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THE LAST WORD

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Three investing myths

Did you know that if you hold your breath, you can stop hiccups? If that doesn't work, ask someone to scare you. That should do it. And if it doesn't, breathe into a brown paper bag. The idea is to breathe air from the bag and not fresh air because the carbon dioxide stops hiccups, as everyone knows.

Do any of these "old wives tales" really work? The answer is, "Who knows?" There have been no scientific studies, and it turns out that hiccups will go away by itself if you do nothing.

Back to the paper bag. Suppose you breathe into it for five minutes and then your hiccups disappear? Most likely, you will associate breathing air from the bag with curing hiccups, which is how this myth probably got started.

The same is true for the dozens of remedies for a common cold. Like hiccups, a cold will run its course and you'll get better in about three days, even if you do nothing. Something like this also happens in the money world, as I will explain.

1) Investing in a home is easy

Myth: "Investing requires sophistication and expertise."

Fact: Not correct and one thing that keeps investing simple is that our biggest and probably best investment is our home. It is not complicated since the financial decisions are mostly made for us, like how much home we can afford. That is limited by a person's income and outstanding debts. The bank or HDB can work out the numbers for you although you can get an estimate from the "first home calculator" at the CPF web site: www.cpf.gov.sg.

Once you know your spending limit (called MSR or mortgage service ratio), you will have to decide whether to go for an HDB flat or a private property, and decide between old versus new property.

My own preference is HDB because it's a relative bargain. Then I would choose a resale flat in a mature estate (built 15 or more years ago) since those units are larger and the blocks are more spread out. Of course, that is my personal preference and yours may differ.

2) Getting the highest returns

Myth: "For the highest returns, buy unit trusts and funds managed by smart people."

Fact: These are called "actively-managed funds" and 95 per cent of the unit trusts in Singapore are actively managed. So are 100 per cent of hedge funds.

> *Quick**Quote***
> **The market can stay irrational longer than you can stay solvent.**
> John Maynard Keynes, 1883-1946

The thinking is that it's worthwhile to pay high management fees for high-priced talent to (i) pick the best stocks and (ii) decide when to buy and sell. (It's called stock-picking and market-timing.)

Incredibly, a mountain of studies show that even experts can't outguess the stock market. Even more incredible is no one seems to care or maybe they just don't know about the evidence. Sophisticated institutions, like pension funds and insurance companies, should understand but apparently they don't since they are the biggest buyers of managed and hedge funds. (I attribute it to the sales skills of the funds.)

The opposite are passively managed funds and we don't have as many of these, but the best are exchange-traded funds or ETFs. They are almost all index funds, and have low management fees. I find them to be the best deal in investing.

The problem is most of the ones in Singapore are US dollar ETFs and those are classified as specified investment products or SIPs, which require you to be qualified to trade them, usually by passing a test.

There are two Singapore dollar ETFs traded on the stock exchange which are not SIPs plus you can use CPF money to buy them. They are the SPDR STI ETF and the NIKKO AM STI ETF. Both track the 30 stocks in the Straits Times Index and you can buy them through any stock broker. (For the lowest commissions, use the broker's online trading.)

3) Buy and hold shares

Myth: "If you hold shares for the long run, you are sure to make money."

Fact: There is some truth to it, but the problem is the long run can be very l-o-o-o-ng. Take Japan. The Nikkei 225 stock index reached a high of 38,000 in December 1989. It now trades around 19,000. So, it still needs to double to get back to 38,000 and that is only to break even. To earn a reasonable return, like 5 or 6 per cent, will take even longer.

History tells us it will happen but it could take another 50 years. It seems irrational that Japanese stocks could have zoomed so high and then fallen so low. But don't fight the market. As the great economist, John Maynard Keynes said: "The market can stay irrational longer than you can stay solvent."

Dr Haverkamp is an economist and adjunct faculty member at Singapore Management University. In this weekly series, he shares simple tips on how you can make money work harder for you.