INTELLIGENT *PORTFOLIOS*

for

INTELLIGENT *INVESTORS*

GYC INVESTMENT PHILOSOPHY

GYC

Grow Your Capital

Our **investment philosophy** forms the framework for our investment processes and portfolio construction.

MARKETS WORK IN CYCLES

Past market up-cycles have always outweighed down-cycles in duration and magnitude.

MARKETS REWARD LONG-TERM INVESTORS

Long-term investors have historically gained returns far above inflation rates.

INVEST, DON'T SPECULATE

Forecasts are almost always wrong. We keep a long-term perspective instead of following the latest trends.

NOBODY CAN FORECAST WINNERS

A broadly diversified, risk-adjusted portfolio is the most systematic way to achieve good returns in the long run.

PUT RISK FIRST

Our portfolios are scientifically constructed with properly-quantified and verifiable risk and return statistics.

AVOID EXPENSIVE TACTICAL TRADING STRATEGIES

Despite market uncertainties, we can ensure proper portfolio construction, risk management, and keeping portfolio costs as low as possible.

IMPLEMENT THE GREATEST IDEAS FROM FINANCIAL SCIENCE

Our strategies are based on decades of empirical research rather than the latest investing fads.

SEEK EVIDENCE-BASED SOURCES OF RETURNS

We focus on tried-and-true dimensions that have provided higher returns in the long run.

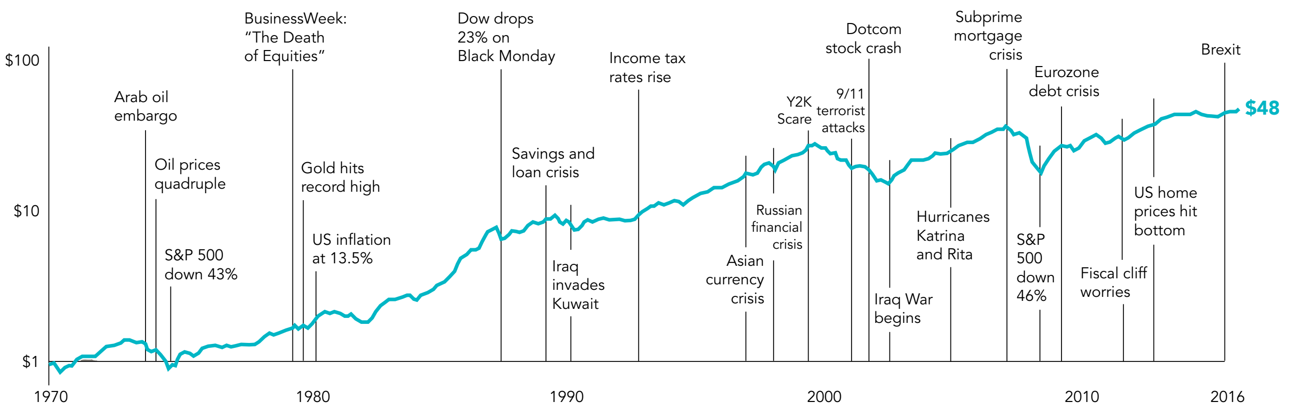
SYSTEMATIC INVESTING BEATS EMOTIONAL INVESTING

Instead of getting swayed by our emotions, we rely on our intensively-researched and rigorously-tested Risk Matrix system.

01. MARKETS WORK IN CYCLES

Stock and bond markets have existed for centuries as a way for countries and companies to raise capital. What's important to know is that markets work in cycles. Sometimes, investors get trapped in secular bear markets and lose hope when they do not make money for years. However, the duration and magnitude of market up-cycles in the past have far outweighed the down-cycles. Empirical evidence shows that markets spend more than 60% of the time going up. Wait long enough, and you'll reap the rewards.

Fig. 1. Growth of a dollar – MSCI World Index (net dividends), 1970–2016



Source: Dimensional Fund Advisors

02. MARKETS REWARD LONG-TERM INVESTORS

Historically, capital markets have made money for long-term investors. Even though they will be subject to market cycles and at times receive a return lower than bank deposits, the power of markets ensures they will eventually be rewarded with returns far above inflation or even the guaranteed CPF rate.

