Take actions that defy conventional wisdom, like putting 100% of cash you don't need into stocks

How to fast-track your retirement

SOME people dislike working. They prefer to retire as soon as possible. This article is for them. To fast-track something is not easy. It requires one to take actions that defy conventional wisdom.

First, *"Always be a business owner, not a lender"*.
The easiest way to own a business is to buy shares in the stock market. If you own a share, it means you are a business owner.

Businesses earn the highest returns. The median return on equity of Singapore listed companies is 9%. If you choose to lend money, fixed deposits give you 1% and risky corporate bonds give you 5%.

You get measly returns from being a lender, so be a business owner. Sometimes, the risk you take from buying poor-quality corporate bonds is as much as being a business owner. To retire early, own a business.

Second, *"Put 100% of cash you don't need into stocks"*.
Don't invest in commodities, gold, land-banking, overseas properties, doughnut shops, hipster cafés, fixed deposits, bonds and flavour-of-the-month unit trusts.

If you do that, your overall portfolio average return will be 2% per year. $100,000 growing at 2% for 10 years is going to be $122,000.

Instead, putting $100,000 into stocks will net you $216,000 over 10 years at an 8% rate of return. The 8% return is the long-term average of the Singapore stock market. $122,000 versus $216,000? You decide.

Third, *"Invest only in small capitalisation value stocks"*.
Small capitalisation means small companies. Value is short for "value investing". Value means stocks that have characteristics such as low price-to-earnings ratios, low price-to-book ratios and high dividend yields. Study after study has demonstrated that they give the best returns over the long term.

If you want to achieve returns of 10% or more per annum, buy small capitalisation value stocks.

Fourth, *"Be massively diversified. Own at least 100 stocks in different countries and industries"*.
Most investors have only 10 to 15 stocks. If you have 10 to 15 stocks, you will form an emotional bond with your stocks. If one of them were sick, you would not be able to sleep at night. When you have an emotional bond, you will make mistakes — such as not cutting losses when something is evidently wrong and holding on to your winners till they become losers.

Instead, have at least 100. Don't just invest in Singapore stocks. Go regional, or even global. Invest in Hong Kong, China, Thailand, Korea and so on. Go to the country that is having a cheap sale in stocks.

Treat your stocks like a farmer treats his 100 chickens. When they are fattened, slaughter them and bring them to the market. Do not ever give a name to your chickens, or stocks; they are not your pets.

Fifth, *"To master risk, change the way you think about risk"*.
When you see your share price drop, it does not mean that you participated in a risky activity and you are now paying the price. It just means that some dummy who does not understand the true value of the stock sold it, and someone smarter on the other side of the transaction who understands fair value bought it. The seller probably sold it because he is a nervous chap and he is very worried about The Donald, May, North Korea, Global Warming and the Monster Under His Bed.

Sixth, *"The Way to Wealth: Value Investing"*.
Value investing means buying a stock for 50 cents when its true value is one dollar. Why would anyone sell to you for 50 cents? Either they are mad, scared, or both. Humans go berserk from time to time. When that happens, relieve their anxiety and pay them their 50 cents for a dollar's worth of stock.

Seventh, *"Penny pinch. Use that money to buy stocks"*.

You don't need that German car. Buy stocks instead.