Investing myths: avoiding flawed thinking in recommendations

Speaking at Hubbis' Investment Solutions Forum 2017 in Singapore in June – Leonardo Drago of AL Wealth Partners de-bukes widely-accepted investment truisms to improve portfolio performance.

Leonardo Drago, chief investment officer at AL Wealth Partners, had an interesting start to his career (in Hong Kong) – during the years immediately leading up to the 1997 bubble.

Since then, working for different types of wealth management organisations in the region, he has seen various 'bad' advice being delivered to clients in terms of investment portfolios.

As a result, he offers five key lessons on concepts that are still very prevalent today:

1. Low VIX indicates an impending equity bear market
2. Strong GDP = higher stock prices
3. Risk versus returns
4. A good company = a good stock
5. Obvious observations = good investment thesis: demographics

According to Drago, a lot of these recommendations are unfortunately based on thought premises where they are correlated.

In terms of the belief that strong GDP means stronger equity markets, he says he sees so many chief investment officers and economists saying buy stocks of a particular country because the GDP is high. Yet, higher GDP actually leads to lower stock market returns, he explains, citing various examples ranging from Brazil to China to Hong Kong to Singapore – all dispelling the misperception.

In relation to risk versus returns, he says this is more about portfolio application. The reality of taking a bit more risk is, in fact, that investors can get more return, but also with a significantly higher variation in these returns.

Ultimately, Drago says there is too much common thinking when it comes to investment advice. So people who try to move away from this will hopefully get much better results. ■

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[Link to Event Agenda]

[Link to Speaker Biography]

[Link to Presentation Slides]