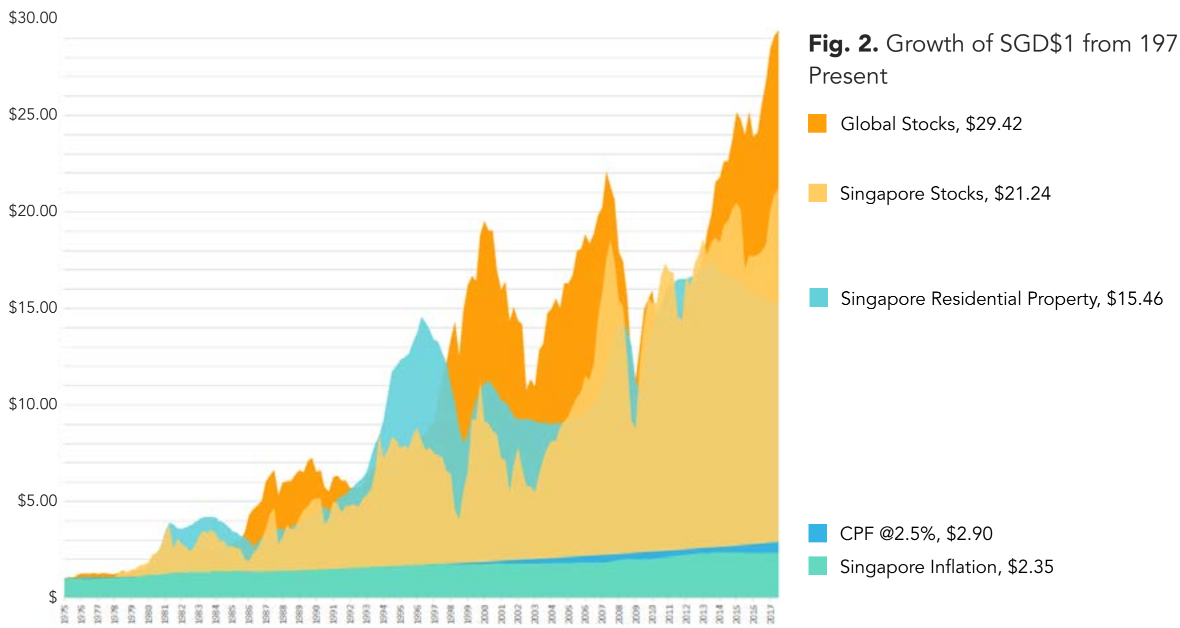


Fig. 2. Growth of SGD$1 from 1975–Present

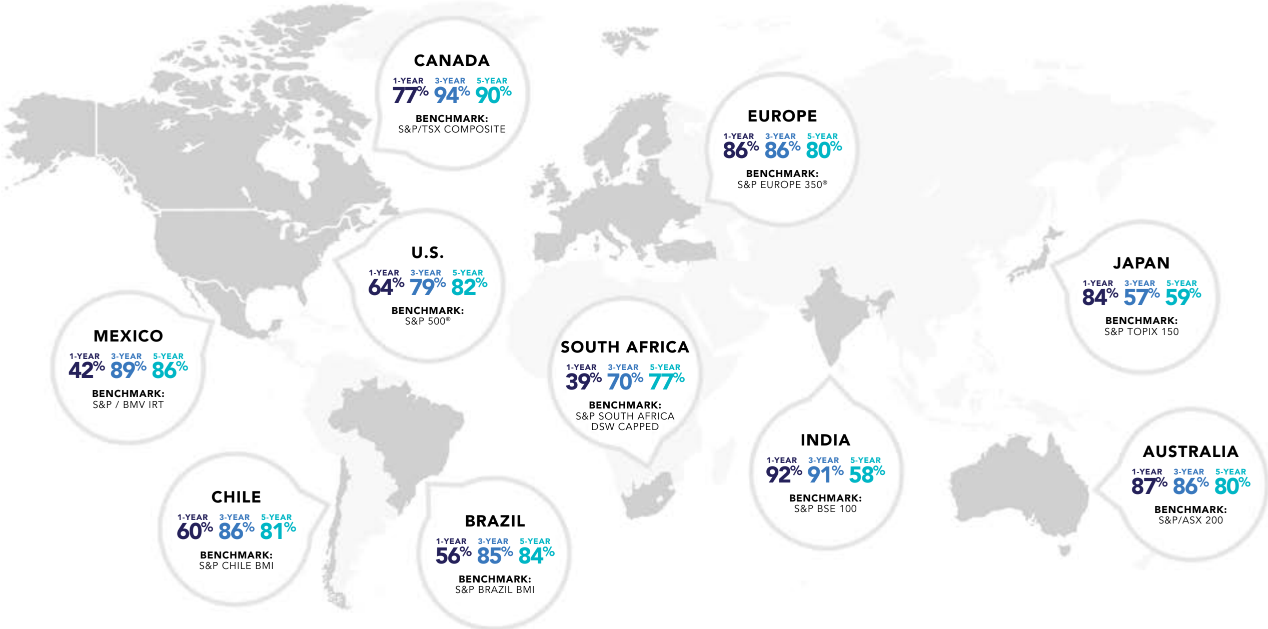
Source: Singapore Property Data from Singapore Dept of Statistics, Bank of International Settlements, URA. Singapore stock market data from MSCI Singapore Total Return Index (SGD). Global stock market data from MSCI World Total Return Net Index rebased to SGD.

