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SUCCESSFUL INVESTING BEGINS WITH KNOWING YOURSELF

- How much of a risk-taker are you?
- How often do you like to monitor your investments?
- Are you usually reluctant to cut your losses?
- Do you tend to take your profits too early, and miss out on the really big gains?
- Does the performance of your portfolio keep you up at night?

Constructing an investment portfolio is not a one-size-fits-all undertaking. What works for your friend, or your advisor, or Warren Buffett, may not necessarily work for you. Following them blindly can lead to a disastrous mismatch with your own investing style.

In **Personality-Driven Portfolio**, author Sam Phoen approaches this problem from a revolutionary angle. Through a series of questions about your attitudes, preferences and tendencies, you will learn how to evaluate your unique investment personality – are you a Diligent Deer, an Egoistic Elephant, a Cagey Crab, or perhaps a Busy Bee?

Targeted at investors at all levels of experience, this book is a practical guide on how to tailor a bespoke portfolio for yourself – one that will suit your personality to a T, and put you in the best position to reap sustained results over the long term.

"This book is particularly suitable for investors who despite having a good knowledge of financial instruments are not quite able to enjoy their investing journey. The missing element is often not factoring in your personality... After reading this book, you should be able to see a distinct change in the quality of your journey."
— Gerard Lee, CEO,
Lion Global Investors Ltd (a member of the OCBC Group)

"A refreshing addition to the literature on smart personal investing."
— Dr Sung Cheng Chih, CEO,
Avanda Investment Management Pte Ltd

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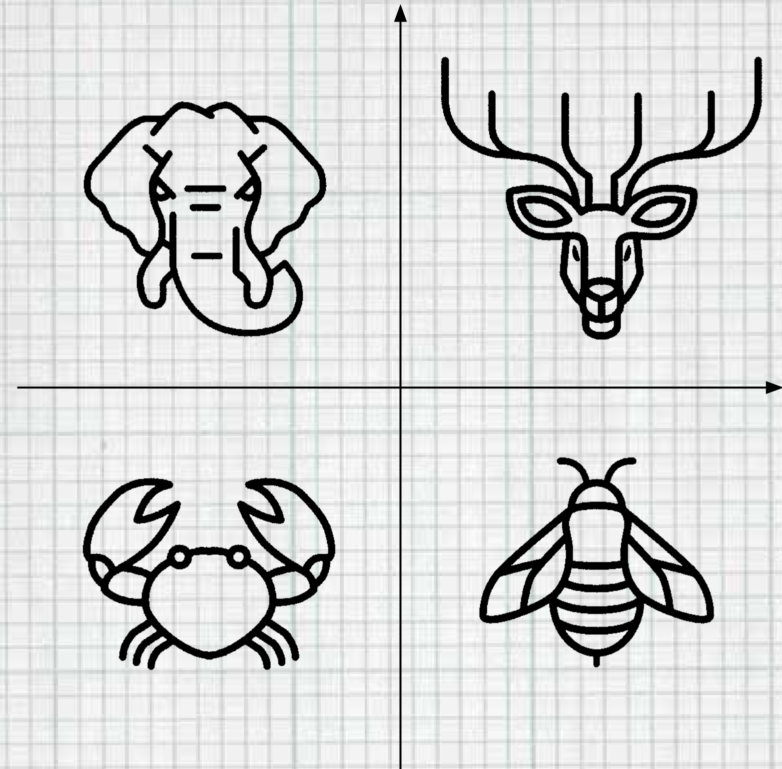
SAM PHOEN
PERSONALITY-DRIVEN PORTFOLIO
Marshall Cavendish Business

SAM PHOEN

Author of HIGH NET WORTH INVESTING



PERSONALITY DRIVEN PORTFOLIO

HOW TO INVEST RIGHT FOR YOUR STYLE

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PERSONALITY-DRIVEN PORTFOLIO

"*Personality Driven Portfolio* looks at how retail investors can do better by adopting investment styles that play best to their personality types. Instead of proffering impersonal 'one-size-fits-all' advice, the author advocates an approach to long-term investment success that recognises who we are as unique individuals and how we can tilt the odds in our favour despite behavioural biases driven by our innate attitudes towards risks and rewards. A refreshing addition to the literature on smart personal investing."

