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Your share of the pie: Investing for your own future

Carly Doshi: Hello, and welcome to Women and Wealth, Doing It All. An HSBC Private Banking series by women for women. I'm Carly Doshi and I'm the Head of Philanthropy, Family Governance and Family Office Advisory.

Women on average have a higher life expectancy than men, and yet, as we all know, we continue to earn less. This means we have to be even more mindful of our wealth and managing it over the course of our lifetimes. And this is exactly why we wanted to create this program of podcasts to inspire and empower you to take charge of your wealth and your future. So, with the help of some experts we decided to dive into what this all means. How do successful women manage their wealth, effectively work with their advisors and stay on top of it all while continuing to manage businesses, their families and their other obligations? Each episode you'll hear me engage with HSBC subject matter experts who everyday work with women like you on important financial topics from investing in your future to protecting your finances from divorce, death and disaster, to being part of something that outlives you.

Now, like everything these days, we're recording these podcasts remotely from our respective homes so please accept our apologies in advance for any glitches in sound or background noise.

Today we are in for a treat because I am joined by two HSBC Private Banking specialists. Senior Investment Counselor Shelly Wong and Head of Investment Products Jessie Zhu. As you've probably guessed from their titles, in this edition we will be shining a light on investing and what women need to know. Shelly and Jessie will discuss some investment basics, they'll explain why risk is not a dirty word, the role of asset allocation and tips for working with your advisor. Shelly and Jessie, welcome. It's great to have you both here.

Jessie Zhu: Delighted to be here, thank you.

Shelly Wong: Thanks Carly, it's great to be here.

Carly Doshi: Shelly, let's begin with the question that came up while we were planning this program. Do men and women actually invest differently?

Shelly Wong: Thanks Carly, I'm glad that you asked that question. Yes, there are differences. The biggest one in my view is simply that fewer women invest. And when they

do, they tend to prefer cash over riskier assets like stocks. A lot of studies have shown that as a general group, women feel less confident and more risk averse than men, and this hurts them because despite short-term fluctuation, markets do tend to rise over time. So, what they end up missing out on is letting the power of compounding work for them. So, compounding is basically the concept of earning a return, not just on your original investment but also on accumulated returns you have generated. So not to get too technical here, but there is this quick simple formula called the rule of 72, which can be quite helpful in estimating the time to double one's investment. So, the formula says, if you take the number 72 and divide it by the average annual return, you'll get the number of years it will take to double your investment. For example, if I were to make 1% a year by putting my money into cash, I should be able to double my money in 72 years. On the other hand, if I were to make 8% year, it should take me just 9 years to double my money. The follow-on for that is that in another nine years I will have doubled my money again. So according to this formula, I could theoretically quadruple my investments in 18 years, if I were to make 8% a year. Clearly and just to clarify, this is an example based on a theoretical concept. Markets go up and down and you can have negative returns. But what I'm trying to illustrate here is the potential upside we're maybe giving up by staying away from investing.

Carly Doshi: Shelly, do you think that women's risk consciousness can actually be helpful?

Shelly Wong: Interesting you say that Carly. There are actually many studies that have shown that women who do take the plunge and invest in stocks, actually do better than men. They're actually better at taking calculated risks and tend to have a longer-term perspective. So yes, women's risk consciousness can actually be an asset when it comes to investing.

Carly Doshi: So, it sounds like women are extremely capable which is encouraging. But risk aversion sometimes plays a role. Jessie let's bring you into the discussion. In your opinion, is risk really a dirty word?

Jessie Zhu: Thank you Carly, it's an important question. Risk is something all investors have to come to terms with. Risk is not inherently bad though. It is an active ingredient to achieving certain return targets. Typically, the higher the potential return, the more risk an investor needs to take. Let me give you an analogy. There are billions of bacteria in our bodies that enable our systems to function properly. Some bacteria are helpful, some are harmful, others are neutral. Like it or not, we can't live without bacteria in our bodies. The key is to have a healthy mix. So similar to bacteria in a human body, a well-diversified portfolio manages risk without eliminating it. So, it's important to do health checks on investment portfolios. Bad risks are risks we're not aware of.