03. INVEST, DON'T SPECULATE

It is easy to be swayed into chasing the hottest investment, but only a small percentage of such "bets" ever pan out. Investing in the best company or the most interesting forecast by well-known financial institutions has been shown to be detrimental to your capital. Given that forecasts are nearly always wrong, the best strategy is to maintain a long-term perspective, be systematic, and diversify broadly and globally to obtain the best risk-adjusted return.

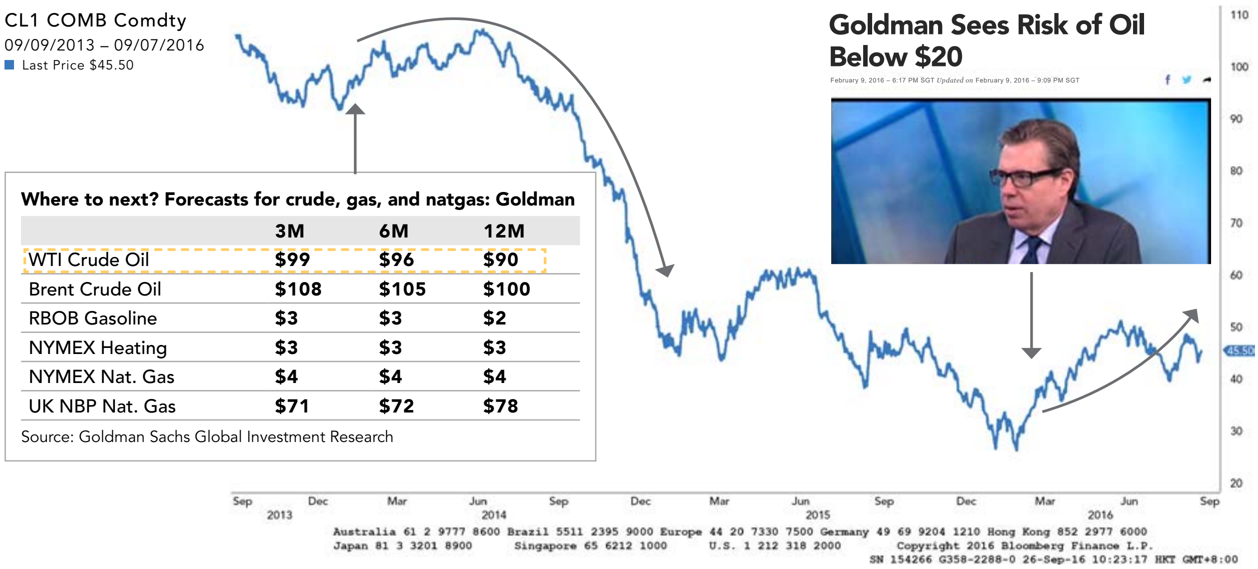
Fig. 3. The SPIVA study shows the number of active funds outperformed by diversified stock market indices over different periods. Active investing is where the best and brightest in the finance industry pick specific stocks to try and beat their benchmark. These pros cannot seem to outperform consistently, and the conclusion for investors should be to hold a broadly diversified portfolio.

SPIVA Around the World: Percentage of active funds outperformed by benchmarks over 1-, 3- and 5-year periods



Source: SPIVA Around the World. Data as of 31 December 2018

Fig. 4. Goldman Sachs forecast in January 2014 that the price of oil was set to rise to the targets shown in the table below, but over the year it fell below US$50. In February 2016, Goldman made another forecast that oil would fall below US$20, only for it to rise to about US$45 over the next 6 months.



