For Review Only

MANO SABNANI'S MONEY $ECRETS

The financial voyage of our lives is a trying one, even treacherous and perilous at times. When we start to manage our money, we often find that we are ill-prepared for the challenge. What follows is overspending, poor investment decisions, debilitating debt, reckless gambling or succumbing to scams – causing our financial ship to heave or even sink.

Even when we invest in a well-run company, we often sail into the 30-foot high waves of the stock market. Out of fear, many leave their money in the bank where it shrivels with inflation. So what are we to do?

For over thirty years, Mano Sabnani has relentlessly sought to inculcate financial literacy in ordinary, hardworking people and fought for their rights as small shareholders. With his rich experience as a newspaper editor, TV and social media personality, banker, company director and investor, as well as his unwavering concern for the man in the street, Mano has become arguably Singapore's favourite financial captain.

Let Mano guide you with his steady hand through the intricacies of financial planning and investment, illuminating the bewildering details and making them easy to understand.

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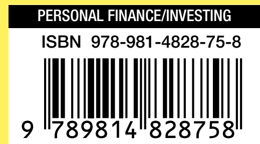

MANO SABNANI'S MONEY $ECRETS

Marshall Cavendish Business

MANO SABNANI'S

MONEY $ECRETS

CRUISE YOUR WAY TO FINANCIAL FREEDOM

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"Financial independence does not come by luck. Mano has accomplished this through the Singapore stock market, proving that deep research, due diligence and being on top of your investments, pay dividends. Not one to sit on the sidelines, he is well-known as a crusader for investors, grilling listed company boards and management with facts, figures and good questions at annual general meetings. By actively participating, he is often a welcome voice of reason."

— Chew Sutat
Executive Vice President (Equities & Fixed Income),
Singapore Exchange

"Financial literacy is an essential skill, yet most people do not have it. It is not that we should all aspire to be like Warren Buffett, but with longer life spans, an ageing society and increasing healthcare costs, everyone needs to understand how to manage their financial resources. Mano's background makes him eminently qualified to comment on this important topic, to draw the distinction between investing and speculating, and it is my hope that his audience will not be limited to only those who are already financially literate."

— Koh Boon Hwee
Distinguished corporate leader, entrepreneur
and investor, and former Chairman of SingTel
and Singapore Airlines

"Multi-skilled financial expert Mano Sabnani (journalist, financial analyst, company director, activist investor) has produced a no-nonsense book on financial planning and investment, which should be mandatory reading for every budding analyst or investor. Interestingly, rather than guaranteeing vast riches for every reader – which are the usual claims of other authors – Sabnani is modest enough to promise only financial freedom and no longer being 'slaves in a globalised world'. It is a book that will empower you whatever your income or educational level."

— Ho Kwon Ping
Executive Chairman of Banyan Tree Holdings and
Chairman of Singapore Management University

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What Other Successful Investors Say...

"Sincere, open, and insightful, Mano has been investing for decades, has reached financial freedom and comfortably supported a happy family. You will see all these attributes in the wisdom he shares in this easy-to-read book. For those who have not started investing, his case study of how a middle-income family making $8.8 k per month can build up total assets of $1.8 m should motivate you to start. After all, knowing that we don't have to rely on job income gives us true freedom to pursue our dreams."

— Tan Wey Ling
Former VP Asia for Syniverse

"Most Singapore investors will know Mano as a champion of minority shareholders and fearless in raising pertinent business issues at company AGMs. His latest book is filled with practical advice for successful investing, from navigating investment pitfalls and cultivating emotional discipline to proper asset allocation. I am a fan of Mano's investing acumen."

— Goh Han Peng
Director, R3 Asset Management

"Investing in yourself is the best investment you will ever make, and it is always helpful to have someone like Mano who can guide you. His views on financial matters are practical in application and expressed in plain and simple language. I would highly recommend *Mano Sabnani's Money Secrets* to anyone who is looking for a simple and easy read to improve their financial literacy and to benefit from Mano's vast experience."

— Deepak Ramchandani
SVP, Equity Sales,
Maybank Kim Eng Securities Pte Ltd

"Stand on the shoulder of Mano – a giant among Singapore investors – and see it through his lens. You will see further by learning from the guru himself. Enjoy and share the learning from this book!"

– Seah Chye Ann
Former educator

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MANO SABNANI'S

MONEY $ECRETS

CRUISE YOUR WAY TO FINANCIAL FREEDOM

Marshall Cavendish Business

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Reprinted 2018, 2019

Published in 2018 by Marshall Cavendish Business
An imprint of Marshall Cavendish International

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Website: www.marshallcavendish.com/genref

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Other Marshall Cavendish Offices:
Marshall Cavendish Corporation. 99 White Plains Road, Tarrytown NY 10591-9001, USA • Marshall Cavendish International (Thailand) Co Ltd. 253 Asoke, 12th Flr, Sukhumvit 21 Road, Klongtoey Nua, Wattana, Bangkok 10110, Thailand • Marshall Cavendish (Malaysia) Sdn Bhd, Times Subang, Lot 46, Subang Hi-Tech Industrial Park, Batu Tiga, 40000 Shah Alam, Selangor Darul Ehsan, Malaysia.

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National Library Board, Singapore Cataloguing-in-Publication Data

Name(s): Sabnani, Mano.
Title: Mano Sabnani's money $ecrets : cruise your way to financial freedom.
Other title(s): Mano Sabnani's money secrets : cruise your way to financial freedom. | Money $ecrets : cruise your way to financial freedom.
Description: Singapore : Marshall Cavendish Business, 2018.
Identifier(s): OCN 1045638494 | ISBN 978-981-4828-75-8 (paperback)
Subject(s): LCSH: Finance, Personal. | Investments. | Retirement—Planning.
Classification: DDC 332.024—dc23

Printed in Singapore

Cover and illustrations by Cheng Puay Koon

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I hope this book leads to financial freedom and lasting happiness for you and your loved ones.

For Review Only

CONTENTS

FOREWORD BY LESLIE FONG 10
FOREWORD BY WONG FONG FUI 12
PREFACE 14
PROLOGUE: SLAVES IN A GLOBALISED WORLD 18

CHAPTER 1: ARE YOU FINANCIALLY LITERATE? 26
THE THREE PRONGS OF FINANCIAL PLANNING
– Your Worst Enemy Is Yourself
– Prong No. 1: Savings
– Prong No. 2: Insurance
– Prong No. 3: Investment

CHAPTER 2: IS SGX THE SINGAPORE GAMBLING EXCHANGE? 46
THE VOLATILITY OF STOCK MARKETS
THE DIFFERENCES BETWEEN MARKETS AND CASINOS; INVESTING AND GAMBLING

CHAPTER 3: BANKS ARE NOT YOUR FRIENDS 55
BANKS ARE PRIVATELY RUN AND PROFIT-MOTIVATED
INTEREST RATES ON DEPOSITS
DEREGULATION OF THE FINANCE INDUSTRY AND GLOBAL FINANCIAL CRISES
SINGAPORE BANKS
SHOULD I GET THE BANK TO INVEST MY MONEY?

For Review Only

CHAPTER 4: ROUTES TO FINANCIAL INDEPENDENCE 74

GETTING THERE WHICHEVER LANE YOU TRAVEL IN

GENERAL PRINCIPLES

– Case Study One: The Fast Lane – High-Income Earners
– Case Study Two: The Middle Lane – Middle-Income Earners
– Case Study Three: The Slow Lane – Low-Income Earners
– A Side Street? Alternative Routes To Financial Freedom

CHAPTER 5: HOW AND WHAT TO INVEST IN 102

WHAT SHOULD I INVEST IN?

