INVESTING MADE EASY

GAN KOK ANN

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PUBLICATIONS

This book is dedicated to my love, Sally, as well as our three lovely girls: Joanne, Jolyn and Joelle.

This book would never come to life without your persistent encouragement as well as unwavering support.

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FOREWORD 1: KLSE.8K

Numerous individuals share such an ideal for life: retire early from their careers when they are still young and strong in order to spend time accompanying their children while they are still around.

If you want to enjoy such a quality life, you must accumulate enough money before the age of 50 at the latest, so that you can spend the rest of your life without any financial worries. But in reality, how many people can actually make such a dream come true?

For anyone who started working in his twenties, this means that he only has about 20 years left before retiring at the peak of his forty-year career.

Imagine you've been struggling for 20 years, your responsibilities have gradually risen along the path, and your "people-make-money" (人赚钱) skill is at its peak, but you've got to quash it all of a sudden. From that moment on after retirement, you are left with the ability to earn a living solely by the craft of "money-make-money" (钱赚钱). In this context, "people-make-money" is a form of active income which is earn money by labour force, whereas "money-make-money" refers to an endless passive income stream.

Unless your “money-make-money” skill is far superior than the “people-make-money” ability, you cannot actually step out of your career.

This is never an easy matter, but Kok Ann has done it.

The “people-make-money” skill means that in exchange for money, we are contributing our time and energy. The salary earned from working is in this category.

The “money-make-money” ability refers to the money we earn from investment. The profit earned by buying and selling stocks falls into this genre.

Our parents and teachers have always reminded us since we were young that we have to study hard to get excellent results so that when we grow up, we would secure well-paid jobs.

Their fallacy is: If we have a good job, we will earn good salary, and that means we can make a lot of money!

Is this really the case?

I believe that after entering society, many people will finally realise that getting rich by wage alone is virtually impossible.

So how do you get rich?

More than ten years ago, Kok Ann told me that he was going to work hard to make more money and then took the money he earned to invest in shares. He would seek for early retirement if the return on investment is more than enough to cope with his future family expenses.

I am pleased to learn that he has done it.

This "Investing Made Easy" book puts forth the gist of his investment research throughout his life. I hope fellow readers can take advantage of such a precious book.

As a final piece of advice: Never let a low income stand in your way of securing financial independence.

Lee Soon Yeow (klse.8k)
2018 October 30th

Note: At the dawn of this century, klse.8k (Mr. Lee Soon Yeow) posted in a Chinese online forum called "Cari forum" a series of articles on investment and personal finance. Besides that, several years ago he was once a columnist in a local newspaper Nanyang Siang Pau. The column was a channel to keep him sharing financial management as well as investment wisdom. My unintentional exposure to the investment ideas mentioned in these articles was an eye-opening experience that gave me essential insights into the weaknesses of my previous stock operating methods. Strictly speaking, klse.8k is my first stock investment teacher. I would not have achieved financial freedom without him.

REAL ESTATE INVESTMENT

PRECEPT 001

Don't invest in real estate unless the annual rental return exceeds 10%

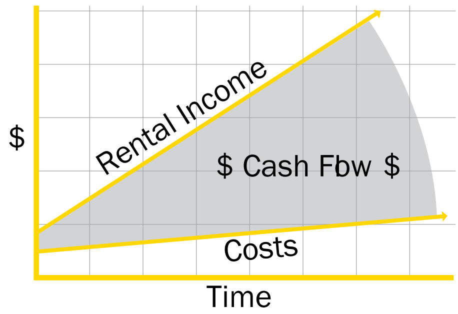
Many people are eager to invest in real estate, wishing to receive monthly rent as passive income. Residential properties and shop lots are the most popular choices in this regard. Nevertheless, residential properties are less than ideal in terms of rental income due to the following reasons:

Residential Properties

Residential properties are generally rented to people who are unable to buy them on their own, making it difficult for the homeowner to collect rent. Moreover, for the tenant, the location may not be that imperative. As a result, the tenant may stop renting and move to another place if the rent is too high. That's why the owner has no upper hand to increase the house's rent.

