



Coffeebreak

12/2023

Client-Centric Investing: A Conversation with Dave Butler from DFA

The Art of Decision Making in an Uncertain World

Together, We Have Reached Our S\$1 Billion Milestone!

Year-End Financial Checklist



Providend

Dear Valued Client,

"It's the most wonderful time of the year..." is a familiar tune to many of us. With Christmas around the corner, it also means we are going to bid the year 2023 adieu. How has the year been for you? This year has been an interesting one for me. It was very challenging on the home front for me, mainly due to helper issues. My helper of 12 years decided to retire last year and that started my helper hiring journey. And what a tough journey it has been. As I write this introduction, my new helper of six months has requested to go home (due to homesickness) and she is the second one that I have had to train within a year. I ask myself if I have the bandwidth to go through another round of hiring, orientating, and training.

Despite that, there are many positives I will remember fondly of the year 2023. I was blessed to be granted a Sabbatical leave, which allowed me time to rest and explore activities which I would otherwise never find the time to do as a busy working mother. At last, I can answer the question of "What is your hobby?" with excitement and great enthusiasm. I brought my mum and aunty on a "seniors only" trip with activities suitable for them and at a leisurely pace; one that they can enjoy without worrying about holding back the grandchildren. I will also remember with fondness the special trip that my husband planned for my 50th birthday, and the many memorable moments I had with my three children during my short stint as a stay-at-home mum.



At the corporate front, towards the end of November, Providend celebrated the significant milestone of managing in excess of S\$1 billion of assets under management. As part of the founding team at Providend, it was a surreal moment; having gone through a long and difficult 22 years with naysayers in our early years predicting the demise of our fee-only model. Even as we celebrate this significant milestone, we know deep in our guts that this monies represented the trust that our clients have placed upon us. It is not a responsibility we take lightly, knowing that it is the hard-earned monies of our clients, to be stewarded well to provide for their life events.

My favourite Netflix show for 2023 is the Kdrama "Daily Dose of Sunshine", which is about how a kind-hearted nurse working in psychiatry goes above and beyond to be a daily dose of sunshine for those under her care despite the challenges coming her way. She was so dedicated and emotionally attached to her patients that she fell into depression when one of her patients committed suicide. Part of her therapy requires her to keep a gratitude journal, which she uses faithfully to record down incidents that she is grateful or thankful for each day.

What are some people/events/situations that you are thankful for this year? Life can and will throw us lemons, but there will always be something we can be thankful about. As we celebrate Christmas this year, may we be reminded that each of us is very much loved and cherished. We are the very reason there is Christmas Day, as it celebrates God's love for us by sending His Son Jesus Christ to be born on earth.

May you and your family be filled with love, joy and peace this Christmas and into the new year 2024!

Warmest regards,
Deputy CEO & Chief Advisory Officer

Evelyn Goh





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Client-Centric Investing: A Conversation with Dave Butler from DFA



02

The Art of Decision Making in an Uncertain World

Tan Chin Yu, Lead of Advisory Team

It is Saturday evening, January 28th, and I find myself sitting with a group of close friends in one of their homes. It is still the Lunar New Year season, and we are having a game of Texas Hold’Em over food and drinks. The mood is slightly competitive, although I try my best to make casual conversation while focusing on my cards at the same time.

“All-in!” I confidently declare as I look at the pair of Jacks in my hand, along with a board of Jack, Ten, Ten, completing a full house. To my delight, the player opposite me calls and reveals his Nine, Ten, making three of a kind. I am prepared to claim the pile of chips in the middle, with a slight smug look on my face. The next card, a Five, changes nothing but boosts my already huge confidence. The last card comes out to be another Ten, which completely erases any hint of smugness in me. It is the last Ten, the only card in the deck that can win me, giving my opponent four of a kind. I feel sick in my stomach as I lose all of my chips in this devastating loss.

If you are not familiar, you could look up the rules of Texas Hold'Em, but basically, it is being played through a series of bets of various sizes, depending on how confident you are of the outcomes. You could also bluff your way through by representing a strong hand, in hope that your opponents back down. And a major component of poker is the uncertainty that is always present, and unlike games like chess, you could make perfect decisions in any single hand in poker and still lose the pot eventually. What I just described earlier is what is known in the poker community as a "bad beat".