Where to next? Forecasts for crude, gas, and natgas: Goldman

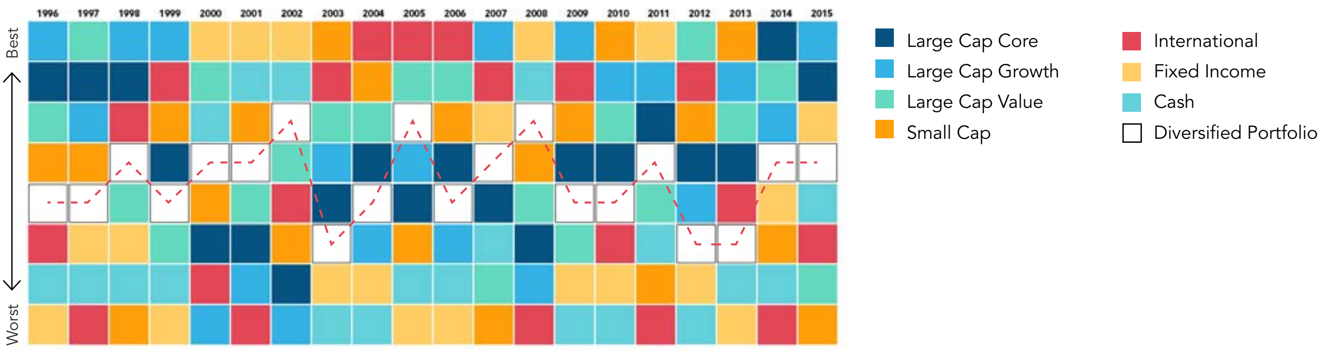
	3M	6M	12M
WTI Crude Oil	$99	$96	$90
Brent Crude Oil	$108	$105	$100
RBOB Gasoline	$3	$3	$2
NYMEX Heating	$3	$3	$3
NYMEX Nat. Gas	$4	$4	$4
UK NBP Nat. Gas	$71	$72	$78

Source: Goldman Sachs Global Investment Research

04. NOBODY CAN FORECAST WINNERS

A market sector which outperforms in one year typically does poorly for the next. It is thus extremely difficult, if not impossible, to forecast winners. Rather than try to time the market, the most systematic way to receive returns is to hold a broadly-diversified, risk-adjusted portfolio suitable for each individual's risk tolerance.

Fig. 5. Ranked Annual Total Returns of Key Indices (1996–2015). The high variability of which sector will perform best makes forecasting virtually impossible.



Source: Informa Investment Solutions

05. PUT RISK FIRST

Buying a basket of stocks that are concentrated in one industry or country exposes investors to unnecessary risks. Many investors are blissfully ignorant of what their investments could lose. We believe that no investor should be kept in the dark, and everyone deserves a scientifically-constructed portfolio with properly-quantified and verifiable risk and return statistics. All our portfolios undergo periodic simulations to check possible losses should any adverse market event occur.

Fig. 6. Example of a GYC portfolio with portfolio analytics and simulation to ensure risk/reward parameters are optimised

Projected Value at Risk[1]
Monte Carlo Simulation VaR
(95% conf. level):
10.55%

Historical Value at Risk
Historical 3-year Simulation
(95% conf. level):
10.89%

Largest Monthly Drawdown
(Lehman default)
–9.60%

Systematic Risk (market risk)
6.87%

Non-factor Risk (diversification)
2.66%

Standard Deviation
5.40%

1-year Return
(annualised)
8.34%

[1]**Value at Risk:** The maximum amount that might be lost from an investment over the given period. In this instance, it means that losses have a 95% probability of remaining under 10.55%. The Monte Carlo algorithm was used here to generate random numbers/events to project the VaR.

[2]**Historical Value at Risk:** Obtained by listing the actual historical returns from the worst to best and taking the worst 5% losses (because we calculate the 95% confidence level).

06. AVOID EXPENSIVE TACTICAL TRADING STRATEGIES

We choose the best liquid, easy-to-understand and low-cost assets to build a client's portfolio. Investors need to stay away from high-commission, high-cost esoteric products. Finding clean, clear-cut investment strategies that are allocated to well-known and identifiable asset classes is the most efficient way to grow wealth at a stable rate.

Fig. 7. Example of the hidden costs in a typical structured product sold by some banks

Structured product price components

Model price of product components

- financing income
+ expected hedging costs

Issuer Estimated Value (IEV)

+ expected issuer margin*
+ selling costs (commission)

Structured product price

+ front-end load fee, where applicable

Acquisition price for the investor

*The expected issuer margin includes the operational costs of structuring, market making and settlement of the structured product as well as the expectd profit for the issuer.
Source: EDG Study 2013 'Issuer margins for structured products'

Typical Structured Product Costs can be as high as **6%** at the construction stage even before selling it to the end-client (before any front-end fees)! These high-cost products do not even outperform a simple S&P 500 index.