— Dr Sung Cheng Chih, CEO,
Avanda Investment Management Pte Ltd

"This book is particularly suitable for investors who despite having a good knowledge of financial instruments are not quite able to enjoy their investing journey. The missing element is often not factoring your personality into your investment process. Sam has done a good job in summarising the main personality types and he will show you how to match your personality to your portfolio construction. You should be able to see a distinct change in the quality of your journey after reading his book."

— Gerard Lee, CEO, Lion Global Investors
(a member of the OCBC Group)

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PERSONALITY DRIVEN PORTFOLIO

HOW TO INVEST RIGHT FOR YOUR STYLE

SAM PHOEN

Marshall Cavendish Business

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For Review Only

CONTENTS

Preface 7
Introduction 9

I. UNDERSTANDING YOUR PERSONALITY AND NEEDS

1 Knowing Yourself 14
2 Defining Your Objectives 34
3 How Personality Affects Returns 47

II. CONSTRUCTING YOUR PDP

4 Stock Strategies 62
5 Your Equities Portfolio 93
6 Applying Investment Management Style (IMS) 111
7 Your Fixed Income and Cash Portfolios 141

III. MANAGING YOUR PORTFOLIO

8 Money Management and Rebalancing 166
9 When to Sell 181
10 Keeping your Portfolio Balanced 203

For Review Only

Preface

It feels like a long time since my first book, *High Net Worth Investing: How to Grow your Wealth through Practical Asset Allocation*, was published. That book was written to share my experiences from three different perspectives – that of a bank's Relationship Manager, an Investment Product Structuring Specialist, and a High Net Worth customer.

I had these different perspectives as I was fortunate enough to be involved directly or indirectly in several functions in a bank, a hedge fund, a sovereign fund, as well as being a customer of several priority and private banks.

Besides sharing my experiences, that book was written with the hope of raising the financial literacy levels of high net worth retail investors. Two months after publication, the book launched an interesting path for me as a trainer/coach. I started coaching on topics like Asset Allocation for individuals, how to "feel" investment products from a retail investor's angle, and soft skills for dealing with challenging conversations.

As I coached and shared more in courses and seminars, I became more intrigued by what retail investors really need.

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With increasingly rich and volatile markets after long periods of steady rises, investors are finding "timing the markets" to be especially challenging. They are warming to the idea of Asset Allocation to diversify their risks, and starting to ask how to construct portfolios beyond just punting in the markets. As for those investors who have already put together portfolios of their own, I see some of them struggling with portfolios that although seemingly suited to their basic profile, are simply not compatible with their investment personality.

This book is inspired by these investors.

In writing this book, I have again used my experiences from three different perspectives. This time the three perspectives are that of Long-Term Investor from my experiences in GIC, that of an active Short-Term Trader from my experiences in a hedge fund, and that of a Retail Investor from my personal experiences as one!

From these perspectives, I have formulated a practical portfolio construction process that's suitable for most retail investors to tailor to their own unique investment personality.

I am grateful to many people for their help. I would like to thank my friend Pang Cheng Duan for his valuable feedback on Fixed Income portfolio construction. Thanks also to Lisa, Stanley and team from Phillip Securities for providing me with the beautiful stock price charts for illustrations. Special thanks to my family and friends who have never stopped supporting me in whatever I do.

It is my sincere hope that this book will set investors on the right path to constructing customised portfolios that can stand the test of time.

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Introduction

"Constructing a portfolio is easy. Just open a trading or brokerage account, then start buying what you like with the money you have set aside. Done!"

If only it was so simple.

"How to build the perfect investment portfolio" – that's a headline that's seen in so many personal finance and self-help articles. But building an investment portfolio is hard enough; is there really such a thing as *the* perfect investment portfolio?

At the CFA-Singapore Exchange Portfolio Construction Conference held on 24 February 2018, the audience was asked in a live poll for their views on the biggest investment challenges they faced. Here are the responses they gave:

I don't know what makes a good portfolio or how to construct one	**44.6%**
I don't know what's happening or how to analyse the market	**26.8%**
I have no time to track stock prices or manage a portfolio	**19.6%**
Other issues	**5.4%**
No challenge, I'm perfectly fine	**3.6%**

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Topping the list is: "Don't know what makes a good portfolio or how to construct one." This response is consistent with the kind of questions I receive as an advisor. One of the most common questions I get goes like this:

> "The need for Asset Allocation is clear. Now, what do I do next? How do I construct my portfolio?"

