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Five investing myths debunked: What you need to know

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SINGAPORE — When it comes to investing, there is sound, market-proven advice, and then there is market wisdom that may be widely accepted, but may not hold much truth.

Financial consultant Philip Loh talks to *Yahoo Finance Singapore* about five financial myths you should view with some scepticism.

MYTH 1: Time in the market is more important than timing the market

One of the greatest enemies of retail investors is their blind faith in a buy-and-hold strategy. It is hard to argue with financial advisors who whip out charts proving that markets always go up in the long run. But do they? The Nikkei index peaked in 1989 at about 39,000 points. Thirty years later, it stands at around 21,300 points. Closer to home, the Straits Times index peaked in 2007 at close to 4,000 points, and now stands at about 3,300 points. But there are retail investors still holding on to loss-making Singapore-listed China shares they bought over 15 years ago.

MYTH 2: When investing, one needs to monitor the market 24/7

If their portfolio hasn't made progress for a month or two, some investors are tempted to make changes that will instantly improve overall performance. They often switch to the most favoured fund or stock of the day, which does their portfolio more harm than good in the long run. Rather than monitoring your investment portfolio 24/7, it may be better to formulate longer-term asset allocation strategies and review them periodically.

MYTH 3: If many people are investing in it, it must be good or safe

It is only human to seek the warmth of fellow investors. But it pays to remember that the investment game is more like poker than roulette - the action of other players can affect you. When more investors are after the same asset class, this can put a damper on returns. Doing the opposite of what everyone else regards as logical – to a degree – is a vital ingredient for investment success.

MYTH 4: Diversification is an idiot-proof strategy to lower portfolio risk

The diversification principle is centred around the idea of negatively correlated asset classes. Unfortunately, most asset classes can be positively correlated. Recently, both US stock indices and US bonds have been doing exceptionally well. With US equities and bonds demonstrating an almost perfect positive correlation, it could be argued that they are likely to suffer a price correction at the same time.

MYTH 5: Bonds are always safer than equities

Due to the low interest rates over the past decade, many Singapore investors, both institutional and retail, have opted to invest in bonds, and often the riskier ones for their higher yields. However, there is always a price to be paid for the supposedly higher yields. Many tend to brush aside credit risk when they invest in bonds because of the priority of bondholders over equity investors in the claims process in the event of default, or worse, complete liquidation of the issuing company. This is a mistake as investors may still end up with nothing.