Product type	**Risk management cost estimates per annum**	
Worst of barrier reverse convertibles (barrier at 75%)	1-year maturity:	1.28%–1.50%
	3-year maturity:	0.51%–0.87%
Bonus certificates (barrier at 75%)	2-year maturity:	0.84%–1.25%
Capital protection certificates (95% cap. protection)	5-year maturity:	0.06%–0.13%
Discount certificates	1-year maturity:	0.10%–0.25%

Capital Protection Products with Coupon	0.14% p.a.
Uncapped Capital Protection Certificates	0.73% p.a.
Reverse Convertibles	0.65% p.a.
Express Certificates	0.66% p.a.
Credit Linked Notes	0.37% p.a.
Discount Certificates	0.50% p.a.
Bonus Certificates	0.52% p.a.
Outperformance and Capped Outperformance Certificates	0.93% p.a.
Warrants	1.96% p.a.

	2008	2009	2010	2011	2012	2013	2014
S&P 500 Total Return Index	-37%	27%	15%	2%	16%	32%	14%
Barrier Reverse Convertibles	-43%	25%	6%	-12%	11%	6%	1%
Bonus Certificates	-43%	18%	3%	-11%	16%	16%	6%
Capital Protection Certificates with Participation	-10%	7%	-2%	-3%	3%	6%	5%
Discount Certificates	-33%	20%	7%	-8%	11%	10%	4%
Tracker Certificates	-43%	23%	9%	-16	9%	12%	5%

Performance for Structured Products is a mean. Source: Standard & Poor's Index Services Group, Swiss Finance Institute White Paper on Structured Products: Performance, Costs and Investments

07. IMPLEMENT THE GREATEST IDEAS FROM FINANCIAL SCIENCE

The brightest minds from finance academia have provided us with great ideas to construct our investment portfolios. We prefer to implement these concepts based on decades of empirical research, rather than speculate on market movements based on fleeting and transient themes.

Professor Eugene Fama

Professor Kenneth French

Professor William Sharpe

Professor Robert Novy-Marx

Professor Harry Markowitz

1952: Diversification and Portfolio Risk
Harry Markowitz Nobel Prize in Economics, 1990

1964: Single-Factor Asset Pricing Risk/Return Model
William Sharpe Nobel Prize in Economics, 1990

1966: Efficient Markets Hypothesis
Eugene Fama Nobel Prize in Economics, 2013

1981: The Size Effect
Rolf Banz

1984: Term Structure of Interest Rates
Eugene Fama

1992–1993: Value Effect and Multifactor Asset Pricing Model
Eugene Fama & Kenneth French

2012: Profitability
Robert Novy-Marx, Eugene Fama, Kenneth French

08. SEEK SOURCES OF RETURNS THAT ARE EVIDENCE-BASED

Good investing is simple and need not be complex nor difficult to understand. Decades of empirical research has shown that securities that are able to achieve higher expected returns share similar characteristics. Using an investment approach grounded in this economic theory, we help investors achieve their goals over the long run by building portfolios focusing on the following equity and fixed income dimensions of returns:

