Why I Think Investing in ETFs Through a Regular Savings Plan (RSP) Is One of the Best Ways to Start Your Investment Journey

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At the start of each year, many of us set New Year's resolutions—whether for relationships, fitness, education or even investing. One common financial goal is to start investing.

Just like other important goals in life, the best time to start investing is as soon as possible. Much like planting a tree, investments need time to grow. The earlier you start, the greater the potential benefits of compounding returns. Many investors believe that making money in the market requires knowing exactly when to buy (at low prices) and when to sell (at high prices). However, this isn't true. Even experienced investors struggle to consistently catch the right time to invest in the market.

Time In The Market > Timing The Market

For anyone who is new to investing and feeling overwhelmed, here's some good news: How much time you choose to spend in the market would frequently beat timing the market. What do we mean by that?

Research consistently shows that staying invested over the long term leads to better returns than trying to predict market movements. One of the clearest examples of this is the impact of missing just a handful of the market's best-performing days.

Take the S&P 500 as a reference. If you had stayed fully invested in the index from 1 January 2005, to 31 July 2024, your annualised returns would be 8.8% per year. However, if you just missed 10 of the best days during this period, you returns would be significantly lower at just 5.9% per year. And if you missed the 40 best days, your returns would drop to a mere 1.0% per year.

Source, 22 August 2024

The point here is that since timing the market on when's the best time to invest is incredibly difficult, and doing it over a long period of time is virtually impossible, we should be less concerned about when the right time to invest is.

Instead, I believe that our focus should be to increase our chances of a better outcome by staying fully invested over a longer period of time.

Building A Resilient Investment Portfolio: The Power of Diversification

Starting your investment journey early gives your portfolio more time to grow, but that's just the first step. To build a resilient portfolio that can grow over time, diversification is the key to reducing the investment risks that we are exposed to.

When investing, we are exposed to two types of risk: systematic risk and unsystematic risk. Systematic risk refers to market-wide risks that affect all investments, such as economic downturns, inflation or interest rate changes. These are risks that cannot be eliminated, no matter how well we diversify.

The second is unsystematic risk. This refers to risk that is specific to a single company or industry such as poor management decisions, regulatory changes or declining industry demand. Unlike systematic risk, unsystematic risk can be significantly reduced through diversification.

While we can never completely eliminate risk, a well-diversified portfolio ensures that our investments are not overly reliant on any one company or sector. This allows us to weather market fluctuations more effectively and stay focused on long-term wealth building.

How To Diversify Using ETFs

One of the simplest ways to achieve instant diversification is by investing in exchange-traded funds (ETFs). ETFs are investment funds that trade on stock exchanges, similar to individual stocks. However, unlike investing in a single stock or bond, which offers no diversification, ETFs pool together a broad range of assets, allowing investors to spread their risk across multiple holdings with a single investment.

For example, on the Singapore Exchange (SGX), investors can access different asset classes through a variety of ETFs:

- **Stocks:** The Nikko AM Singapore STI ETF (SGX: G3B) provides exposure to the 30 largest companies listed on the SGX by market capitalisation, including DBS, OCBC, UOB, and SingTel.
- **Real Estate:** Investors looking to invest in real estate investment trusts (REITs) can consider the NikkoAM-Straits Trading Asia ex Japan REIT ETF (SGX: CFA/COI), which offers exposure to some of the largest REITs in Singapore and across Asia.
- **Corporate Bonds:** For those interested in fixed-income securities, the Nikko AM SGD Investment Grade Corporate Bond ETF (SGX: MBH) provides exposure to high-quality corporate bonds.
- **Government Bonds:** Investors interested in Singapore government bonds can consider the ABF Singapore Bond Index Fund (SGX: A35). This fund invests in a range of Singapore government bonds with varying maturities.

There are plenty of ETFs available on the SGX that we can consider depending on the asset class (e.g. stocks, bonds, REITs) or the industry that we want to invest in. See below for the full suite of Nikko AM ETFs.

Source: Nikko AM, February 2025

By investing in ETFs, investors can build a well-diversified portfolio across different industries and asset classes while benefiting from lower costs and greater accessibility. You can find the various ETFs offered by Nikko Asset Management on the SGX here.

