iFAST Global Markets Virtual Symposium - Strategies to Build Wealth During the Bear Market

Dangerous Stock Market Myths For Any Market

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Introduction

- Hi, I’m Ser Jing!
- Launched Compounder Fund in July 2020 with Jeremy Chia
- Also write an investment blog with Jeremy called *The Good Investors* (thegoodinvestors.sg)
- Was at The Motley Fool Singapore, Jan 2013 - Oct 2019

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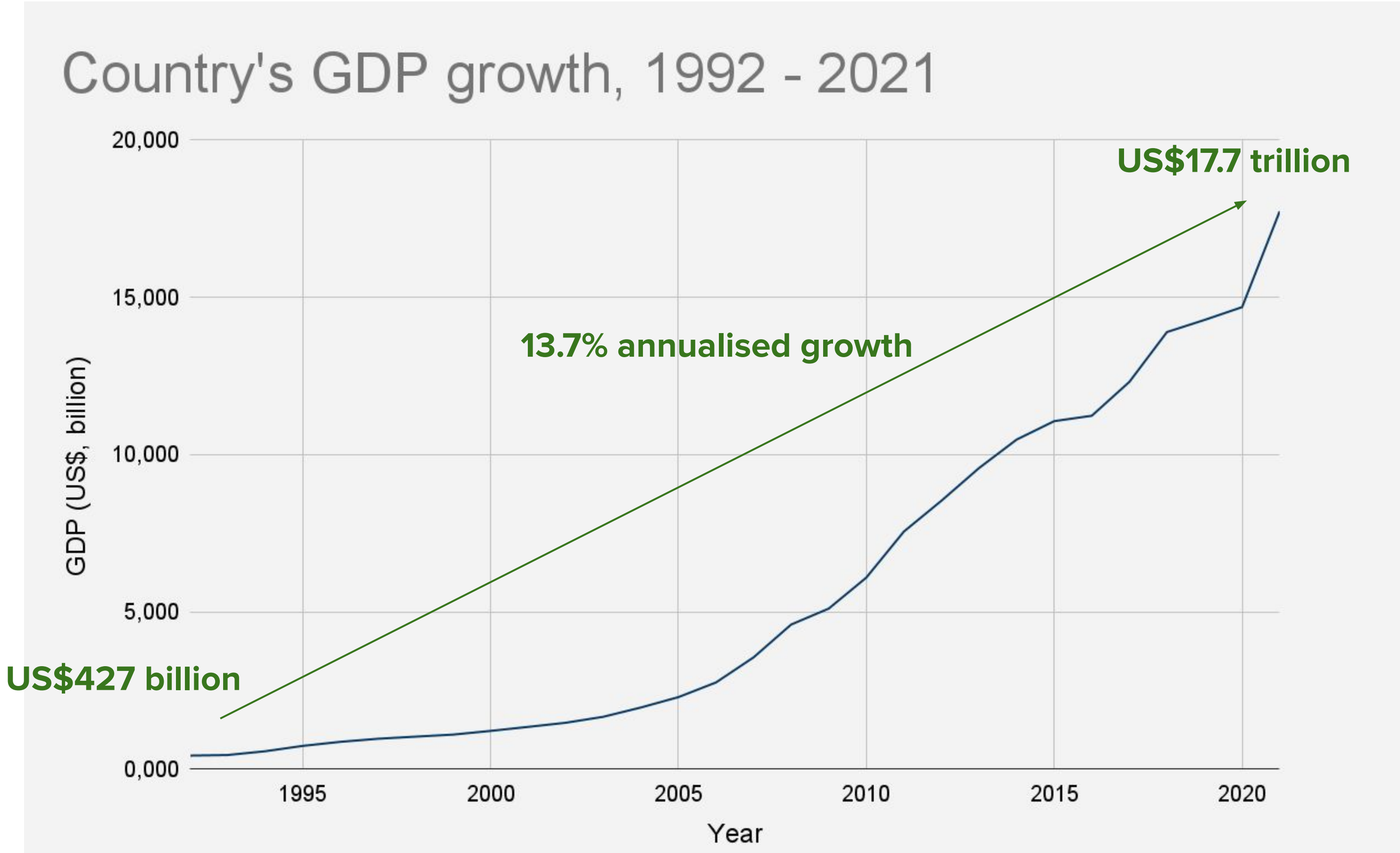
Myth #1