CORE PRINCIPLES OF INVESTING

– Combine Common Sense With Critical Thinking
– Cultivate Emotional Discipline
– The Concept Of Mr Market
– Invest As Part Of A Holistic Financial Plan
– Know What You Are Doing
– Can You Trust These Guys?
– Are These Guys Capable?
– Decide On Your Investment Approach
– How Risk-Averse Are You?
– Find The Asset Allocation That's Best For You
– Don't Fear Risk – Manage It
– Develop Independence Of Thought
– Recognise The Power Of Dividends
– Seek Fellowship With Other Investors
– Plan And Invest For The Long Term

For Review Only

CHAPTER 6: PROPERTY AND REITS 140

PROPERTY VERSUS STOCKS: WHICH SHOULD I FOCUS MY INVESTMENTS ON?

KNOW YOUR REAL ESTATE INVESTMENT TRUSTS

– Potential Pitfalls Of REIT Investments

PHYSICAL PROPERTY

– The Ups And Downs Of The Property Market

CHAPTER 7: BUY GROWTH STOCKS IN CRISIS (GSIC) 161

GENERAL MARKET CRISES

STOCK-SPECIFIC CRISES

MY EXPERIENCE OF INVESTING IN CRISES

CHAPTER 8: COMMON SENSE STOCK VALUATION 174

THE CHICKEN RICE RESTAURANT MODEL (CRRM)

– Cut Through The Numbers With Your Common Sense

– Applying The CRRM To Actual Stocks

DIVIDEND YIELD

PRICE/FREE CASHFLOW (P/FCF)

CAVEATS TO THE CHICKEN RICE RESTAURANT MODEL

MORE ESOTERIC/ COMPLEX MEASURES OF VALUE

– Enterprise Multiple (EV/EBITDA)

– Discounted Cashflow (DCF)

For Review Only

CHAPTER 9: SCAMS, SHADY 'INVESTMENTS', AND YOUR RIGHTS **203**

WHEN YOU SHOULD BE ESPECIALLY ON YOUR GUARD

– Unregulated Investment Schemes And Organisations
– Psychological Manipulation Is In Play
– The Returns Are Logically Unrealistic
– The Organisation Focuses On, And Pays You, Mainly For Recruiting More People
– The Investment Methodology Does Not Make Sense
– The Assets Being Promoted Are In Another Country
– The Auditor Is Not Established, Or The Company Won't Tell You Who They Are
– The Company Does A Lot Of Confusing Things
– The Company Is Tight-Lipped When Things Go Wrong, But Shouts Out Good News From The Rooftops

FURTHER THOUGHTS ON LISTED COMPANIES

– Some Listed Companies: More Monkey Business Than The Zoo

SHAREHOLDERS' RIGHTS AND REMEDIES IN SINGAPORE

– Shareholders' Rights
– Remedies Under Singapore Law

EPILOGUE: FINANCIAL INDEPENDENCE IS KEY TO ATTAINING LASTING HAPPINESS FOR YOU AND YOUR FAMILY **224**

ABOUT THE AUTHOR **231**

For Review Only

FOREWORD

I am happy to write a short foreword for this book by Mano Sabnani, whom I have known since 1977 and regarded as a good friend ever since. But friendship is not the only reason I have agreed, without much hesitation, to take pen to paper (an old-fashioned expression that, doubtless, dates me). More important, it is the thought of helping to spread the word about how to attain financial security and freedom that I find hard to resist.

Mano could not have chosen a better time to release this book than now. Like it or not, Singapore is sliding inexorably into a phase in which job security is under relentless assault from every which quarter – disruptive technology, robotics, fund managers who pressure companies to report ever increasing returns on investment by squeezing workers, you name it. Many companies pay lip service to the mantra about valuing loyal and dedicated workers but have no qualms about letting them go when they are seen as a drag on the bottom line. Sad, yes, but that's reality today.

This is why Mano's words about the plight of corporate 'slaves' resonate with me – and, I suspect, all those who grit their teeth and swallow their pride no matter what unfairness or humiliation they encounter in the work place because they have mouths to feed and need desperately to keep their jobs. I have seen plenty of such cases in my forty-nine years of working life.

For Review Only

No doubt those still in employment, or even the ones out of it, should learn new skills and upgrade themselves. That is the familiar refrain from those securely at the top. I do not belittle the need for constant learning and education in this uncertain and somewhat scary age. I would argue, however, that it is also imperative that wage earners start planning and striving for financial security and freedom.

Here is where Mano's book will be a useful guide. To be sure, there must be plenty of investment guidebooks out there in the market. But this one is by someone who has immersed himself in the world of business and finance and investment for well over four decades and has the expertise honed over many years as a journalist to put thoughts and concepts across in jargon-free language. And above all else, he has himself attained financial freedom, which is about as convincing a calling card as you can get.

He knows what works here and what does not, and has been methodical in guiding his readers through all the potential pitfalls and hazards along the path to the financial freedom which he now wishes others to attain as well.

Happy reading!

Leslie Fong

Leslie Fong was *Straits Times* Editor from 1987 to 2002, the youngest at age thirty-seven to assume the post after joining the paper in late 1969. From journalism, he went on to head marketing and digital businesses for Singapore Press Holdings until his retirement in January 2016. He now sits on the board of two SPH subsidiaries and contributes comment and analysis pieces on East Asia periodically to the ST and *South China Morning Post*.

For Review Only

FOREWORD

In a room full of shareholders, one gentleman stood up to take the microphone. He shared a joke, which sent the crowd into loud laughter. What followed was more serious though: a word of thanks to the Board and management, a few deep and insightful comments, along with a question (or two) pertinent to the long-term success of Boustead Singapore.

The gentleman was none other than Mano Sabnani, whom I have had the honour of knowing for more than a decade, through our regular interactions at every one of our annual general meetings.

You can tell that he was well advised, having not only read the annual reports but also in the way that he was asking his questions – politely, but aiming to get the Board to share something meaningful, not just for him but also for every shareholder who was spending precious time to attend.

I am thankful that we have shareholders like Mano who decide that such meetings should be fruitful and perceptive affairs, rather than dull and procedural.

When Mano shared that he was writing this book on how anyone can attain financial freedom, it resonated with me. Having been born into a family of rubber tappers (we were not the plantation owners, mind you) in Malaysia, I grew up in poverty to the point that my family could barely make ends meet.

For Review Only

Among my siblings, I was the one focused on education, even learning English on my own, and graduated in chemical engineering from the University of New South Wales. Education gave me a good start and foundation. However, not satisfied with working for Exxon and Parsons early on even though the income was good, I eventually started my own businesses with a few successes and later ran several SGX-listed corporations as well.

Even at the age of 74, I have not retired. It is not because I have to work. I just have the financial freedom to choose what I would like to do with my time.

I would like the same for you as well. I believe that what Mano is proposing and sharing here may well lead you – with determination, education and hard work, along with a disciplined approach – to your financial freedom.

Wong Fong Fui

Wong Fong Fui is Chairman and Group CEO, Boustead Singapore group. He successfully turned around food manufacturing and retail company QAF Ltd as Group MD. He was also instrumental in the start-up and privatisation of Myanmar Airways International. An entrepreneur with proven success in diverse fields including education, information technology and telecommunications, Mr Wong was named Best Chief Executive Officer at the Singapore Corporate Awards.

For Review Only

PREFACE

Financial literacy and its promotion has been a subject close to my heart for a long time. I could say it goes back to the days when I started work as a young journalist in the *Business Times* (BT), a daily newspaper in Singapore. That was in 1977, and I hope my reports and commentaries helped investors to understand the economy and markets better.

Over the years, as I improved and built upon my own knowledge of business and the markets, I shared what I learned with the readers of BT. As I progressed to the role of chief editor in 1986, the paper took on a more active role in educating investors via its 'Personal Investment' section and other commentary and advisory columns.

At the *TODAY* newspaper where I was editor-in-chief and CEO from 2003 to 2006, I built up the business and investment section and wrote my own column as well as maintained a weekly appearance on TV in a segment called 'Today with Mano'. Since then, as CEO of financial and corporate consultancy Rafflesia Holdings, I have remained active as a writer and commentator in the newspapers and on radio as well as social media, including Facebook.

It is therefore only natural that I put my core ideas and views on investment and financial planning in a book. The objective of *Mano Sabnani's Money Secrets* is to promote financial literacy

For Review Only

and to motivate and guide ordinary people to not only plan for their retirement, but to actively work towards attaining financial independence for themselves and their families.

