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Differently Different

"Be fearful when others are greedy. Be greedy when others are fearful."

This is the famous saying by Mr Warren Buffett – arguably the most successful investor of our generation – that underlines his philosophy towards value investing. Value investing is an approach that generally involves buying stocks that are priced below their value, a result due to the irrational behaviour of investors. Our June 2015 Unicorn 1200 Education Series titled "*Price and Value*" discussed the above in greater detail.

Value investors make good contrarians.

Investopedia defines 'Contrarian' as *an investment style that goes against prevailing market trends by buying assets that are performing poorly and then selling when they perform well.* [1]

So is contrarian investing as simple as just doing things differently from others?

Let's consider the scenario below:

You have a significant bonus pay-out for your years of contribution to your company, and are thinking of making this sum of money work harder for you by investing in the equity markets.

A stock that you've always been keen on buying suddenly plummets to a historical low because the media has been reporting on how the company is performing badly.

In the light of the above, will you still buy the stock?

If your reply is "No" or "I'll wait and see", it is a common response and is why contrarian investing sounds simple, but is not easy to execute. This boils down to the impact our **emotions** have on our investing decisions. Granted, there are other factors that can affect our decisions not to invest in the stock. But our emotions, more often than not, are the main reason we react differently to a contrarian.

Your emotions often overpower your rational thinking -- particularly during stress; stress that is a result of euphoria or fear. [2] And these are usually caused by the media or "inside information" from your family and friends. They are often the main influence on your emotions.

In our May 2015 Unicorn 1200 Education Series on "*Does Volatility Equate Risk*", we mentioned that managing your emotions is akin to taking a roller coaster ride. The key is to ride through the volatility that swings your emotions, with the aim of eventually arriving at your destination safely.

So how can you take your emotions out of investing?

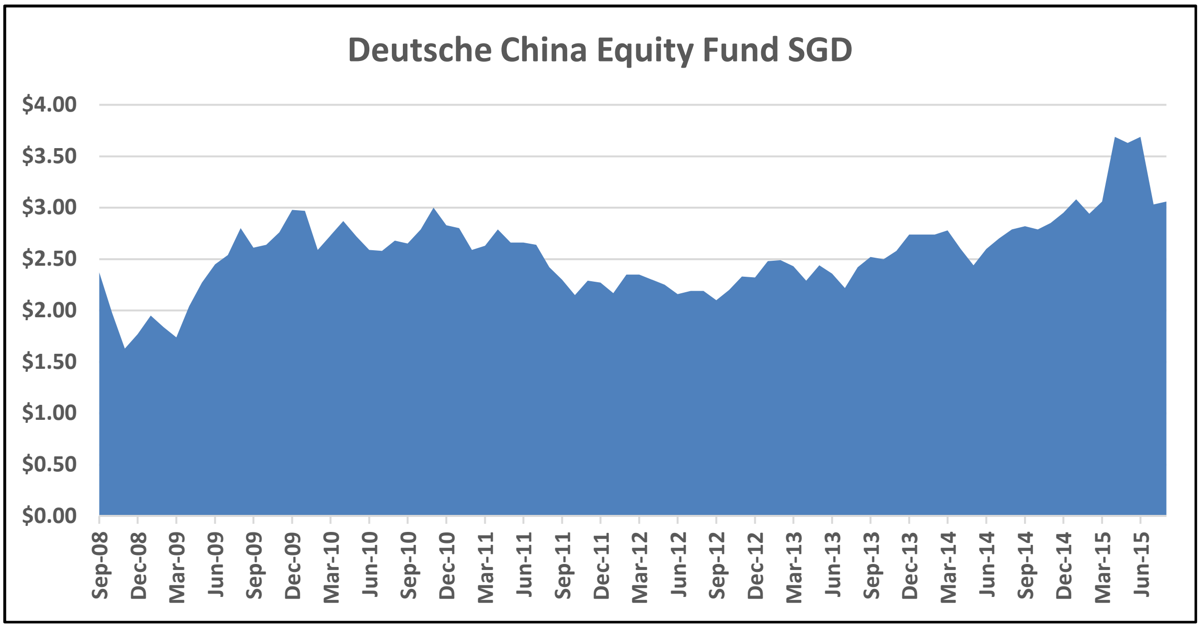
One strategy that we advise you to adopt is Dollar-Cost Averaging.

According to Benjamin Graham, the father of value investing[3] and one of the most important influences in Mr Buffett's investing life, this is a strategy that involves the *putting of a fixed amount of money into an investment at regular intervals*. This could be done every week, month or calendar quarter, where you buy more, regardless of whether the markets have gone (or are about to go) up, down, or sideways. [3]

Dollar-Cost Averaging helps you to manage and benefit from volatility while ensuring a contrarian style of investing. By creating a system that regularly invests into the market, you have removed the emotions that are attached to your attempt to second guess the direction of where the market is heading. When you have in place such a permanent autopilot system or portfolio, you have adopted what Mr Graham calls '*the most powerful response a defensive investor could ever have*', which is 'I don't know and I don't care'.[3]

Let's take a look at an example of a practical application.

In September 2008, we advised our clients to park 30% of their portfolio into China equities as shared in our previous issue titled "*Unicorn's Past Investment Calls*". The historical average price chart of one of our recommended funds -- Deutsche China Equity Fund SGD -- is shown below.



[4]

"From September 2008 to August 2015, if you had invested $1,000 into this fund every month, the total outlay of $84,000 would have grown to almost $99,700, this despite the volatility experienced during the subprime mortgage crisis in 2008, the Europe debt crisis in 2010, and growth uncertainties within the Chinese economy during the time period." [4]

(This is for general information only and should not be used as a basis for making any specific investment, business or commercial decisions. Past performance is not necessary indicative of future performance.)

You have seen how the strategy of Dollar-Cost Averaging has helped overcome your emotions by systematically buying into the market regardless of the market situation. This would have allowed you to benefit from market fluctuations, which Mr Buffett advocates you to see as your friend, not your enemy; and to profit from folly rather than participate in it.[5]

However, you should note that the right strategy, applied to the wrong asset(s), could still derail your investment plans. As the great Chinese philosopher Lao Tse reminded us in Tao Te Ching, "A journey of a thousand miles begins with a single step" (千里之行，始於足下). **You need to ensure that this first step is in the right direction through the selection of appropriate assets.** Our Investing Committee (INVESCO) does this for you. Every piece of research and analysis that is presented to INVESCO is subjected to stringent evaluation. We only recommend to you investments that we would recommend to ourselves. We invest alongside you.

In Unicorn, we help you to invest strategically and tactically and we believe your investment portfolio has to be catered to meet your specific need(s). Most importantly, with the knowledge of current economic conditions and armed with the strategy of Dollar-Cost Averaging, you can now focus on how you to position your portfolio to capture opportunities ahead.

Reflections

1) Looking back at your investment decisions, were there any instances where you were "influenced" by market "noises"?

2) On hindsight, how could some of these decisions be handled better?

3) What are the lessons you have derived from how your emotions influenced your investment decisions?

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[1] http://www.investopedia.com/terms/c/contrarian.asp

[2] http://www.investopedia.com/articles/basics/10/how-to-avoid-emotional-investing.asp

[3] The Intelligent Investor, Benjamin Graham

[4] https://funds.deutscheawm.com/sg/Products/Fund/3130/Performance

[5] Why Market Volatility Is Your Friend
http://www.forbes.com/sites/johnbuckingham/2015/01/29/why-market-volatility-is-your-friend/

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