month Fixed Deposit rate, Cash USD rate based on Overnight Bank Funding Rate. Equities based on S&P 500 index.

Hence, it is logical to invest anytime compared to being in cash. But how do we handle that nagging feeling that we could still see an investment drop from $100 to $50?

Your $100 is already becoming $50

If I can bring you back 30 years, try to recall how much a cup of coffee costs? How about the cost of a bowl of noodles, a movie ticket, or the maximum MRT fare? Figure 1 shows how prices for these have risen over the years.

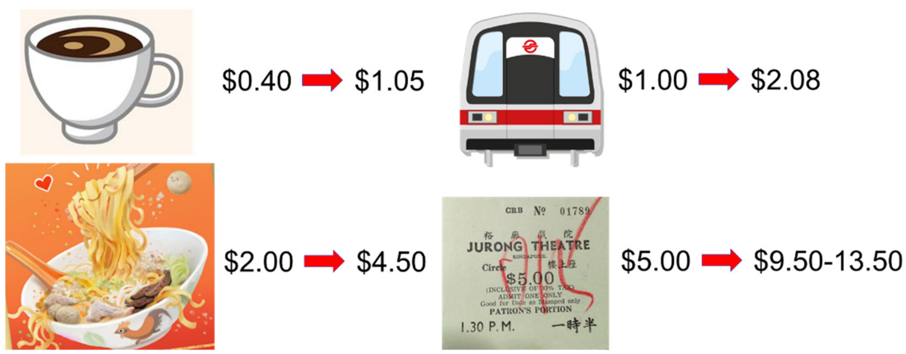

Figure 1 Price comparison between 1990s and present.
Source: https://blog.seedly.sg/20-price-differences-in-singapore-between-1990s-vs-2010s/

The above are some anecdotal examples of what a typical consumer might encounter. Costs relating to more crucial aspects of life such as healthcare and housing have also risen (Figure 2). The official inflation rate in

Figure 3 shows that prices in Singapore have doubled over 30 years. While these are examples in the Singapore context, I'm sure investors in other countries can relate to rising costs over time. **Like it or not, the reality is that everyone's $100 is turning into $50 with inflation.**

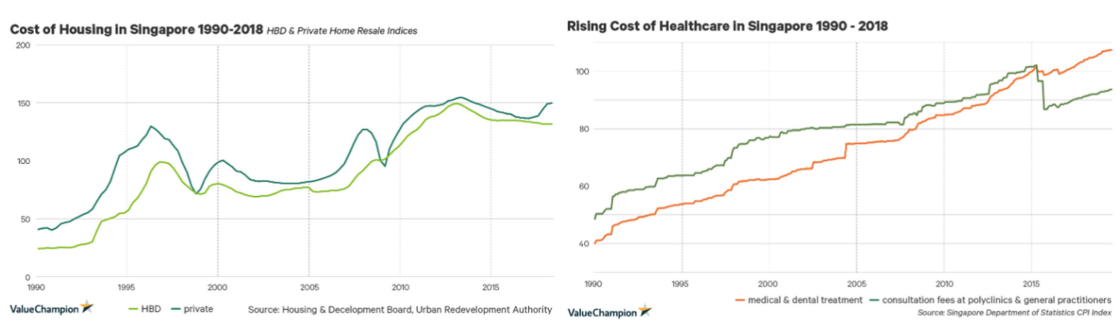

Figure 2 Costs of healthcare and housing in Singapore
Source: https://www.asiaone.com/singapore/affordability-crisis-how-expensive-has-singapore-truly-become

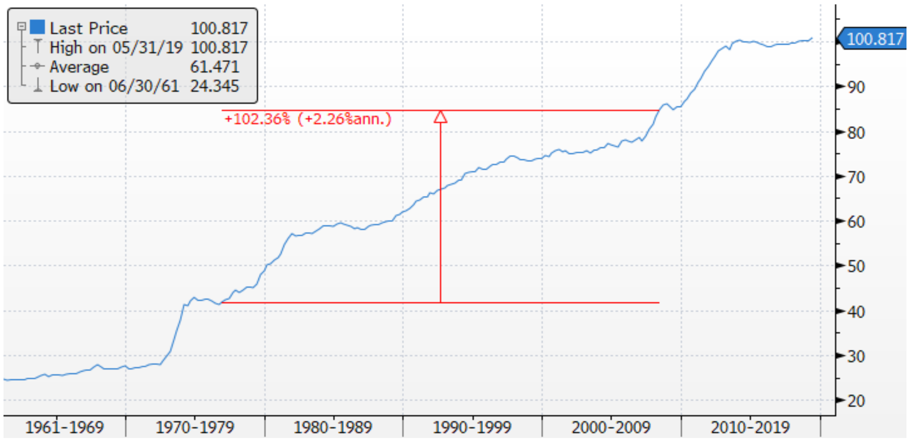

Figure 3 Singapore Consumer Price Index CPI
Source: Bloomberg

Hence, cash does provide certainty. It provides certainty of not losing money (at least the nominal or face value). But it also provides certainty of losing purchasing power as shown above. For those who want to at least maintain the same lifestyle, they need to find ways to make more money. What are their choices?