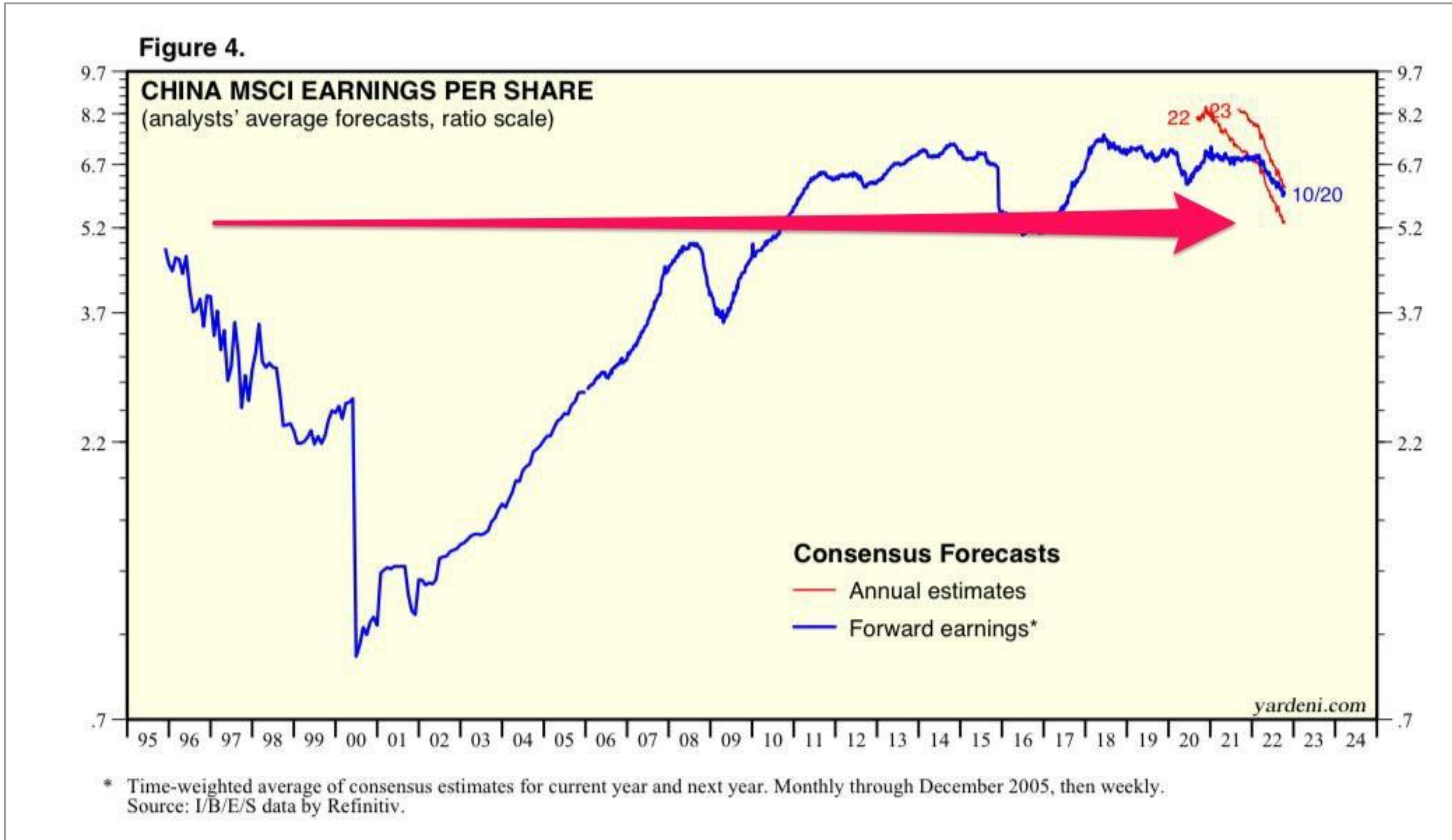


Source: [World Bank]

Myth #1

Source: [Duncan Lamont]

Myth #1



Source: [Eugene Ng]

Myth #1

- **Myth #1: A country's stock market will definitely do well if its economy is growing robustly**

- **Lesson: The gap between a favourable macroeconomic trend and the movement of stock prices can be a mile wide**

Myth #2

September 2005
Price of gold = A$620

+10% per year

September 2015
Price of gold = A$1,550

Myth #2

September 2005
Price of gold = A$620

+10% per year →

September 2015
Price of gold = A$1,550

September 2005
S&P/ASX All Ordinaries Gold Index = 3,372

-4% per year →

September 2015
S&P/ASX All Ordinaries Gold Index = 2,245

Myth #2

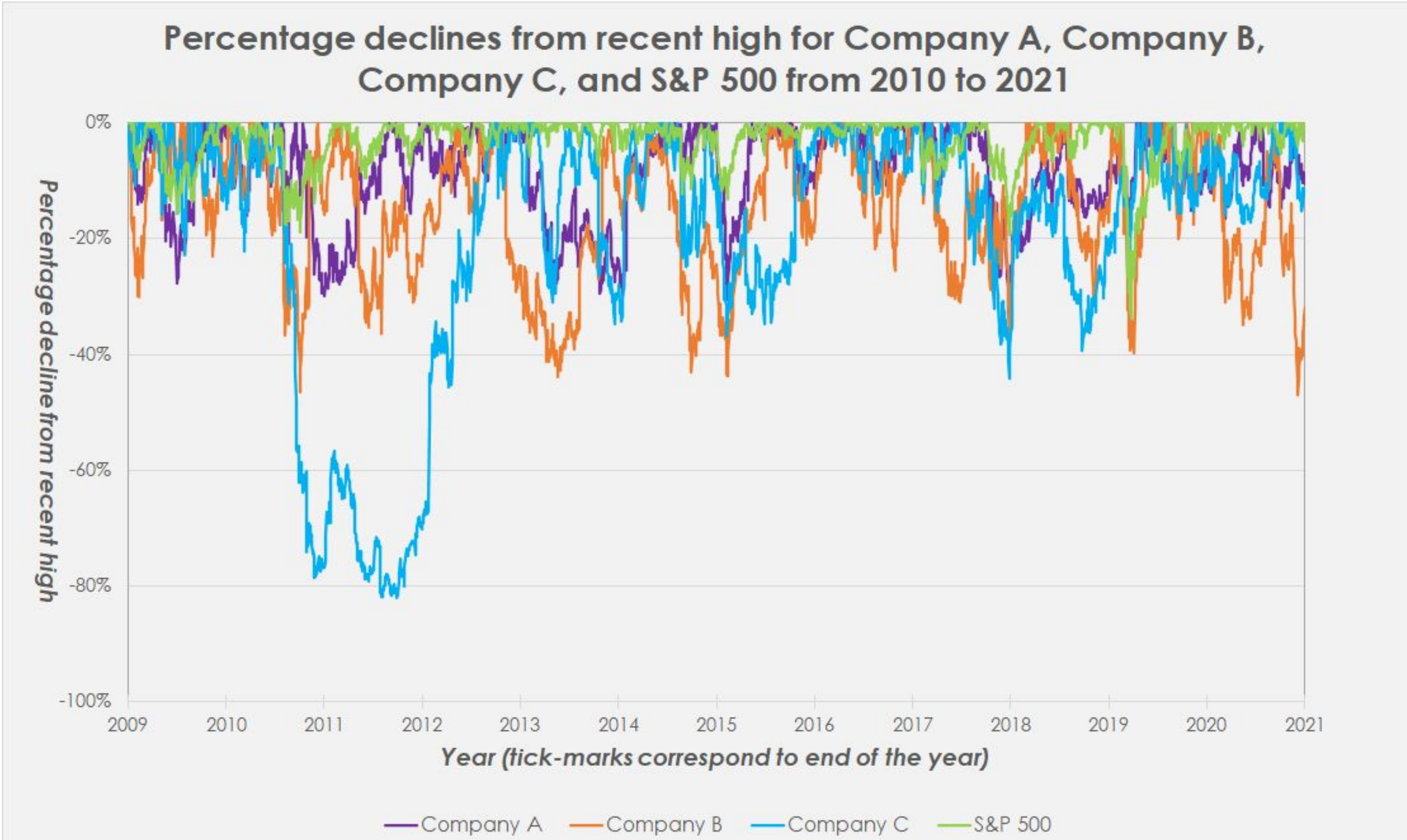
- **Myth #2: We should invest in a commodity producer’s stock if we’re sure the commodity’s price will rise**