In [one of my previous articles](#), I shared about my fascination with cognitive biases when it comes to investing. Today, I hope to continue on a similar vein through a game that I am equally fascinated with – poker.

Thinking in Bets

Annie Duke, a former professional poker player and an author in cognitive-behavioural decision science described it very well in her book (Thinking in Bets), that life is a lot more similar to poker than chess. While chess is well-defined and contains no hidden information and very little luck, poker is a game of incomplete information, with a significant element of luck and uncertain outcomes. It is a game of decision-making under conditions of uncertainty over time. And while we cannot control single outcomes, consistently making good decisions does favour you in the long run. Every decision that we make in life is a "bet" to try to optimise our life, ranging from small ones like what to have for lunch, to larger ones like deciding which career to pursue.

Resulting

So, you might be thinking, "I get it, the world is uncertain, no surprise. So, what can we do about it?". Well, the answer is to focus on what you can control, which is your decision making, instead of the outcome. Generally, we have a very strong tendency to relate the quality of a decision with the quality of the outcome. Poker players call this tendency "resulting", which is a very common beginner's mistake. If you win, it means that you have played well, and if you lose, you have played poorly. But is that really the case?

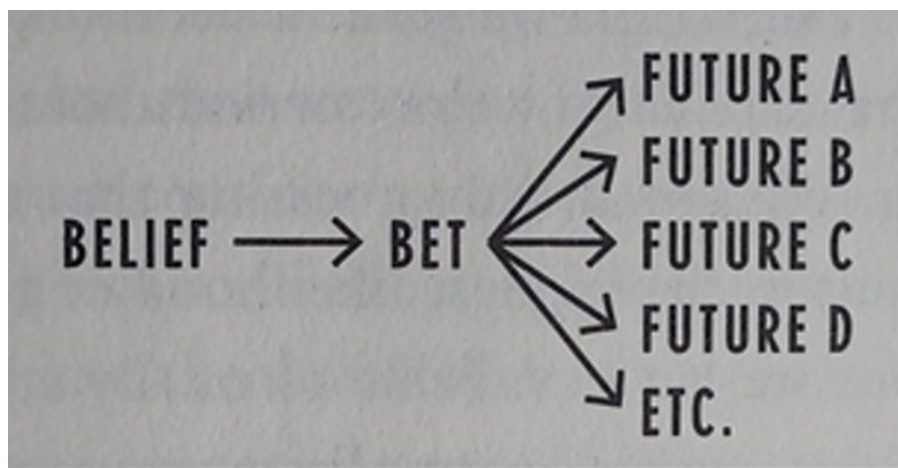
Probabilistic Thinking & Range of Outcomes

Uncertainty also means a range of possible outcomes, and because the world is uncertain, we have to think in terms the probability of different scenarios happening. Unfortunately, our brains are also wired to think in terms of black-and-white judgements regarding "success" or "failure".

To give an example, imagine if the weather forecast says that there is a 90% chance of rain today, and it did rain, was the forecast accurate? What if it did not rain instead? Would it still be accurate?

Having what we call, a deterministic thinking means that there is a correct and wrong answer in this situation. However, because we are looking at it from a probabilistic angle, the outcome does not determine whether the forecast was accurate or not, because even if it did not rain, it could very much fall within the 10% chance of no rain. And that is how the world typically operates.

Annie Duke also explained that what good poker players and good decision-makers have in common is their comfort with the world being an uncertain and unpredictable place. They understand that they can almost never know exactly how something will turn out. They embrace that uncertainty and, instead of focusing on being sure, they try to figure out how unsure they are, making their best guess at the chances that different outcomes will occur in order to make good decisions. And more experience will allow the player to narrow down the possibilities and better plan the appropriate responses and next steps from there.



Source: Thinking in Bets (Annie Duke)

Having a Good Process

Instead of focusing on areas beyond our control, we should seek to have robust processes in our decision making, and to be able to objectively audit the quality of our decisions. While the outcomes does factor into the evaluation, you want to be aware of the role of luck in the outcome. And as long as you have a consistent and robust approach in making good decisions, you are better able to, as the saying goes, "let the chips fall where they may".