I have taken a practical approach in the book and used simple language to put ideas across clearly and succinctly, so that anyone with a decent command of the English language can read and understand it easily, and follow up on the ideas. Readers can also draw inspiration from the fact that the author has actually followed the same plan and reached the goal of financial independence. Their circumstances may be different but the book explains how anyone can get to the same objective with discipline and persistence.

The past year has been as good a time as any for me to work on this book. I am now over sixty years of age and have written my autobiography *Marbles, Mayhem and my Typewriter*, which hit the bookshelves in December 2017. I have been motivated in the past ten months to work on *Money Secrets* by many of my friends and supporters. In particular, those who have read *Marbles* have asked that I write a book focused on investments and related subjects. So here it is, covering all the subjects that I am immersed in and which my readers have followed me on for some decades as a financial writer.

There are a total of nine chapters as well as a Prologue and an Epilogue, with one topic leading seamlessly to another. Feedback from readers will be most welcome. You can reach me at mano.sabnani@gmail.com. I am also active on Facebook with a blog called Manologue and a closed group called "Soul of Singapore" (anyone can apply to join) besides my personal profile. Manologue has over 800,000 followers while SoS has nearly 9,000 members who discuss a whole range of topics.

For Review Only

I have enjoyed writing the book and hope you find it useful and enjoyable. It could turn out to be a very rewarding investment if it helps you attain financial independence before the age of sixty, as I did. That objective will bring you and your family closer to lasting happiness.

My thanks are due to all the people who have inspired me to write the book and assisted the process in some way or other. In particular, I am deeply grateful to Steven Ooi, a good friend who has done volumes in researching the various topics and helping me in the draft stages of the manuscript. My appreciation also goes to my publisher, Marshall Cavendish International, who supported my efforts again in this second book.

I am very appreciative also of the friends and mentors who have contributed Forewords or reviews for the book and its covers. They have spent valuable time reading the manuscript and offering valuable feedback and comment.

Kindly note that all dollar amounts in this book refer to Singapore dollars unless otherwise specified. Also, there are times when I use only a 'he' or 'she' in human examples as it would be tedious to constantly refer to both genders. But the examples apply to both men and women.

Please also note that the contents of this book do not constitute financial advice to you as everyone's financial situation, personal objectives and individual needs are different. I am presenting only my own opinion and personal financial principles. You should do your own due diligence on all financial decisions and where necessary, consult a professional advisor. While every effort has been made to verify the facts stated in this book, no guarantee is made as to their accuracy.

For Review Only

Finally, the dedications. This book is dedicated to the many friends I have made in the course of my life's journey, in particular investors and corporate executives whom I have interacted with over the years. I have learnt much from them on the realities of business and investment. *Money Secrets* is also dedicated to my immediate family who have stood by me in this labour of love.

Lastly, but not least, the book is dedicated to you, my dear reader. Thank you for your interest and support. Enjoy the book and I hope it leads you to a better, more secure and happy life!

Mano Sabnani
August 2018

For Review Only

PROLOGUE

SLAVES IN A GLOBALISED WORLD

GLOBALISATION IS HERE TO STAY

Donald Trump thundered his way to the White House, Nigel Farage barraged the United Kingdom out of the European Union, and a host of far-right nationalist parties gained traction in Europe. In spite of all these, events thereafter strongly suggest that the trend towards globalisation is entrenched and irreversible. For the most part, borders have not slammed shut, nor trade wars erupted apart from some significant friction created by the Trump administration.

Companies, big and small, need to produce goods and services as efficiently as possible. Other than automation, they need the lowest cost of labour. So factories and service centres for a whole range of industries have been streaming into countries where the cost of labour is lower. Invariably, these are the less developed countries with large populations.

It helps if the countries are friendly to business and offer relatively low tax rates. Even better if the workforce is educated and trained in various skills and has positive work attitudes. China has been a big beneficiary for the last thirty years, so much so that it has evolved into the factory of the world.

For Review Only

Countries like Indonesia, Mexico, Vietnam and the Philippines have also benefited from the steady inflow of multinational companies (MNCs) seeking to lower their costs of production. Their relative political stability and pro-business policies have been helpful. Also important has been the business ecosystem where local companies sprout up everywhere to support the larger manufacturing and services companies from the United States, Germany, Japan and elsewhere.

There is no doubt that this flow of capital and knowledge to where labour costs are lowest has been beneficial to both the companies and the countries involved. Companies like Apple and Adidas have been able to stay highly competitive in their respective industries by producing quality goods at the best possible prices on a global scale. The countries where their products are made have gained from foreign investment inflows and steady take-up of their surplus labour.

CASUALTIES OF GLOBALISATION

But the global hunt for the lowest cost of labour has its losers. Employees inevitably become casualties when their jobs vanish in their home country. As companies reduce activity in high-labour-cost countries, they invariably shed workers and jobs. A few high-skilled jobs may be retained for research or design of products, but the bulk are moved out to the low-cost countries. The former employees of the MNCs could be considered losers.

While Chinese, Vietnamese, Mexican and Indonesian workers gain access to new jobs, their counterparts in the United States, Japan and Germany could be left adrift. As these trends entrench and spread themselves all over the world, there will

For Review Only

be net winners and losers. I simplify. But the truth is that the workers with jobs gain while the jobless lose out in terms of quality of life. Social safety nets help, but there is a limit to what they can do.

Hence, the rising unpopularity of the globalisation trend in many countries. Any casual observer will note that the greater unhappiness is in the developed countries of the European Union and the United States. The hollowing out of the manufacturing bases of these countries has taken place over the last two or three decades and has now reached critical proportions. Whole communities and towns are feeling the effects more acutely.

CREATING WIN-WIN SITUATIONS

However, there is a solution to this ostensibly unacceptable situation where low-cost countries gain in jobs and incomes seemingly at the expense of the more developed countries.

Education, training and continuous learning are key to creating win-win situations for all. The same workers can be made useful in new vocations or professions. But this requires a pro-active government, firms, unions, and/or community organisations anticipating trends and preparing for the changes. They have to anticipate the movement of certain economic activities out of their domestic bases due to dwindling competitiveness. Companies alone cannot be expected to take up the burden of keeping workers employable or looking after those made redundant when manufacturing activity is shifted elsewhere.

All have to work together to re-train workers in advance for more sophisticated jobs which will be retained or in demand in their more developed economies. This is where countries like

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Denmark and Germany have succeeded and the United States has failed.

Denmark has a much-lauded system known as "flexicurity", with three components: (1) labour market flexibility, (2) generous benefits and (3) extensive active labour market policies – in particular education and training – to get people back to work[1]. Unemployed Danes receive as much as 90 percent of their previous wage (for low-skilled workers), but a condition of receiving this benefit is attendance in 'activation' programmes, notably training.

The classroom education approach in Denmark is highly flexible with an average course duration of only three-and-a-half days but with more than 2,800 courses on offer. These are constantly updated to match the skills sought by employers. This allows participants to customise their selection to their needs. The unemployed are entitled to six weeks of education free of charge but those who are employed also use the training with significant public support. Hiring and firing can happen at any time, which gives Danish companies a distinct advantage over many other European states. But workers have a great chance of finding another job fairly quickly, as the system takes care of them while they prepare and search for their next job. According to Eurostat, unemployment was 4.9 percent in Mar 2018, which compares very favourably with the European Union average of 7.1 percent. In short, flexicurity promotes employment security over job security.

The United States, under the Donald Trump presidency, is attempting to entice companies to retain relatively low-skilled jobs in the country instead of moving them across the border to Mexico or elsewhere such as to Vietnam and China. This effort is likely to have very limited success unless the whole question

For Review Only

of total cost of producing the various goods is examined and the companies are assisted with various other incentives so that producing those goods in the United States makes sense.