Shop Lots

Shops are generally rented to people for business venture that is an act of wealth creation. Location is the most important factor for the business tenant. If the business of the tenant is booming, it is not a problem to raise the rent at all. Once the business is booming, it is unlikely that the tenant will move out, as renovating a new rented shop lot is considerably more expensive.



Most real estate investors naively believe that as long as the monthly rental income exceeds the monthly loan instalment amount, it is a sage investment. Their reasoning is built upon believing in the tenant settling the loan debt on their behalf, and they will eventually own the property free of charge upon the full debt settlement. Unfortunately, these people overlook some of the charges they are forced to bear, such as income tax, annual quit rent tax, occasional maintenance costs, just to name a few. In addition, there may be an extended period of zero rental income in between securing new tenants.

That's why on the safe side, we need to set a minimum target of getting at least a 10% return from the real estate investment, failing which investing in stocks will be a better choice. In most cases, we should buy property for living, not for investing.

The Malaysian government stopped exempting the Real Property Gain Tax (RPGT) levy beginning in 2019. From now on, all real estate sales are subject to a profit tax of at least 5%, regardless of their holding duration. Such new regulation has greatly weakened the attractiveness of real estate investment.

It has been observed that many people are burdened with heavy mortgages in more than half of their entire working life (at least 20 years). They are left without spare money to invest in stocks during this period because their total amount of debt settlement is at least twice the amount of the loan they took up, thus shattering their dream of materializing financial independence. This miserable scene is similar to Japan's "Lost Decades". Even if the debt is finally settled, but once they recognise that they have worked diligently throughout their lives just to secure a shelter and at the end of the day they still fail to uplift their social status, do they not feel deep remorse? Now ask yourself this serious question: How many rounds of "20 years" can you afford to squander?

As a reader, do you know why many people end up broke? A short answer is because they use money they don't have to buy things they don't need in order to impress people they don't like.

In view of this dreadful outcome, a sound piece of personal finance advice is given here: Wherever possible, avoid being overcommitted financially with the likes of heavy mortgage burden or personal loan.

While I personally prefer stock over real estate, I do not completely reject real estate investment as long as it offers value for money and is strategically located. To this end, which one offers a better yield between stock and real estate investment? The answer is just a matter of individual preference.

PRECEPT 002

If you need to invest in real estate, consideration of the location is of paramount priority!

In general, the location of a real estate largely determines the extent of its future appreciation.

There is no doubt that a property strategically located with convenient transportation within or adjacent to a prosperous business centre can easily fetch a higher premium.

Moreover, the return on capital invested in shop lots is usually higher than factory and residential property.

Real estate is also inseparable from the cyclical phenomenon just like stock market. Once there is an imbalance between supply and demand resulting in the problem of property overhang, property prices will hit rock bottom. This will reward investors who have been waiting patiently to enter the market.

In many cases, it is less than satisfactory to invest directly in real estate than to invest in real estate (REIT) stocks. This is because the property is highly non-liquid and selling it off takes much longer time.

PRECEPT 010

Do not invest in any mutual trust fund unless the fund manager places his own capital in the fund that he manages

Paying less in fees and taxes is the easiest way to increase our returns on stock investment. After accumulating over a long period of time, they will grow to a jaw-dropping amount. This is therefore one of the main reasons for not investing in mutual trust funds.

Even though a mutual fund's performance is mediocre, the fund manager still levies a fixed percentage of exorbitant management fee that is unfair to unsuspecting fund investors. Since the fund managers manage the capital of other people, they don't really care about the return because every year they still get paid decently.

More to the point, fund managers generally conduct frequent short term trading transactions and resort to diversification, resulting in the performance of the fund being anything but exceptional.

