StashAway Insights 2020

StashAway

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Introduction

Foreword by Michele Ferrario

It has been quite a ride since we launched StashAway in Singapore in July 2017. Since then, more than 100,000 people have become a user of our digital platform in Singapore and Malaysia.

We built StashAway with the goal of empowering people to build their wealth in the long-term. To achieve this aim, we wanted to make sure we could offer a full range of high-quality financial products so that our clients can use StashAway as their principal wealth management partner. In 2019, we launched 2 new products - our Singapore-focused Income Portfolio and StashAway Simple™, our cash management portfolio.

This acceleration in product development was made possible by our latest fundraising. In July 2019, we secured a $12 million USD Series B round led by Eight Roads Ventures, the proprietary investment arm of financial giant Fidelity International and early investor in Alibaba, and Asia Capital & Advisors, a private equity firm led by Francis Rozario. Our 70-people strong team will continue to work on improving our product offering, and on bringing it to people living in other countries.

We take a data-driven approach to investing, and we use data to help our customers make the best of their savings. In the last 2.5 years, we have collected a vast amount of data that we used both to improve the client experience and to continue our efforts to educate Singapore and Malaysia residents about financial planning and investing. As the South East Asian leader in the digital wealth management space, we believe it's our duty to share these actionable insights more broadly, as they may help more people think about their finances and talk about saving and investing behaviours. This first edition of the StashAway Insights 2020 includes insights on the behavioural biases and the investing behaviour of investors during the 2018 December market correction as well as it debunks some common myths about digital wealth managers.

The StashAway Insights 2020 will be published annually. As we expand to more countries, we hope that this report will be able to capture the saving and investing behaviour of the citizens in those countries as well.

I would like to thank our clients for their support over the past few years; we will continue to work hard as we strive to help more people build their wealth over the long-term.

Yours in investing,

Michele Ferrario
Co-founder and CEO, StashAway

Foreword by Eight Roads

Managing finances shouldn't be daunting, complex, and tedious. We believe StashAway is solving that problem and that's why we led their USD 12M Series B fundraising round. StashAway is a digital wealth management platform that is powered by a data-driven investment framework.

Despite Southeast Asia being a sizeable private wealth market, the industry is still dominated by traditional players offering products that are not necessarily well-suited to customer's needs.

Singapore is a classic case in point. With just a small population of 5.6M, the country has a larger onshore private financial wealth market than India. However, the market suffers from two fundamental issues:

1. Most consumers are managing their wealth sub-optimally
   - ~36% of gross household financial assets are still held in low-yield bank deposits (compared to 14% of other developed markets such as North America)
   - Even for financial investments, ~50% is deployed in investment-linked insurance products that have usually proven to be a poor investment option

2. Many of the products have high in-built costs (primarily related to distribution)
   - One of the reasons investment-linked insurance delivers low returns is that a large part of the premiums is paid out as fee to agents
   - Even investing in unit trusts or mutual funds is quite expensive with banks levying at least a 1% entry charge in addition to the 1.25-2% annual management fee (the entry charge, in particular, incentivizes a lot of advisors to churn their customers' portfolio as it is paid out every time a fresh investment is made). These costs eventually make their way to the customers resulting in lower net returns.

While we have experienced first-hand the steps StashAway has taken to build trust (from its super-responsive customer support team, answering calls on average in 8 seconds, to conducting regular educational seminars that often have very little direct commercial benefit for the company), we were especially impressed by its investment framework that beat all benchmarks when compared to peers in the US and Europe. The company's consumer-focused philosophy resonated with us -putting the customers' investment goals and risk profile ahead of just maximising returns. Unlike your usual financial planner who would recommend investments based on very basic parameters (eg: a broad split between debt and equity), StashAway's proprietary investment framework monitors a customer's investment goals and continuously optimizes the portfolio based on evolving macro trends across multiple assets classes.

