Three Tips You Need to Know to Fend Off Market Noise

We are constantly bombarded by a mass of groundless information every day; unfounded rumours are equally rampant in the investment market. Market noises often hinder sound judgments when members build their MPF asset allocation strategies, so we must learn to discern and fend off baseless information.

Useless information makes the market noisy

Market noises refer to those untrue concepts and information in the market. In order to guard ourselves against market noises and make sure that our MPF assets are properly managed, members should keep in mind three principles:

1. Don't let market sentiments skew your decision

Global stock markets including Hong Kong have been performing strongly during recent months, and market sentiment has stayed upbeat all the while. Mirroring the rosy picture, traditional media and social media are filled with optimistic rhetoric and speculations about the magnitude of the market boom. However, market sentiment is like a pendulum in motion, swinging from extreme optimism to over-pessimism. Against this backdrop, market expectations may sometimes pull away from justifiable valuations. Therefore, it is unwise to base your investment decisions on market sentiments and your instincts alone; doing so may put your investment in peril.

If investors act on market sentiments and short-term market fluctuations, they may risk "buying high and selling low". This is because average investors, hoping to capture a rally, tend to enter the market when it is already overheating. On the contrary, they may turn a blind eye to the reasonable level of market valuations and sell low in a bearish market when fears set in. To avoid being overwhelmed by market sentiments, the easiest thing to do is to steer clear of short-term trading. In fact, the Dollar Cost Averaging method (investing fixed sums at regular intervals) is an effective way to weather short-term market volatility. By applying this method, members need not worry too much about short-term fluctuations.

2. Scrutinise and verify information

The easy accessibility of information is a double-edged sword. Although information can be fetched quickly and at a lower cost, thereby reducing the negative impact of information asymmetry, information overload could also translate into longer man-hours spent on distilling accurate and useful information from the unimportant ones. With the omnipresence of social media today, everyone can create their own content, or self-media. Some key opinion leaders (KOL) even have far more followers in their social media accounts than traditional media outlets. In the new media, users usually relay information at the instant they receive them; few would proactively verify the accuracy of the information. Therefore, we need to be more vigilant as information receivers. We should try to ascertain the authenticity of the information with official sources when necessary.

Furthermore, even though a piece of news is true, we must study the content carefully and ponder whether the information is relevant to us. For example, we often hear about the average profit or loss of MPF accounts of a certain month or period on the news. Some organisations may even cite this information to highlight their own MPF track records. But when you give it deeper thought, you may realize that this information is in fact irrelevant, in the sense that it won't directly affect your investment. Therefore, this piece of information is market noise in disguise; it should be ignored.

3. Adhere to your predetermined investment plan

As the traditional saying goes: "If you just sit on this mountain and think about climbing the next, you will achieve nothing." Indeed, to succeed in doing almost anything, perseverance and an unwavering determination to execute your plans are essential. The same is true for MPF management. We must clearly define our investment objectives and formulate proper plans. After careful planning, what's left to do is to execute the plan and conduct regular reviews to see if the performance of your MPF funds is in line with your expectation. This is analogous to planning a road trip: before we hit the road, we have to plan the driving route and learn how to get to our destination. With proper planning, we can head to the right direction and arrive at our destination efficiently, without being side-tracked. Having a good preparation will help you gain confidence, so that you can attain the goals laid out in your plan with determination.

In conclusion, to manage MPF assets efficiently, members should learn how to filter market noises from a gigantic repertory of information; they should also carry through their predetermined plans and conduct regular reviews. ■