The alternative is for the United States to work harder on its education system to ensure graduates from its colleges and universities have the requisite skills to take up jobs in relatively new industries that are growing rapidly. It should not be necessary for fast-growing companies in Silicon Valley, for example, to hire large numbers of IT and other professionals from overseas. Americans should be ready to take up these vacancies.

Globalisation could be a win-win for all countries if people acquire the pertinent skills to take up the better-paying jobs that are being created in their respective countries. But this is easier said than done. Political will is lacking in many countries and so the seeming negative effects of globalisation can be played up to the benefit of no one.

HOW TO BE A WINNER IN A GLOBALISED WORLD

My focal point, however, in this prologue is that in the globalised world, *it is the entrepreneurs and investors who are the real long-term winners*.

Talent can flow anywhere and cheap labour from another country can keep wages down at home, artificially. While the foreign labour or workers from less well-off countries benefit by moving overseas to work, the resident or citizen workers in industrialised nations see a flat trend in their wages. But even the migrant workers as well as their countrymen back home working at the factory in Bac Ninh, Vietnam, or the call centre

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in Iloilo City, the Philippines, see only a limited benefit as, after all, their appeal to the MNCs is that they are cheap. Their wages can never rise beyond a certain point, and while they may enjoy a higher standard of living than most of their countrymen, most will still not be able to afford an iPhone or a nice house in a good location.

Multiply this pattern across the globe and what we have is stagnation or even the gradual diminution of real wages, or wages after factoring in inflation. Workers in poorer countries with fast-growing populations keep down wages of workers in richer countries. It is either the workers move to higher-wage locations or jobs move to where wages are lowest.

The winners are companies which can relocate to where wages are low or stay at home and employ large numbers of cheap foreign workers and executives. The MNCs have myriad factors to consider to ensure their competitiveness and survival. So no one should begrudge them their nimble decisiveness in locating their operations where it best suits them.

But stagnant wages for the vast majority of workers for the same job done means there is little to no wealth being built and no cushion available for the future and for retirement. It means that unless a worker rises to top management level in a company or possesses a skill that is in severe shortage, such as Artificial Intelligence engineering, he or she will be stuck in a rut for the best years of his or her life.

Such workers will not have enough savings for a comfortable retirement, or even to retire at all (the sad sight of many elderly folks still operating a pedicab in the Philippines or cleaning tables at hawker centres in Singapore bears testament). Many will live from hand to mouth in their supposed 'golden years' as

For Review Only

inflation mercilessly gobbles up any small increments attained over the years. A tragic outcome for people who followed mummy and daddy's advice to work hard their entire lives, only to find that it never brought them the security or good life that was promised.

At the end of the day, entrepreneurship and investing are the two best tools to ensure you do not become a slave in a globalised world dominated by MNCs.

Entrepreneurship

Wage earners can work towards being their own bosses at some stage of their working lives. Entrepreneurship is a tough grind but it can ultimately be very rewarding. Owning a profitable company with strong competitive advantages and sound financing is an excellent way to ensure financial independence for you and your family for a long time to come.

A Savings And Investment Plan

The other way out of this wage trap is to *scrape, save and invest while one is a wage earner.* A disciplined, regular savings and investment plan can help millions of wage earners to get out of the wage trap and build up enough reserves for retirement. This book deals with that. The ultimate aim is financial independence or freedom, which means wage income is no longer necessary to maintain your lifestyle indefinitely.

If wage earners don't work on their retirement plans from a young age, they will end up as slaves to MNCs in a globalised world. The same applies to workers in the public sector or government. Their real wages are also destined to be flat over the years, unless they are exceptional performers who move up

For Review Only

the ranks or switch jobs midstream with newly acquired skills and aptitudes.

But greed reigns in a capitalist world, and the financial markets are a sea of sharks out to feast on the naive or uninformed. Numerous unregulated 'investment' schemes also turn out to be scams. How can ordinary folks avoid the deceptions and pitfalls, and invest profitably? I shall deal with this in later chapters – read on.

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1 "Flexicurity", The Official Website of Denmark http://denmark.dk/en/society/welfare/flexicurity

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CHAPTER 1

ARE YOU FINANCIALLY LITERATE?

Education systems everywhere teach subjects like mathematics, language, history, geography, science, literature and specialised skills like technical drawing, metalwork and even art.

But few schools anywhere in the world teach their students financial literacy – a core life skill that equips them with the knowledge and skills to make good financial decisions in life. For example, what do you do with money that comes your way through work or business or as a gift from your parents or other benefactors? Do you simply spend it on the things you need or want to own? How do you assess the value of the item or service you are prepared to pay for?

Do you sometimes feel that you have paid too much for something you bought? What do you do about it? Do you learn from the episode or do you soon forget it and go on to buy, some time later, similarly over-priced goods and services?

Before you commit to buying something, do you pause to assess whether you really need the item? Needing a new handbag or wallet is quite different from wanting it because it is a prestigious brand or because you simply like the looks of it. And if your assessment suggests you do not need the item, do you then drop the idea and keep the money aside?

For Review Only

The subject of financial literacy is not a complicated one and I intend to convey my thoughts and approaches to as many people as possible in as simple a way as possible. Some calculations of dollars and cents will be necessary, but we need not delve too deeply into mathematical concepts. This is because financial literacy is, above all, about attitude and personal discipline.

It has to do with how you view money and its purpose in life. Is money something only to be spent so as to own as much as possible and to enjoy goods and services? Is the purpose of money to give you a good life such as having as big a house as possible with many possessions in it; a big, expensive car and luxurious holidays and other pastimes?

Or is money something that helps you meet your basic needs of food, housing, transport, education and medical care? Do you recognise that putting aside some money for the future is a good habit or do you see it as dwindling in value over time?

Is money, to you, more a symbol of status and power, a source of security or something else? Perhaps it's even a means to help others?

These are important questions every thinking individual should ask himself or herself quietly. If you are prudent in spending money and acquire and keep only what you really need, then you are on the right track. Otherwise, you will need to change your approach to money first before you can develop financial literacy and embark on the road to financial independence and a healthy financial situation throughout your life.

For Review Only

THE THREE PRONGS OF FINANCIAL PLANNING

There are three main prongs of financial planning which can help you achieve your dream of financial freedom: savings, insurance and investment.

Work sedulously to build up these three areas and you will have a good chance of getting there. But it is easier said than done! To achieve your long-term financial goals, there is a need to be consistent, diligent and disciplined. Year-in and year-out, you will need to stick to your savings and investment plan.

"But I'm just not good with money," you might protest. "I just don't have the (a) interest, (b) patience, (c) discipline and/or (d) time to do all this!"

I will address these common objections and reservations.

Your Worst Enemy Is Yourself

Benjamin Graham, widely known as "the father of value investing" and the mentor of world famous investor Warren Buffett, wrote in his seminal book *The Intelligent Investor:*

> "For indeed, the investor's chief problem – and even his worst enemy – is likely to be himself."

Paraphrasing Shakespeare, he goes on to say:

> "The fault, dear investor, is not in our stars – and not in our stocks – but in ourselves."

As imperfect human beings, there will surely be flaws in our nature that can hurt us in our financial decision-making. These

For Review Only

flaws differ from person to person, and achieving financial success requires a good, hard look in the mirror. Some of us are prone to overspending to impress people; others may be lazy when it comes to doing research on investments and will buy stocks based only on a dubious 'hot tip'. Some fail to control their emotions and their greed drives them to buy a stock that has become grossly overpriced; yet others may be too egotistical to listen to different viewpoints on the merits of an investment.

What are *your* flaws in financial decision-making?

Whatever these may be, and whatever dreadful mistakes you have made in the past, rest assured that *with patience and dedication, you can improve yourself* and cultivate the right qualities to become financially liberated.

One of the most wonderful things I've discovered is that the journey of financial planning is also the journey of personal growth. Discipline, patience, critical thinking, the ability to make tough decisions while mastering emotions – these are all highly worthwhile personal qualities in every aspect of our lives.

