

Me&MyMoney

Statistician takes a scientific approach to investing

Her strategy is about finding most reliable way to achieve her goals for self and family



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With a PhD in statistics from Princeton University, it's no surprise that Dr Wei Dai's approach to investment is systematic and scientific rather than impulsive.

She applies her number-crunching way of thinking to financial planning, ensuring she is diversified across sectors and countries, and investing for long-term goals such as her children's education.

"The first thing I think about is the purpose of my money and why I am investing," she says.

"The investment strategy is not about chasing the hot investment product or getting rich overnight – it's about finding the most reliable way to achieve the goals for me and my family, considering my time horizon, risk tolerance, and costs."

Dr Dai, 36, sees saving and investing early as vital to achieving her goals, as they take advantage of the effect of compounding over a long horizon.

"At 10 per cent per annum, which is roughly the long-term average of the stock market, your money doubles every seven years," she notes.

"The path to that long-term average, however, is far from a straight line. Fortunately, I have time on my side to build up my investment portfolio and accumulate my wealth over time."

Her methodical approach also rules out impulsive or subjective investing.

"Rather than investing based on subjective views, I prefer systematic strategies that are built around factors backed by financial science. "I think of it as the best of both

worlds of active and passive investing: My investment portfolio is widely diversified, has low turnover, and is low cost – like passive. But it is also active, in a systematic way, and seeks to outperform market averages."

Dr Dai also thinks of her funding for retirement as a combination of her current assets and future earnings.

"I still have many years of working and earning ahead, and my current assets are a smaller proportion of my overall lifetime capital. My future earnings should be less volatile than many financial assets, therefore I can take on more risks within my financial portfolio and invest mostly in equities," she says.

Conversely, she notes that people closer to retirement will likely take a more conservative approach because their assets are a greater proportion of their overall capital.

This approach to investing means that she does not focus on the "one big number" of her account balance, but instead understands how much income she can earn from her assets and manage the risks around that.

This is the concept of life-cycle investing based on research by Professor Robert Merton, a Nobel laureate she has worked with.

Applying these concepts methodically to her life, she has a global portfolio that is diversified across regions, countries, sectors, and individual names.

"That means for global equities, we are talking about more than 10,000 names across all sectors and over 40 countries in developed markets and emerging markets," she says.

"Of course, I cannot manage those individual stocks myself. The advances in technology and financial markets have allowed me to get this diversified exposure through professionally managed funds at a modest price – there has never been a better time for global investors."



Dr Wei Dai, who has a PhD in statistics from Princeton University, sees saving and investing early as vital to achieving her goals, as they take advantage of the effect of compounding over a long horizon. ST PHOTO: BRIAN TEO

Dr Dai also applies her analytical, systematic mind to her work as head of investment research at Dimensional Fund Advisors, a global investment firm based in Austin, Texas. She relocated to the Singapore unit of the company five years ago.

"I have always been passionate about data and research. I got my PhD in statistics, where I was applying statistical methods to financial data for my academic work," she says.

"I joined Dimensional because I wanted to work on the practical applications of my research. While my colleagues on the research team come from diverse disciplines, what we have in common is the passion for applying financial science in the real world."

Dr Dai is married to a finance professor and they have a five-year-old son and two-year-old daughter.

"While it is always interesting to discuss research, we try not to do too much of that at the dinner table," she says.

Her top investing tips

1 Read the news headlines to be an informed citizen, but do not use them to inform your investment decisions.

2 Understand the difference between luck and skill, and avoid chasing shiny objects that could quickly tarnish.

3 The best investment philosophy is the one you can stick with, especially in challenging times. It is a lot easier to be disciplined when you know the investment approach is based on financial science and rigorous research rather than subjective views.

Q What is in your personal portfolio?

A My investment assets are predominantly in global equities. I favour deeper-value, smaller-cap companies and those with higher profitability. Decades of research and practical experience have identified these characteristics as systematic drivers of higher long-term performance.

Both large caps and small caps are part of the market and should play an important role in a diversified portfolio. I have moderate overweight in small caps because there is a lot of research that demonstrates smaller companies outperform larger companies over the long run.

While it is tempting to chase the large-cap names that have delivered impressive returns, we should keep in mind that the prospects of their business are already reflected in their current market prices and valuation.

History shows that we should not extrapolate past performance into the future. For example, in the

US market, between 1927 and 2023, stocks that entered the list of top 10 companies by market capitalisation underperformed the market by 0.9 per cent per year on average in the following five years.

I also hold real estate investment trusts (Reits) as part of my global portfolio, but only at around the market cap weight of 2 per cent to 3 per cent.

Q What was your biggest investing mistake? Which was your best investment?

A Unfortunately, or fortunately, I didn't have the money to make investing mistakes before working at Dimensional.

Through my work at Dimensional, I then quickly realised how expensive it is to make a mistake through picking stocks or timing markets. This understanding has informed my investing philosophy – to invest for the long term, not take on single-stock risks, and not get carried away by headlines in the industry, which has served me well.

In the past, I have, however, tried to "time" my car purchase based on certificate of entitlement prices, but I am glad that I did not do the same for my investments.

Q Describe your lifestyle.

A Our family lives in a three-bedroom apartment that is offered as housing for faculty (as part of my husband's job), and that allows us to frequently mingle with other faculty members and their children of similar ages to my kids.

I am not a big spender. I spend most of my time outside work caring for my children and taking them to enrichment classes. We do try to eat out on the weekends if possible, though our restaurant choices are often dictated by the children – being close to a playground is the key.

I drive a Mazda sport utility vehicle and would rather take public transport if I could, but it's hard at the moment because of our two young children.

With busy work and young kids, retirement is admittedly not on top of my mind right now. Many people these days do not fully "retire" towards the end of their career, but transition to another role.

If I don't continue with my current line of work, I can see myself becoming an adjunct professor with a university, or taking on advisory roles with non-profits to continue my work around financial literacy.

I grew up in China in a regular family, with enough to get by. My father also has a PhD and worked as a university professor. My mother was a doctor at a hospital – and she often jokes that she is the only "real" doctor in the family.

My parents are frugal in daily life, but were generous with spending on my education and even travel expenses in my formative years, to give me more exposure to the world.

My mum likes to find value in the groceries and deals that she buys, and it is interesting how a big part of my work focuses on the value premium of investments and to see that these fundamental ideas transcend different concepts.

I have been living in Singapore for the last five years.

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