Fig. 8. Dimensions of Returns

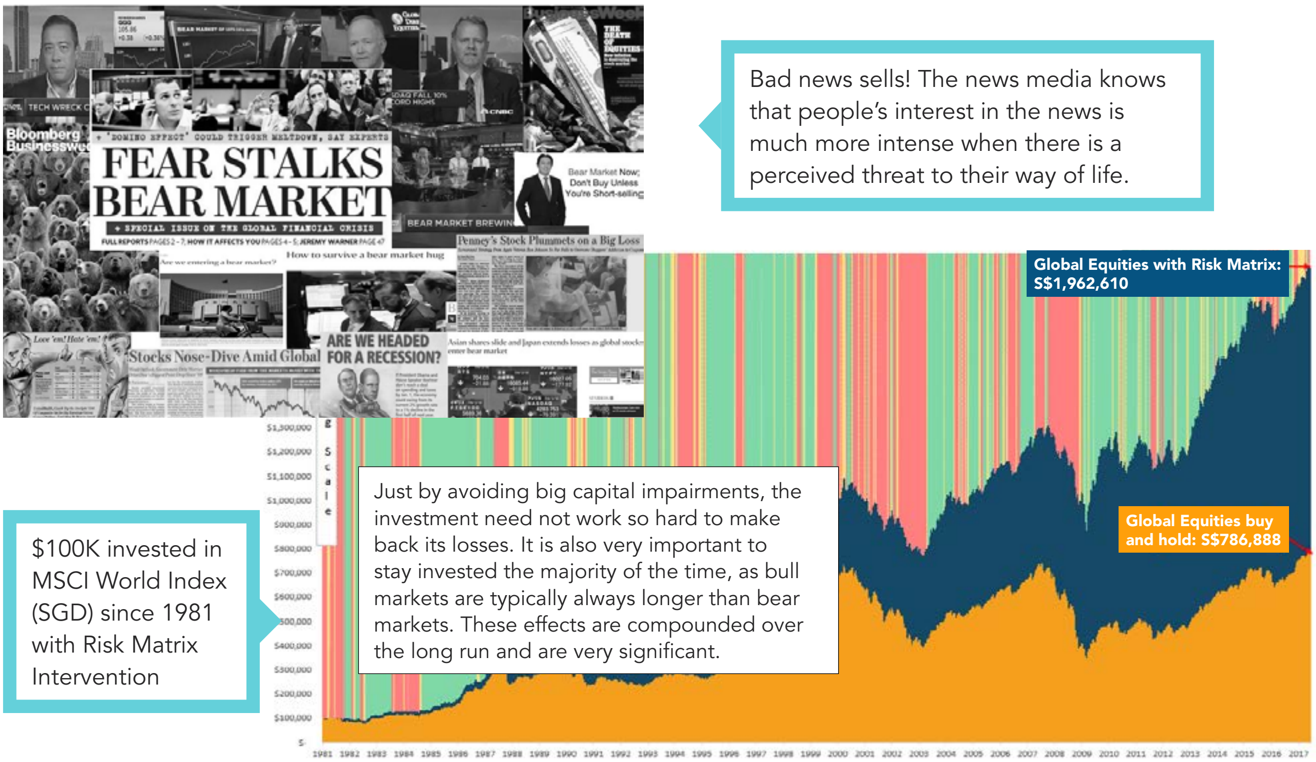
EQUITIES	FIXED INCOME
MARKET Equity premium – stocks vs. bonds	**TERM** (Sensitivity to Interest Rates) Term premium – longer vs. shorter maturity bonds
COMPANY SIZE (Market Capitalization) Small cap premium – small vs. large companies	**CREDIT** (Credit Quality of Issuer) Credit premium – lower vs. higher credit quality bonds
RELATIVE PRICE (Price/Book Equity) Value premium – value vs. growth companies	**CURRENCY** (Currency of Issuance) Global hedged fixed income exposure increases returns and reduces risks
PROFITABILITY (Operating Profits/Book Equity) Profitability premium – high vs. low profitability companies	

Source: Dimensional Fund Advisors

09. SYSTEMATIC INVESTING WILL BEAT EMOTIONAL INVESTING

Headlines stir our emotions and trigger impulsive thought processes that bypass our rationality and may result in decisions that we later regret. Investment decisions should take place within a process-driven framework: starting from the advisory process to portfolio construction, asset allocation, right down to the trading. Our proprietary Risk Matrix system presents us with objective data that may guide us to stay invested even when market pundits are telling us otherwise, or to stay out of the market when over-exuberant investors are piling into risky assets.

Fig. 9. Ignore the news and stick with a process that is evidence-based, tried and tested.



GYC PORTFOLIOS RISK/RETURN SPECTRUM

*(P) denotes payout option

We create portfolios around the needs of our clients, whether it is receiving a stable income without undue risk on the capital invested or just seeking growth for a long term goal like retirement. All our portfolios are optimised to seek the lowest risk for a given target return.

Our job is to help our clients achieve their goals. So, tell us your dreams and what keeps you awake at night. We'll work with you to identify your various goals and the time you have to realise them. One of our financial advisers will then determine the different investment strategies that will help you achieve those goals, as well as ensure that you are comfortable with their corresponding risks. After the plans are implemented, we will review them periodically to ensure they are on track, or make modifications where necessary to accommodate life changes.

Whether your goals are for the short term or long term, we are committed to walk with you on your journey.

GYC
Grow Your Capital

GYC is a licensed Financial Adviser, Registered Fund Management Company (RFMC) and Exempt Insurance Broker.
GYC Financial Advisory Pte Ltd | Co Reg No: 199806191K | 350 Orchard Road, #20-01 Shaw House, Singapore 238868
www.gyc.com.sg | enquiries@gyc.com.sg | (+65) 6430 9595