

SIMPLE INVESTING FOR EXPATS

The Bogleheads approach

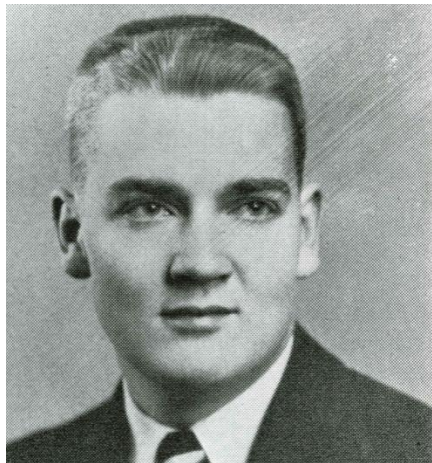
Who are Bogleheads

- Firm supporters of investment approach of Jack Bogle
- Group of people & (on-line) community
- Offer support and voluntary advice
- Follow simple investment principles



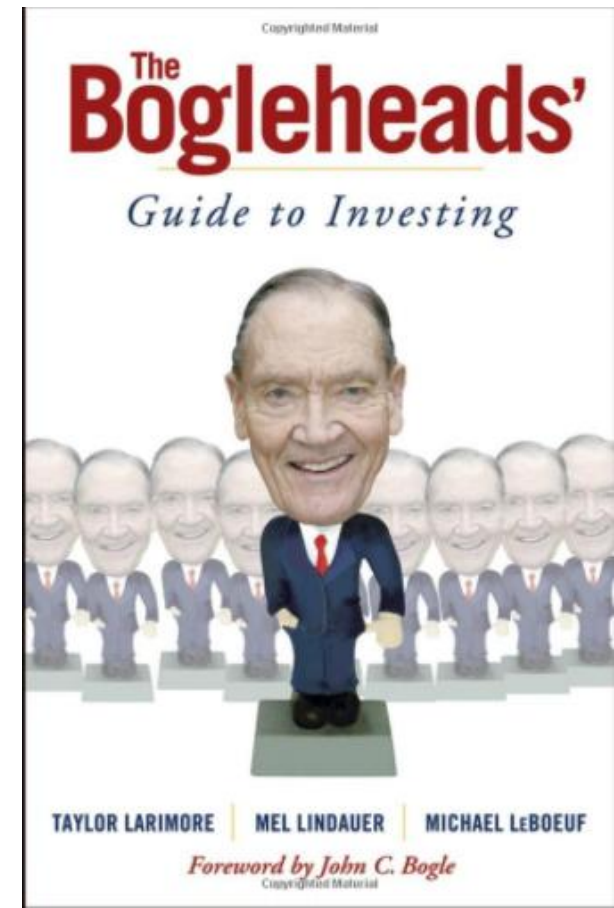
Who is Jack Bogle?

- Founder of The Vanguard Group
- “Father” of index funds
- Promoter of low costs, worked to cut costs on funds globally
- Vanguard Group owned by its funds → investors
- Made market available to small investors: you and me
- Was not involved in starting Bogleheads



Bogleheads investment philosophy

- Choose a sound financial lifestyle & create a plan
- Invest early and often
- Never bear too much or too little risk
- Diversify
- Never try to time the market
- Use index funds when possible
- Keep costs low
- Minimize taxes
- Keep it simple
- Stay the course



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Choose a sound financial lifestyle

“Drive-in banks were established so most of the cars today could see their real owners.”

- E. Joseph Grossman

- What's your financial lifestyle?
The Borrower, The Consumer, The Keeper..?
- Saving is a key to successfully build wealth
- Set your mind to Net Worth Mentality (instead of Paycheck Mentality)
- Pay off credit card and high interest debts
- Establish Emergency Fund: 4-6month of expenses
- Create your financial plan!

Create financial plan

- How much will I save every month?
- What will I invest into?
- How will I split the assets? (asset allocation)
- How often will I invest?
- How will I invest? (broker/currency)
- Write it down!