Quite clearly, many retail investors still need help to move from an Asset Allocation plan to actually constructing the personalised portfolios that will meet their intended objectives.

Constructing a portfolio is far more than opening a brokerage account to buy and sell. Those are just the administrative tasks that need to be done. Constructing a portfolio is also more than just following a standard set of steps to buy stocks and bonds based on your risk appetite and return objectives. The difficulty lies in the fact that "standard" steps simply don't work because everyone is different! In other words, *the* perfect investment portfolio doesn't exist.

Everyone's investment behaviour is shaped by prior life experiences. It could have been shaped during your growing-up years, when your parents said you should "save for a rainy day" (it's funny, though, that few parents say "*invest* for a rainy day"). It could have been an experience lending money to a friend and not getting it back. It could also be influenced by your experience during the Global Financial Crisis, for example, when you could have made or lost a lot of money.

These experiences tend to stick in our minds, and combined with each individual's unique personality, we can

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understand why we all react that little bit differently when faced with the same investment scenarios.

The most distinct difference between a successful professional portfolio manager and a typical retail investor is seen in their behaviours in taking profit and cutting loss. A typical retail investor tends to buy on hope, and is generally quick to take profit when right, but hangs on to a losing position when wrong, hoping for it to turn around. A typical professional manager tends to buy based on extensive research, and cuts his losses decisively when wrong.

Consider your own behaviour. How do you tend to act when faced with profits and losses?

All things being equal, should you, as a retail investor, construct the same portfolio as a professional manager? The answer is: It depends on your behaviour or "style". If you have the tendency to hang on to losing positions, even if you start off with the same portfolio as a professional manager, your results will soon diverge drastically. Copying someone else's portfolio, or force-fitting your behaviour into a "standard" portfolio, is doing things the wrong way round. Instead, you should be looking at tailoring a portfolio that suits your style.

Only when a portfolio is constructed to withstand one's unique investment management style does it have a chance of standing the test of time. And only when a portfolio withstands the test of time can one reap the benefits of Asset Allocation and long-term compounding.

In this book, I will first help you to know your investment self a little better. With that understanding, I will show you how to construct traditional asset class portfolios that suit your personality and style.

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Portfolio management doesn't stop there. From my experience, I know that a major challenge for investors is not only deciding what to buy, but knowing when to sell! I will share my thinking on money management, rebalancing and how to determine the right time to sell your investment positions.

Wrapping it all up, I will help you review all your individual asset class portfolios in totality, so as to achieve the desired balance across all your portfolios.

We are unique individuals. Having a portfolio that is not custom-fitted to unique personality results in constant anxiety – worrying if your portfolio is going to lose you more money than you can afford to lose. When you are making money, you worry if the profits will be gone if you don't take them. When you are losing money, you worry and hope (usually in vain) for the day it turns around. A portfolio constructed without taking your unique personality into consideration will most likely not just cost you money, but also your health in the long run.

Do you really want to spend all your time investing and worrying with little or nothing to show after years of hard work? Or do you want a portfolio that you can be assured will do its job over time without your constant worrying?

Personality-Driven Portfolio is here, to be your companion and guide to creating a set of bespoke investment portfolios for your long-term financial health.

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Part I

UNDERSTANDING YOUR PERSONALITY AND NEEDS

For Review Only

CHAPTER 1

Knowing Yourself

How well do you know yourself?

This is a book on investment. Yet, before you even think about starting any investments or evaluating your current investments, I would like you to first get to know yourself a little better. This is of critical importance, and the reasons will become clear as you read on.

To get you started, here are some questions to ask yourself:

- What kind of personality do you have relating to investments – decisive, impatient, timid, rational, stubborn?
- Where do you get your investment ideas – research or hearsay?
- When do you sell your investments?
- Why is it that we tend to take profits sooner than we cut our losses?

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- Who do you go to or ask when you need investment advice?

- How much time do you wish to spend on managing your investments?

Why is it important to know yourself?

Investment is very personal. What works for your friend may not work for you. Why is that? If you are an individual who has no appetite to trade a market, you cannot hope to replicate the success of your trader friend who trades actively simply by following his trades. If you are an impatient investor unable to sit long on an investment thesis and wait for it to bear fruit, you won't be able to benefit from long-term investment ideas that need time to play out. If you are an investor who feels jittery whenever your position is down even a wee bit, it is unlikely you will be able to hold on to your investments long enough to see large gains from them.