Carly Doshi: Understood, risk is a fact of life. Now I want to do a little role play. Say I am prepared to take the plunge and get started in investing and I come to you for advice. Jessie, how would you work with me to get started?

Jessie Zhu: That's great, I'm really excited you're ready to go ahead Carly. We're glad to help you set out on this important journey. Let's go over some basic principles for investing. First and foremost, to go back to what Shelly said, stay invested. So, start early to benefit from compounding as Shelly just explained. Through the power of compounding, time is your friend. Don't worry about starting at high or low points in the market. If you are nervous about investing a lump sum, then spread it out and make regular investments. Then you are not as concerned about market fluctuations. It's all about discipline. If you ignore the headlines and stayed invested, chances are you would have been where you were after the wild ride. It's hard to resist the headlines and the urge to do something, this is called our action bias. We feel the impulse to do something, when often the best course of action is to ride it out and do nothing. Second thing to keep in mind is diversification. Single asset class performance can vary greatly from year to year. The best performing asset class in one year can be the worst the year after. Diversification means investing in various asset classes so that your overall portfolio is less exposed to the ups and downs of any single asset class. A diversified portfolio can generate better returns for the same risk, and it gives you a smoother ride. So, the way we achieve diversification is through asset allocation. Asset allocation means a customised blend of stocks, bonds, cash and alternative investments based on your risk tolerance. Asset allocation is the anchor for investing. Studies have shown that more than 90% of a portfolio's return is driven by its asset allocation. Whereas security selection and the market timing are much less important. The third point I want to make is invest in the most tax efficient way possible. It's important because when it comes to investing, it's not just about how much you make that matters, it's how much you keep after taxes.

Carly Doshi: Thanks Jessie, tax efficiency is important and it's a topic we take up in other programs in this series. Shelly, expanding on Jessie's guidance, what are some common pitfalls you see people make when they start investing?

Shelly Wong: Sure. The most common pitfall that I see from my clients Carly, is attempts to time the market. The problem with that, is that it's very hard to get it right consistently. I see from my clients who try to do that, especially the ones who try to do that without an asset allocation as an anchor, they often end up making very concentrated or risky bets on specific market outcomes. And sometimes they get it right but a lot of times they don't. So instead of timing the market we believe in time in the market. I would just mention another pitfall in my opinion is when investors don't spend enough time upfront discussing their goals and preferences and risk appetite. All the ingredients that Jessie talked about that go into a sound investment strategy. So, I work with a lot of families and individuals, and I do notice that men and women approach these conversations differently.

Carly Doshi: That's interesting Shelly, can you give some examples?

Shelly Wong: Yes of course. So, I notice that my male clients tend to focus more on returns, yields and risks. Women want to know these things too, but I find many of them have a much broader concept of finances and money, especially when it comes to things and people that are closer to their hearts. So, they tend to focus on traits and characteristics of the investment, and long-term benefits of investment rather than the tactical short-term advantages. Also, I would say that some of my women clients say that they get frustrated when they get bombarded with finance lingo or statistics that they don't understand. It leaves them feeling overwhelmed and as a result is that they turn away from investing. So, I spend a lot of time upfront listening and understanding their goals and their needs, their values and passions. So, for me, investing in that advisor client relationship goes a long way to help them stay the course and not turn away, especially when things get hard.

Carly Doshi: Thanks Shelly. I want to hear more about trying to time the market. Jessie let's get your perspective. Can you tell us some things investors should keep in mind to help prevent them from falling for this trap, especially during market volatility?

Jessie Zhu: Sure Carly, I'm glad that you brought this up. Our message is to tune out the noise, be prepared for the ups and the downs and to stay true to your personal values. Also focus on the long-term structural drivers that affect all investors. Let me give you an example of an internal driver. Whenever a crisis or natural disaster hits, those parts of our society that are most vulnerable tend to be most affected. The silver lining is it's the opportunity for us to rebuild and recover in a more sustainable way. Today more investors want to align their investment decisions with their personal values. We believe those companies who incorporated ESG, that is environment, social and governance, into their DNA, will more likely outperform. Doing well by doing good is on the minds of more investors than ever.