Create financial plan – My Plan

- I will save 30% of my income every month
- I will keep 5 x monthly expenses of emergency fund at all time
- I will invest all my savings into low cost index funds
- My asset allocation will be: 32 % bonds + 68% equity
 - Bonds: UK Government Bonds
 - Equity: All-World Index Fund
- I will invest every 3 months, on a first day of a quarter; i.e.
- 2nd January, 01st April, 1st July, 1st October
- I will invest through a discount broker. Money transfer will be done through.. to minimise costs.

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Invest early and often

Harness the power of compounding interest

Start EARLY

Eric Early

4,000 USD / year

Starts at age 25

Invests for 10 years then stops

Total Invested: 40,000 USD

Value of portfolio @ 65 = 450,146

Assumed 7% growth

Larry Lately

4,000 USD/year

Starts at age 35

Invests for 30 years

Total Invested: 120,000 USD

Value of portfolio @ 65 = 404,292

Assumed 7% growth

Invest early and often

Harness the power of compounding interest

How long till you become a millionaire
1,000,000 USD

Invest 1,000 USD/month

27 years to become millionaire

Invest 500 USD/month

37 years to become millionaire

Assumed 7% growth annually, after costs, long term
Interests reinvested

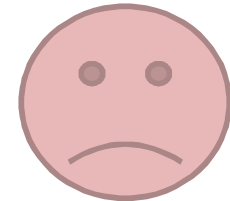
Saving is the key to wealth

Invest early and often

Case study – how much did I miss?

Assumptions:

- Save 5,000 aed/month since early earning years (2009 until now)
- Invest quarterly (every 3 months)
- Average annual growth 12%
- 1 year break (2011)



Scenario 1

Invest from early earning years (2009)

Total invested: 465,000 aed
Value in 2017: 779,367 aed

Scenario 2

Save, but don't invest (2009 – 2014)
Invest since 2014

Total invested: 465,000 aed
Value in 2017: 642,005 aed

Difference:

137,362

2years & 3months worth of saving!!