In other words, there is no one-size-fits-all formula or portfolio out there that will ensure that you will be profitable. The literature out there offering you a "model" portfolio is missing the most crucial customisation component: you! Without factoring in your personality, there's simply no way their "model" portfolio is the best one for you.

Therefore, if you want to take charge of your own investment portfolio design, structuring and maintenance, you must start by knowing yourself.

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Is your investment portfolio suitable for you?

In managing your assets, irrespective of whether you choose to farm your money out to professional fund managers or manage it by yourself, it's important to have an overview of your overall assets and how you plan to subdivide them or dish them out. That is known as Asset Allocation (AA) in investment parlance.

Typically, Asset Allocation methods suggest ways for you to diversify your assets into different asset classes, and further drill down into the instruments within each class. The focus is largely on the return characteristics of the asset classes and their historical returns. They concentrate first on what asset classes might do well in different economic environments, before zooming in on specific countries and markets to invest in.

Almost all AA methodologies out there allocate a large share to Equities if the investor is young, because Equities have been proven to produce superior returns when held over the very long term. As such, when a young individual approaches a financial planner or goes to a typical "robo-advisor", he is invariably recommended a relatively sizable allocation to Equities – even if he is of a conservative mindset. Of course, compared to another individual of similar age, income, family structure, etc., but who is deemed to be of "aggressive" risk appetite, the conservative individual would have a smaller allocation to Equities, but the automatic association of Equities with young age prevails.

In general, one's risk aversion is most often dealt with at the highest Asset Allocation level – allocation by asset class – and much less at the more detailed portfolio construction

For Review Only

level. It is assumed that with less Equity and more Fixed Income exposure, for example, there is less volatility in earnings, and such an Asset Allocation plan would therefore be more suitable to one who is more conservative or risk-averse. Once the allocation is done, the individual's risk aversion is deemed to be largely taken care of. That frees the financial planner or robo-advisor to plan which countries or markets to invest in for each asset class in order to generate the best returns within the investor's risk appetite. So, one might get allocated more volatile sectors if one has a higher tolerance for volatility, and more defensive sectors if one has little appetite for risk.

These are all well and good, and work in most instances when you aren't managing the stock/bond selections and trading personally but leaving it to a professional fund manager. Very often, however, when we have to construct and manage our portfolios on our own, we will find that these "top-down" allocations or recommendations are hardly sufficient. Many only realise the problem when they are faced with losses. Is the portfolio too aggressive? Are the countries or markets chosen too volatile? Or are the stock or bond picks simply lousy?

There may be numerous reasons for this. Other than genuinely poor stock/bond picking, what I've found to be the most likely reason is that we tend to overestimate our own risk appetite – we think we are able to take more losses than we actually can. When our portfolio is making money, we seldom consider our portfolio's risk profile. Nobody ever complains about making more money than expected. Only when we are faced with losses do we re-evaluate if we have structured our portfolio correctly.

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This is when we find that our portfolios – like many others out there – have been constructed using a "top-down, big picture" approach, with little to no attention given to our unique investment personality. As a result, there is a frequent mismatch between the final constructed portfolio and what we are comfortable with.

The lesson is this: A portfolio is only sustainable if it is aligned with your temperament, risk appetite and money management methods. You are unlikely to be able to hold on to a portfolio for the long term if the components within it have risk and return characteristics that are vastly different from what you are comfortable with. When you aren't able to hold on to the portfolio for the long term, you will not be able to reap the long-terms benefits, like compounding.

It is on this belief that I will start helping you understand yourself better before showing you how to structure and maintain a sustainable portfolio. Before we can even talk about what types of investment products might suit you, you will have to be crystal clear what kind of investment personality you have, and what attitude you have towards risks and returns.

For Review Only

EVALUATING YOUR INVESTMENT PERSONALITY AND STYLE

A person's investment temperament, risk appetite and money management styles are all shaped by his or her personality and experiences. Whether someone is active or passive in investing, risk-loving or risk-averse, able to cut losses or take profits at suitable times – all these are linked to the person's personality. To be clear, the term "personality" will be used generically to include all these aspects in the book.

In the next few pages, I will be asking you several simple questions to help you evaluate your investment personality and to assess your attitude towards risks and returns. For maximum benefit, please answer them with total honesty!