Why Investing In ETFs Via A Regular Savings Plan Makes Sense

For those looking to start their investment journey, investing in exchange-traded funds (ETFs) through a Regular Savings Plan (RSP) is a great way to begin. This approach combines the two key investment principles that we have discussed – 1) **time in the market** and 2) **diversification**.

RSPs are offered by various banks and brokerage firms in Singapore. They utilise the concept of dollar-cost averaging (DCA), a strategy where a fixed amount is invested into selected ETFs every month, regardless of market prices.

- When prices decline, the fixed investment amount buys more units of the ETF.
- When prices increase, the same amount buys fewer units of the ETF.

This approach is particularly well-suited for younger or less experienced investors, as it eliminates the pressure of trying to predict market movements. It also helps new investors to overcome the inertia to start investing for fear that they may be entering the market at the wrong time.

With an RSP approach, the focus shifts from timing the market to consistently growing wealth over the long term. This disciplined approach not only reduces emotional decision-making but also builds a strong investment habit early on, setting a solid foundation for long-term investment growth.

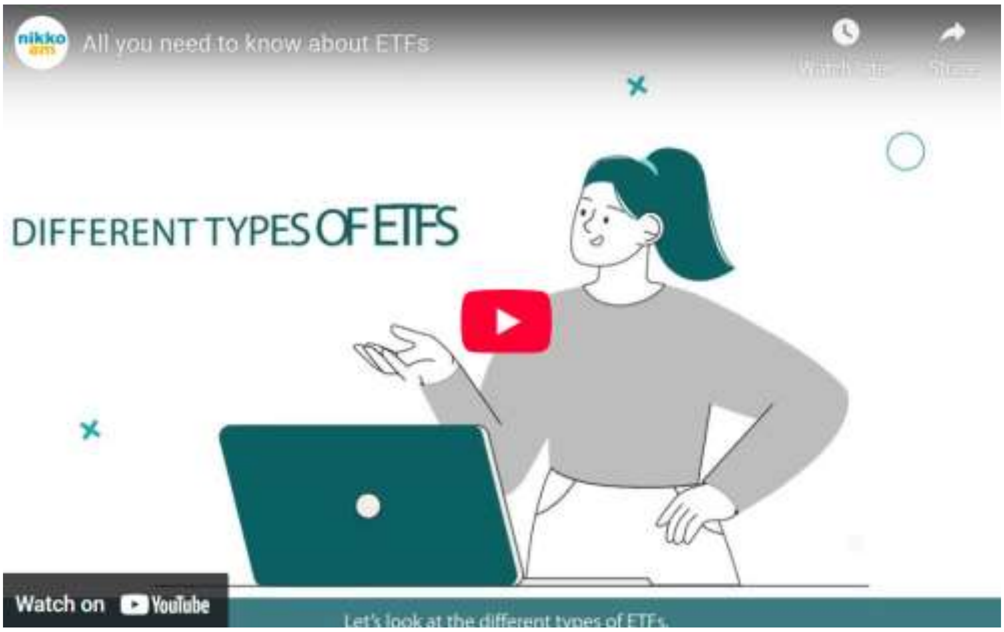
To find out more about how an RSP approach can help you invest in ETFs, you can check out the Nikko AM RSP page.

Understand & Invest In SGX-Listed ETFs

While ETFs make it easy to invest in a diversified portfolio, it's important to remember that not all ETFs are the same. Just as there are different types of stocks and bonds, the universe of ETFs is vast, covering various sectors, asset classes, and strategies. This is why understanding what you're investing in is just as important as investing itself.

At the same time, it's important to note that just like regular stocks and bonds, ETFs are not immune to market volatility. While you might make profits when markets perform well, you could also face losses during downturns. Some ETFs may also be more volatile than others, especially those focused on specific sectors or emerging markets.

If you're new to investing, check out this short video that breaks down everything you need to know about ETFs in a simple and engaging way.



https://www.youtube.com/watch?v=zeEQUxbJYBc

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