- **Lesson: The gap between a favourable macroeconomic trend and the movement of stock prices can be a mile wide**

Myth #3

- **Two groups of companies in 2010 - which would you prefer to invest in?**

Myth #3



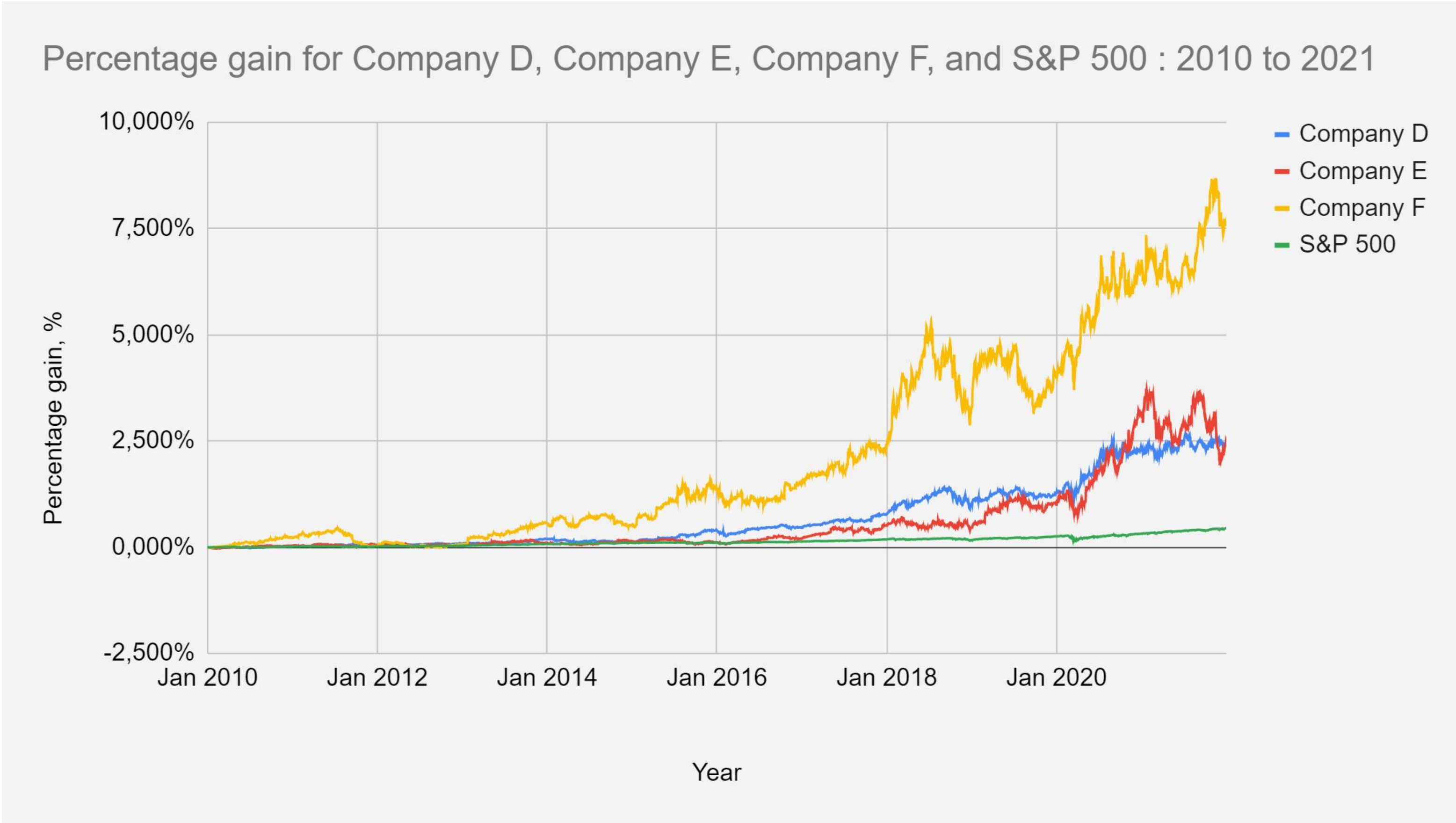
Source: Yahoo Finance

Myth #3

Company	Return from start of 2010 to end of 2021	Revenue growth from 2010 to 2021
Company D	2,380%	2,011%
Company E	2,500%	4,500%
Company F	7,557%	1,793%
S&P 500	443%	-

Source: Yahoo Finance

Myth #3



Source: Yahoo Finance

Myth #3

- Surprise! Both groups are the same companies
- Company A and Company D = Amazon
- Company B and Company E = MercadoLibre
- Company C and Company F = Netflix

Myth #3

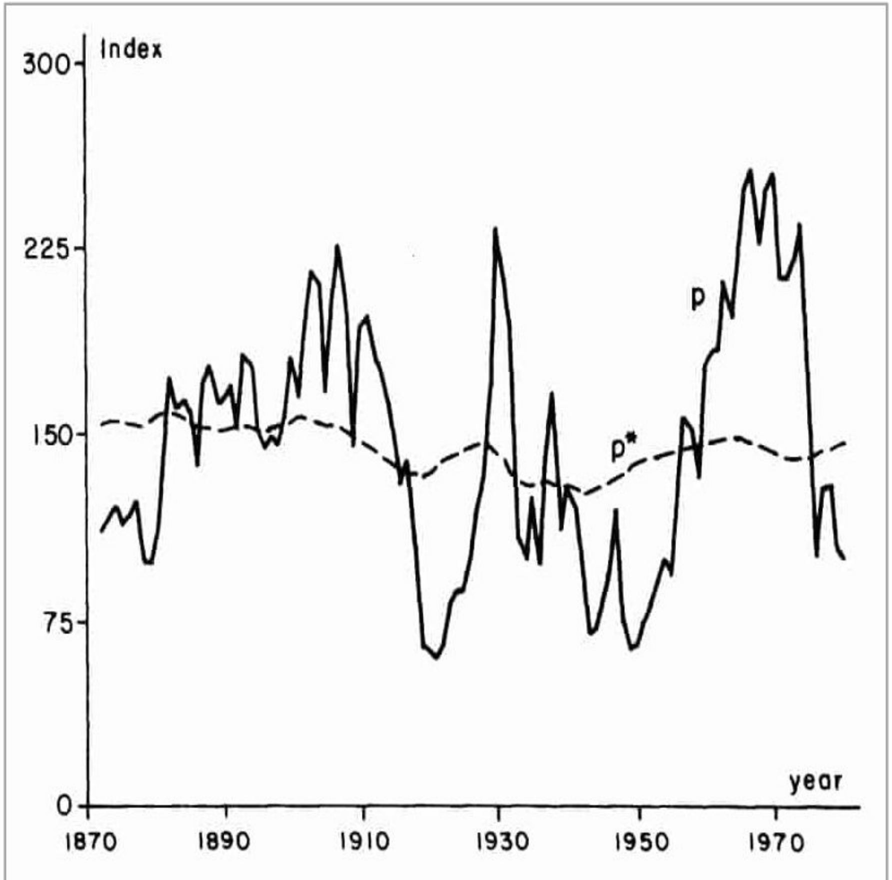
- **Myth #3: Long-term winners in the stock market are very comfortable to own on their way up**
- **Lessons:**
  - **Volatility in the stock market is a feature, not an anomaly**
  - **The route to huge gains in the stock market is like a sickening roller-coaster**