Securities firms and unit trust companies that dominate the stock market want us to believe that investing is too difficult for layman and is best handled by the experts (they themselves). This is the kind of sales pitch they employ to woo unsuspecting victims. Beware of those agents who tend to sugarcoat the harsh truth of the investment return, thereby mislead unsuspecting folks into believing that their financial products fare far superior than the average market performance. Most fund managers are paid annually based on the size of fund they manage rather than how well they manage it.

Ask yourself this question: If there is heavy marketing of an investment or financial product, who benefits the most? The answer is glaringly obvious: No one but the people who promote it tirelessly.

If a chef does not eat the food he himself cooks, it becomes evident that nobody will buy the food from him. By the same analogy, unless a fund manager invests his own wealth in the fund he runs personally, he obviously has no self-confidence. Can we believe he creates wealth sincerely for fellow fund investors? So why should we invest in a fund like this?

In fact, according to historical records, the return of the Employee Provident Fund (EPF) / retirement fund is much better than most mutual trust funds.

Such an absurd phenomenon appears in Wall Street where a rich man who rides in a Rolls Royce seeks investment advice from a fund manager who takes the subway to the workplace. Isn't it funny?

All in all, we should no longer be ignorant investors, who fall prey to the claws of the financial services industry. I remain skeptical about the mutual fund industry, contrary to what is often claimed in the media about their stunning triumphs.

Simply put, do not invest in any mutual fund unless the fund manager puts in his own money.

PRECEPT 011

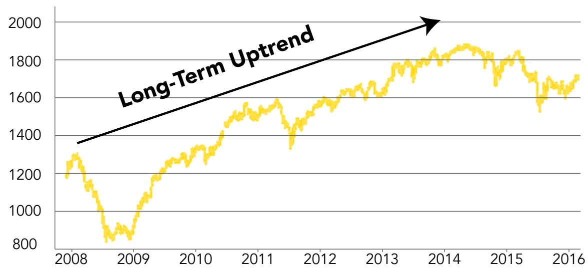
Common stock investment is the single most effective way of getting rich

Everyone should invest because we can only lose so much of the money that we invest. However, there is no limit to the potential gain, i.e. the sky is the limit of the upside.

In the long run, stocks, followed by real estate, provide the best yield among all financial products. The reason is that in a thriving and robust economy, stock investors are the owners of publicly listed companies, and companies are the first in the line to directly benefit from it (stock investors acquire the firsthand reward), which indirectly drives the prosperity of real estate (real estate investors get to enjoy the subsequent reward when stock investors begin buying properties using the profit they earned).

The following chart shows the Malaysian stock market fluctuations from 2008 to 2016. The chart clearly shows a long term upward movement trend.

Malaysia KLCI Index Performance



source: Bloomberg
www.truewealthpublishing.asia

If we hold on to any five-star stock for a long time, provided it was purchased far below its intrinsic value, the final return we gain will be incredible! In view of this, we should refrain from investing in real estate unless the location is excellent and the annual rental return exceeds 10%.

In addition, buying and selling real estate takes a long time to close the deal, since it involves many parties, such as lawyers and government agencies. It is therefore more complicated and time consuming than stock trading. After factoring in inflation, miscellaneous taxes and maintenance costs, real estate investment typically does not yield spectacular return. However, if you are really determined to invest in the real estate sector, it would be a better option to buy REIT stocks in my opinion.

On the other hand, while investing in bonds enables us to enjoy a fixed interest each year, we do not make any capital gain. Their returns are similar to those of the annual fixed deposits, and in the long run, their returns are typically far inferior than common stocks. No wonder John Templeton made an assertion: "One of the biggest mistakes people make is putting too much money into fixed-income securities". Over here, fixed-income securities refer to securities that provide a fixed rate of return in the form of interest, such as bonds, fixed deposits from banks, etc. We can't earn capital gain from them because we can only get back the principal when their tenures mature. Their rates of return stay around the inflation rate as a whole.

