

# Investing Talk for Autodesk Team

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**COMPOUNDER FUND**  
GROWING YOUR WEALTH AND ENRICHING SOCIETY

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# Introduction

- Hello! I'm Ser Jing
  - Co-founded Compounder Fund in May 2020 with Jeremy Chia
  - Compounder Fund = An investment fund that invests in stocks around the world
  - At The Motley Fool Singapore, Jan 2013 - Oct 2019
  - Also write a blog with Jeremy called *The Good Investors* ([thegoodinvestors.sg](http://thegoodinvestors.sg))

# Introduction

- Today's topics:
  - Investing in stocks (What are stocks; and what is active vs Passive investing)
  - Thinking about an asset allocation plan with stocks
  - Useful resources
  - AMA-session
- **NOTE: I'm trying to cover a lot of ground, so much of what I say may be an oversimplification**

# Investing In Stocks (what are stocks)

- What are stocks? In essence, a stock represents part ownership of a business
- Eg: If you own 1 share of Autodesk, you are a part-owner of the company, along with all of Autodesk's other shareholders

# Investing In Stocks (historical return)

Figure 2

## Long-run emerging and developed market returns, 1900–2013

Source: Elroy Dimson, Paul Marsh and Mike Staunton using data from DMS database, MSCI Barra, and S&P/IFCG



Source: [Credit Suisse](#)

# Investing In Stocks (passive investing)

- Theoretically, passive investing = investing in **every stock available in the world** (because you're not choosing anything, it's "passive")
- Practically, passive investing = investing in funds that track stock market indexes that in turn track the price-movement of a wide basket of stocks

# Investing In Stocks (passive investing)

- Popular market indexes: For global market, *MSCI World Index* (~1,500 stocks around the world); for US market, *S&P 500* (~500 stocks in the USA); for Asia, *MSCI AC Asia Pacific Index* (~1,500 stocks across Asia Pacific); for Singapore, *Straits Times Index* (30 stocks in Singapore)
- **Food for thought:** If you're selecting an index that tracks only a few countries or one country, is that really passive?



# Investing In Stocks (passive investing)

- Funds that track indexes are known as index funds
- Index funds can take **two forms**: (1) Mutual Funds, which are nearly equivalent to Unit Trusts in the Singapore context; and (2) Exchange-Traded Funds, or ETFs

# Investing In Stocks (passive investing)

*Key similarities and differences between the two forms of index funds*

	Index Fund (Mutual Fund)	Index Fund (ETF)
<b>What they track</b>	Stock market indexes	Stock market indexes
<b>Where are they listed?</b>	Nowhere	On major stock exchanges
<b>How do investors invest in them?</b>	Contact a financial institution that offers the mutual fund for sale	Buy it as you would any other stock on a stock exchange
<b>How often can investors buy/sell</b>	Once a day	Every second when the stock market is open

# Investing In Stocks (active investing)

- Active investing = picking only a select-group of stocks based on certain criteria of your choosing
- Popular forms of active investing include:
  - Picking stocks based on their financials and business fundamentals (**Fundamental analysis**)
  - Picking stocks based on their past price movements (**Technical analysis**)

# Investing In Stocks (active investing)

- Technical analysis = I don't know anything about it, and I've not seen any evidence that it works, so I'm skipping it ([study](#) done on over 5,000 technical trading signals show they're not consistently profitable)
- Fundamental analysis = Determining the “intrinsic value” of a stock's underlying business by studying its financial and other characteristics

# Investing In Stocks (active investing)

- In fundamental analysis, valuation is important
- Valuation is thinking about the intrinsic value of a stock's underlying business
- Two main ways to value stocks:
  - Absolute valuation = calculate discounted cash flows
  - Relative valuation = compare the valuation ratios of stocks (valuation ratios = dividing a stock's price by metrics such as its earnings, revenues etc.)

