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"5W1H" FOR INVESTMENT

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Investment can be a daunting topic for some. There are some people who are fearful of investment because they associate investment to be being risky, difficult, confusing, time consuming & emotionally draining. However, with proper knowledge and understanding, one can improve their financial literacy to overcome the above; so as to better achieve their financial goals with investment, and make better investment decisions. Below is the "5W1H" (who, what, where, when, why, how) framework for investment that one can take reference to when comes to making such decision or planning.

1. WHY- WHY INVEST?

The most important thing to start or do anything is to know the "Why". As how Simon Sinek puts it, "Everyone has a Why. Your why is the purpose, cause or belief that inspires you. Knowing your why gives you a filter to make choices, at work and at home that will help you find greater fulfilment in all that you do" (1). Likewise for investment, one must first understand the purpose of investment and why they do investment.

According to the Cambridge dictionary definition (2), investment is "the act of putting money, effort, time, etc. into something to make a profit or get an advantage, or the money, effort, time", and there are many different reasons as to why people invest. Some of these reasons for people to do investment includes: wealth preservation to keep pace or beat inflation; tapping into power of compounding interest to accumulate more wealth & grow their money faster; or planning for a particular goal like retirement planning or children's education. Knowing the why and reason for investment also keep one to be focused, and less distracted by external factors. It is also important for one to know that investment is essential different from trading or speculation.

2.WHO - WHO SHOULD INVEST?

After knowing the "why", the next question to ask is "Who should invest?" Investment is in fact for everyone. Regardless of age, background, gender etc, everyone has their own "why" and reasons for investment. So long as there is this 'why" and reason to invest, people with money to invest should have their investment. However, everyone is unique and has different situations. Therefore it will be good for one to do some financial planning, needs analysis, risk profiling to understand their risk tolerance before investing.

In Singapore, there are also requirements before one can start in investment. Typically, it is about a person having the minimum age requirement, and being of sound financial status (not bankrupt). A person needs to be at least age 17 next birthday, before he/she is able to buy an investment plan. For shares investment, one has to be of at least age 18 to open a Central Depository (CDP) account, and at least age 18 or 21 (different requirement for different service provider) to open a trading account. Retail investors in Singapore will have to go through a Customer Knowledge Assessment (CKA) and Customer Account Review (CAR) with the financial institution service provider as part of the MAS requirement before investing in Specified Investment Product (SIP)

3. WHAT - WHAT TO INVEST?

This is a common question that most people will ask. Before deciding what to invest, it will be important to understand one's risk profile by doing a risk assessment & profiling and to understand the risk return trade off (whereby a higher risk level of risk is associated with potentially higher return); before eventually investing into something that is in line with their risk profile. Some of the more common asset class/product/instruments includes: money market instrument (like Treasury bills, banker acceptance etc); fixed deposits; bonds & fixed income; investment plans & products offered by financial institutions; funds & unit trust; stocks & shares; derivatives (options, future, and warrants etc); real estate investment trust (REITs) and real estate; commodities (gold, silver etc); peer to peer lending (P2P like crowdfunding etc); as well as private equities, venture capital or hedge fund which are usually only for accredited investors (3). By understanding & knowing if one is investing for capital gains or for dividend yield, it can also help one to decide in what asset class/product/instruments to invest in as well.

4. WHERE – WHERE TO INVEST?

There are many places that one can invest in, and there are many different service providers & platform that one can choose to do their investment with. In terms of places to invest, one can do their investment locally in Singapore into different investment with different service providers, or they can choose to invest in overseas market as well, like investing in the US equity market (NYSE, NASDAQ, S&P) etc. For overseas investment, it is important to be aware of the different laws, regulations, and taxation regimes / schemes that maybe applicable. Some of these may include like capital tax gain, estate duty etc.

In Singapore, there are many different service providers that one can choose from for their investment. An individual can start his/her investment by purchasing an investment linked product with a licenced financial practitioner (from different insurance company or financial advisory firm) or personal banker (or known as relationship manager) from different banks; unit trust and funds with licenced financial practitioner, banks, or online platforms like Fund Supermart & some robo-advisory platform; invest in certain investment products offered by banks & financial institution (eg structured product, dual currency etc); as well as equities listed on SGX and SIP through a brokerage firm either online or through a dealer. One can even subscribe to bonds (the Singapore Savings Bond) and shares of a company doing right issue or IPO via an automated teller machine (ATM) as well.

Regardless of where and what one chooses to invest, the most important thing to understand why they invest; understanding how these investment plans or investment works for them; understanding the risk, limitations, benefits & features of these investment; and being comfortable with whatever asset class/product/instruments they invest in and whichever service provider/platform and location choice of investment. It will be also good for investor to be wary and careful about investment scams; and also to check out if the service provider or companies are being listed on the MAS investor alert list.