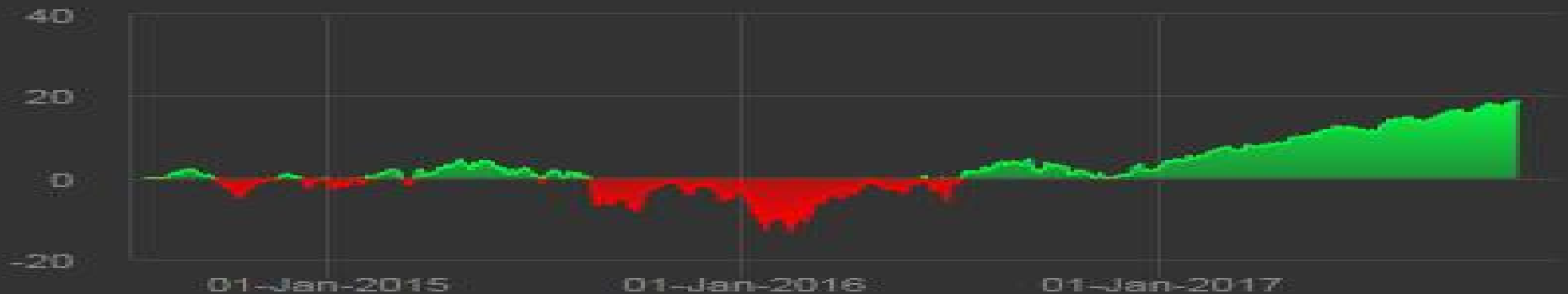
Invest early and often

Account Value ⓘ



% Return ⓘ

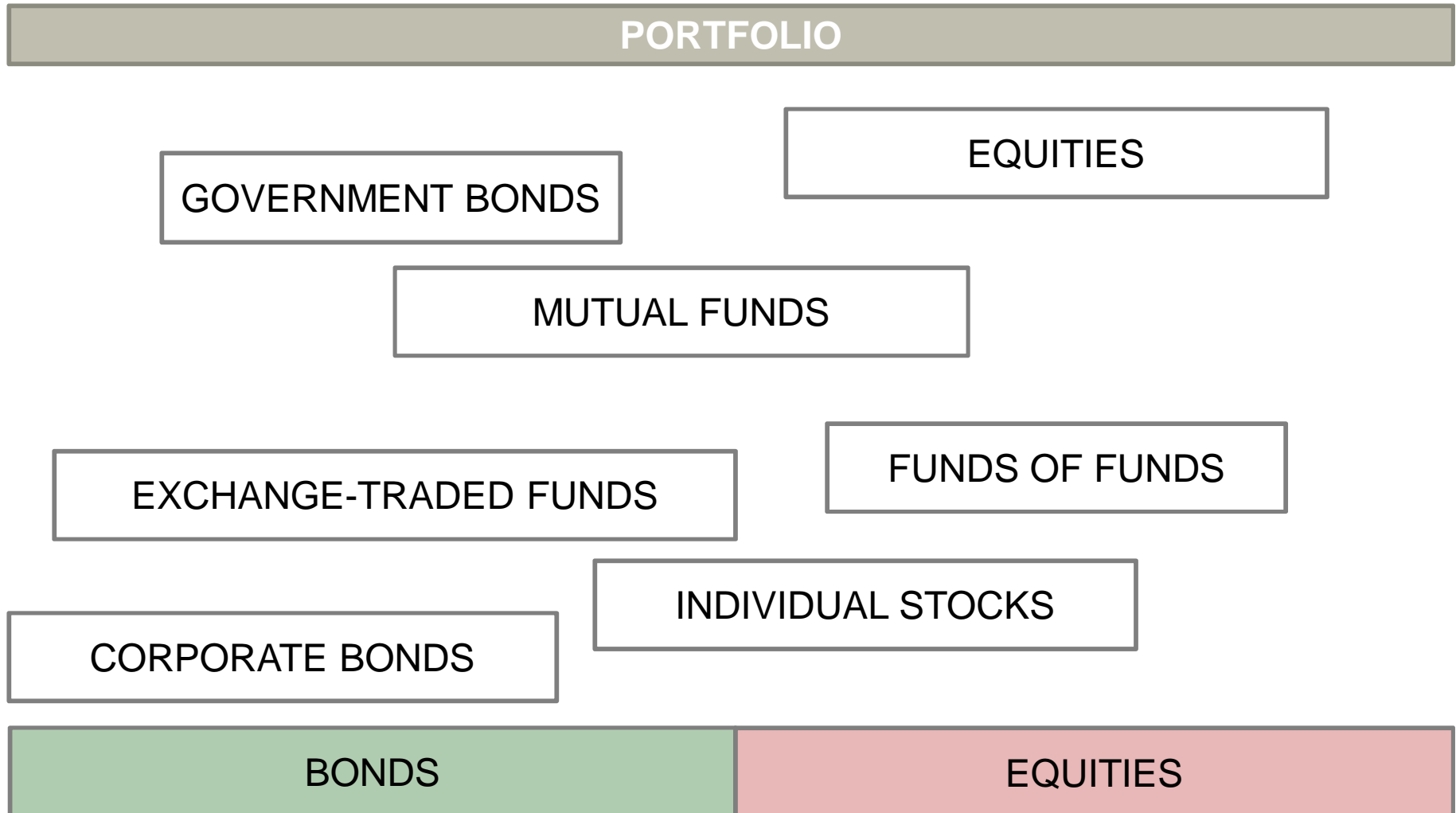
18.09%



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Never bear too much or too little risk



