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ASK DR MONEY

Good, bad and ugly investments

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HERE is everything you need to know about investments. With higher risk comes higher returns - usually.

The 'usually' qualifier is important!

Some investments are above average and give you high returns with little risk.

Others are below average and give you low or negative returns while requiring you to take big risks.

To be a successful investor, you must distinguish between the good, bad and ugly investments.

TEST YOURSELF

Here is a list of 15 common investments.

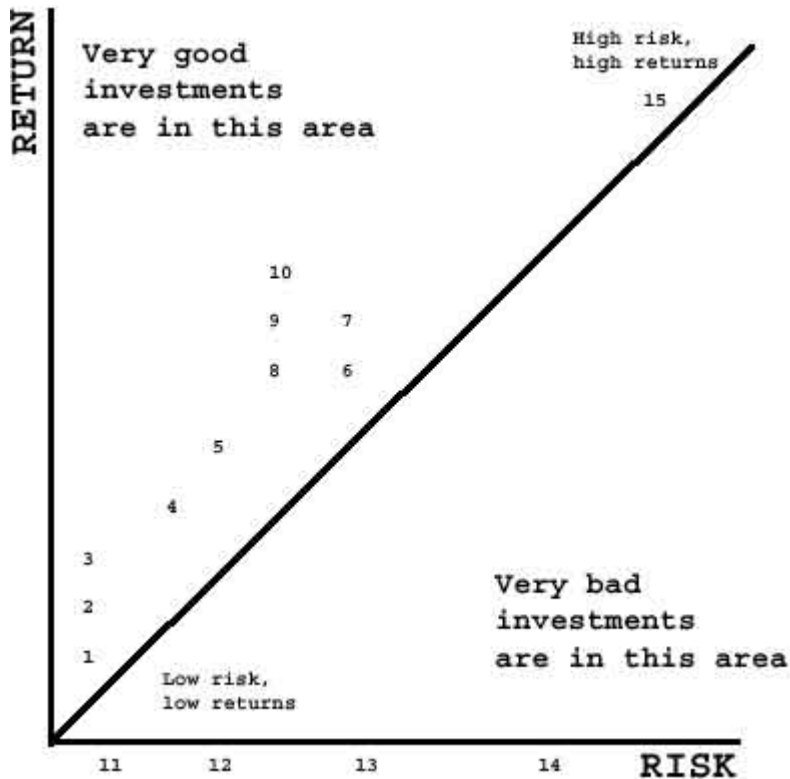
Match the number from the risk-return graph to the name of the investment.

If you're not sure, take a guess!

- a. Cash.
- b. Current Account.
- c. Fixed Deposit.
- d. Guaranteed fund.
- e. Bond fund.
- f. Real estate - One flat.
- g. Single share of stock.
- h. REIT (Real Estate Investment Trust).
- i. Unit Trust or ILP (Insurance-Linked Product).
- j. ETF (Exchange Traded Fund).
- k. Regular premium life insurance policies. (These are the high-commission policies which take as long as 20 years to break even. The CPF Board requires these policies be purchased with cash and not CPF funds.)
- l. Short-selling a stock.
- m. All derivatives except ETFs. (Examples: Futures, options and many hedge fund investments.)

- n. All 'investments' made through Singapore Pools and Turf Club.
- o. Becoming an entrepreneur and starting your own business.

To make it easy to mark your score, I made the letters correspond with the numbers.
So, a = 1, b = 2, c = 3 and so on.



How did you do?

If you got them all correct, you are probably a successful investor already.

If you got some wrong, that's okay.

To become a great investor, review the correct answers!

- **The graph shows that in the long-run you will make more money from investing in risky assets. The higher return is your payment for taking risk.**
- **Investments in the upper left of the graph are very good because they have high returns with low risk. Investments in the lower right are bad because they have low returns with high risk.**

- **Some investments fall below the horizontal line. That indicates that over a five-year period, you can expect to lose money.**

NOTE:

1. There is one more important variable not shown in the graph: 'liquidity.'
2. I have held liquidity constant by assuming a time horizon of five years. 2. The expected return is 0 for derivatives (except ETFs) and gambling (such as 4-D). Including commission, fees and taxes makes the return negative.