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ASK DR MONEY

Your five easy investment rules

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HERE'S a question on everyone's lips: **Is it too late to jump into the stock market?**

After all, the Singapore market has risen 30 per cent since the beginning of the year.

I tell people who ask me that question: 'There is no time like the present. Buy now!'

Did you know you can expect the stock market to double every 6 years, which is the same as earning a 12 per cent yearly return?

Since we are a newly-industrialised nation AND our companies are mostly high-tech, Singapore shares should post even higher long-run returns.

It is reasonable to expect those two factors to add another 3 per cent - increasing returns to 15 per cent per year.

At 15 per cent, your money will double every 4.8 years!

Despite the 30 per cent rise since Jan 1, you haven't missed out. If you invest now, you can make it up quickly in the years ahead.

Many people ask me: 'Can I make even more if I buy low and sell high?'

HERE'S WHAT WORKS

Yes, you can. But studies have shown this is not easy and probably impossible.

If that doesn't work, what does?

Here are five easy investment rules which a mountain of studies show have worked every time:

Rule 1: It is not easy to pick market tops and bottoms, so buy now.

It is like when you are out fishing. You are better off simply dropping your line in the water where you are, instead of looking forever for an ideal spot.

Rule 2: Buy liquid investments that allow you to cash out in an emergency. But try to hold them for the long-term.

That is because trading in and out doesn't work and no one knows when the market will suddenly zoom higher.

Here's an amazing fact: 80 per cent of market gains have occurred in only 5 per cent of trading days.

But no one knows when one of the 5 per cent boom days will come along.

So it's better to stay invested in the market so as not to miss out on a boom day.

Rule 3: Diversify by buying a unit trust, ILP (Investment-Linked Product) or ETF (Exchange-Traded Fund).

You can use up to 100 per cent of your CPF ordinary account money for these investments, while you can use only 35 per cent of your CPF to purchase individual shares.

Rule 4: Diversify through dollar cost averaging. That means, don't make all your purchases at once, but do it over time.

For example, you might buy 10 per cent of your Unit Trust purchases this month, 10 per cent next month - and keep doing that over the next 10 months.

A great way to dollar cost average is through regular savings plans.

Most unit trusts have such plans. Some allow you to GIRO as little as \$100 per month from your bank account to buy more of a unit trust.

Most insurance companies also allow you to purchase investment-linked products (ILPs) through regular savings plans.

CAUTION!

Rule 5: Caution! If you buy an ILP with a regular savings plan, there are two types: **(i)** the good and **(ii)** the bad.

The difference is the commissions charged, with the good ones being low and the bad ones extremely high.

* There are two ways to tell the good from the bad. One is to study the insurance documents, which are complex.

The other is to simply ask your insurance agent or financial planner: 'Can I use my CPF funds to purchase this policy?'

If the answer is 'no', then watch out! You are about to make a big investment mistake. Politely say goodbye.

Then run - don't walk - in the opposite direction!

If the answer is 'yes', then it is the good kind of ILP with low commissions.

Consider buying it.

The CPF Board permits use of CPF money ONLY to purchase low-commission ILPs.