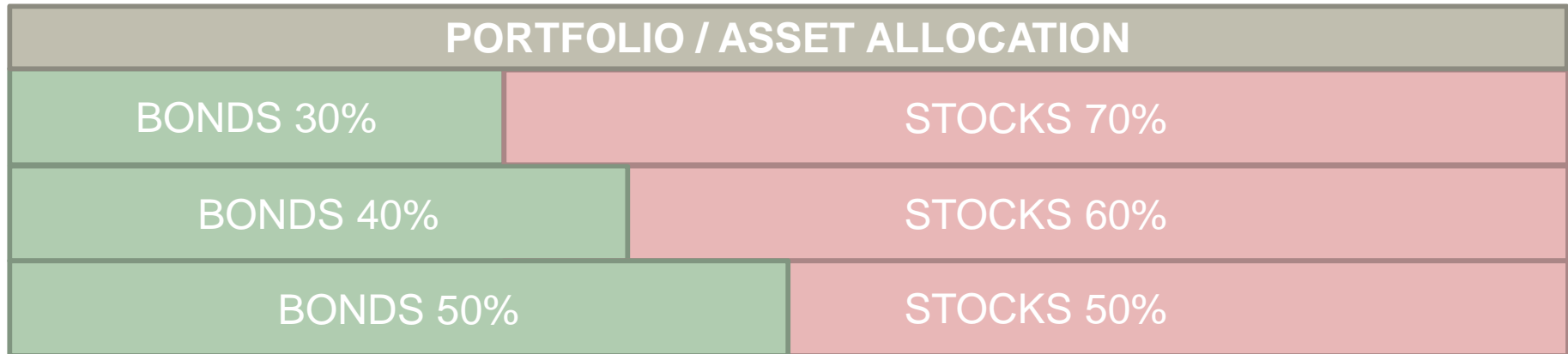
Never bear too much or too little risk

PORTFOLIO / ASSET TYPES	
BONDS	EQUITIES

- Issued by: Government, Federal Treasuries, Municipalities, Corporations..
- Bond = lending money to issuer
- Vary in maturity lengths/time horizon
- Move in opposite direction to interest rates
- Buy individual bonds or bond funds
- Stabilizing factor of portfolio
- Issued by companies
- Stock = ownership of a fraction of a company
- Trading on Stock Exchange through brokers
- Value varies over time with company valuations and trading demand
- Earning from dividends and growth overtime
- Buy individual stock or funds
- Growth factor of portfolio

Low correlation: don't always move in the same direction at the same time

Never bear too much or too little risk



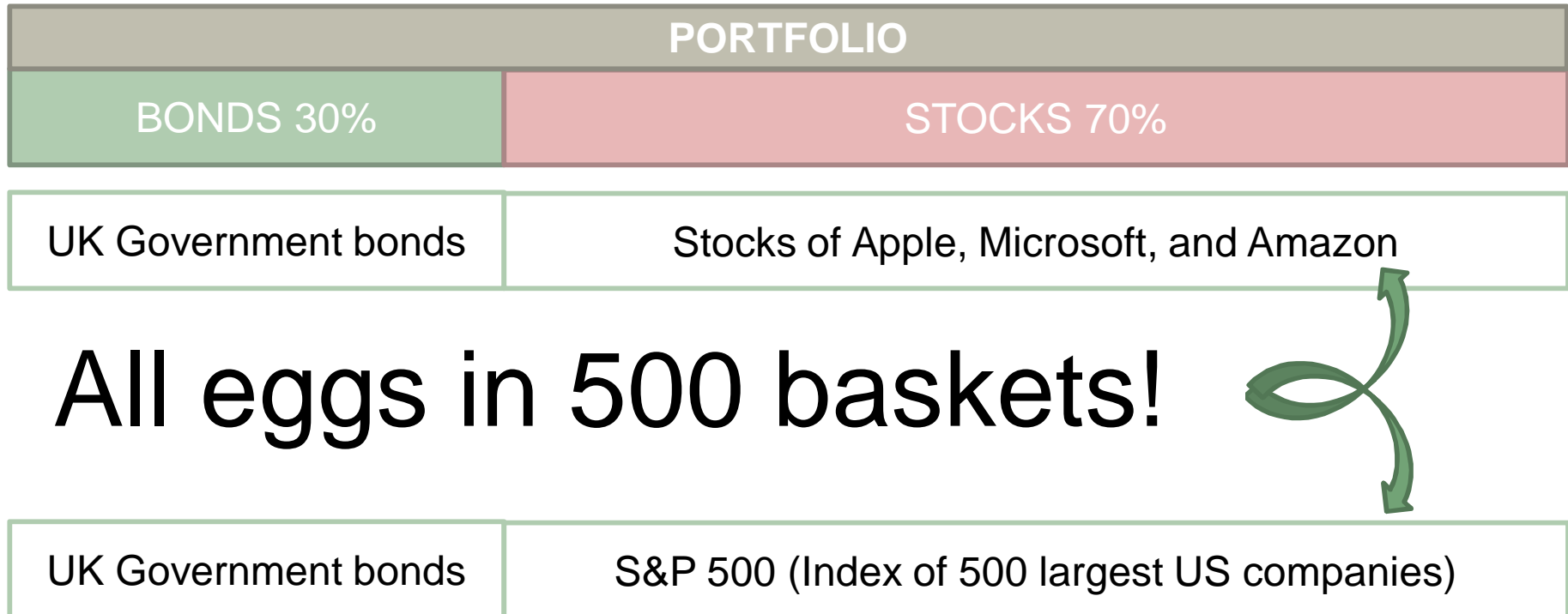
?