Let's start with 3 simple questions on your **Views on Investments**:

Q1. What do you think of investments in general?
- A. Exciting
- B. Stressful

Q2. How difficult are investments for you?
- A. Reasonably straightforward
- B. Complicated

Q3. How much work do you think is needed to be successful in investing?
- A. Some effort needed
- B. Loads of hard work

—— *Do not read on until you have answered the questions above* ——

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If you answered A to all 3 questions, you are likely to be a reasonably well-informed investor or a “trader” type who loves to take risks and enjoys engaging the markets. Reading up on markets and researching on stocks is hardly a chore for you.

If your answers are all Bs, you are likely to be a conservative investor or someone who may not be that interested in investments. You might also be a newbie to investing or someone who dreads investing for fear of losing money.

If you have a mix of As and Bs, you are likely to be someone who doesn’t mind taking on some risks as long as you are familiar with the investment and aren’t required to do much research on it.

Next, here are 3 questions relating to your **Investment Lifestyle**:

Q4. *If you have invested before:* How often do you check your stock (or other asset) prices?
If you have never invested: How often do you expect to be checking your stock prices when you do trade/invest?
A. Several times a day (intra-day)
B. Maximum once a day – Weekly
C. Monthly – Never

Q5. *If you have invested before:* How often do you buy/sell your stocks?
If you have never invested: How often do you expect to be buying/selling stocks when you trade/invest?

For Review Only

A. Daily – Weekly
B. Monthly – Quarterly
C. Half-Yearly or even less often

Q6. If you had no constraints from your day job, how often would you want to be monitoring and trading your investment positions like stocks?
A. Several times a day (intra-day)
B. Maximum once a day – Weekly
C. Monthly – Never

—— *Do not read on until you have answered the questions above* ——

If you answered A to all the 3 questions above, you are likely to be an active trader or one who is immensely interested in investments. You have no issue monitoring the markets regularly and may even enjoy trading intra-day.

If you answered C to all 3 questions, you are likely to be a passive investor, or possibly not interested in investments at all. You are, however, ready to learn more about investments and prepared to be slightly more engaged in the markets.

If your answers are Bs or a mixture of As, Bs and Cs, you are somewhere in between an active and passive investor. You have some interest in investment, or you could just be waiting at the sidelines for the right time to engage the markets.

The 6 questions above should already give you a good idea of your basic investment personality. Now comes the most important part. Here are 2 questions relating to your **Money Management Style**:

For Review Only

Q7. *If you have invested before:* When your investment (e.g. stock) is making a decent profit, what do you tend to do more?
If you have never invested: If you have a stock that is making a decent profit, what do you think you are more likely to do?

A. Continue holding and let your profit run for as long as possible
B. Sell it, take your profit and reassess what to do next

Q8. *If you have invested before:* When your investment is making a loss, what do you tend to do more?
If you have never invested: If you have a stock that is making a loss, what do you think you are more likely to do?

A. Continue holding and wait for it to return to your entry/profit level before selling
B. If it hits a certain loss level/amount, sell it and take your loss, then reassess what to do next

—— *Do not read on until you have answered the questions above* ——

Questions 7 and 8 tell you how you behave when faced with profits and losses. Taking your responses to the two questions together, we arrive at 4 possible combinations. Each combination represents a particular Investment Management Style (IMS for short). I have given each IMS a unique name, so as to give you a memorable way of remembering their respective characteristics:

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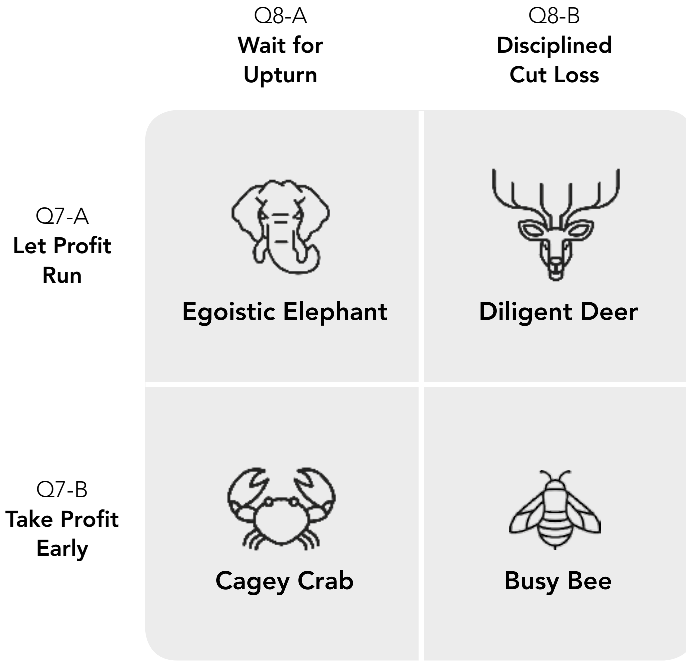