The key is to keep at it, and never give up. Every time you fall, do not keep lamenting it but learn from it and come out stronger every time. Go to any coffee shop and you will hear an old man bemoaning a painful loss in Stock XYZ that he suffered twenty or even thirty years ago. *Don't dwell on your mistakes; learn from them.*

As you become a better financial decision-maker and investor, you also become a better person.

To those who say that they have no interest in the topic, you should ask yourself whether you have any interest in achieving financial security and having a comfortable retirement. If you have an interest in the ends, then you must *take* an interest

For Review Only

in the means. Otherwise it basically means that you want to harvest the fruits, but don't want to learn how to plant the tree.

No time, you say? When you want something badly enough, you will *make* the time. Understandably, we are all busy people. But many successful investors found ways to carve out bits of time from their schedules to learn the basics, keep up with business news and research companies. I know a high-flying corporate executive who does stock research during short breaks at work and checks out the assets of listed companies when he travels for work. Another friend juggled a seven-day work week and being a husband and father with investing. On some Saturday nights, he would dig out an hour to scour *The Edge* business weekly for opportunities.

If you will pardon my bluntness, losers make excuses. Winners make solutions.

And if you say you have "no time" to learn financial planning and investing now, you may well find that when you reach the age of fifty-five, sixty-five or even seventy-five, you will have "no time" for your children, your spouse, yourself. Because you will still be working out of necessity, slogging day to day, living from pay cheque to pay cheque.

The two friends I mentioned achieved financial freedom at age forty and forty-two respectively. Yet another friend did it at thirty-two. All three are family men with children to support.

And now they can spend as much time as they want with their loved ones and pursuing their personal interests.

There will of course be unexpected events which can set you back in certain periods. That is life, isn't it? It is not always smooth sailing. One has to be as prepared as possible for ups and downs. So a good financial plan provides for setbacks and

For Review Only

variation in the rate of return on investments. A good plan is also customised to the person or family it is for. You can seek external advice on the details but *it is important to know what you want and how you can go about it.*

Prong No. 1: Savings

As with all things in life, begin with Common Sense. It's become a tired old joke by now that Common Sense is most uncommon. Why it is so is open to debate – perhaps as the world grows increasingly complex, people forget their basics. Perhaps we sometimes allow nonsense ideas and beliefs to become entrenched in our minds simply because everyone else buys into them. But whatever the case, when we fail to exercise Common Sense in our financial decisions, the results are not at all funny.

So here is Common Sense Rule No. 1 in building your financial future: *You must spend less than you earn.* As self-made millionaire and financial advisor Guy Baker puts it, money does not fall from the sky. Nothing will happen unless you first save money.[1]

Sadly, the sight of many elderly people in the queue for lottery tickets in Singapore suggests that far too many people have not grasped this most basic principle even by the age of eighty. They are still hoping for a windfall from the gods. The chances are so remote (one out of a million or less) that one might have to live through a hundred lifetimes before one strikes that elusive jackpot. And if one has not learned the principles of personal financial management, those millions of dollars are likely to evaporate in just a few years anyway.

So, spend less than you earn. You might be surprised that this can be more difficult for high earners than those

For Review Only

earning less, because when you make $25,000 a month, your expectations (and others' expectations of you) will probably also be much higher than for a guy making $4,000. But whether it's $25,000 or $1,500, you must find a way to shape your lifestyle to fit below your means. This means real sacrifice and tough trade-offs.

For me, personally, the habit of saving was inculcated by my parents from a young age. My two elder siblings and younger sister and brothers all had piggy banks. We were encouraged to save some of our pocket money for future needs. I thus learnt to squirrel away coins in my primary school days. Thirty cents was all I got each day for pocket money, of which ten cents was for bus fare and twenty cents for food and drink at recess.

Of course, things cost much less in the late 1950s and early 1960s, but it was still hard to save. Saving ten cents a day meant eating a curry puff instead of a plate of noodles during school recess; and drinking water from the tap instead of a five-cents ready-made drink of soya bean milk or syrup.

The government also encouraged the savings habit in those days and we had the Post Office Savings Bank (POSB) van visiting schools once a fortnight to encourage students to save. We bought stamps with our savings and these were then stuck in a brown album. When the album was full, it meant we had saved a few dollars. These were then handed over to the POSB officer and our savings passbook would be updated. Everything was done manually in those days as computers were unheard of.

But that saving habit stuck for life. In secondary school, I continued to painstakingly build up my savings in POSB which has long since gone its own way, having built itself up as a formidable people's savings bank by the 1980s.

For Review Only

My very first bank account was with POSB and that account remains with me today, after more than fifty years! Of course, things have changed now. POSB is a part of DBS or the Development Bank of Singapore group.

Under DBS, it appears that POSB is also more profit-oriented and trying to make its deposits work harder for a return. That has allowed the DBS group to grow rapidly and reward its shareholders well.

But the POSB's legions of depositors, like those of other banks in Singapore, receive a very poor return on their savings. Savings accounts hardly yield anything even over a year while fixed deposits (FDs) of one-year duration yield less than 1 percent. Like other commercial banks, DBS has as its core objective a need to maintain a healthy interest margin between its loans and deposits.

The point I am making here is that saving some of your earnings or allowances in a bank is still a good habit or practice. You are building for the future, but the low rate of return means your savings may actually be eroded or gradually lose their value due to effects of inflation. This is why you need to learn how to *invest* those savings, but certainly saving is the first step.

Inflation, even in countries that enjoy price stability like Singapore, is still hovering at around 2 percent or more. It all depends on how you measure inflation and which goods and services are taken into account. In Singapore from 1990 to 2000, the consumer price index (CPI) inflation was 1.7 percent annually; from 2000 to 2010, 1.6 percent; from 2010 to 2017, 1.8 percent[2]. For the entire span of twenty-seven years, inflation averaged 1.7 percent. So if you're not earning anything close to

For Review Only

1 percent on your Singapore dollar deposits in banks, then you are really allowing your savings to erode steadily.

We will discuss the topic of banks and why they are not really your friend, in another chapter of this book. For now, it is sufficient to say that financial literacy means not only developing the right attitude towards money and having a savings habit; it means you have to invest at least some of your savings for higher returns.

First, you have to keep aside a percentage of your daily or monthly income as savings. It would be even better if you can work out what you need as expenses each month and set that aside in a household or personal expenses account. Your expenses can then all be drawn from this account.

The other bank account should be where your salary or business income goes into; this should be your savings and investment account. It is important to separate the accounts so you can monitor easily the progress of your financial plan. Every now and then, but at least once in six months, you should sit down and examine the state of your two accounts: their inflows and outflows and the state of your cash balances and investments.

As your savings accumulate, you should work on your financial literacy. There is no shortage of good books, newspaper articles and websites on various subjects like stocks and shares, property, bonds and other fixed income instruments; and even antiques and art. But before you plunge into any of these instruments, do make a financial plan for yourself and the family.

A financial plan is the big picture of your family's situation and how it is likely to progress in the future. It takes into account your sources of income, your regular expenses and any

For Review Only

commitments you may have in terms of loan repayments or education for the children. The savings picture is then clearer and insurance policies can be purchased and investments made accordingly.

A cardinal rule is that one should always keep enough cash to sustain oneself and any dependants for at least six months. This can be called an emergency fund and it provides for situations where the regular cash inflow dries up for whatever reason – such as job loss. Many people ignore or forget this 'commandment', probably because it is so thoroughly boring (unlike the prospect of sexy profits in stocks). But if you ignore the boring principles, you will not achieve exciting returns in life. *Without the buffer of a cash reserve, you may well be caught defenceless in an emergency, and be forced to sell your investments at the worst possible time* like during the 2008 global financial crisis, when many good stocks crashed 50 percent or more.

At this point you may be very eager to learn about investing, but before that...

Prong No. 2: Insurance

Before we think about investing our savings to grow our wealth (akin to building a football team's offence), we need first to build our defence. We need to protect ourselves and our families against catastrophic events, especially during our economically productive years as such events could seriously impair our ability to build our financial future. I am talking about the unpropitious possibilities that may befall any of us mere mortals, like death, serious illness, and fire.