Carly Doshi: So, you're saying that by investing in alignment with your values, you don't necessarily have to sacrifice returns?

Jessie Zhu: Yes exactly.

Carly Doshi: What else?

Jessie Zhu: Well, let's take a look at an example of an external driver. Situations such as COVID have acted as a catalyst for the accelerated adoption of many technologies. Many sectors are seeing innovation and disruption by these technologies, including healthcare, education, retail and entertainment. To support the increased demand of these technologies, infrastructure is also expanding and changing. Such as 5G, cloud services, data storage. As you can imagine, just as companies need to stay ahead of the curve to remain competitive, investors need to focus on the big picture to achieve their return objectives. So, Carly, as long as you have a solid flight plan that takes account of these long-term implications, you will stay on course.

Carly Doshi: Thank you Jessie. We've discussed traditional equities and fixed income, but what about alternative investments? Shelly, turning to you, how do alternatives play a role in constructing a portfolio, and maybe what advice would you give to a woman who's interested in adding alternatives to her investment portfolio?

Shelly Wong: Sure, alternative investments basically are anything that fall outside of the traditional asset classes like stocks and bonds and cash. So, they typically include things like private equity, hedge funds, real assets, which include real estate and commodities. There are two main roles alternatives play in a portfolio. First, they can help reduce portfolio risk through diversification. Specifically, diversification away from traditional equity and fixed income. So alternative assets usually have a lower correlation with traditional assets, meaning that they tend to behave differently than stocks and bonds. So, adding them to a portfolio can shelter a portion of your portfolio during market crashes or even offset losses with gains. Secondly, I would say that they can help enhance returns. This is because alternative managers generally have a much broader toolbox. For example, hedge funds can invest in a much wider variety of financial products than most mutual funds. They can make money when the stocks go up or go down, they can use leverage, they can increase concentration, and private equity managers invest in private companies which historically enjoyed a higher return than public equity. So, all this flexibility allows them to be opportunistic and focus on market dislocations and inefficiencies. And this can be particularly beneficial during and in the aftermath of a vulnerable period. For our clients, based on our asset allocation model, we generally suggest allocating between 20 to 30% of the client's portfolio to alternatives, depending on their risk appetite, time horizon objectives and so on. In terms of advice, I would say that manager selection is key. For traditional investing, we believe asset allocation drives 85 to 90% of the returns as Jessie has mentioned before. But in alternatives, it's the other way around. Studies have shown that the majority of the returns here are driven by manager selection. This is because return differences among alternative managers are much wider. In that they may be illiquid, they're not regulated by the FCC, these products are complex and are intended for sophisticated and experienced investors. They can also have significantly higher fees and have higher minimum investment requirements and other specific eligibility requirements. So, they need to be vetted there carefully and you should definitely partner with an experienced due diligence team before participating.

Carly Doshi: Wonderful advice, both of you. To summarize, we should all lean into the investment conversation. Don't assume risk is negative and consider the power of compounding and diversification as key tools in our financial toolkit. Of course, we should all be asking questions of our advisors, whether that's to clarify investing terminology or to learn more about opportunities with alternatives and specialty investing categories. Thank you both for being here.

Jessie Zhu: It was a pleasure spending time with you. Thank you.

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Shelly Wong: Carly, thank you for having us.

Carly Doshi: To our listeners, thank you for joining us. Today's program was part of a series on Women and Wealth, Doing It All by HSBC Private Banking. We sincerely hope you enjoyed our discussion and found it inspiring, informative and also empowering. Let's keep the conversation going. For more on today's topic and other wealth management and planning solutions, visit us at hsbcprivatebank.com or if you have a Relationship Manager reach out directly to them. Thank you for your time today.