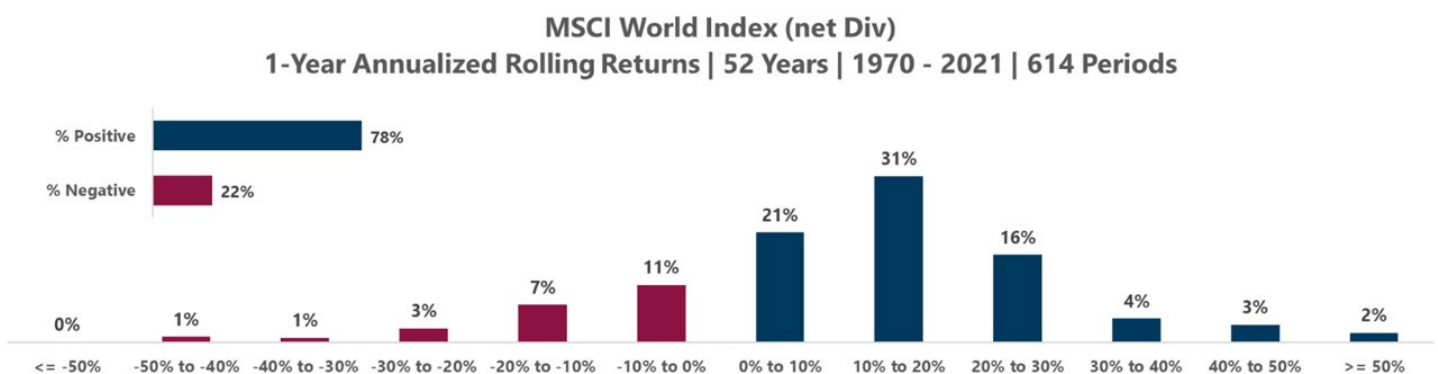
What also helps in arriving with a robust process is to be very honest with yourself and avoid getting overly attached to your past decisions that happen to work out well. Even in the scientific world, theories often get updated because they are in the business of the pursuit of truth. And anything that is accepted today, can only be considered as "the truth for now". And we can all benefit by thinking like a scientist.

Decision Making in Investments

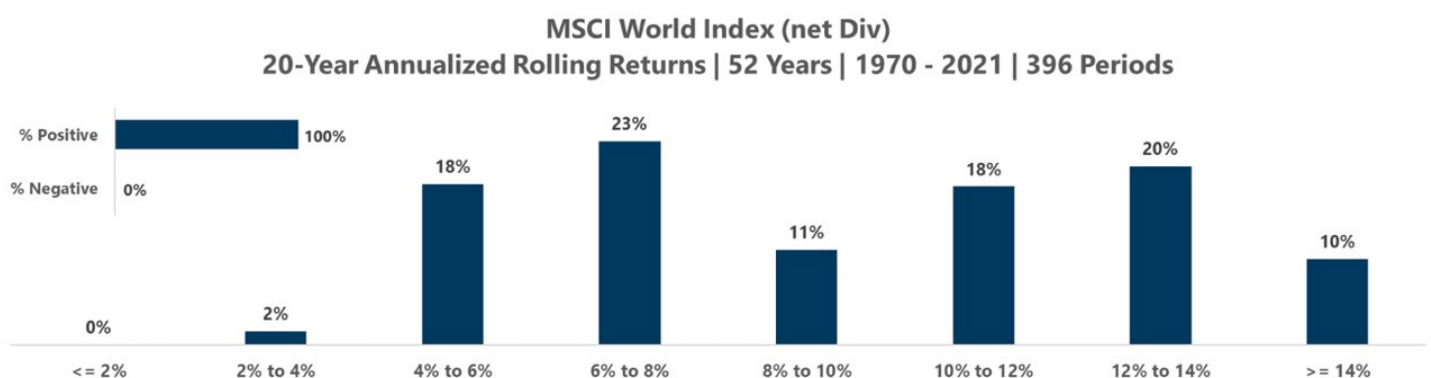
Now, the same applies when we invest, because we need to have a strong investment philosophy and approach to guide our decisions when investing. Particularly so when there is a sea of investment options out there, so how do we decide?