How to beat inflation?

There is a simple way to beat inflation: grow net worth at a faster rate. For most people, this has been achieved through wage growth by earning more to keep pace with the higher cost of the living. Figure 4 shows that average wages in Singapore have surpassed inflation by a significant margin. This way of beating inflation is possible when one puts in time and energy to work for money. However, wealth generation from wage growth stops when one stops working.

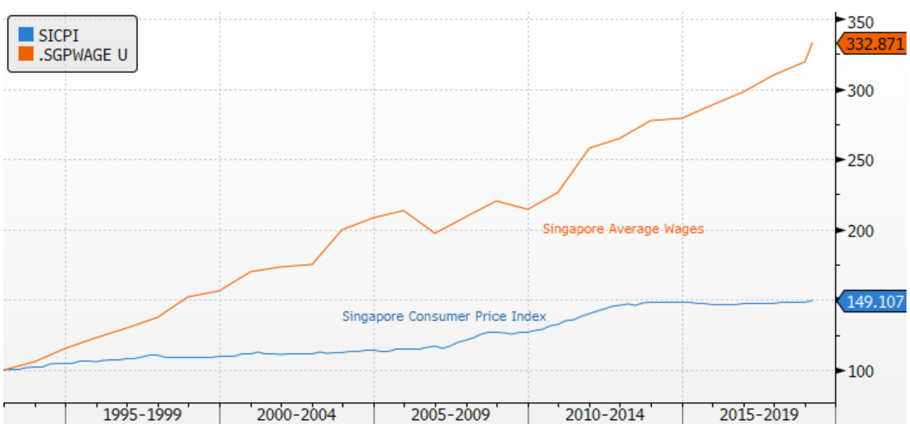

Figure 4 Growth of average wages and inflation rate for Singapore
Source: Bloomberg.

Another way to beat inflation is to have money work for you. Figure 5 shows how an investment into equities can grow more than wages, and by a meaningful margin as well. Yes, this comes with the associated volatility but one can see that over the long haul, the investment spends more time over than “under-water”. More crucial is that this wealth generation is happening even as one is not working, or even sleeping.

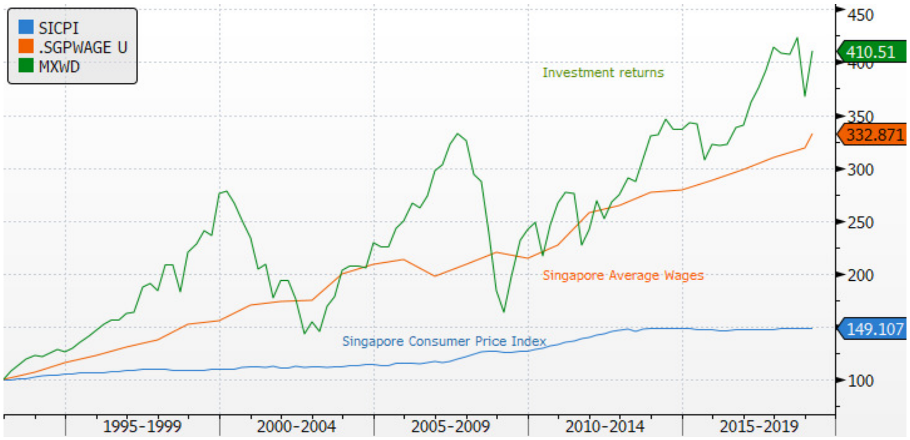

Figure 5 Investment returns vs wage growth

Source: Bloomberg

Personally, I advocate we do both: Work, and have money work for us. Without seeming too idealistic, we should never work for money but work on what we are interested in, and let wages be the by-product. When one is interested in what they do, they will naturally be engaged and seek to excel. This in turn will be recognised and result in financial reward that is substantially more compared to another person who is disinterested in their "work". When these wages are invested, it then creates a virtuous cycle of wealth generation. In fact, this is one of the key characteristics we look for in FAM's team where we have individuals who are interested and have the capability to do what they do, and ultimately benefit from their efforts.

Best regards,

Alvin Goh

Alvin Goh
Chief Investment Officer