Introduction

With the launch of this report, StashAway is taking another step towards building trust and educating the local investor. Sharing two and half years' worth of data, the report sheds light on the investing behaviour of Singaporeans during the market correction in December 2018, which we all recall as the worst correction since the start of this bull market in 2009. They also present data that debunk some common myths about digital wealth managers or "robo-advisors", highlighting the impact that digital technology will have on how people from different walks of life build their wealth.

We hope you enjoy it as much as we did.

Prakhar Singh
Vice President, Eight Roads

About this report

StashAway currently has more than 100,000 users between 18 and 88 years old. StashAway Insights 2020 is based on a subset of our users comprising of 92,485 Singaporean and Singapore Residents.

A little more about the investors in our study:

- It comprises of investors who were invested with StashAway during the December 2018 correction
- 71% of investors are between the age of 25 to 45
- Investors work in a variety of industries; the top 4 include finance services, technology, government, and consulting

A look into investor behaviour in a market correction

Background

We analysed investor behaviour during the December 2018 market correction. A market correction is defined as a decline of 10%[1] or more in market prices. 2018 had 2 market corrections[2]:

- February (-10.2%)
- December (-19.8%)

The returns are based on the S&P500 Index. The report focuses on the December 2018 market correction because it was the most intense of the 2 corrections. The results we observed in the February 2018 correction are similar to those observed in the December 2018 correction.

1. Source: Bloomberg
2. Source: Bloomberg

December 2018 Market Correction

Here are 2 views of the S&P500's performance that illustrate how different short-term (Figure 1) versus long-term (Figure 2) performance can seem to an investor. The December 2018 market correction had the steepest drop since the 2008 Global Financial Crisis.