We had previously written about the four pillars of Providend's investment philosophy when deciding what instruments meet our criteria in crafting portfolios for our clients. Furthermore, we also need to decide how the various investments and asset allocation fit one's individual needs and situation.

Once that is put into place, we have to accept that uncertainty will always be present and cannot be eliminated completely. At the same time, more experience helps us understand the range of possible outcomes better and assess whether outcomes fall within expectations. Take the investment returns of the MSCI World Index for example. We all know that even if a robust investment portfolio is put in place, negative returns do happen from time to time, which can range as much as from -50% to +50% in a single year. It does not mean that the investment is a poor one when you encounter a negative return, but what it means is that we should avoid investing in equities unless we have at least 10 years to sit through the volatility. Even for a 20-year period, where the markets have never seen a negative return in history, the outcomes also fall within a range, which has been about 2% to more than 14% annualised return.



Source: Dimensional Returns Web



Source: Dimensional Returns Web

Even cash has risks, while not in terms of nominal returns, but in terms of real returns where it is almost certain to lose money in the long run. So making good asset allocation decisions to balance between inflation risks and market volatility requires a good process as well. Improving decision quality is about increasing the chances of a good outcome, instead of trying to guarantee them.

Putting Everything Together

I hope to end this off by saying that risk and uncertainty is always present, whether in the field of investments or simply in our daily lives. And it is important to be comfortable with uncertainty, and navigate around it by understanding it, and making good decisions.

Understand that things happen in a spectrum, and hence planning with a range of outcomes, and determining whether your outcomes are falling within expectations would be beneficial for you. The same goes for poker, even if you have a 98% chance of winning, there is still that 2% possibility of someone hitting the single last card in the deck to give them the win instead. A good poker player understands this possibility.

When making decisions, try not to focus on the single outcome, but think about how it will impact you if you consistently make the same decision over and over again in the long run. And the effects of good decisions compound and will reward you eventually. Lastly, having a robust review process means that you disconnect your decision making from the quality of your outcomes.

So the next time you see a poor performance in your investments, ask yourself whether this is within the expected range of outcomes despite having a solid portfolio, or if it is due to a poor investment decision. Because the last thing that you want to do is to make changes to a strong portfolio just because of a poor short-term outcome.



03

Together, We Have Reached Our S\$1 Billion Milestone!

It has been 22 years since Providend started. Over the past two decades, we have experienced many ups and downs. As Southeast Asia's first fee-only comprehensive wealth advisory firm, many did not expect us to survive. But today, I am very proud to share with all of you that we have achieved a major milestone - As of Nov 2023, Providend is now advising and managing in excess of S\$1 billion.

In my address to the firm earlier this month during our celebratory lunch, I told my fellow colleagues that this S\$1 billion represents our clients' hard-earned money, their dreams, and aspirations. It also represents our clients' trust in us, and as such, we cannot take our responsibility to them lightly, and we cannot fail them. So, I want to take this opportunity to thank every single one of you for your belief in us. We will continue to remain humble and grounded and will continue to work very hard so that all of you can achieve your financial goals, which, in turn, will enable your life goals.

Warmest regards,
Chief Executive Officer

Christopher Tan

Year-End Financial Checklist

- The deadline to contribute to the Supplementary Retirement Scheme (SRS) for you to enjoy tax relief in the Year of Assessment (YA) 2023 is 31 Dec 2023.
- GST will increase to 9% on any item bought from 1 Jan 2024 onwards, so if you need to make significant purchases, do consider doing it before then.
- CPF interest rates from 1 Jan to 31 Mar 2024 will be: Ordinary Account (OA) at 2.5%, Special Account (SA), MediSave Account (MA), and Retirement Account (RA) at 4.08%. Additionally, the Basic Healthcare Sum (BHS) for 2024 will be \$71,500. Lastly, the RA interest rate peg will be computed quarterly instead of annually, allowing the RA interest rate to be more responsive to the prevailing interest rate environment.
- Be mindful of how you use your bonus, as it can be saved towards your retirement and/or contribute to your children's education fund.
- Reflect on your past year and consider the goals you want to focus on for the new year.
- Last but not least, take stock of all the successful actions you've taken and celebrate those successes.



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See You Latte!



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