- Your risk tolerance
 - Your goals
 - Your needs (i.e. stability or growth, time horizon, etc)
 - Rule of thumb (age in bonds)
- Part of a **workable** plan!

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Diversify



Diversification reduces investment risks. Try to diversify across:

- Market capitalisation (small & big companies)
- Geographies
- Industries
- Currencies

Diversify

Funds

Offer professional management

Target sector/geography / market cap
(size of companies)

Funds of funds – “ready-made”
diversified portfolio of funds

Offer active and passive (indexing)
management styles

Type: INDEX Funds

Mission: replicate returns of a benchmark
index, i.e. S&P 500

Offer instant diversification

Does not try to outperform the market

Buy only stocks which from the benchmark

Low costs (no managers' salaries to pay)

Available to non-US as ETFs

Read the fund's prospectus and understand what you're investing in!

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Never try to time the market

“I never have the faintest idea what the stock market is going to do in the next six months, or the next year, or the next two.”

- Warren Buffet

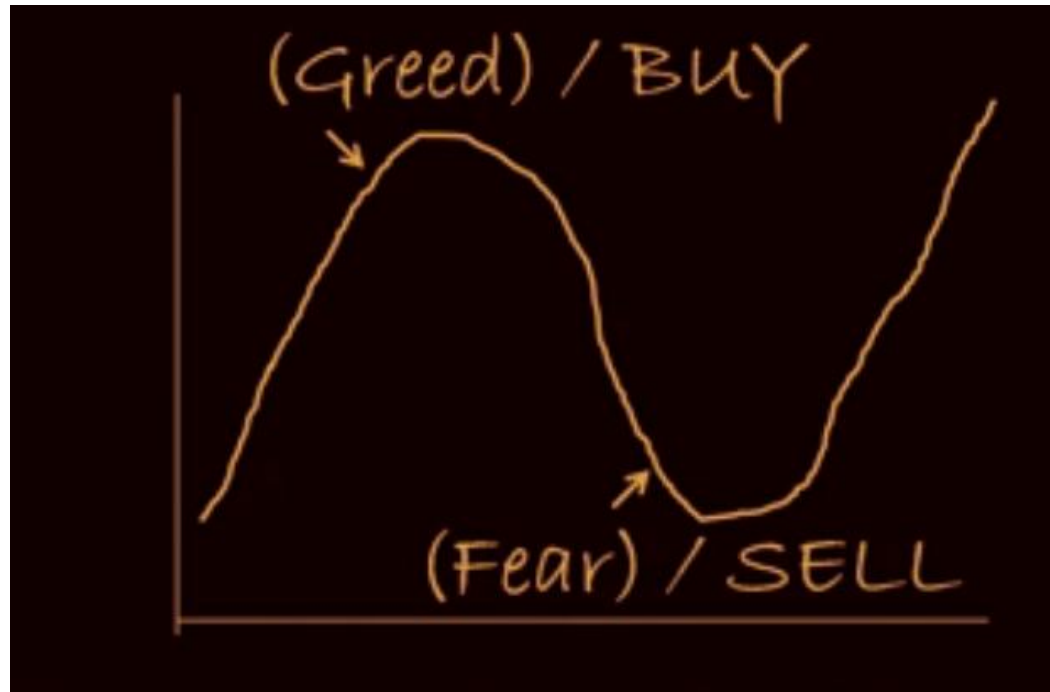
Market timing: *Attempting to forecast market direction and then investing based on the forecasts.*

Past performance does not predict future performance

Nobody can predict the future

Those who get paid to do it rarely get it right – why would you?