Let us take a detailed look at each of the 4 IMS in turn:

- **Egoistic Elephant**
  You are likely to be an investor with strong views, and you are willing to sit through wild swings to wait for your views to materialise. Alternatively, you might also be a long-term investor – you don't watch your investments too closely, and tend to invest with a long-term perspective. Either way, you believe your investment views will prevail, and you will not easily cut your losses unless you really have to. Your confidence and strong ego are derived from past successes where you made big bucks. Unfortunately, nobody's right 100% of the time and your wrong calls

For Review Only

will often lose you just as much money, if not more. As such, you will encounter big swings in fortune, with **large losses and large gains** over time.

- **Diligent Deer**
  You are a disciplined investor who watches your investments closely to ensure that they do not get you into any major trouble. Any investments that fall beyond a pre-set loss level or amount will be cut. On the other hand, when your investments go in your favour, you will let your profit run as long as there is no change in the reasons for holding on to the investments. Your diligent nature will ensure that no single bad investment will derail you, while your ability to hang on to good investments will help you hit home-runs once in a while, making you a profitable long-term investor. This is a very desirable style as it tends to give you **small losses but large gains** over time.

- **Cagey Crab**
  You are fairly typical of many retail investors, in that you are mostly not willing to cut your losses when investments go against you, preferring to wait for the price to recover back to at least your cost before you sell it. At the same time, when your investments go in your favour in the short term, you are usually anxious to take your profit quickly and run. This type of behaviour typically results in **small gains but large losses** – but you're not willing to recognise this and end up holding on to the losing stock until

For Review Only

you have no choice but to face up to it. This is not sustainable in the long run as losses from a few bad calls will easily overwhelm the gains from the many good calls that you may have (hopefully).

- **Busy Bee**
  You tend to take profit when your investments go your way, and also cut your losses when things go against you. You are an active trader who watches the market closely, actively managing and trading your positions. Given your close engagement with the market, you are likely to be busy trading in and out of the market regularly, with **small gains and small losses**, as that is what you are after.

So what type of investor are you?

You should now have a better idea of yourself as an investor, and your level of interest in investments (Questions 1, 2 and 3). You now know whether you are more an active or passive type of investor (Questions 4, 5 and 6). You also know which of the four Investment Management Styles you have (Questions 7 and 8). Did any of that surprise you?

Having read the IMS descriptions above, some of us might not want to admit that we belong in a particular quadrant. Some of us might think we fall somewhere in between quadrants, depending on the circumstances or the type of investment. That is understandable and not unusual as personality (and styles) are seldom that clear-cut. To get the maximum benefit from this book, we need to be totally honest with ourselves and not pretend to be in a quadrant we *wish* to

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be in rather than the one we *know* we are in. You are the best judge of which quadrant you fit in most of the time. The 4 quadrants highlight the important implications that each style has on your investment returns over time. It is this awareness that is crucial at this juncture.

It is probably obvious by now that the Investment Management Style that is likely to be most profitable in the long run is the Diligent Deer. If you are already of this type, congratulations! If you are not, but in a quadrant that you think is wrong or unjustified, fret not. Read on to understand the characteristics of the other IMS first.

Cagey Crab

The IMS that is likely to be least profitable or even loss-making in the long run is Cagey Crab. This investment type is similar to what legendary investor Peter Lynch calls "cutting the flowers and watering the weeds". If you are quick to take your profits and wait for your losses to turn around, you will only be left with underperforming "weeds" in your portfolio in the long run. Most retail investors fall into this style, which is something that professional investors are able to exploit to gain an edge in the market.

Busy Bee

If you are a Busy Bee, you will see your profits and losses swing by small magnitudes. Most day traders fall into this quadrant. For most people, that is not a problem at all.