Without a single doubt, stock investment is the best way to get rich through my own life-changing experience. In retrospect, young people should not mistakenly believe they have no chance of becoming self-made millionaires.

We should practice austerity in our daily lives after gaining this insight, i.e. refrain from over-spending, particularly on luxury items. By doing so, we will have a bigger nest egg which can be channelled into common stocks to speed up our process of getting rich.

In value investing, money is made after the crash, not before. It all boils down to the price we pay, the lower the better. That is why seasoned value investors welcome economic downturn, for it presents a golden opportunity for them to make a lucrative profit. The biggest stock investment profits are made by buying near the lowest prices and stocks only become cheap when bad economic news abounds.

PRECEPT 012

Concentrated investing in a small number of five-star stocks is simply picking the right eggs (stocks), placing them in the right basket (long term investment portfolio) and looking after them carefully

Through extensive reading, I realised that nearly all legendary investors share the same characteristics. They are always focused on investing in a small number of top-notch stocks and are fully aware of the fundamentals of the stocks and the management teams behind them. So their chances of committing mistakes are extremely rare.

A stock portfolio that is too diversified typically yields average market return, significantly less than the ideal figure most investors yearn for. As a result, we should focus on investing and closely monitor not more than five vintage stocks. However, in order to mitigate any undue risks, these stocks must come from at least two different industries. We should establish a diversified portfolio that can prosper through thick and thin.

We must be careful and invest only in companies that we fully understand. This follows the advice of Warren Buffett:

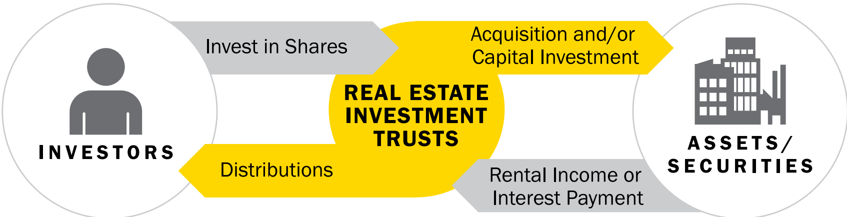
"Keep all eggs in one basket and watch that basket very carefully."

By regulation, all listed companies must publish quarter results every three months and, at the end of each fiscal year, produce annual reports. For whatever stocks we hold, we must read these reports meticulously to get a clear picture of the companies' business operations.

PRECEPT 013

If you detest risks, investing in REITs is far better than fixed deposits

Investing in a REIT stock is equivalent to indirect investment in real estate, except that we are liberated from the duty to manage it personally.



Publicly listed companies owning REITs employ professionals to administer their shareholders' real estate. The bulk of the rental income is distributed to fellow shareholders in the form of handsome dividend payout.

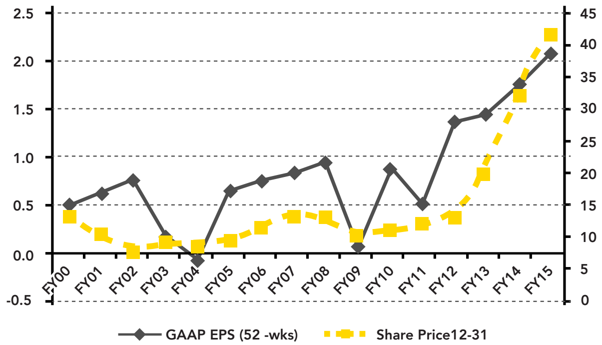
We can consider purchasing a REIT stock provided its DY (dividend yield) is at least twice the annual interest rate of fixed deposit.

PRECEPT 029

Earnings growth is the biggest catalyst for driving up stock price

Supply and demand are the two basic factors that influence fluctuations in stock prices, although they themselves are influenced by many other factors. In fact, stocks are like sheep moving in a herd, depending on the industry to which they belong. Stocks in the same sector tend to rise and fall coherently.