Never try to time the market



Common timing mistakes:

Mistake #1: Attempting to predict future market returns

Mistake #2: Investing in yesterday's winners

Solution: Stick to the plan and rebalance annually!

Rebalancing – how does it work

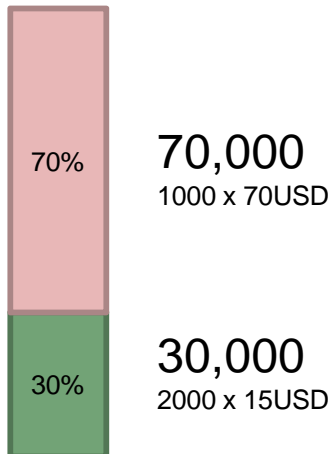
During contribution period: account for rebalancing during each investment.

Example:

16 Feb 2016

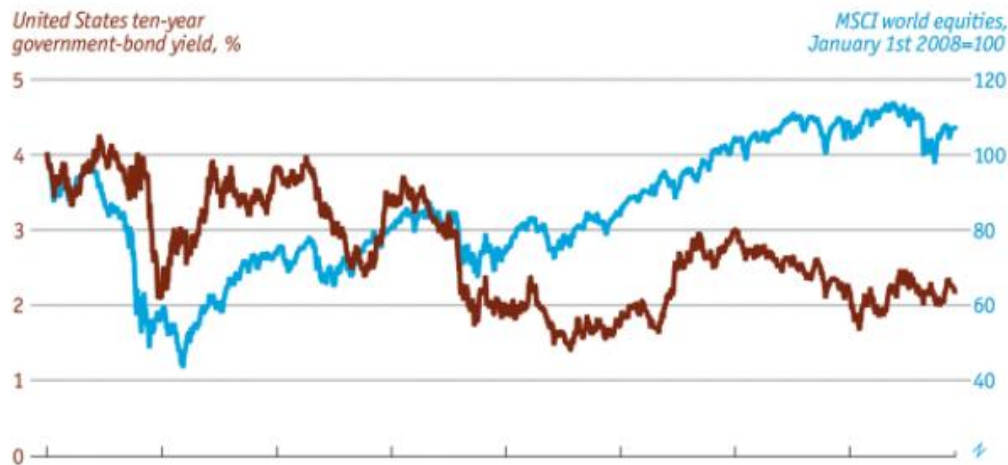
→ 10 Jan 2017

Portfolio
Value:

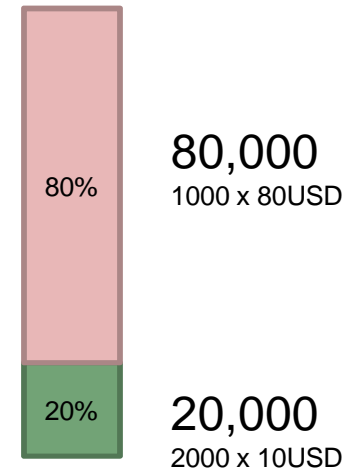


Total: 100,000

Market Performance



Portfolio
Value:



Total: 100,000

* Assumed that total Portfolio Value has not changed, for simplicity of example. It is unlikely to stay the same.

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Use index funds when possible

Why index funds are so efficient?

- No sales commissions
- Operating expenses are low
- You don't need a money manager to monitor your portfolio
- Low fund turnover – keep costs low
- Highly diversified and less risky
- It doesn't matter who is the manager of the fund

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Keep costs low

The shortest route to top quartile performance is to be in the bottom quartile of expenses.

- Jack Bogle



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Paying higher fees won't bring you better returns!

What fees do you pay?

FUND FEES:

- Fund Management Fees
- Front-load fees (paid on purchase)
- Administration Fees
- Purchase Fees (when buying/selling shares)
- Others

Keep below 0.5%

TRADING FEES:

- Transfer Fees (international)
- Forex exchange
- Custody Fees (brokerage account)
- Transaction Fees (purchase AND sell)
- Purchase Fees (when buying/selling shares)
- Spread

Keep below 0.5%

Read fund prospectus/fact sheet to know what it costs!