However, whether you make a gain or a loss in the long run will depend on how good you are. If you are right 50% of

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the time and wrong 50% of the time, and your loss tolerance is equal to your profit-taking appetite and you are disciplined enough to follow that regime, you will end up rather flat in your Profit & Loss Statement in the long run. You might even end up in the red after accounting for transaction costs. Only if you are more right than wrong in your investment decisions will you end up with a positive return in the long run. What counts as "more right than wrong"? Peter Lynch's view is that "If you're great in this business you're right six times out of ten". In my view, you are quite exceptional if you are right close to 60% of the time!

Egoistic Elephant

If you are an Egoistic Elephant, you will see huge swings in your Profit & Loss Statement in the long run. Because of your strong investment convictions, you are willing to give your investment ideas ample time to play out, hopefully to your liking.

This style of investing is rarely found among professional traders, especially money managers or funds with short-term focus. These funds are unlikely to be brave enough to explain to investors why they are hanging on to losing trades, and they would definitely be testing investors' patience if they kept doing that. As such, this IMS is usually found only among ultra-long-term investors like those in sovereign funds or pension funds, which do not require month-to-month reporting to investors on performance.

Retail investors who are not accountable to anyone but themselves could adopt this IMS too. At the end of the day, just like the Busy Bee, whether you make money in the long

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run depends on how right you are. If you are right only half the time, and your stop-loss and profit-take magnitudes are exactly the same, your end result is going to be rather flat in the long run, except that you have much more volatility in between.

Diligent Deer

As a Diligent Deer, you are disciplined enough to cut your losses and let your profit run. Thus you are likely to end up with a positive return in the long run. This IMS implicitly means you have asymmetrical stop-loss and profit-take magnitudes. If you are right half the time in your investments, you will end up with a profit over the long run, because the magnitude of your profitable trades will outweigh the magnitude of your losing trades.

There are two major challenges for this IMS – diligently cutting losses when wrong, and knowing when to take profit when right. Most of us don't like to cut our losses, especially if we are not accountable to anyone but ourselves. We always harbour the hope that losses are short-term, and we will see our investments turn our way if we could just be a little more patient. At the same time, when we let our profits run, when is profit ever enough? For knowing when to cut our losses, this is the easier challenge to tackle, by setting a "stop-loss level", beyond which we should just cut our position. If you find that your emotions affect your ability to pull the trigger, leave the stop-loss order in the electronic system for it to be executed automatically. For knowing when to take profit, we will address that in more detail later on, in Chapter 9, "When to Sell".

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Changing your Investment Management Style?

Now that you know your IMS, you may be tempted to "move" from whatever you are to Diligent Deer. Be warned: It is not easy to change style, because the most profitable IMS may not suit your personality. It is also extremely difficult to change one's investment temperament. For example, if you are an impatient short-term investor, ask yourself if you will ever have the patience to sit for months or years and allow your profit to run?

Let me be clear: I'm not asking you to change yourself into a Diligent Deer. If you are a very good investor and your win-rate is much better than 50%, you may not need to change your style at all as you may be profitable in the long run irrespective of your IMS. It's true that a Diligent Deer style gives you the best chance of success when your win-rate is 50% (with the caveat that you are disciplined in cutting losses and taking profit when the time is right). But if you are a Busy Bee and you set your stop-loss amount per trade to half of your take-profit amount, and you achieve at least a 50% win-rate, then you would also be profitable in the long run!

If, however, you still feel you want to make the change to Diligent Deer or another style, here are some suggestions:

- **Busy Bee → Diligent Deer**
  You are already a rather systematic and disciplined investor, always taking your losses and profits as you planned. What you need to do now is to think about how you can tweak your fixed profit-taking strategy to one where you let your profits run a little longer, and possibly set a "trailing stop-loss level" on

For Review Only

your winning trades so that you don't end up with winning trades falling back below costs or your usual profit-taking levels. By doing this, you may find that while you still have a similar number of wrong trades, your right trades will now gradually earn you a little more over time, bringing you closer to Diligent Deer's profile.

- **Egoistic Elephant → Diligent Deer**
  As the name implies, you might want to temper your ego a little, and practise a bit more humility. When an investment is not going your way, spend a little more time to re-evaluate if you missed out some key information. If so, and you find this happening fairly often, you may want to cut your losses earlier instead of waiting for them to turn around. In other words, don't be stubborn if you think you might be wrong. You will find that your losses for some trades may be smaller over time, while keeping your profits intact at further away levels, resulting in a profile closer to Diligent Deer.