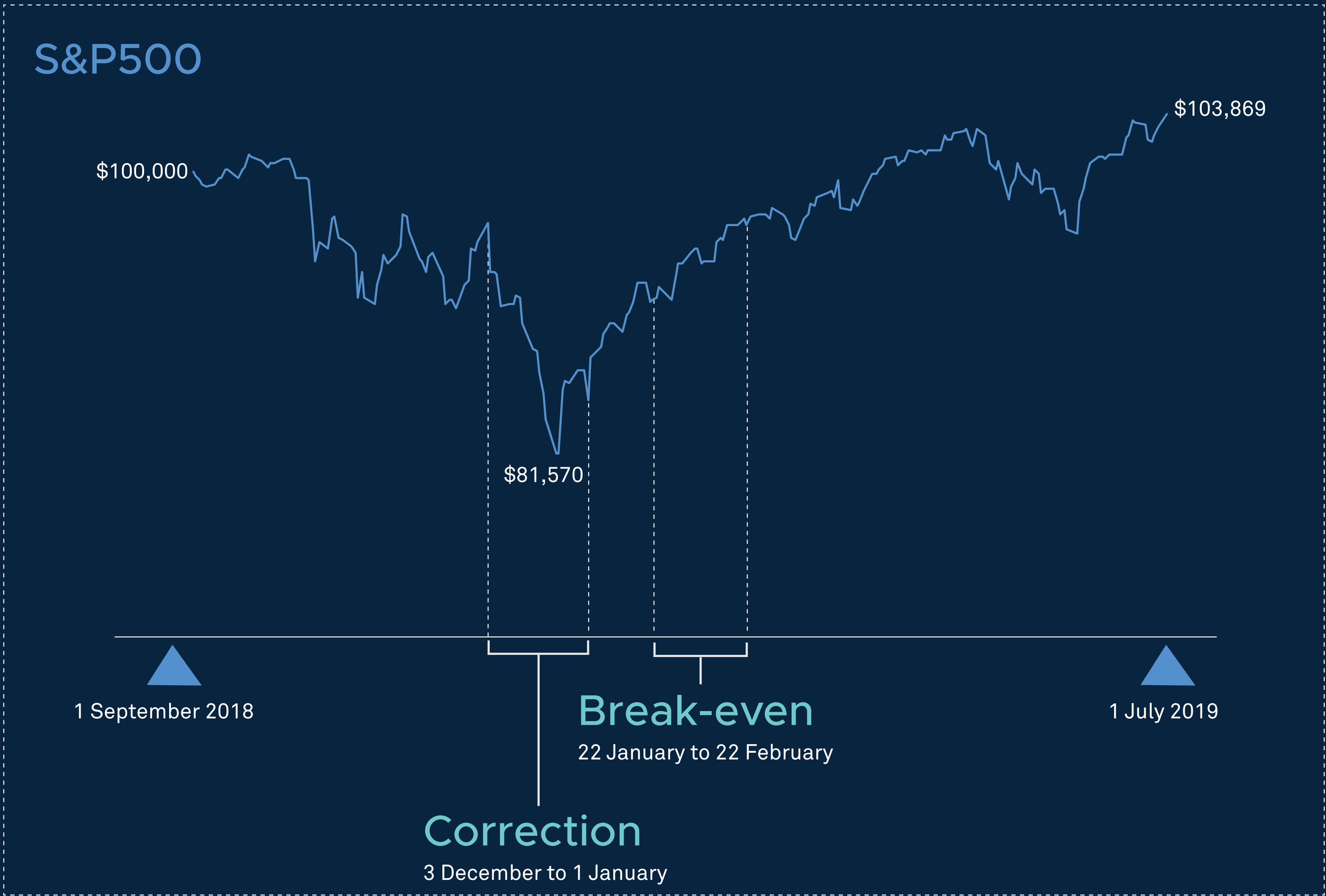

Figure 1: 10 months of the S&P500 performance, including the December 2018 market correction
Source: Bloomberg

Figure 2: 10 years of the S&P500, including the December 2018 market correction
Source: Bloomberg

The 4 types of investors

While there are more than 4 types of investor behaviours observed, we found that the 4 types of investors defined below are the most prominent.

The Impulsive Investor

Logs in to the app every

4.1 days

The Impulsive Investor demonstrates a loss-aversion bias[3] by withdrawing his or her investments during a correction, and does not re-enter the market even if the investments would have broken even.

The Loss-averse Investor

Logs in to the app every

4.9 days

The Loss-averse Investor also demonstrates loss-aversion bias. However, he or she tends not to take any action during a correction and withdraws from the market only once he or she breaks even.

The Irregular Investor

Logs in to the app every

9.5 days

The Irregular Investor doesn't react much to market movements, but can miss out on buying the market at its lowest point, because he or she does not have a regular investment plan in place. He or she ends up not depositing during a market correction.

The Systematic Investor

Log in to the app every

8.4 days

62% of StashAway's investors are Systematic Investors. The Systematic Investor takes a dollar-cost averaging approach to investing. He or she invests at least quarterly, regardless of market movements or media noise.

3. Loss-aversion is a tendency in behavioural finance where investors are so fearful of losses that they focus on trying to avoid a loss more so than on making gains. Source: Corporate Finance Institute

A summary of the 4 types of investors

	Correction (Figure 1, page 9)	Break-even (Figure 1, page 9)	Login frequency
The Impulsive Investor	Withdraws a majority of his or her investments	Doesn't take any action	Every 4.1 days
The Loss-averse Investor	Doesn't take any action	Withdraws a majority of his or her investments	Every 4.9 days
The Irregular Investor	Doesn't take any action	Deposits to his or her investments	Every 9.5 days
The Systematic Investor	Deposits to his or her investments	Deposits to his or her investments	Every 8.4 days

The Impulsive Investor and the Loss-averse Investor tend to react prematurely to market noise and withdraw from the market, and log in to check their investmensts very frequently.

The Systematic and the Irregular Investor continue depositing to their investments regardless of market movements. They tend to make active choices to stick to their investment plans regardless of the ups and downs of the market, and of media noise.

What do investors do in a correction?

(Figure 1, page 9)

Deposit behaviours

Investors are 18% more likely to stop their regular deposit plans during a correction.

Investors who stray from their investment plans due to short-term volatility buy securities when markets recover to higher prices, and sell when securities are at their cheapest.

Withdrawal behaviours

Investors are 6% more likely to withdraw their money from their investments during a correction.

Once investors incur a loss during a correction, they may choose to stay invested or withdraw their investments. A withdrawal results in locking incurred losses.