Keep costs low

The shortest route to top quartile performance is to be in the bottom quartile of expenses.
- Jack Bogle

The long-term impact of investment costs on portfolio balances

Assuming a starting balance of \$100,000 and a yearly return of 6%, which is reinvested.

Portfolio value



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Minimize taxes

- Specific to country of residence
- Various taxes may apply:
 - Tax on dividends (stocks and bonds may be different)
 - Tax on capital gains (usually applies on realised gains)
- Which tax rate will apply for you?
- Are there any time limitations?
- Are there any tax-related issues on fund locations?

Consult an accountant knowledgeable in this field for your specific situation.



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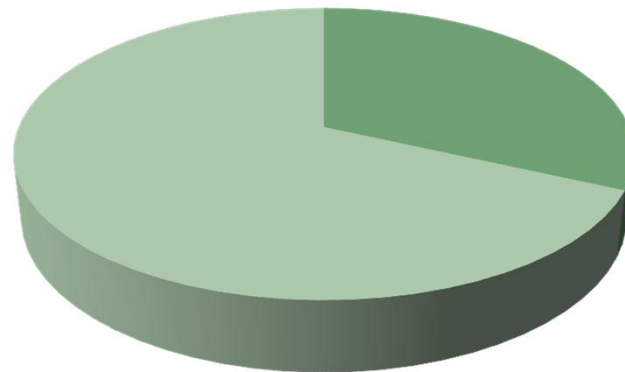
“ Successful investing involves doing just few things right, and avoiding serious mistakes. “

- Jack C. Bogle

Example of simple portfolio:

65% All World Index Fund/ETF

35% Government Bond (or Bond Index Fund/ETF)



Keep it simple

“ Successful investing involves doing just few things right, and avoiding serious mistakes. “

- Jack C. Bogle

Good to start with: “Couch potato” portfolio

Traits of a simple portfolio:

- easy to track and understand
- easy to stick to
- minimum time spent on management
- minimised costs
- helps you to avoid emotions-based decision-making

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- **Stay the course**

Stay the course

Tune out the "Noise" – It's almost always wrong



Stay the course

Tune out the “Noise” – It’s almost always wrong

- Financial forecasting news, shows, websites – noise
- Identify the good sources of information, switch off the bad advice
- Take advice from those who have no interest in selling you their products
- You have a plan – **stick to it!**

Stay the course

“We have met the enemy, and he is us. “

- ??

Don't rely on your emotions

- The one area in life where we don't want to listen to emotions
- “Gut feeling” isn't your best indicator
- Greed and fear
- Ego and overconfidence
- Loss Aversion
- Paralysis by Analysis – paradox of choice
- Following the heard



Stay the course

“No matter what happens, stick to your program. I’ve said ‘Stay-the-course’ a thousand times and I meant it every time. It is the most important single piece of investment wisdom I can give to you.”

- Jack Bogle

“Write down your strategy, then stay the course”