Due to external factors, market sentiment may affect the short term movement of stock prices. In the long run, however, stock price growth is directly proportional to its corporate earnings growth. As Benjamin Graham once said, "In the short term, the market is a voting machine. However, in the long run, it is a weighing machine."



Source: www.seekingalpha.com

This phenomenon can explain why the prices of growth stocks always stay high, despite the fact that their PE ratios are always high. Small and mid-cap companies often see the largest growth. This is where we might uncover multi-baggers.

In addition, companies with high profit margins often exhibit high PE ratios.

Under no circumstances should we hold a stock that must get involved in a price war bloodbath just to survive, because low product prices are simply unprofitable.

Although earnings growth is recognised as the most effective catalyst for boosting stock price, still we must beware of a hidden caveat: It is actually a dangerous act to pay too high a price for any stock, even for a five-star rated stock.

The stock price is, after all, a mirror reflecting a company's earnings, even though it sometimes shows a lagging effect. Stock prices sometimes move in opposite directions from the fundamentals. However, long term wise, they always correlate with each other. That's why we have to ignore short term price fluctuations because our ultimate goal is to reap the full long term investment reward.

PRECEPT 104

Do not trust recommendations advocated by even the most prestigious credit rating agency

Credit rating agencies rarely demonstrate a fair judgment, as they are often involved in conflicts of interest, owing to the fact that they are employed by the same clients who request for public evaluation of their business performance. Undoubtedly, under this unique circumstance, no matter how bad the actual situation of the companies is, they will never get bad evaluations, in line with none other than the truth stated in " Whose bread I eat, his song I sing."

At the peak of the Subprime crisis in the United States in 2008, many Asian investors suffered heavy losses because they were misled by credit rating agencies such as Moody's and Fitch into buying the so-called high yield CDOs. These CDOs were assigned arbitrarily to the AAA rating, although they did not actually deserve such a good rating if a thorough impartial assessment was carried out.

The aftermath of 2008 Subprime crisis saw the bankruptcy of Washington Mutual Bank and Lehman Brothers investment bank and buried all those innocent CDO holders alongside. To date, these unlucky investors still have not fully recovered their fund.

PRECEPT 105

How to identify a rosy company?

Good companies typically share these four common traits:

1. They enjoy high-profit margins due to the existence of a high entry barrier, which is difficult for new entrants to compete against them.
2. It is easy to scale up existing services or products to accelerate future growth and increase overall economic efficiency.
3. The monopoly nature of their companies gives them the privilege of raising the selling price without losing existing customers.
4. They are part of a long-established industry immune from the ever-changing threat of high-tech. Take Coca-Cola as an example, it has remained unchanged for over a century using the same money making secret recipe.

While the third and fourth traits are the most important at close scrutiny, the first trait is more imperative than the second.

If we can't have both high growth and immunity from the competition, we should choose a moderate growth (sustainable) but protected business rather than a high growth (unsustainable) business with a cut-throat price war. The rationale behind our choice lies in: It is easier to grasp the presence of a high entry barrier; whereas growth is future and highly unpredictable.

PRECEPT 141

Do not simply sell a five-star stock just because we have earned some profit

High-quality stocks are not easy to come by. They are like loyal soldiers who are fighting hard for us to increase our wealth. Therefore, we should cherish their presence and resolve to only sell them if and only if their prices appreciate many times above their true values. Under no circumstances should our decision to sell shares be influenced by the cost of our purchase.

There are many reasons behind why we want to sell a stock, but the only reason we should never use is "I have made some money." Otherwise, it is wasteful to easily let go of the good stock which took us so much effort to grasp, thereby missing the chance to make an incredible profit.

Intrinsic value is the real determinant of whether a stock should be sold or not. We should keep holding it as long as the stock price does not exceed its intrinsic value. Once the stock price rises far beyond the intrinsic value, it's time to sell.

PRECEPT 142

Longevity is the added benefit of value investing

In general, people who adhere to long term value investing tend to live long.