- **Cagey Crab → Diligent Deer**
  This shift is very challenging, as it entails big changes and a lot of discipline. In effect, you have to move from a "take profit and let losses run" mindset to the exact opposite, a "cut losses and let profit run" mindset. Besides this mindset change, it also requires one's investment habits and preferences to be tweaked. As we all know, mindsets, habits and preferences are not easily changed. Asking for

For Review Only

that change to happen just because you want to is similar to asking one to change from a task-oriented manager to a people-oriented manager – not impossible, but it will take time and adjustments.

As such, the more realistic approach might be to first move to an intermediate style, i.e. Busy Bee or Egoistic Elephant, depending on which one you are slightly closer to. Doing this will get you to a profile with a slightly better chance of long-term profitability first, before you eventually move to the style of Diligent Deer.

- **Cagey Crab → Busy Bee**

This requires you to move from a mindset of "hoping my losses return to profitability" to "cutting my losses once my stop-loss level is reached". Nobody likes to take the bitter medicine, and cutting losses is as bitter as it gets. However, bitter medicine is usually good for your health, and cutting losses when you are wrong is usually good for your financial health.

To help you achieve a cut-loss mentality, I would suggest that you adopt this approach: Cut loss first, reassess, and only then, if you still want it, re-establish the position. This approach forces you to respect your stop-loss level and to review your investment with an unencumbered mind – one that is not bogged down by a biased view due to your losing position.

In the event that you still think it is the right position to have, you can then establish a level where

For Review Only

you would re-enter the position, and now also set a new stop-loss and take-profit level. In the extremely unlikely scenario that you re-establish *every* position that you have cut, this process might result in higher transaction costs. However, you will still benefit from having clear thoughts for every single investment position, and you will appreciate your discipline in cutting losses when you have to. In all likelihood, you will find that many investment positions require loss-cutting because some things have changed, and you will decide not to re-enter the position when you reassess it with a clear mind. Following this switch, you will find that you are cutting losses with greater regularity, a behaviour much closer to the Busy Bee profile.

⟐ **Cagey Crab → Egoistic Elephant**

This shift requires you to move from an IMS of taking profit quickly to letting your profits run a bit more. First of all, you should set a stop-loss quantum no bigger than your profit-take quantum. That means if you are willing to risk losing, say, $1 on an investment, your profit-taking level should be no less than $1 too. Ideally, it should be at least 1.5 times, meaning with a $1 stop-loss quantum, you should set your profit-take quantum at $1.50.

This switch is suitable for investors who find cutting losses an impossible task. By making this move, you may still see relatively large losses from your losing positions, but at least you try to delay taking profit on your winning positions until they hit

For Review Only

a level that sufficiently pays for the risks you have to take.

To be successful in making this switch, you will have to do a lot more homework to find investments that are capable of a larger upside, as now you are no longer after small gains. This normally translates to a greatly reduced number of trades, as there are naturally fewer opportunities that promise large gains. The research and effort you put in to find these opportunities will gradually turn you into an investor with greater conviction in your choices, much like the Egoistic Elephant profile.

THE MOST IMPORTANT THING you've accomplished in this chapter is discovering your investment personality – whether you are an active investor or a passive one, and more importantly, what your IMS is. You are now aware of the pros and cons of your current IMS, and what it might mean for your portfolio returns over time. If need be, and only if you think you can really adapt, you could consider making the move towards another style.

With this understanding, you are now ready to tackle the question of what type of investments will suit you more. If you already own a portfolio of investments, you will be asking yourself this question: "Is my current portfolio suitable for me?" Over the next few chapters and the rest of the book, I will show you how to tailor a portfolio that suits you, so that you are able to maximise your profit while staying within risk parameters you are comfortable with, and help you reach your financial objectives via the shortest path.

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Sam Phoen is a seasoned financial markets practitioner with over 25 years of experience. His working career has included 16 years in the Government of Singapore Investment Corporation (GIC), where he was the deputy department head of the Foreign Exchange Department when he left to join a large Singapore-based hedge fund as a senior macro portfolio manager. He then had over seven years with the Australia and New Zealand Banking Group (ANZ), where he was mainly based in Shanghai managing the Global Markets business for ANZ China.

Sam currently manages an investment and consulting firm that he co-founded, and provides bespoke training on wealth management, financial market products and soft skills. His first book, *High Net Worth Investing*, was published by Marshall Cavendish Editions in 2016.

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