Investors are 29% more likely to withdraw from their investments once they break-even than in pre-correction.

Break-even can feel as if all losses have been avoided. However, investors who withdraw their investments once they break-even still incur the loss of missing out on any or all returns in the future.

“S&P500 had the worst drawdown since 2009 in the last quarter of 2018. However, the first quarter of 2019 was the best since 2009. This means investors who panicked and withdrew during the December 2018 correction missed out on the best quarter in 10 years.”

- Freddy Lim, Co-founder and CIO, StashAway

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Impact of investor behaviour on returns

	Login frequency	Returns[4]	What this means for investors
The Impulsive Investor	Every 4.1 days	-2.28%	The Impulsive investor withdraws during the correction and therefore locks in the losses incurred.
The Loss-averse Investor	Every 4.9 days	0.44%	The Loss-averse Investor withdraws once his or her investments break-even and therefore miss out on the future upside.
The Irregular Investor	Every 9.5 days	10.34%	The Irregular Investor misses out on an opportunity to buy into the market at its lowest point.
The Systematic Investor	Every 8.4 days	10.85%	The Systematic Investor sticks to his or her investment plan and therefore achieves the best results.

Investors who are anxious and login more frequently end up playing a role in the underperformance of their investment portfolios. Investment portfolios of investors who continue depositing regularly, despite the market movements and noise, perform the best.

4. Returns are calculated on withdrawal date or 6 months after the correction for customers who didn't withdraw.

What else influences an investor's behaviour?

Investing experience

Inexperienced investors are 60% more likely to stop their regular deposits during a correction than experienced investors are.

In a chaotic market environment, such as a correction, inexperienced investors focus on the losses they incur instead of the fact that lower prices present buying opportunities they didn't have before.
On the other hand, experienced investors tend to stick to their investment plans.

Inexperienced investors are 2x more likely to withdraw their investments during a correction than experienced investors are.

The short-term volatility of a market correction can push inexperienced investors to withdraw their investments as a way to avoid further losses. However, withdrawing during a correction means selling securities when prices are lower and locking in the losses incurred.

“All you have to do is simply be patient, ignore the noise, and stick to your investment plan. It’s ok to look at your returns and investments every once in a while, as long as you keep your emotions in check.”

- Freddy Lim, Co-founder and CIO, StashAway

What else influences an investor's behaviour?

Age

Investors older than 40 years are 28% less likely to stop their deposits during a correction than investors between 30 and 40 years.

Investors older than 40 years are 39% less likely to stop their deposits during a correction than investors below 30 years.

Investors between 30 and 40 years are 2.1x more likely to withdraw during a correction than investors above 40 years.

Investors below 30 years are 2.9x more likely to withdraw during a correction than investors above 40 years.

Debunking myths about digital wealth managers

Myth 01

“Digital wealth managers are for millennials.”