It may not be possible to raise enough cash from investments when the unfortunate happens. Insurance should be there to

For Review Only

cover such exigencies, so that the financial plan can proceed without too much disruption.

This book will cover life insurance and health insurance. I urge you to also find out more about other forms of protection that may be relevant to you, such as fire insurance if you are a home owner.

Your financial planner or insurance agent or broker should be able to advise you on the insurance policies best suited to you or your family.

Life insurance

Life insurance protects against financial loss that would ensue in the event of a person's death. Upon the demise of the insured, the insurance company pays a sum of money to the beneficiaries named by the insured. Most such policies also give the insured the option to receive – at additional cost – a payout in the events of total and permanent disability, and dread illnesses such as cancer and kidney failure.

There are broadly two types of life insurance – participating and non-participating. The former gives the policyholder the right to receive a portion of the investment returns achieved by the insurer using the premiums paid by the policyholder. The latter does not.

Non-participating policies provide you higher dollar coverage for each dollar of premium paid. They usually come in the form of term policies which cover you for only a fixed period, say up to the age of sixty. At that age they expire and offer no cash returns at the end point.

It is important to note that once the policy expires, it no longer offers any protection. Should the untoward happen after

For Review Only

that point, the erstwhile policyholder or his beneficiaries would not receive any payout unless he also has a participating policy.

On the other hand, participating life policies with benefits or profit-sharing require premiums to be paid to a ripe old age and provide you less protection per dollar paid, but they build up cash values over time so that you have the option of terminating the policies and pocketing the cash value, or using the cash to pay for premiums at an advanced age. Today many participating policies are investment-linked, and a percentage of your premiums will be invested in mutual funds (also known as unit trusts). If you purchase such a policy, you will be asked to make a choice of what proportion of your premium you wish to allocate to which mutual fund. It is important to educate yourself on the risks and potential returns from the different kinds of mutual funds before you make your choice.

The amount of payout when a claim occurs will depend to a considerable extent on the performance of the investments linked to one's policy.

For me, personally, my family has been provided for with a mix of participating and non-participating policies. The latter (term policies) are for larger amounts and some are linked to SAFRA (Singapore Armed Forces Reservist Association) and the Automobile Association of Singapore. These group policies are handled by the insurance companies for these organisations and come at a low cost due to the large base of insured persons.

Health insurance

Health insurance covers the cost of an individual's hospitalisation and surgery (H & S). This can be paid for by the state, the employer and/or the individual in varying proportions.

For Review Only

We should note the specific types of hospitalisation, surgical and medical procedures that are covered by the policy and the maximum disbursements provided for each. We also need to note the deductible – any H & S expenses below this level in a given year will not be covered – and the co-payment, which is the percentage of the expenses (after subtracting the deductible) which will have to be borne by the insured.

Bear in mind also that health insurance is expensive and difficult to sustain over the long term as premiums can be raised over time. In Singapore, the government has promoted MediShield Life which allows for premiums to be paid via Central Provident Fund (CPF) savings. This is a good way to go. You can enhance the coverage through integrated plans which basically involve private insurers building on the MediShield coverage if you are willing to pay additional premiums.

MediShield Life operates on the basis that a hospital bill is shared between the scheme, your own MediSave savings and some cash payout on your part. The government also provides subsidies of varying amounts based on the individual's age, financial situation and capacity to pay. Most Singaporeans have relied on this package to provide cover for their families. Some have integrated plans.

These insurance policies are for the long term. Maximum benefits are usually derived when you retain the policies to full maturity. Bear in mind that you and your family usually lose out if or when you terminate policies prematurely. It costs more to enter into policies at a later age and even more when you have pre-existing medical conditions. So commit to policies for yourself and the family as early as possible. Work out the annual

For Review Only

premiums and ensure you are able to sustain the payments through the years.

Tied agents vs independent advisors

Currently in Singapore and some other countries, insurance can be purchased either from agents tied to a particular insurance company, or independent advisors. The advantage of the latter is that they can recommend to you policies from a range of insurers instead of only one – thus, assuming they are honest, they will be better able to recommend a policy that best suits your needs. Another advantage of independent advisors is that they typically charge you advisory fees rather than commissions.

As their fees are usually less than the commissions paid to them by the insurers, they give you a periodic refund amounting to the commissions minus their fees.

An important caveat

At this point, let us consult our Common Sense once more. What does it tell us? That not everyone can be trusted and, likewise, not every insurance company or independent advisor can be trusted.

Thus, before you make a major commitment to take up an insurance policy which you will need to pump tens of thousands of dollars into over the years, *do your research on that insurance company or advisor.* Read the news and see if there have been any reports of unsavoury actions by them, or financial troubles. Speak to friends and family who have had lengthy experiences dealing with them, especially in the all-important area of claims. Does the company treat its policyholders well and try

For Review Only

its best to pay a claim? Or does it try its best to avoid paying by banking on little technicalities? When one needs some service or queries answered after one buys the policy, does the company provide prompt and attentive service? Does it treat its staff fairly? There are many clues as to what an insurance company or advisory firm is made of, ethically.

Do not assume that an organisation is honest and principled just because it is well known or large.

Beware also of unprincipled insurance agents. There have been cases of agents committing fraud.

Prong No. 3: Investment

When bank deposit interest rates are lower than the rate of inflation, the value of your cash savings contracts over time at a compound rate. As mentioned earlier, inflation has averaged about 1.7 percent in the last three decades or so. If this rate continues into the future, your $4 plate of chicken rice in 2018 will set you back by $4.90 in 2030 and $5.80 in 2040.

Bear in mind that inflation has a compounding effect – the additional 1.7 cents added to each dollar of price in one year will itself grow by 1.7 percent (to 1.73 cents) in the following year, and 1.76 cents in the next and so on. Thus the increase in prices after ten years is not 1.7 percent times 10 (17 percent), but 18.4 percent. After twenty years, the price increase is not 34 percent, but 40.1 percent.

At the time of writing in 2018, a savings account with a local bank pays you only 0.05–0.1 percent (it can rise to 0.8 percent annualised, but only if certain conditions are met, such as no withdrawals in a given month and a larger initial deposit) while a 12-month Singapore dollar fixed or time deposit pays

For Review Only

only about 0.5 percent (around 1.2 percent during promotional offers). Even if one gets the 1.2 percent rate and is able to roll over interest and principal at the same rate to compound returns for twelve years and twenty-two years respectively, $4 would only grow to $4.62 in 2030 and $5.20 in 2040. You would still be short of 28 cents and 60 cents respectively when ordering that plate of chicken rice!

Investing and trading: know the difference

First, let us draw a crucial distinction between investing and trading. Trading is trying to get in and out of an asset fast, trying to ride the ebb and flow of the market to one's own advantage. Thus traders study the patterns of price movement and use them to try to extrapolate the future – in the case of stock trading, the players use technical analysis: a rather esoteric methodology of charts showing price movements, volume changes and an array of associated mathematical calculations and visual patterns. A trader buys a stock because he believes the price is going to go up fairly soon.

Investing, on the other hand, is about paying 50 cents or 60 cents for an asset that one believes is worth a dollar (this is known as *intrinsic value*, the objective worth of the stock based on the profitability, balance sheet strength and corporate governance of the company). The investor generally has a long-term horizon: she is prepared, and indeed often expects, to wait for years before she realises her desired gains. Thus an investor buys a stock because she believes the current price is far below what it is objectively and intrinsically worth, and at some point the gap between value and price will narrow.

For Review Only

It is possible to succeed as an investor or trader, but I believe it is much better to be an investor. My reasons are:

(a) Investing does not require very close daily monitoring of the market. As long as you have a strong conviction that the stock or company is undervalued based on highly probable prospects for its business, you can just update yourself on company results once a quarter and other announcements perhaps once a month just to make sure that your investment thesis remains on track. Warren Buffett is well known for hardly checking the prices of his stock holdings – he is more focused on the news about the business, because he believes that despite all the temperamental short-term gyrations of the market, the fundamentals of the business are the strongest drivers of the stock price in the long term.