5. WHEN – WHEN TO INVEST?

As the Chinese proverbs puts it: "The best time to plant a tree was 20 years ago. The second best time is now." This applies for investment as well. However, there is some preparation beforehand for one to start their investment. According to MoneySense (4), it will be good for one to ensure that they have "enough money for your daily expenses and other expected expenditure"; "enough cash for emergencies"; "basic health and life insurance policies in place" and "equip yourself with the necessary investing knowledge and information" before doing their investment. This is to ensure that one is ready for investment.

In addition, we sometimes hear of people often wanting to "buy low & sell high" when it comes to investment. Unfortunately, we are unable to foretell the future, and we do not know whether this point in time is a high or it is a low. Although there are signs, indicators, signals & reports to help one to understand where a high or low is, one is can never accurately predict this. As such, time in the market maybe better than timing the market. According to a Straits Times article (5), it is reported that "timing the market is a waste of time and money" and "investors should keep their core portfolios fully invested over time". There are also many research studies (6) to show that time in the market consistently outperform timing the market. However, it is important to have exit strategies & plans for one to exit their & sell off their investment as well. It is also better for one to start investment when once is younger. Given a longer time horizon, one can tap into the power of compounding to compound their investment returns and achieve better outcome & results through their investment.

6. HOW – HOW TO INVEST?

The last part of this "5W1H" framework is to know how to invest. After knowing the 5Ws, one can simply start to invest on his own, or they can engage professionals for advice & management by paying fees to start their investment. There are also many different investment strategies & approaches that one can use for their investment, and that is beyond the scope & coverage of this article. Some of these strategies & approaches includes: value investing, growth investing, contrarian investing, momentum investing, dollar cost averaging, arbitrage etc. But whichever strategies that one chooses, below are some "3Hs" pointers & suggestions for one to take reference while investing:

a. Have a "investment plan/ guide"

Regardless of which approaches or strategies that one chooses for their investment, the most important thing is to understand how these approaches or strategies works for them. Thereafter, it will be good to have an investment plan/ guide: to provide the overall direction and guidance while doing their investment. This investment plan should consists of: overall objective and goal (purpose, expected returns) for doing this investment; guidelines of doing investment; the risk management plan (what happens if market goes up & down, cut lost etc), and the various entrance & exit points & strategies as well. This needs not to be a written document, but it should serve the purpose of what an Investment Policy Statement (IPS) (7) does.

b. Have a diversified portfolio in their investment

As the popular idioms put it: "do not put your eggs in one basket". The same applies for investment as well. Different assets classes/instrument performs differently at different time, and with a well-diversified portfolio, it helps investors to reduce overall risk & volatility in their investment; as well as to smoothen out the returns in the long run.

c. Have regular review & Monitoring

It is also important to ensure that there are regular reviews & monitoring of investment as well. With this, it allows one to track & measure the performance of their investment; to decide on whether there is a need to rebalancing in their portfolio; cashing out and exiting on certain investments if they are overpriced; starting new investment into new areas that they want, so as to ensure that their investment are still in line with their financial goals & objectives.

In conclusion, I hope the "5W1H" is a useful framework for you to understand about investment; and it will be helpful in your investment journey. However, this article should only serves as a guide, and should not be taken as investment advice. Investment is an extensive and broad topic which entails more details that is beyond the scope of this article. It will be good for individual to take ownership: by getting themselves educated to learn more about investment through lessons or information & materials from trusted websites like MoneySense and those others by financial institution. It will be better that one can look for & work with a trusted and competent practitioner for this investment planning & discussion; so as to help them make better investment decision each time. With this, I wish you every success in your investment and HUAT ar!

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He holds the ChFC®/S, CLU®/S, IBFA and AEPP designations.

Notes:
1- Simon Sinek's quote in his podcast.
2- https://dictionary.cambridge.org/dictionary/english/investment
3- https://www.mas.gov.sg/-/media/MAS/News-and-Publications/Consultation-Papers/Annex-4--Part-III--Nonretail-investor-legis-amdmts.pdf
4- https://www.moneysense.gov.sg/articles/2018/10/what-is-investing
5- https://www.straitstimes.com/business/invest/timing-the-market-is-a-waste-of-time-and-money
6- https://www.schroders.com/en/uk/private-investor/insights/markets/time-in-the-market-not-timing-the-market-ftse/
& https://www.investopedia.com/articles/stocks/08/passive-active-investing.asp
7- https://www.investopedia.com/terms/i/ips.asp