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**ASK DR MONEY**

## **Stocks - your best long-run investment**

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**Q. My wife has made a terrible mistake with our share investments.**

**She took \$8,000 to buy eight counters in the most unusual way.**

**While feeding breakfast to our 3-year-old daughter, she put the stock pages under the cereal bowl.**

**She watched where on the pages milk or cereal dropped.**

**And purchased those counters, thinking those were lucky shares.**

**As our daughter spilt cereal and milk on SingTel, so we bought SingTel stock. We also got DBS, Informatics, Chartered Semiconductor - and four small companies I've never heard of.**

**I plan to sell those shares and buy others. What are good shares to buy?**

**A. My answer will probably shock you.**

I think your wife did well. Purchasing shares based on where your little daughter spilt her cereal is a good way to buy stocks.

That's because there is overwhelming evidence that stock prices move randomly.

You can't predict whether prices will go up or down in the short-run. So, buying one counter is just as good as buying another.

Harry Roberts, my former statistics lecturer at the University of Chicago, did a famous experiment in which he took a random event - flipping a coin - and plotted 200 flips.

Heads meant an upward movement on the chart, and tails meant down.

Then he took a stock, like IBM, and charted its price for 200 days.

Next, he submitted his random chart and the IBM chart to professional stock analysts and asked them to tell which was which.

Guess what? The pros couldn't tell the difference.

The chart of IBM prices looked almost exactly like the random chart.

**Conclusion: Stock prices move randomly.**

There have been many equally clever experiments which have come to the same conclusion.

Stock prices are determined by news affecting a company.

That news occurs randomly. Try as you may, you cannot out-guess the stock market in short-term trading.

That is why your wife's random method of selecting shares is a good one.

It diversified your portfolio into eight counters. That eliminates the risk of a single company doing poorly and wiping out your nest egg.

Unit trusts also provide diversification, but they charge fees for their service.

Remember - if using CPF funds - while you can use only 35 per cent of your Ordinary Account (OA) to buy shares, there is no OA limit for purchase of unit trusts.

Another tip: It is nearly impossible to predict how the stock market will perform in a week, a month, or even a year.

Ironically, it is easy to predict over a longer period. Over the past 200 years, the US stock market has averaged annual returns of 10 per cent.

In Singapore, we can expect an even higher return because Singapore specialises in high-tech industries, and our region has a higher growth rate.

This adds another 5 per cent, so expect average annual returns of 15 per cent in the Singapore stock market over 20 years.

One last note: Not only is 15 per cent a good return, it is the best you can get.

In the long-run, stocks will out-perform all other investments - such as fixed deposits and bonds.

Real estate is an exception and it will match the 15 per cent yearly return of stocks. But real estate suffers from 'illiquidity' - it is difficult to sell quickly.

You can cash out of stocks at a moment's notice.

They are your best investment for the long-run.