- Rick Ferri

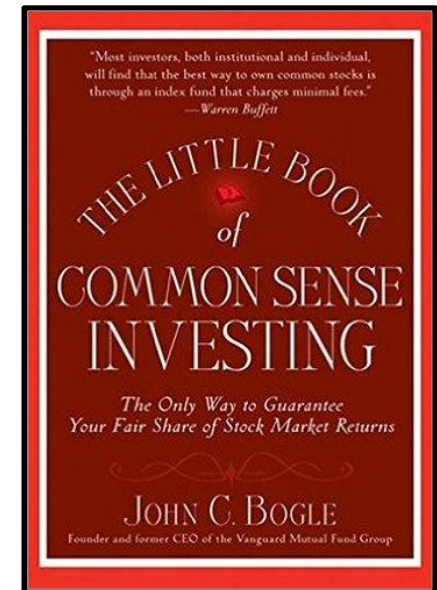
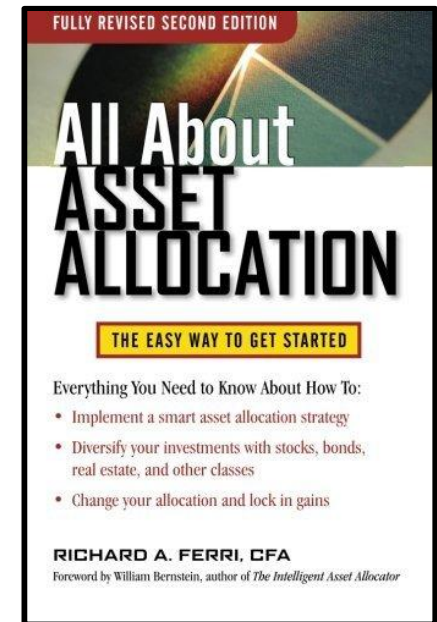
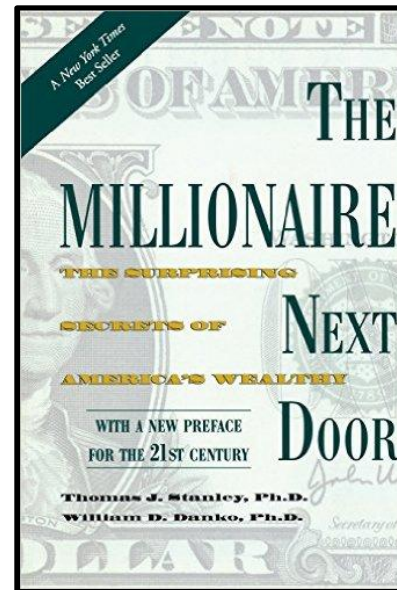
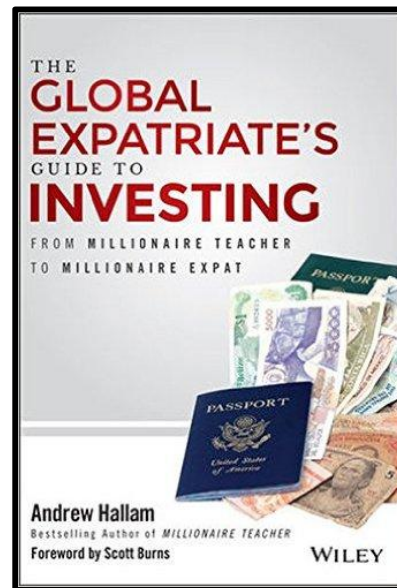
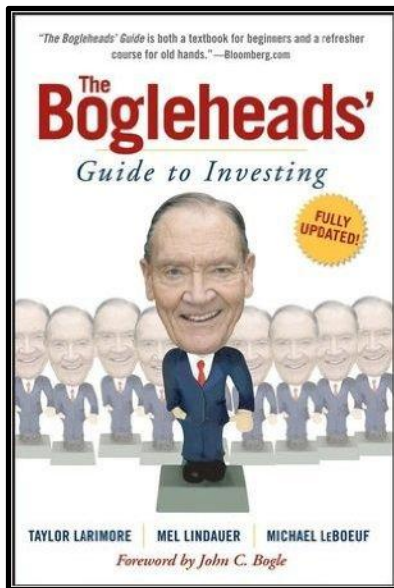
“The logical alternative to performance chasing and market timing is structuring a long-term asset allocation plan and then staying the course.”

- From The Bogleheads Guide to Investing

RESOURCES

Resources

- Do not invest unless you fully understand what you are getting into
- Join our meetups
- Read these starters books
- Read on Bogleheads.org



Resources



- Bogleheads® wiki:
www.bogleheads.org/wiki
- Bogleheads® forum:
www.bogleheads.org/forum
- Bogleheads® philosophy videos:
www.youtube.com/playlist?list=PLhuFTdy_6tKNpee1sgzyaiub6ZvqdTVSw
- Collins Stock Series:
jcollinsnh.com/stock-series/
- Mr Money Mustache:
www.mrmoneymustache.com/
- Andrew Hallam:
<https://andrewhallam.com/>

Where to find us

Sharing and learning online

- Facebook group: Common Sense Personal Finance and Investing
<https://www.facebook.com/groups/466644330175575/>
- Community website: Common Sense Personal Finance and Investing
<http://bogleheadsuae.wixsite.com/website>
- On Meetup.com, one group for Abu Dhabi and one group for Dubai