

From the Desk of CIO

ANG KOK HENG
Chief Investment Officer
Phillip Capital Management Sdn Bhd

PhillipMutual
It's a Matter of Trust

PHILLIP MUTUAL BERHAD

Company No. (570409-K)
Tel: 603 2783 0300 | Fax: 603 2166 6417
Webpage: www.phillipmutual.com | E-mail: phillipmutual@poems.com.my

Accept Covid-19 as Part of Our Ecosystem

As more people are vaccinated and protected against the Covid-19, many governments have decided to open up their economies and allow life to go back to normal gradually. A third vaccination is being planned to further protect the people against Covid-19, which is becoming part of our ecosystem, whether we like it or not. As for investment, we are confronted with the risks and all investment products that offer higher returns have risks. We have to understand the risks like the way we understand the virus. Every step we take, be it in the daily life in the midst of Covid-19 epidemic or the attempt to secure higher return than the near-zero banks fixed-deposit rates, there is calculated risk. To protect ourselves, we need to understand what and where are the risks.

Covid-19 virus is invisible but we know its characteristics. As such, we have learned the standard operating procedure (SOP) needed to minimise the infection. Such SOP entails the wearing of a face mask, social distancing, regular washing of hands with soap and sanitising that are still necessary as we get on with our normal life. We also know where are the higher risk areas that we should try to avoid.

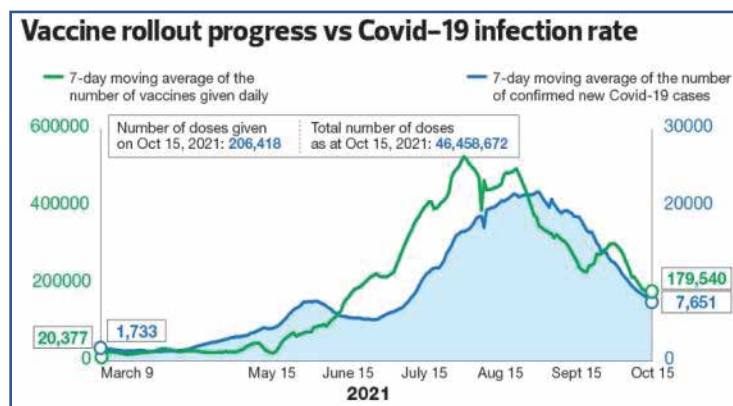
We have to accept that Covid-19, which is going to be with us for the unforeseeable future as it coexists with other viruses such as dengue, fever, HIV, etc. To go back to our normal life, we need to bear with us the risk of Covid-19 infection, which has mutated into various variants. However, the vaccines that are currently available are not designed to counter these mutated variants and as such, booster jabs are required.

With the opening up of the economy after reaching the targeted vaccination rate (see Exhibit 1), there is a high possibility that the infection rate may spike up again, though the impact will be rather mild in most cases especially for those who have been fully vaccination.

The same for investment where its risks are also invisible, but we know investment risks are there (see Exhibit 2). We cannot avoid risk; we have to accept risk as part of investment. There is no such thing as a good investment that does not have risk. Investments that promise higher returns normally have higher risks. One of the techniques in mitigating risks is diversification, both product and time diversification. Understanding the product and investment mechanism are important too.

Ignorance of the virus can be dangerous and similarly we cannot ignore investment risk. By asking more questions, we will be able to learn more about the investment products and the associated risks. While the risks related to Covid-19 are static, the risks linked to investment are more complex as some of the risks may be ignored, as they may be perceived to be of low probability of occurrence.

Exhibit 1: Vaccination brings down infected cases



Source: Edge, 25 Oct 2021

Exhibit 2: Covid-19 vs Investment Risk

	Covid-19 Virus	Investment Risk
Invisible	Yes	Yes
Can be avoided	No	No
Can be minimized	Yes	Yes
How to minimized?	Follow SOP	Diversification
Is it risky?	Only for certain people	If you don't understand the product

Source: PCM, Oct 2021

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