Myth #4

Year	S&P 500 return (including dividends)	Amazon return (including dividends)	Mercado-Libre return (including dividends)	Netflix price return (including dividends)	Amazon revenue growth	Mercado-Libre revenue growth	Netflix revenue growth
2010	15.1%	33.8%	28.5%	218.9%	39.6%	25.4%	29.5%
2011	2.1%	-3.8%	19.3%	-60.6%	40.6%	37.9%	48.2%
2012	16.0%	44.9%	-1.2%	33.6%	27.1%	25.0%	12.6%
2013	32.4%	59.0%	37.2%	297.6%	21.9%	26.5%	21.2%
2014	13.7%	-22.2%	18.4%	-7.2%	19.5%	17.8%	25.8%
2015	1.4%	117.8%	-10.4%	134.4%	20.2%	17.1%	23.2%
2016	12.0%	10.9%	36.6%	8.2%	27.1%	29.6%	30.3%
2017	21.8%	56.0%	101.5%	55.1%	30.8%	44.1%	32.4%
2018	-4.4%	28.4%	-6.9%	39.4%	30.9%	18.3%	35.1%
2019	31.5%	23.0%	95.3%	20.9%	20.5%	59.5%	27.6%
2020	18.4%	76.3%	192.9%	67.1%	37.6%	73.0%	24.0%
2021*	28.7%	2.4%	-19.5%	11.4%	27.6%	95.6%	19.8%

Source: Yahoo Finance

Myth #4



1871 - 1979

S&P 500 dividend growth
+2,073%

S&P 500 price growth
+2,328%

Source: Robert Shiller ([here]() and [here]())

Myth #4

- Myth #4: If a stock's underlying business does well every year, the stock's price will also do well each year

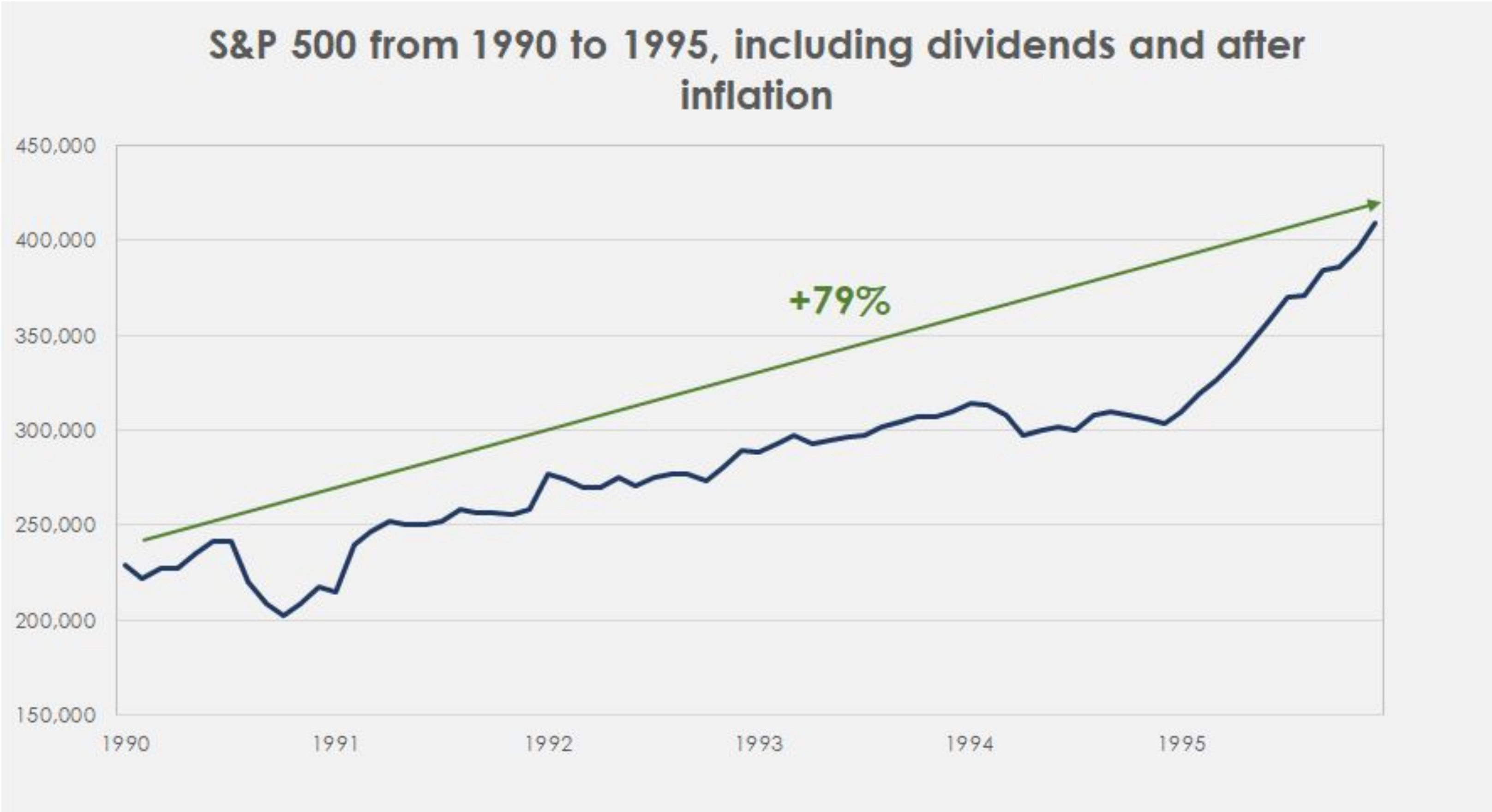
- Lesson: A company's stock price can make your stomach churn in the short-run even if its business is doing well; but in the long-run, stock prices and business fundamentals do converge