# Investing In Stocks (active investing)

- Popular forms of active investing based on fundamental analysis include:
  - Value investing = picking stocks with low valuation ratios
  - Growth investing = picking stocks that are perceived to have bright growth prospects in their businesses

# Investing In Stocks (active investing)

- In my fund, I look for businesses with bright growth prospects and I focus on six traits:
  - Be in large and/or growing markets
  - A strong balance sheet with more cash than debt
  - A management team with integrity, capability, and ability to innovate
  - High levels of recurring revenues (from customer behaviour, or contracts)
  - Proven track record of growth
  - High chance of being able to generate strong free cash flow in the future

# Investing In Stocks (active vs passive)

- Pros and cons with active and passive investing:
  - Active gives potential for higher returns, but requires a lot of commitment from you in learning about businesses, valuation techniques, and keeping up with business developments
  - Passive means you'll earn market returns (less a small fee from the index fund you're using), but you can spend much lesser time on it



# Asset Allocation

- Put simply, asset allocation = maintaining the percentage of different asset classes in your portfolio
- Commonly-accepted asset classes = cash; stocks (also known as equities); bonds; real estate; commodities (mostly gold)

# Asset Allocation

Country	Annualised nominal equity return (1900 - Jul 2020)	Annualised nominal bond return (1900 - Jul 2020)
Australia	11.6%	6.2%
France	10.3%	5.6%
Hong Kong	14.1% (since 1971)	4.4% (since 1999)
Italy	7.5% (since 1971)	10.0% (since 1971)
Japan	9.8%	5.8%
United Kingdom	8.4%	5.1%
United States of America	9.6%	4.7%

Source: [Deutsche Bank](#)

# Asset Allocation

USA asset classes	Annualised nominal equity return (1900 - Jul 2020)
Equity	9.6%
Bond	4.7%
Housing	3.5%
Gold	3.8%
Copper	2.3%
Oil	2.7%

Source: [Deutsche Bank](#)

# Asset Allocation

- Allocating your capital to different asset classes helps reduce volatility (the up/down swings in prices), but could also lower return
- Eg: 60/40 portfolio (60% US stocks and 40% US bonds) returned **8.1% annually over past 91 years** as of late-2019; an all-stocks portfolio (100% US stocks) returned **9.5% per year**. But, 60/40 portfolio had **40% less volatility compared to all-stocks portfolio**

# Asset Allocation

- When thinking about asset allocation, key is to group un-correlated asset classes together
- Important to note that in an asset allocation model, there will **likely always be certain asset classes that are not performing well when others are doing well - it's a *feature* of asset allocation**

# Useful Resources (NOT advice, just my 2 cents)

- To conveniently outsource passive investing and asset allocations:
  - Roboadvisors in Singapore such as MoneyOwl ([moneyowl.com.sg](https://moneyowl.com.sg)), Endowus ([endowus.com](https://endowus.com)), AutoWealth ([autowealth.sg](https://autowealth.sg))
- To DIY passive investing and asset allocations:
  - Use low-cost brokers to buy exchange-traded funds in the US stock market that track broad stock market indexes or bond market indexes (ETFs in the US stock market can be tracking international indexes too)
  - Low-cost brokers operating in Singapore include Interactive Brokers ([interactivebrokers.com](https://interactivebrokers.com)); Standard Chartered ([sc.com/sg/wealth/investment/online-trading/](https://sc.com/sg/wealth/investment/online-trading/)); Saxo ([home.saxo/en-sg](https://home.saxo/en-sg))

# Useful Resources (**NOT** advice, just my 2 cents)

- To learn how to DIY active investing (sources of research):
  - Motley Fool ([fool.com](https://www.fool.com))
  - Smart Investor ([thesmartinvestor.com.sg](https://thesmartinvestor.com.sg))
  - Warren Buffett's annual shareholder letters ([berkshirehathaway.com/letters/letters.html](https://berkshirehathaway.com/letters/letters.html))
- To learn how to DIY active investing (investment courses):
  - Fifth Person ([investmentquadrant.com/](https://investmentquadrant.com/)) → *registration closing soon!*

**(DISCLOSURE: I have no economic interests in any of the organisations mentioned above - some of them are my friends, though!)**

# THANK YOU!

*Now, Ask Me Anything!*

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