(b) Investing is considerably less stressful than trading. True investors are not much perturbed by a 20 percent fall in their stock price in the short term (of course it would be hard for any human being not to be perturbed by a 50 percent fall, but the investor would be much less troubled than a trader). This is because an investor engages in assets based on intrinsic value and knows that despite short-term slumps in share price based on crowd emotions or traumatic world events such as a financial crisis, terror attack or pandemic, the share price will gravitate back towards its intrinsic value once the world normalises.

For Review Only

(c) Investment is based on sounder scientific principles than trading. *Technical analysis may appear to be highly scientific and be anchored in scientific certainty; in reality it is anything but.* The chart pattern that showed tremendous momentum and a moving average convergence-divergence (MACD – a popular indicator used by traders) line rising above the signal line may not reflect genuine market sentiment or direction at all – it could simply have been manipulated by a group of people with deep pockets. When they pull their money out of the market, the price (and your chart formulas) will collapse spectacularly. Likewise if some fundamental weakness in the company comes to light, for instance a revelation of accounting irregularities, or there is an outbreak of a terrible disease like SARS.

Investing is based on much firmer, more objective rational concepts (which I describe as 'scientific') such as profit margin, net cash or net debt, free cashflow and so on. Even if a terrible pandemic breaks out tomorrow, it does not mean that the cash on a company's balance sheet is no longer real. This is why I believe that investing offers us a more reliable way to make money than trading does. It is based on *fundamentals*, and is therefore *fundamentally* sound. You get to grow financially with the growth of a business, with steady increases in portfolio value.

A comparison between the two men widely regarded as the greatest investor who ever lived – Warren Buffett – and the greatest trader who ever lived – Jesse Livermore – provides rich food for thought. Livermore – who was worth US$100 m at his peak in 1929, the equivalent of an estimated US$1.7 b in today's dollars – went broke numerous times, divorced twice,

For Review Only

had a stream of mistresses and committed suicide in 1940. His first divorce was in no small part triggered by his losing everything in the market and demanding that his wife pawn the jewellery he had given her. According to Tom Rubython in his book *Jesse Livermore – Boy Plunger: The Man Who Sold America Short in 1929* (The Myrtle Press, 2015), his third wife's US$7 m fortune had lulled him into a sense of comfort and killed the desperation to win he had in his youth. He felt as if he was losing himself.

Buffett, on the other hand, has had a far more steady career in the stock market to become the third richest person on the Earth[3] with a net worth of US$75.6 b (despite giving away vast amounts to charity). He was worth about US$1.4 m in 1962 (at age thirty-two), US$620 m in 1983 and became a billionaire in 1986. He has also enjoyed a much more stable personal life, though he was separated from his first wife till her death and is now married to his second. He is still hale and hearty at the ripe old age of eighty-eight.

Of course I would hesitate to draw generalisations about traders and investors based solely on these two prominent individuals. But it makes sense to me that an investing *mindset*, with its emphasis on fundamentals and long-term development, is much more likely to produce a fulfilling and stable personal life as well. It is better to treat life as a long-term investment than a series of quick trades and speedy gratifications.

Traders generate a lot more commissions for their brokers and fees for stock exchanges. That's why you can expect brokers and exchanges to promote trading more actively than investing. We also live in a very impatient world today, with people often expecting profits at fibre broadband speed. Will

For Review Only

you be enticed by 'sexy methods' of achieving quick trading profits, or follow the boring, patient but proven approach of great investors like Warren Buffett, Benjamin Graham or Peter Lynch? It is up to you.

What to invest in, how to invest, and when to invest?

You can read my principles of investing and best strategies for the long term in Chapter 5.

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1 "Getting rich systematically", Kelvin Tan, *The Edge Singapore*, The Edge Publishing Pte Ltd. 23 May 2005

2 Calculated using CPI figures from Department of Statistics Singapore website, http://www.tablebuilder.singstat.gov.sg/publicfacing/createDataTable.action?refId=12005

3 Forbes 2017 Billionaires List: Meet the Richest People on the Planet, https://www.forbes.com/billionaires/#1dda96c6251c

For Review Only

CHAPTER 6

PROPERTY AND REITS

A book on financial planning and investment for the long term cannot possibly be complete without a section or chapter on property and its equity counterpart, REITs or Real Estate Investment Trusts. Investment in property or real estate is as old as Singapore while the concept of REITs has taken on great popularity and relevance in the last twenty years or so.

PROPERTY VERSUS STOCKS: WHICH SHOULD I FOCUS MY INVESTMENTS ON?

There really is no one right answer for this. The choice varies according to each individual's situation, behavioural traits and preferences. Numerous investors have built their financial freedom in either real estate or stocks, or a varying mix of both.

What's important is to understand the differences between the two asset classes. When you invest directly in real estate – land and/or bricks and mortar – you get a very tangible, physical asset (provided you actually see and touch it, and don't just buy some building far away that your agent shows you a picture of!). The solidity of the asset is a source of assurance, provided the supply-demand dynamics are in its favour – for instance,

For Review Only

it can easily attract tenants instead of sitting empty collecting cobwebs for years. A piece of real estate is in your hands and tangible, rather than a share of common stock in a company which is a rather more abstract asset and not in your control. With your own piece of real estate, you don't need to worry about someone else controlling it and manipulating its accounts.

However, for property to be a viable option, it is crucial that incomes must be rising on average and in a steady pattern on the back of an improving economy. Security and political stability is a given. Then only will the property market stay on a long-term uptrend and reward owners with returns that are far above the inflation rate. These factors have all been at play in Singapore over the past fifty years or so, and property owners have done well. Most Singaporeans live in Housing and Development Board or HDB apartments and their family wealth is significantly tied to the value of their homes.

For the government, too, the ever-rising values of land have been a major boon in building up the country's reserves. The proceeds of land sales over the years have gone straight to the reserves and these have been invested in foreign assets to provide a cushion for the future, should the country face hard times. Singapore's operational national budgets have also taken prudent approaches over the years and the surpluses from these have also found their way into foreign investments via the Government of Singapore Investment Corporation (GIC or GIC Private Limited) or Temasek Holdings. These sovereign funds invest in both property (commercial and industrial) and companies (their shares and bonds).

One major disadvantage of property though is its very chunky nature, financially speaking. It is rare to find an apartment, office

For Review Only

or factory space that won't cost a middle-income earner many years of his savings. If he commits to a direct property purchase, chances are that he will have very little free cashflow left to invest in anything else for years or even decades. Diversification of investment would be very difficult, particularly for middle- and lower-income investors. Another issue is that most people will need to take up a sizeable debt to finance this investment, meaning that you have to pay a quite princely sum in interest over the span of the loan, typically about twenty years. If you can collect enough rental and interest rates stay manageable, then all is fine. But if one or both of these factors turn against you, things can become quite dire, as mentioned earlier. Of course, debt is a double-edged sword and can work in your favour as well. If you select a good property and buy at the right price, the debt will multiply your profits many times. Leverage can work powerfully for or against you – so pull that lever wisely!

Unlike real estate, stocks allow investments in small- to medium-sized bites and without taking on debt. It is far more feasible for the average person to have a diversified basket of stocks (say eight to thirty) than a diversified basket of properties. This is excellent for risk management.

This is why this book focuses primarily on stocks as most readers will be middle- or lower-income, and it is my position that stocks make a more suitable investment mainstay for these groups.

KNOW YOUR REAL ESTATE INVESTMENT TRUSTS

But if, as a middle- or lower-income earner, you have a strong desire to be vested in physical property without most

For Review Only

of the pitfalls mentioned above, there is a wonderful place where property and stocks converge – and that is, *Real Estate Investment Trusts or REITs*. These are professionally managed investment funds that raise capital from shareholders and use it to acquire properties. The funds then manage those properties, find tenants and pay what is usually a generous dividend to shareholders after deducting costs.

Thus REITs are a good way for the man or woman in the street to gain access to property investments on a manageable scale. You can buy into properties, indirectly, with just a few hundred dollars at a time, without incurring debt.