Myth #5

- In 1990, the USA entered a recession (July) and fought a war in the Middle East (August), and the price of oil spiked (August)

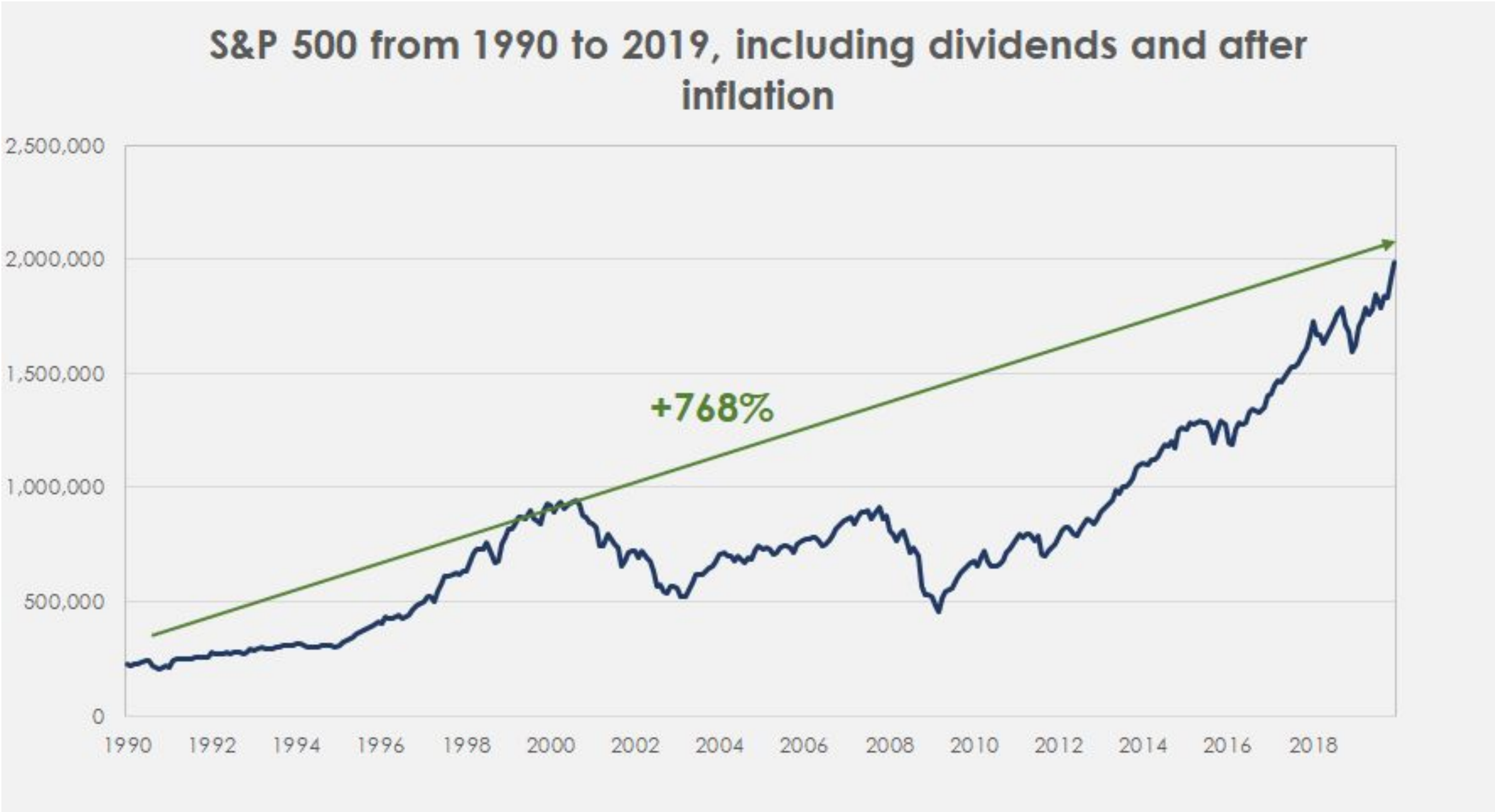
- How do you think US stocks did over the next 5 years and next 30 years?

Myth #5



Source: [Robert Shiller]

Myth #5



Source: Robert Shiller

Myth #5

Year	Events	Year	Events	Year	Events	Year	Events
1990	Persian Gulf War; oil spike; US recession	1998	Russia defaults on debt; LTCM hedge fund meltdown; Clinton impeachment; Iraq bombing	2006	North Korea tests nuclear weapon; Mumbai train bombings; Israel-Lebanon conflict	2014	Oil prices collapse
1991	USSR breaks up; real estate down turn	1999	Y2K panic; NATO bombing of Yugoslavia	2007	Iraq war surge; beginning of financial crisis	2015	Euro currency crash against Swiss Franc; Greece defaults on loan to ECB
1992	Los Angeles riots; Hurricane Andrew	2000	Dot-com bubble pops; presidential election snafu; USS Cole bombed	2008	Oil spikes; Wall Street bailouts; Madoff scandal	2016	Brexit; Italy banking system crisis
1993	World Trade Centre bombing	2001	9/11 terrorist attacks; Afghanistan war; Enron bankrupt; Anthrax attacks	2009	Global economy nears collapse	2017	Bank of England hikes interest rates for first time in 10 years
1994	Rwandan genocide; Mexican peso crisis; Northridge quake strikes Los Angeles; Orange County defaults	2002	Post 9/11 fear; recession; WorldCom bankrupt; Bali bombings	2010	European debt crisis; BP oil spill; flash crash	2018	US-China trade war
1995	US government shuts down; Oklahoma City bombing; Kobe earthquake; Barings Bank collapse	2003	Iraq war; SARS panic	2011	Japan earthquake; Middle East uprising	2019	Australia bushfires; US president impeachment; Wuhan coronavirus
1996	US government shuts down; Olympic park bombing	2004	Tsunami hits South Asia; Madrid train bombings	2012	Speculation of Greek exit from Euzorone; Hurricane Sandy		
1997	Asian financial crisis	2005	Hurricane Katrina; London terrorist attacks	2013	Cyprus bank bailouts; US government shuts down; Thai uprising		