There are notable famous value investing masters who lived beyond the age of 90, such as Philip Fisher, John Templeton, Walter Schloss, Charlie Munger and so on. I believe the main reason for their longevity is attributed to value investing demand utmost patience, as the investment reward needs time to brew. In the face of market volatility, these masters remain calm, indirectly yielding the benefits of longevity.

Full-time value investors are qualified to live a leisurely free and high-quality life. In the process of accumulating wealth, they have plenty of time to enjoy favourite activities such as reading, sports, accompanying family, etc., which is highly admirable. Anyway, money is merely a means to an end, that is a tool for us to attain something we desire. It is not an end in itself.

On the contrary, short term speculators are under constant pressure from the fluctuations in stock prices since they are effectively participating in a guessing game. Their emotions are closely associated with market sentiments, for they turn excited when stock price goes up and become deeply worried if stock price plunges sharply. The dangers of stress to health are irrefutable from a long term perspective.

PRECEPT 195

The ultimate choice between the risky and steady way of amassing prodigious wealth

Longing to become a millionaire is a common ambition that most people share. After learning and understanding of all the profound and lasting teachings covered in earlier precepts, you should be clear now whether you will choose a short term technical or long term fundamental value investing to realise your financial freedom dream.

The various methods of getting rich advocated in this book has nothing to do with stock speculation, get-rich-quick scheme or high risk investment of any kind. Rather, this book provides a practical guide on how to accumulate wealth over a long term time span.

I am fully aware that I have been a strong critic of short term speculation as I firmly believe that it is impossible to consistently outperform the market over the long haul. Perhaps a retail investor is lucky enough to make some money periodically, but it will not greatly improve his financial status from a long term perspective.

Through extensive trial and error, I have figured out which investing strategy deserves merits and which ones are just plain bull shit. I've gone to great lengths to impart what a safe and yet successful investing style should present to readers.

If my arguments still fail to convince you to switch camp after reading all the principles embodied in this book, I hereby wholeheartedly apologise for wasting your precious time. After all, there are other ways to become rich, not limited to fundamental value investing. Under these circumstances, we have no choice but to part our ways at this juncture. Perhaps one day we will meet up at the same destiny of abundant wealth.

Good luck to you!

EPILOGUE

Generally speaking, this book never intends to attract fellow readers' eye balls with magnificent rhetoric and philosophical theory, in order to achieve the effect of sensationalism. On the contrary, the contents of this book are concise and packed with solid personal experiences. It is the brainchild of the author's painstaking efforts, at the expense of sacrificing nearly a year of intimate family time and I take pride in the final product. It guides readers on how to attain the dream of a prosperous life, using the proven, down-to-earth and no-bullshit principles.

All the succinct guidelines outlined in this book summarise my understanding of life so far and are consistent with my outlook in life. Some readers may disagree with some of my personal views covered in the book. Even so, I sincerely hope that you will be enlightened by the rest of the precepts. With that, the main purpose of publishing my book will at least be fulfilled.

Although the book's contents are biased towards Malaysia and Singapore's geographical environment, I believe most of the guidelines can be applied in the rest of the world as well. If you fully grasp them and are inspired by this book to achieve financial freedom, I will equally share your joy.

I sincerely hope that the contents of this book have been inspirational to you on your journey to financial independence. Perhaps one day our paths will cross, and I will have the privilege of hearing your own story on how it accelerated your quest for wealth creation.

Last but not least, if you have any comments on the book's contents or would like further consultation on investment and financial issues, please send me an email at gankokann@gmail.com. I also created a Facebook group called "Investing Made Easy" and the link is https://bit.ly/2Fxn9Hn.

To the best of my knowledge, great efforts were devoted into eliminating typo errors in this book. Even after countless reviews and corrections, there are inevitably errors and omissions in the book, so please do not hesitate to correct me if you do find some. Your feedback is what drives my ongoing progress, thank you.

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