I recall vividly how our capital markets team at DBS was conceptualising and working on documentation in respect of the first big local REIT to be floated on SGX or the Singapore Exchange. That was in the years 1999 and 2000. The REIT involved was CapitaLand Mall Trust (CMT) which remains today one of the most popular and successful REITs listed on the SGX.

At that time, however, there were doubts among investors as to whether it made sense to invest in a trust that was heavy on assets that had been revalued and which offered little discount to its underlying Net Asset Value or NAV. The trust was also relatively heavy on borrowings, with its debt-to-equity ratio at about 50 percent. Gearing, or borrowings against total assets, stood at about 33 percent.

The main attraction was that the REIT, named CMT in short, promised to pay at least 90 percent of its net income after all expenses. Why did it plan to be so generous in its dividend payouts? The government had made it a condition that REITs which paid out 90 percent of their net income would enjoy tax concessions. The dividends would be tax-free in the hands of

For Review Only

individual shareholders (REIT shareholders are typically called unit holders in Singapore).

The government's motive was to promote Singapore as a centre for REITs. This would add to the depth of the property and equity markets, it was considered. DBS, which is substantially owned by Temasek Holdings, was tasked with floating the first REIT.

However, there were and still are other options for local investors wanting to invest in property through the equity or stock market. Well-established developers like Singapore Land and CapitaLand, even in the year 2000, offered the opportunity to buy quality property assets at a good discount to underlying net asset value. They paid dividends regularly and even if their yields were not as attractive as that proposed by CMT, the discounts to net asset values provided good defensive cushions. I, too, was not convinced at that time that it made sense to buy CMT at a dollar and enjoy a 6 percent yield but without downside protection on capital value. Singapore Land, with a 4 percent yield and 30 percent discount to NAV made more sense.

The floatation of CMT was a success, but not a great one. Due to the size of the float and the newness of the REIT idea, I recall it traded close to offer price for some time. It was only much later that the price moved gradually upwards as the REIT continued to pay regular dividends every three months and as the value of the underlying shopping malls appreciated. CMT also showed that its managers were adept at maximising returns on its assets through upgrading and expansion works on its portfolio of properties.

As returns improved, the net income also rose steadily through the years. CMT made acquisitions of new malls from its parent company, CapitaLand. It has also bought assets from

For Review Only

third parties, where the managers considered that the assets would yield sufficient returns to enhance *dividend per unit* or *DPU* for existing holders.

As the DPU crept up over the years, so did the value of the underlying units. CMT units generally trade above $2 nowadays and the yield hovers between 4.5 percent and 5.5 percent, depending on the general market. The NAV is just below the $2 mark. Market capitalisation of CMT is a whopping $7.4 b as I write.

Investors in CMT since its IPO have done very well overall. On their original $1 per unit, they would have enjoyed a gradual increase in DPU from about 6 cents to the current 11 cents or so. The unit price of the trust has more than doubled, even after adjustment for intervening placements of units to raise fresh funds for expansion. But the stock has languished in the last three years due to various factors, including competition from online retailers and the downside pressure on rentals of shops in its portfolio of malls.

Further, it has not been a straight, upward sloping line for net income, dividends and net asset values and stock prices. There were difficult periods between 2004 and 2006 and also during the US Financial Crisis in 2008 and 2009. These were slow periods in the Singapore economy and the stock market traded at depressed values. However, CMT units recovered their values as consumer sentiments improved, showing the resilience of the trust and its strategy.

The REIT sector in Singapore is now a large one, with very healthy growth shown in many trusts operating across a wide swathe of property segments and geographies. SGX now features a good selection of not only Retail REITs like CMT, but investors are also spoilt for choice in the Commercial, Industrial/

For Review Only

Logistics and Hospitality sectors. Analysts cover all the sectors and provide information on asset values, gearing and DPU.

My sense is that many Singapore investors, especially the older ones, have a very heavy commitment in REITs. Over the years, they have learnt that REITs are reliable generators of dividends which are paid quarterly in many cases. Where certain REITs have over-expanded and been caught in tight cash situations during downturns, they have usually been rescued or bought out by stronger entities keen to enter the sector. But when they are rescued or bought out, it may not be on terms that are favourable to existing unit holders. By and large, the experience in REITs has been good for Singapore-based investors over the past eighteen years. The Monetary Authority of Singapore keeps a close eye on the sector in terms of its governance and debt levels. This has helped to prevent scandals that we have seen in other sectors of SGX.

Notably, the hype over mainland Chinese companies listing on SGX has all but totally fizzled out. S-chips, as they are known, have been involved in one scandal after another, so much so that investors have written off their substantial losses and given up on them. Even well-run S-chips with growing profits and market presence are being neglected due to the missing trust factor.

In contrast, the investor following for REITs has been growing. It is seen as a relatively safe sector and the annual general meetings of many REITs are packed with retirees happy with their steady incomes from this sector. Many are looking to increase their investments and, consequently, income flows.

However, it would be wise to pause and reconsider. For myself and many value investors, REITs are not the panacea to

For Review Only

all investment woes. They are not necessarily the only way to earn a steady passive income with little overall risk.

There are risks inherent in REITs which have not shown themselves much in recent years. Hence the investor complacency.

One must go back to basic concepts about property investment and risks inherent in order to understand REITs. It is said that fire is a good servant and a bad master. The same applies to investment in property. You must be in control of your investment and not have it the other way around. Buy as much property as you can comfortably hold if you have the sustainable means to service the loans and mortgages.

Remember the variables can change. For example, interest rates can rise unexpectedly, and unless you have invested with a margin of safety, you could be caught servicing expensive mortgages at relatively high interest rates. That will affect the cashflow you need for other purposes. Another variable that can change without warning is the rental you derive from your investment property. In a glut situation, rentals will drop and your income flow will be slower than expected. In the worst case, you might not even be able to find a tenant for long periods. Go on the Internet and search 'ghost malls', for instance, and you will get an idea of how desolate your property can become if you read the market and supply-demand dynamics wrongly.

If *both* variables come into play at the same time, then you will really be caught on the wrong foot. The mortgages will cost more while rental income dwindles or disappears. Your cashflow from the investment could be negative, requiring you to dig into reserves to cover the deficit and keep your lenders at bay. If you are not able to service the loans, there may be pressure to sell the property.

For Review Only

ABOUT THE AUTHOR

Mano Sabnani is currently the Chairman and CEO of Rafflesia Holdings, a company he founded in 2008 to pursue opportunities in the investment, corporate advisory and media sectors.

He was invited to serve as an adjunct professor at SIM University from January 2011 to April 2016, and also as advisor to the Centre for Applied Research (CFAR) where he completed a project involving the preparation of 35 case studies of Singapore companies listed on the SGX.

Earlier in his career, Mano worked in senior positions in Singapore's *Business Times* (writing and editing on a variety of investment and business issues as well as politics and foreign affairs) and the Development Bank of Singapore (developing investment products for the bank's many medium-to-high net-worth clients; leading a team of analysts to produce reports on the best stocks, bonds and warrants in the Singapore stock market; and preparing numerous companies for a public listing and successful launch on the SGX as an MD at the bank's Equity Capital Markets). At Corporate Brokers International where he was executive director, he focused on nurturing and investing in small, promising companies with scaleable businesses, and as MediaCorp's CEO and Editor-in-Chief, he developed the daily newspaper *TODAY* into the second most read in Singapore and made it very profitable by the time he left in November 2006.

For Review Only

A well-known activist investor, financial writer and advisor, Mano is active in the press and social media as a writer and commentator. He is a successful value investor himself and strongly believes in every individual working towards financial freedom, and has led seminars and spoken extensively about investment and financial planning.

Mano graduated from the University of Singapore (now the National University of Singapore) with a Bachelor of Science degree majoring in Physics. He attended the Advanced Management Programme at INSEAD Business School (France) in 1990 and the Press Fellowship programme at Wolfson College, Cambridge (UK), in 1986.

He has authored several books, including his autobiography *Marbles, Mayhem and my Typewriter.*