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To make money, stop watching the pot.

As the old adage goes, a watched pot never boils; but in the hope of achieving double-digit returns every year, many impatient investors have almost zero tolerance for losses and so end up taking on too much risk. If their portfolio is not making some progress within a month or two, they may be tempted to make some changes in the hope of improving the overall performance almost instantly.

As a result, they often end up switching to the most favored funds of the day, which may actually do their portfolio more harm than good in the long run as mean reversion kicks in.

So rather than monitoring your investment portfolio 24/7, it may be better to formulate some longer term asset allocation strategies and review them only periodically.

With this value-based strategic approach to asset allocation, you only need to periodically alter how much to assign to the various asset classes based on their relative valuation attractiveness.

This allocation strategy may seem deceptively passive as you only need to look at it at lengthier intervals of say three or six months, but you would be surprised to find that it still allows you to be nimble enough to take advantage of the many investment opportunities that present themselves from time to time.

Forsake buy-and-hold strategy

The greatest enemy of most retail investors today is probably their blind faith in a buy-and-hold strategy. Often, many kind-hearted advisors remind us that it is not timing the market, but time in the market that matters, so we are usually too frightened to make any changes to our portfolio.

But it pays to remember that the investment game is more like playing poker rather than roulette, as the action of other players can also affect you, whereas in roulette, the behaviour of others at the table is completely irrelevant to you. This means that when more investors are after the same asset class, this may alter the returns as compared to when fewer investors are after it.

The misplaced faith of many investors in the efficiency of the markets can lead to financially catastrophic consequences. Often, they are misled into buying into some hot fund or overvalued asset class and when the market turns against them, their advisors tell them to hold on to it still in the hope that they can one day break even or recoup their losses. It is not surprising therefore that many investors today are still holding on to the technology funds they bought more than 10 years ago during the Internet bubble in the late 1990s.

Stick to long-term asset allocation strategy

So rather than switching funds every now and then or holding on to assets when it no longer makes sense to do so, stick instead to a pro-active asset allocation strategy with a long-term perspective. It may take us many years of conditioning to be unfazed by sensational market

news, but when you practise this strategy long enough to see its benefits, you will realise the folly of those who do not.

Remember: if any change in our portfolio is warranted, it should be because our asset allocation plan dictates it. This may at times seem to make us go against our very instincts but taking the path less travelled will often yield handsome results.

For instance, in early 2009, I proposed that my clients should consider investing in the Asean market. Although most funds were losing value at that time, the region was more badly hit than most because of the political uncertainty in key markets like Thailand, Indonesia and even Malaysia. Valuations were therefore at an immensely attractive level. Not all were convinced, but those clients who did heed my advice would now be in a very good position to book their profits, as the region has since proven to be one of the top performers.

Indeed, the implementation of an active, valued-based asset allocation plan may require immense patience as some strategies might take years to bear fruit. For example, if we allocate more to an asset class because the valuation is low, it may become even lower, since valuations are only mean-reverting over time, and this can often stretch for a period of more than three years after the initial signs of under or overvaluation emerge.

The willingness to be contrarian is also vital for initiating strategic positions as we need to have the determination to stick to our guns and sometimes do the exact opposite of what everyone else may regard as logical at that point in time.

The best way forward

As a general rule, we should try not to predict the short-term performance of an asset class for market-timing purposes, as history has shown that this is seldom a winning strategy.

The best way forward therefore is to develop a value-based asset allocation plan. After that is done, the only thing to do is to stop looking at the pot every day, but rather evaluate your plan at periodic intervals and adjust your portfolio only when necessary.