Fact 01

More than 50% of assets under management comes from investors aged 35 and above

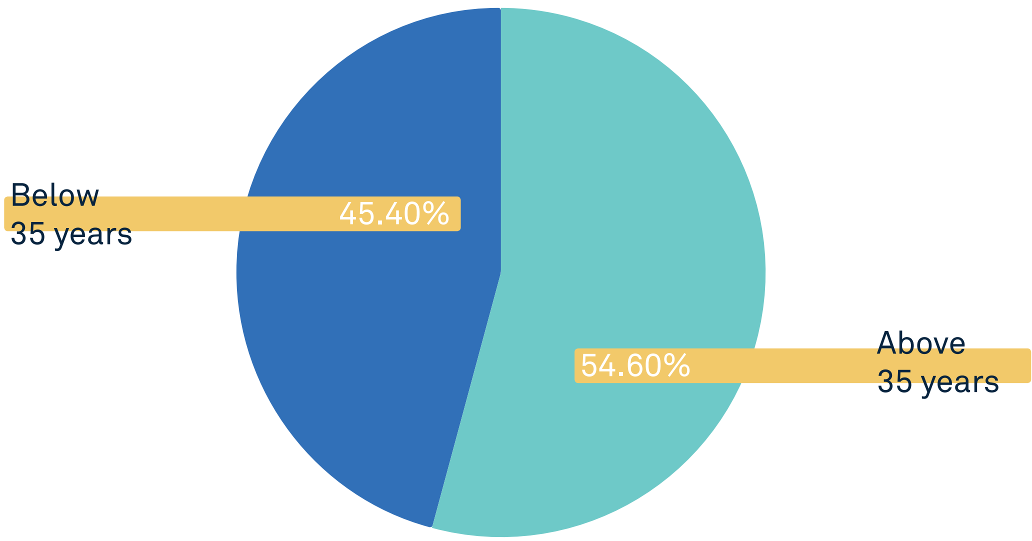


Figure 3. Share of investments by age

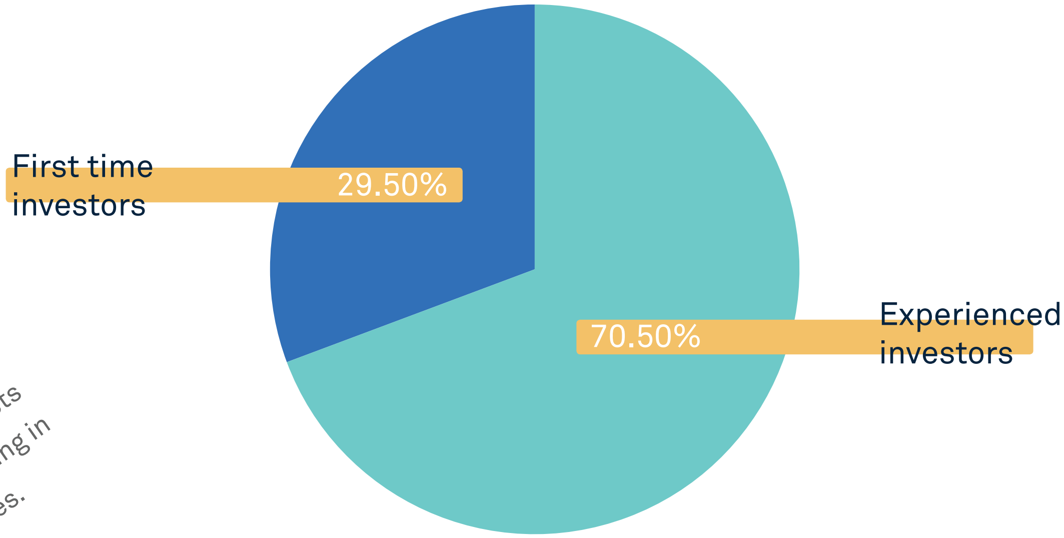
Fun fact: Our oldest investor is 88 years old.

Myth 02

“Digital wealth managers are for beginners.”

Fact 02

More than 2/3 of assets under management come from experienced investors



Fun fact: 25% of our assets come from those working in the Financial Services.

Figure 4. Share of investments by investing experience

Myth 03

“Digital wealth managers capture a small share of wallet.”

Fact 03

More than 1/3 of a Systematic Investor’s monthly savings are invested with StashAway

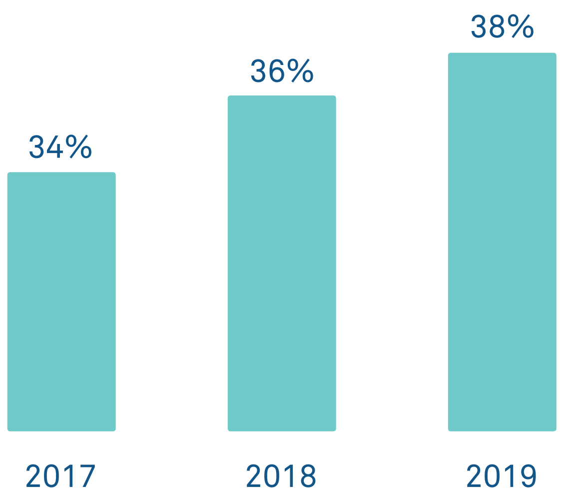


Figure 5. Share of monthly savings[5] invested with StashAway by Investors

5. Monthly savings are calculated net of taxes, expenses and CPF contributions

Myth 04

“Investing is only for men.”