Source: Morgan Housel

Myth #5

- Myth #5: Stocks can only do well in peaceful times

- Lesson: Uncertainty is always around, and disasters are always happening, but we should still carry on investing

Myth #6

- The great Peter Lynch: **29% annual return from 1977-1990** while managing Fidelity Magellan Fund

- The legendary Warren Buffett: **18.7% annual gain in book value per share from 1965 to 2018** while leading Berkshire Hathaway

Myth #6

- **Peter Lynch, old *PBS* interview:**

"What the market's going to do in one or two years, you don't know. Time is on your side in the stock market. It's on your side. And when stocks go down, if you've got the money, you don't worry about it and you're putting more in, you shouldn't worry about it. You should worry what are stocks going to be 10 years from now, 20 years from now, 30 years from now."

Myth #6

- **Warren Buffett, Oct 2008 *New York Times* op-ed:**

  "Let me be clear on one point: I can't predict the short-term movements of the stock market. I haven't the faintest idea as to whether stocks will be higher or lower a month or a year from now. What is likely, however, is that the market will move higher, perhaps substantially so, well before either sentiment or the economy turns up. So if you wait for the robins, spring will be over."

Myth #6

- **Myth #6: Great investors know exactly what stock prices will do in the coming months or year**

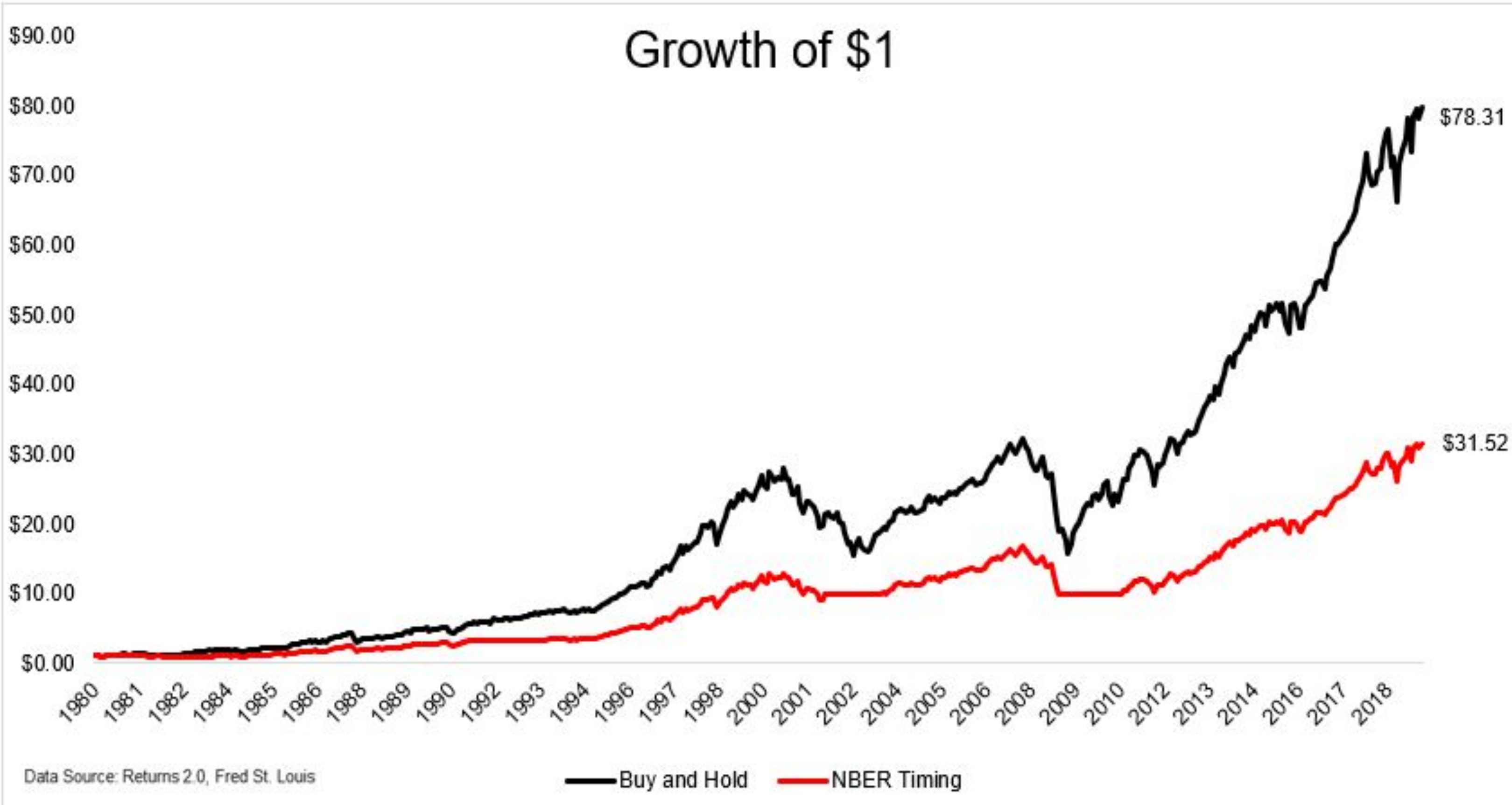
- **Lesson: We can still achieve great long-term investing results even without knowing what stocks will do in the short-term**

Myth #7

- You’re able to predict exactly when the USA will enter and exit a recession

- What happens if you sell stocks just before a recession happens and buy them back just before it ends?

