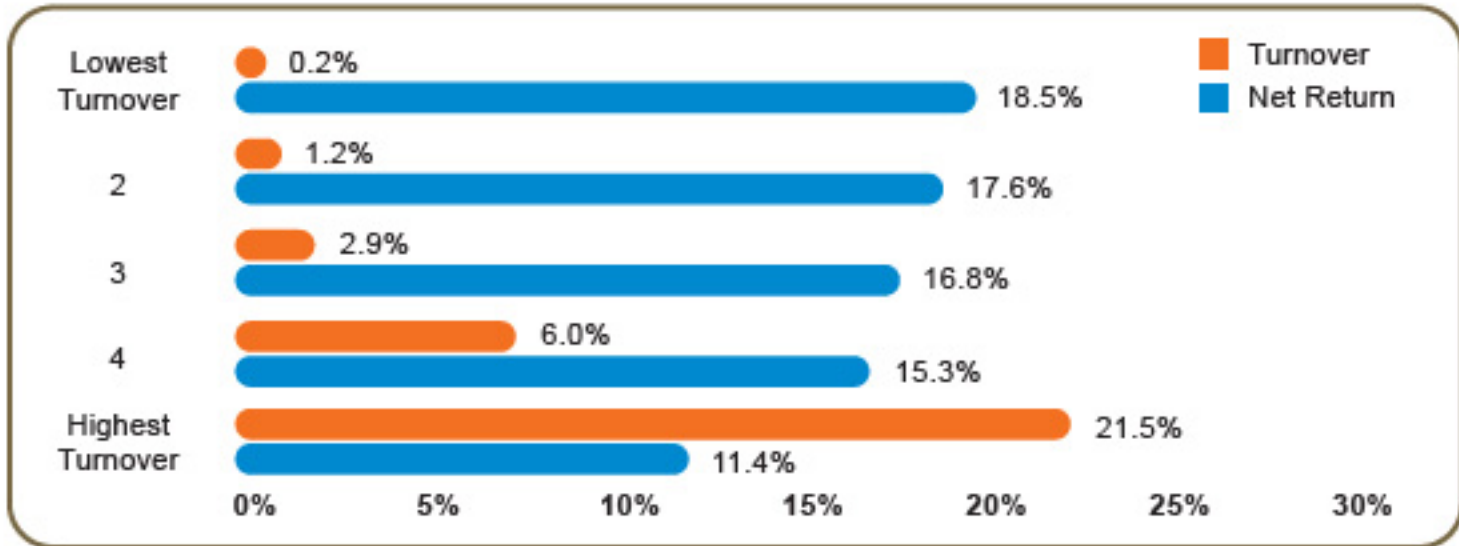


# Did you know?

## How to be a happy investor?

### \$ 1. Trading can be hazardous to your wealth

Did you know that according to studies, the more the trading (turnover), the LOWER the net return?



Source: Barber and Odean (2000)

### \$ 2. Investor Behaviour is Complex

- **Too optimistic** - they believe they can time the market
- Have **illusions** about their past performance - believe they gained more than they really did (on average +8% more, according to UCLA studies)
- Overconfident about ability to time the market - trade too much and end up **“buy high, sell low”**
- **Very sensitive to losses** - FEAR results - place their long term savings in cash accounts

### \$ 3. “Buy’n Hold” investment yields are higher than active trading: 1% to 2.5% MORE

Impact of too much trading vs “Buy’n Hold” is seen all over the world:

	“Buy’n Hold” investment returns %	Investor’s trading actual returns %	Difference
<b>Hong Kong</b>	13.5%	12.1%	1.4%
<b>Japan</b>	5.2%	2.7%	2.5%
<b>UK</b>	13.8%	12.7%	1.1%
<b>US</b>	11.5%	10.5%	1.0%

### \$ 4. Learn 3 Wisdoms on Investing and you will be a happier investor

Wisdom 1 - Invest with Long Time Horizon.

Wisdom 2 - Be Disciplined and Contribute Regularly – take the worry out of timing the market!

Wisdom 3 - Diversify Your Investments – don’t put all your eggs in one basket.

# Did you know?

## How to be a happy investor?

### 5. Research shows that you'll be *happier* if you focus on *long term investing* instead of short term fluctuations

- People look at their statements and returns far too often! Not healthy for your wealth!
- The **pain** of a loss is **twice** the **pleasure** of a gain
- We simply **hate to lose**, even small amounts  
(Source: Kahneman and Tversky (1979))

#### 1. focus on short term

First Round	Second Round	Hedonic Experience
+200	+200	😊
+200	-100	😞
-100	+200	😞
-100	-100	😞

Only happy if you wins all the times (not possible)

#### 2. focus on long term

First Round	Second Round	Total	Hedonic Experience
?	?	+400	😊
?	?	+100	😊
?	?	+100	😊
?	?	-200	😞

3 times happier if you focus on long term and ignore short term fluctuations

### 6. You will *worry less* if you are *disciplined and diversified* while not affecting your returns much in the long run

- The benefit of diversification in funds to reduce risks and increase returns has been well proven by the Nobel Prize winning "Modern Portfolio Theory" by Markowitz, Miller and Sharpe in 1990.
- The myth of perfect timing, the longer the time horizon, the more likely you guess wrong.

#### Disciplined versus Market timing in Heng Seng index

Invest HK\$ 50,000 every year in Heng Seng Index since 1987:

- **Lucky investor** invests every year in the monthend of the highest month.
- **Unlucky investor** invests every year on the last day of the lowest month.
- **Disciplined investor** invests every year on the last day of January (No Market timing).

Returns - Almost perfect market timing could only improve returns very slightly, but you risk losing a lot in the long run if you time incorrectly like the Unlucky investor.

Disciplined investing with dollar cost averaging can weather you through the ups and downs of the market with minimal efforts.

Years	Disciplined investor	Lucky investor	Unlucky investor
Timing of Investing	January Monthend	Highest Monthend	Lowest Monthend
5 Years	13.08%	16.91%	5.06%
10 Years	15.17%	17.20%	11.35%
15 Years	9.45%	10.65%	6.72%
20 Years	10.45%	11.28%	8.58%

\* Returns for 5 Years and 10 Years are average of 5 years and 10 years periods since 1987



#### Take the worry out of timing the market with **Dollar Cost Averaging**

- ✓ Contributing regularly to a savings program is a practice that is hard to fault. After all, timing can be your greatest ally when it comes to investing since the benefits of compounding can really pay off.
- ✓ By incorporating dollar-cost averaging as part of your long-term financial plan, you can get a head start on your savings today.