UNICORN 1200

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Unicorn Intelligent Investing Services (UIIS)

Written by Ng Yi Xian

Intelligent investing is an integral part of Unicorn's financial solutions services. Our investing practice is essential for and complementary to the authentic financial plans that we craft for you.

Intelligent investing is necessary to generate wealth for a life of financial independence. We believe that intelligent investing is the best way to do this and to avoid exposing your money to risky equity or asset allocations.

What is UIIS?

Our intelligent investing practice undertakes top-down asset allocation based on the risk-reward characteristics of each asset class at each stage of the business cycle. The Unicorn investing philosophy and discipline is that of value investing as championed by Warren Buffett. We:

- **Invest in the business** – we look to invest in 'wonderful companies' for the long term, not to buy and sell stocks for short-term gains.
- **Invest in quality** – we look to invest in companies with durable business models and strong long-term prospects.
- **Seek to buy value at a reasonable price**.
- **Have a strong tolerance for market fluctuations** – because of the good quality of our investments: we do not try to "time the market".

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What Does This Mean For You?

With the UIIS approach, **you will not fall prey to herd behaviour easily**. Herd behaviour is the phenomenon where individuals tend to mimic the actions (rational or irrational) of a larger group. It is the main reason why infamous financial events such as the Dotcom Crash in the 1990s and ponzi schemes often repeat themselves.

You will also be prepared -- especially during moments of euphoria. You want to be a tiger lying in wait for its prey, ready to pounce once the market presents 'wonderful opportunities' during a correction. It is often said that 'luck is what happens when preparation meets opportunity.' You make your own luck. It isn't just about being at the right place at the right time, but also about **being open to and ready for opportunities**.

Opportunities in the Offing?

We see signs of a market correction in the short- to medium-term due to structural issues in the global economy. Consumption in the US continues to be fuelled by debt, rather than real wage increase among Americans. Real wage growth is only 10% higher in 2017 than they were in 1973, with annual real wage growth trending just below 0.2%.[1] This is despite improving employment numbers in the US.

The debt situation is another cause for concern. Home equity loans have fallen since the sub-prime crisis in 2008, while student loans and auto loans continued to climb. Throw in credit card debt and liabilities from the three; the deficit now stands at about $3 trillion dollars as of January 2018. In fact, 43% of Americans with student loans were either behind or had received permission to postpone their payments due to economic hardship.[2] This is just the tip of the iceberg of the structural issues that we see in the US.

Geopolitical issues could potentially worsen too. The ongoing trade spat between the US and China could worsen with President Trump's America First agenda. China's expansion and aggression in the South China Sea is also causing unease in the region. And the Middle East continues to be a hot bed of one political crisis after another. Finally, let's not kid ourselves that relations are rosy between the two Koreas just because they agreed to march together at the opening ceremony of the upcoming Winter Olympics.

China's debt-fuelled growth continues to worry. There are signs that Beijing's attempts to wean the economy off easy credit are starting to take effect. And with President Xi cementing his top position in the Communist Party last October, we expect more reforms to be pushed through in the coming months to restructure China's economy.

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What Should You Do?

Keep your eye on inflation in the US. There are signs that prices could climb further as a rise in demand helped accelerate output growth for US manufacturers in December. This rate was the fastest since the start of 2017.[3] There will be upward pressure on commodity prices which we are already seeing in 2018, and this will trickle down to consumers.

Should inflation get out of hand, we expect the US to tighten monetary policy aggressively and raise interest rates. Considering existing long-term real wage stagnation, a rise in default risks should not surprise. This will also exacerbate the US debt problem.

This could be the trigger to a market correction and it is exactly the opportunity that you as an intelligent and value investor, have been and are looking for. You will be able to acquire businesses and assets that are trading for less than their intrinsic values when the time comes.

With best regards,
Unicorn Investing Committee

Source

[1] –Thirteen Facts About Wage Growth
https://www.brookings.edu/research/thirteen-facts-about-wage-growth/

[2] –Education Department (Student Loans); Federal Reserve Bank of New York

[3] – US Manufacturers Purchasing Managers Index (PMI)
https://www.investing.com/economic-calendar/manufacturing-pmi-829

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