Myth #7



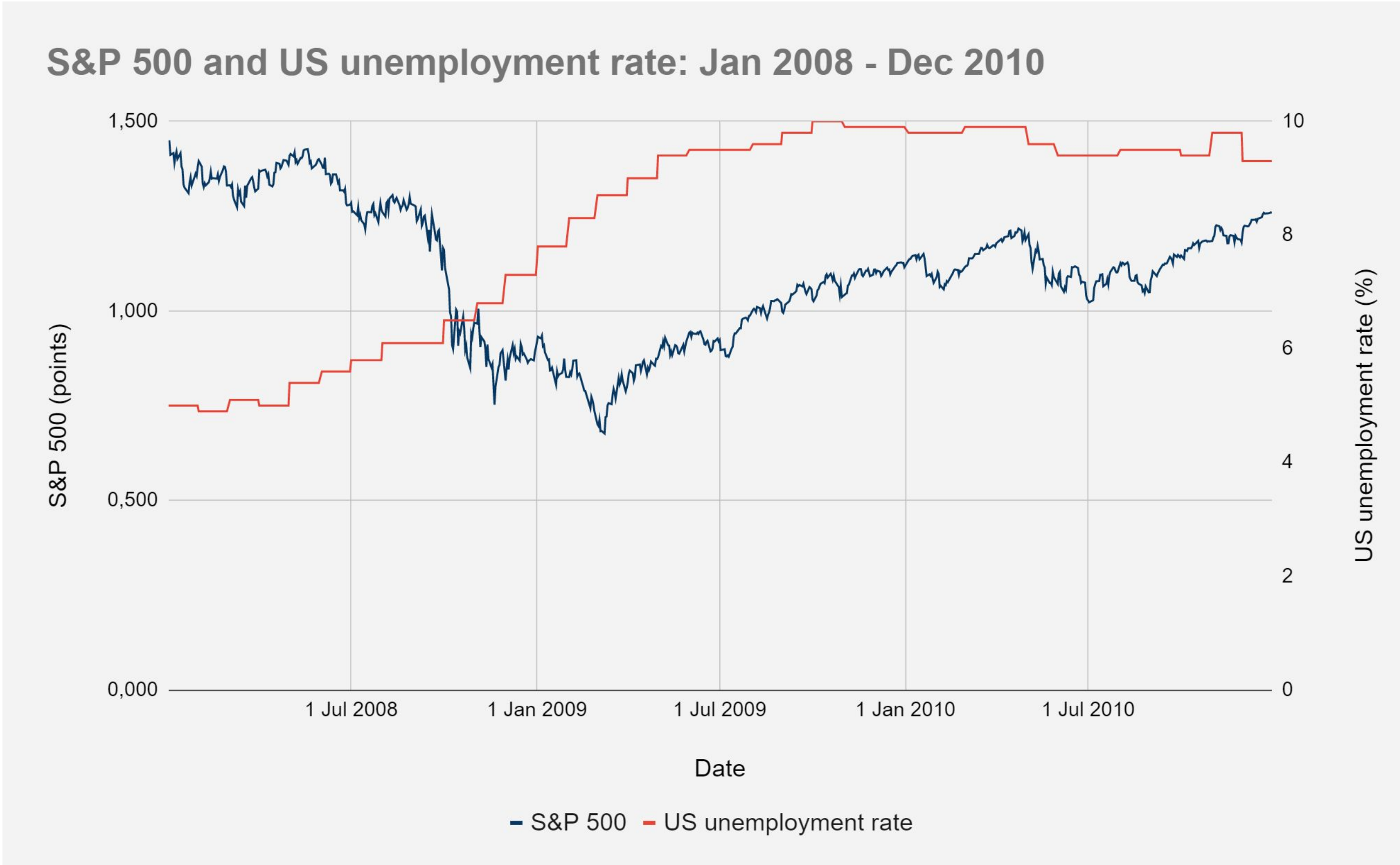
Source: Michael Batnick

Myth #7

- **Myth #7: It’s important to side-step recessions when investing in stocks**

- **Lesson: It’s better to stay invested and accept that recessions are par-for-the-course**

Myth #8



Source: Federal Reserve Bank of St. Louis, Yahoo Finance

Myth #8

- **Myth #8: We should invest in stocks only when the coast is clear**

- **Lesson: *"If you wait for the robins, spring will be over"* - Warren Buffett**

Myth #9

- In theory:
  - Interest rates , stock valuations and prices
  - Interest rates , stock valuations and prices
- In practice:
  - Not so fast...!

