They ran and they ran

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They are afraid of higher interest rates and they are fearful of a trade war. So, they ran and they ran. I suppose many chartists are on tenterhooks, closely watching if the major market indices would break down from their 200-day moving averages, which for these chartists, would mean we are in a long-term downturn, not just a simple market correction.

Many investors constantly seek advice in the financial markets and would often switch from one to another, going with the flow. So, they keep running from one investment product to another, from one counter to another. That's the reality of the investment markets. There are investors who take long term views in their investments and spend time to think through before they put in a single dollar. However, there are also many short-term speculators out there and I was recently told by a friend that unlike me, if he sees a 50%-50% chance, he would place a bet and would be ready to cut loss.

I take the approach that it is prudent to think through an investment proposal before we move in and after having invested in it, to allow time for the price to appreciate unless there are material changes to our assumptions and expectations – such as changes in key management staff, business model, and operating environment – or unexplained price surges.

In many organizations, both in the public and private sectors, staff would conduct in-depth research and write papers to their management before they proceed with a business initiative. This practice – on the assumption that there is substance, not just form - is excellent in that in the process of writing their papers, the proposers are put in a framework where they would examine their contents and ask themselves whether or not the proposals are logical and implementable before they proceed to put up the proposals. In the same way, investors must ensure that they are clear in their minds what and why they buy any counter and not run with the flow like headless chickens. I do not know if you heard it - on my way to work this morning, I heard on radio that in a cooking competition, a Western judge penalized a participant because the chicken in her chicken rendang for her nasi lemak dish was not crispy. The judge did not know what chicken rendang is!

I prefer to stick to old-fashioned fundamental-based investing for the medium to long-term in the same way that a well-managed company would do well in a sustainable business. The risk in equity investing is over-paying for the counter at the point of purchase. Outside this risk, the greed and fear of investors would cause the share price gyrations in the stock market. To tackle the market volatility and prevailing concerns, we have raised some cash since early February.

In the current investment climate, my view is that it is not helpful to try to outguess the US Federal Reserve on the number of times the Fed would raise interest rates this year or next year. The Fed has been fairly open and has been providing its guidance on this, as and when it finds it convenient to do so. It would be unproductive to try to outguess the Fed and make aggressive investment decisions based on these outguesses. Instead, it would be better to prepare for likely scenarios and take positions accordingly.

The concern over higher interest rates is that the US economy would go into a recession from an over-tightening by the Fed and this affects the global economy. I maintain the view that the Fed's decision to raise interest rates is a happy problem because the Fed has assessed that the US economy is able to support higher rates and that higher rates would prevent higher inflation.

As for trade wars, it is a matter of time before cool heads prevail over the heated rhetoric from political leaders. Hence, I take the view that the current market downturn would soon pass amidst a recovering global economy.

I wish you many years of successful investing ahead.

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Portfolio Manager Comments

In January 2018, the World Bank revised its forecast for global economic growth in 2018 upwards to 3.1%. This indicated that the broad-based recovery in global growth is encouraging and that the global economy is on a strong footing and is expected to continue improving in 2018.

However, fears of excessive rate hikes and the unfolding of US-China trade tensions led to a market sell-off between February and March, indicating a period of volatility that would likely persist in the near term. The sell-off also led to a reversal in Phillip SMART Portfolio's performance during the period.

We are reminded that stock markets are filled with noises. Value investors should remain unfazed by market noises and remain invested given that we still have a positive economic climate. Instead of participating in the panic sell-off, we would choose to hold our ground unless economic data are resoundingly negative.

Phillip SMART Portfolio

Market Indices / Phillip SMART Portfolio	Bloomberg Ticker Code	Percentage Change* January – March 2018
MSCI ACWI Index	MXWD	-3.40%
MSCI AC Asia ex Japan Index	MXAPJ	-3.05%
J.P. Morgan GBI Global Unhedged USD	JPMGGLBL	0.19%
J.P. Morgan Asia Credit Index Core	JPEIJACC	-3.81%
Phillip SMART - Income	NA	-1.14%
Phillip SMART - Income & Growth	NA	-1.61%
Phillip SMART - Growth	NA	-1.74%

**Note: Returns in Singapore Dollar Terms.*

The market correction has brought down our SMART Portfolio performance during the February-March period which marked the biggest percentage declines in SMART Portfolio's performances since its inception in March 2017. For 1Q2018, SMART Portfolio's performances ranged from -1.14% to -1.74%.

However, compared with the board market performances – where the MSCI All Country World Index and MSCI AC Asia ex. Japan Index were both down by more than 3% and J.P. Morgan Global Government Bond Index Global and J.P. Morgan Asia Credit Core were +0.19% and -3.8%, respectively - Phillip SMART Portfolio showed that our portfolio diversification strategy has assisted in providing downside protection.

**Note: Returns in Singapore Dollar Terms. Composite Performance data from Mar 2017 to end Mar 2018.*

The various Phillip SMART Portfolios have all provided positive since-inception returns.

Plan for 2Q2018

Currently, we are investing 10% of our holdings in Gold Exchange-Traded Funds across all three Phillip SMART Portfolios. We view gold as an attractive safe-haven asset amidst rising market volatility and that it would gain investor interest in the upcoming quarter.

We are also likely to focus on ETFs which provide favourable liquidity, spreads and expense ratios.

About the Manager

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Mr Ooi has been with Phillip Securities since 2010. Before joining Managed Account Department as a Portfolio Manager, he was a Customer Experience Specialist before becoming an equity dealer with our POEMS Dealing team, progressing to lead the dealing team at Phillip Investor Centre – Toa Payoh branch. Prior to joining Phillip Securities, he was a Futures Dealer in an investment bank.

He has been a regular market commentator for various media programmes, including Channel NewsAsia's Asia Business First, Channel 8's Money Week and Morning Express, Capital 95.8FM and 938Live Morning news programmes where he talks about current market trends.

He is a SGX Academy Professional Trainer and also conducts seminars on Financial Analysis and Technical Analysis. He holds a Bachelor of Business degree with double majors in Finance and Marketing from the University of Technology Sydney.

MA Service Coverage: SMART Portfolio, 3 Country Equity

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