Fact 04

Increasingly, women are becoming a stronger presence on our platform

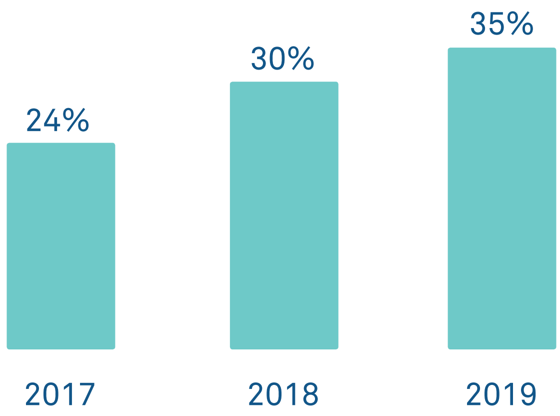


Figure 6. Percentage of new women investors every year

Fun fact: Women have on average a 1.81% lower StashAway Risk Index than men.

Myth 05

"Digital wealth managers are not for high net-worth[6] individuals."

Fact 05

18% of assets under management come from high net-worth individuals

6. High-Net-Worth investors are defined as having more than S$300,000 in yearly income and/or S$1,000,000 in investable assets.

How StashAway is bridging the financial literacy gap

62% of StashAway investors invest on a regular basis.

Here's how we're working with the remaining 38% of investors to improve their investing habits.

Educating investors

We've intentionally designed our platform to educate investors about effective financial and investing habits.
Specifically, our platform:

- encourages systematic investing through dollar-cost averaging and monthly investment plans,
- emphasises importance of diversification through our global fund selection,
- emphasises risk management instead of timing the market through our investment framework,
- and educates on the importance of low fees to get higher returns.

StashAway Academy

StashAway Academy is another initiative we have taken to bridge the financial literacy gap. It aims to educate investors by conducting free and non-commercial seminars and webinars about the importance of building long-term wealth. All seminars and webinars are open to anyone. The StashAway Academy Curriculum includes beginner, intermediate, and expert courses that cover a wide range of topics, such as investing for beginners, retirement planning, investing in ETFs, financial planning, and StashAway's investment framework. StashAway Academy also conducts electives, such as Investing for women, How to Start a Business that Lasts, StashAway: An Inside Look.

6000+ people have attended academy seminars

Those who attend at least 1 StashAway Academy seminar are:

38% more likely to stay invested in the markets

19% less likely to be a loss-averse investor

25% less likely to be an impulsive investor

32% more likely to be a systematic investor

Refer to page 10 for more information about the 4 types of investors

About StashAway

StashAway is a digital wealth management platform for both retail and accredited investors. Its technology delivers automated, personalised portfolio management for each client's individual portfolios. Its risk-management investment strategy, ERAA® (Economic Regime-based Asset Allocation), is designed to maximise clients' long-term returns while keeping each individual customer's specific risk exposure constant through changing economic cycles.

StashAway offers its service with no lock-up period, flexible deposits and withdrawals, and annual management fees between 0.2% and 0.8%. We offer an Income Portfolio to meet the localised income needs of Singaporeans as well as a cash management portfolio, StashAway Simple™, which earns a competitive rate on cash with no requirements or restrictions.

StashAway was founded in 2016 in Singapore, and operates in Singapore and Malaysia. StashAway has a Capital Market Services License for Retail Fund Management from the Monetary Authority of Singapore, and a Capital Market Services License for Retail Fund Management from Securities Commission Malaysia. The company has raised $20.4 million USD in three funding rounds. As of August 2019, it serves more than 100,000 users of 125 nationalities who live in 77 different countries.

The StashAway Insights 2020 was made possible because of our clients and the trust that they have placed in us.
We would like to thank them for their support for the past two and a half years.

Disclaimer

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