Myth #9

1954 - 1964

3-month Treasury yield: ⬆ From 1.2% to 4.4%

S&P 500: ⬆ 21% per year

1960s

3-month Treasury yield: ⬆ From 4% to 8%

S&P 500: ⬆ ~8% per year

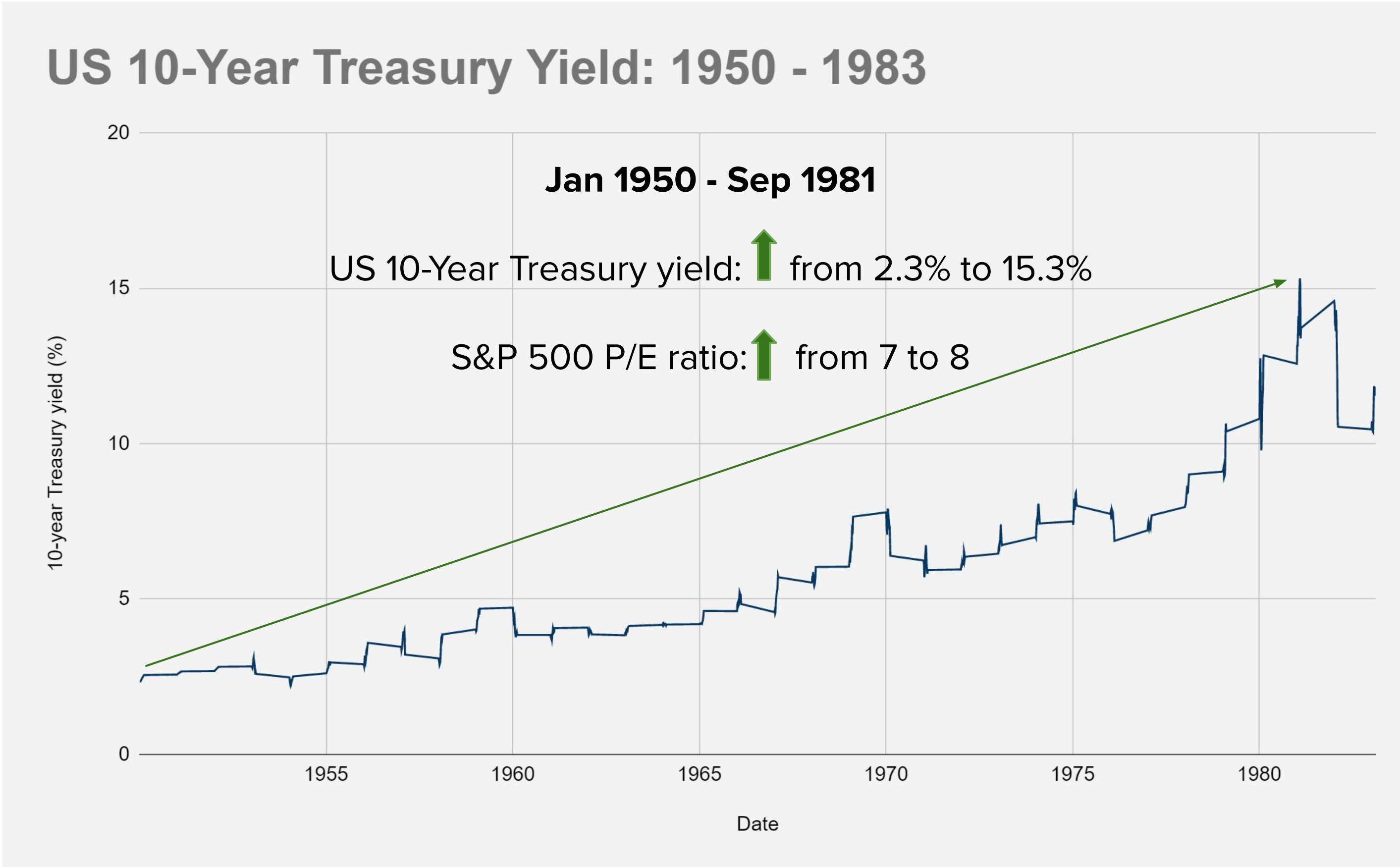
1970s

3-month Treasury yield: ⬆ From 8% to 12%

S&P 500: ⬆ ~6% per year

Source: [Ben Carlson]

Myth #9



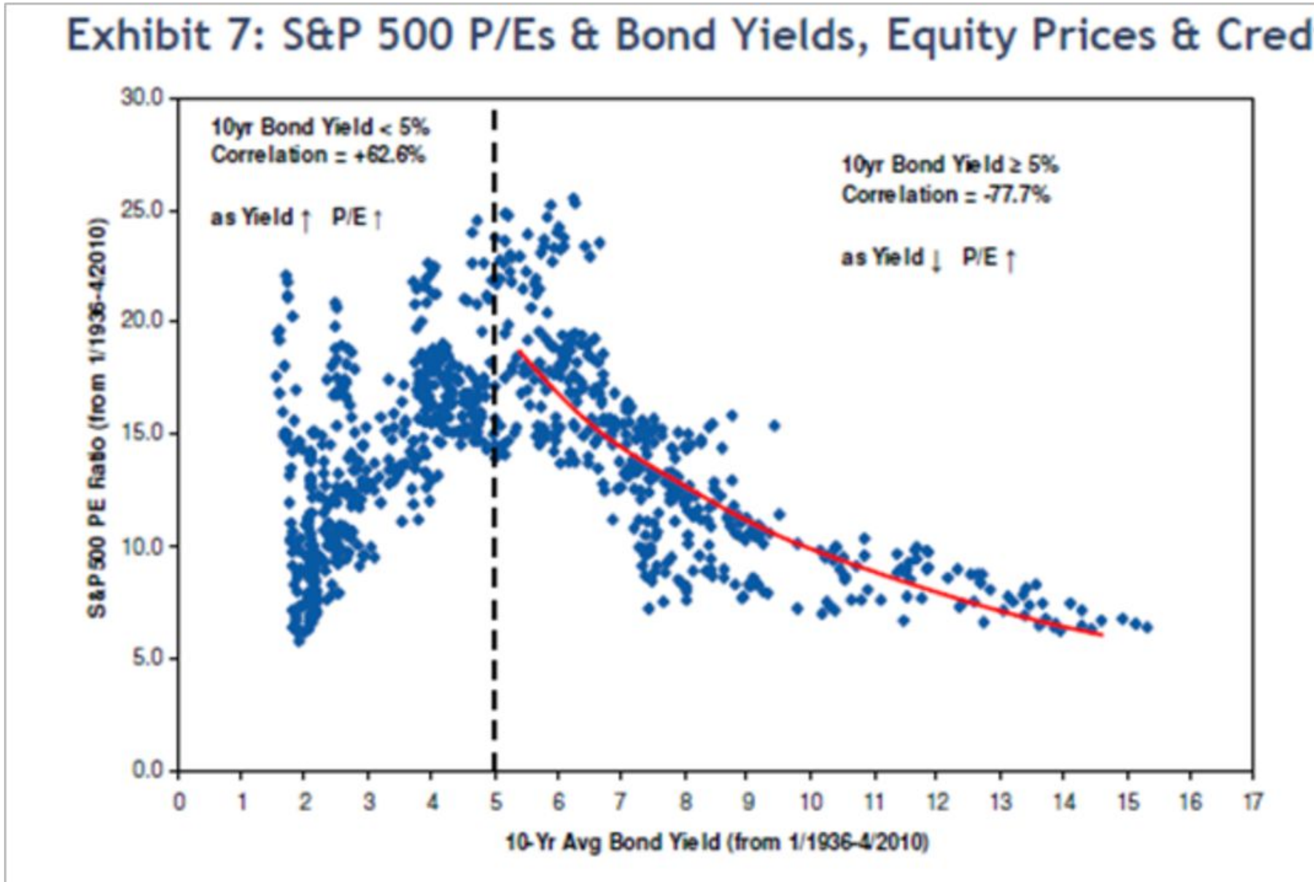
Source: [Robert Shiller]

Myth #9

Date	S&P 500 trailing earnings per share
Jan 1945	US$0.94
Jan 1946	US$0.94
Jan 1947	US$1.13
Jan 1948	US$1.64
Jan 1949	US$2.32
Jan 1950	US$2.34
Jan 1951	US$2.84
Jan 1952	US$2.43
Jan 1953	US$2.41
Jan 1954	US$2.52
Jan 1955	US$2.83

Source: Robert Shiller

Myth #9



Source: [Modest Proposal]

Myth #9

- Myth #9: Rising interest rates are definitely bad for stocks
- Lessons:
  - Interest rates are important for stocks, but far from the only thing that matters
  - One-factor analysis - “if A happens, then B will happen” - should be avoided because clear-cut relationships are rarely seen

Thanks for watching!

Questions?

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