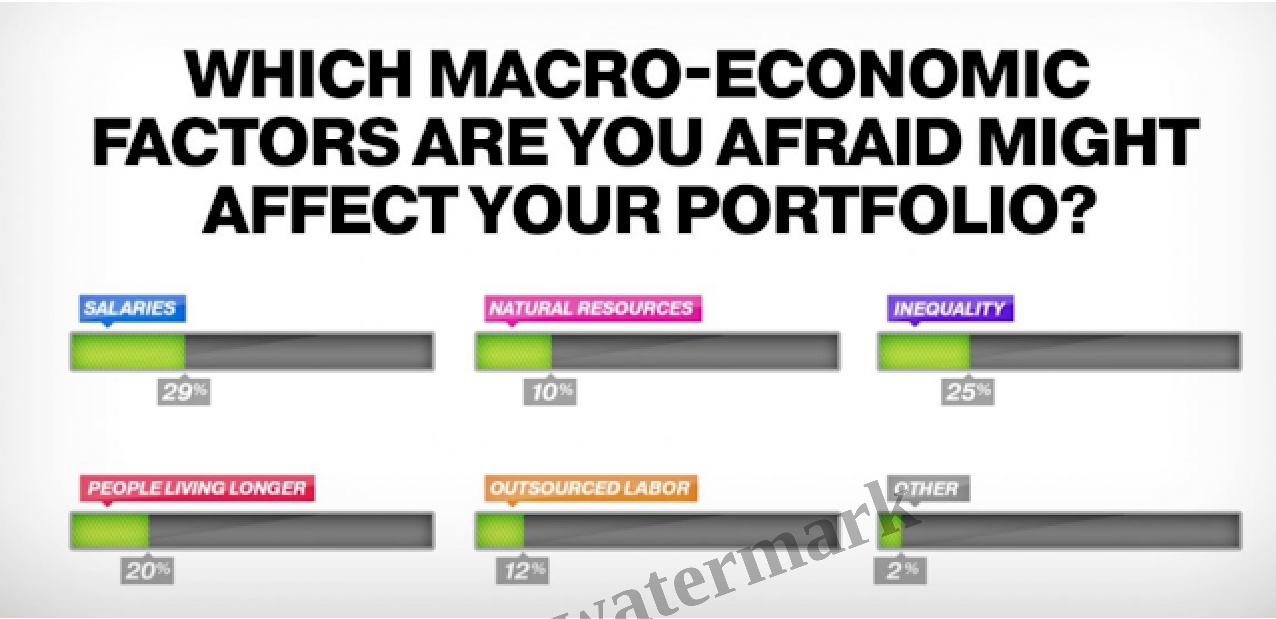
Factors That Could Cause Your Stocks to Plummet in 2016

Description



My approach to investing involves finding a good business model that I like, looking at the financial position of the company in contrast to its industry peers and competitors, and of course, while also keeping an eye out on any risks that could potentially jeopardize my investment thesis.

As such, while looking at macro economic trends shouldn't always be your priority focus (some investors choose to ignore it altogether), it can be helpful to consider how these trends might impact your investments.

It is easy for most people to say that they would like to invest in healthcare-related companies given the demand for healthcare is recession-proof and set to grow with an ageing population. That is why stocks like Raffles Medical Group, Q&M Dental and Parkway Life REIT command a premium price in the market.

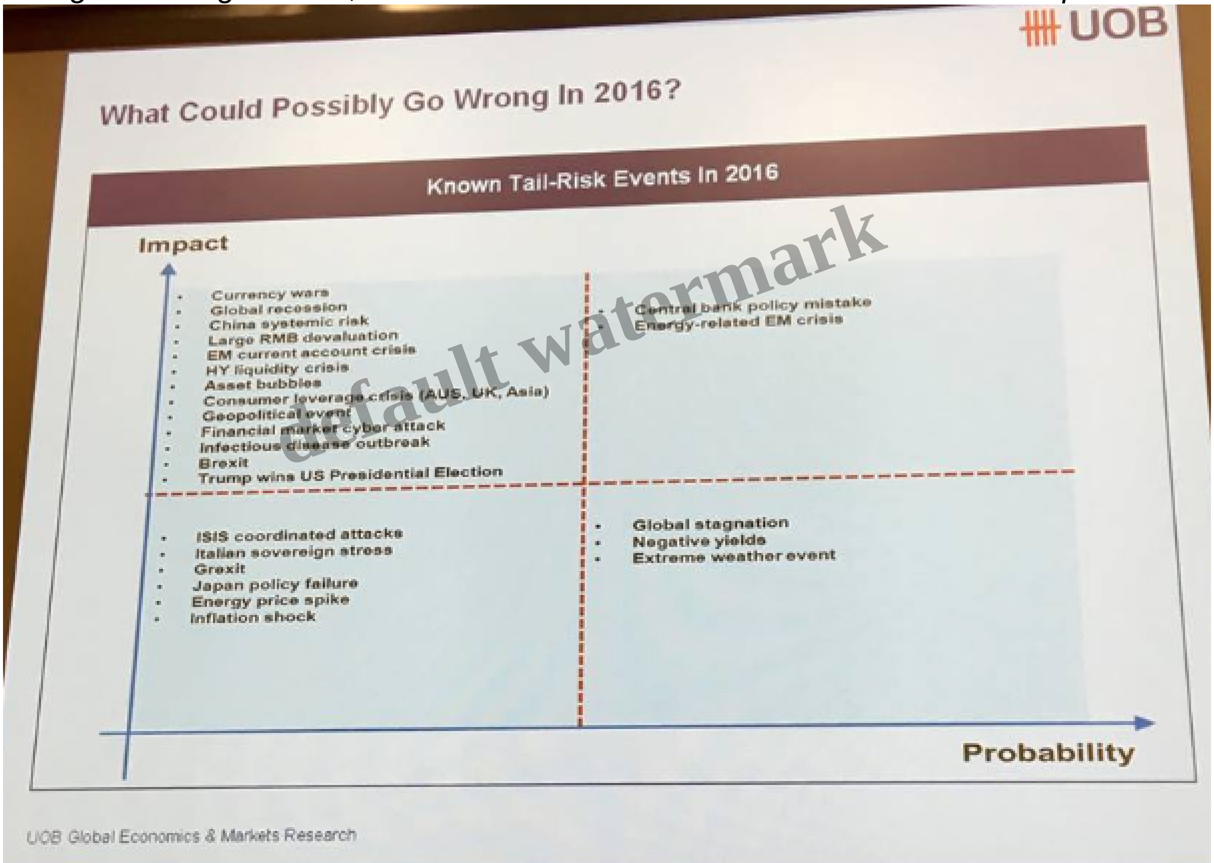
For myself, I like to look at trends from both a positive and negative perspective i.e. how can I benefit, or how could I potentially lose money thanks to it?

For instance, all eyes are currently on the Fed's decision on whether to raise interest rates in the near term. This is largely a macro-economic factor that will have repercussions across multiple industries, and if you own any REITs in your portfolio, you should be actively monitoring the situation.

Given how most REITs have a relatively high gearing of 30% to 45%, higher interest rates would then

mean your REIT will have to spend more of their income to pay off the interest, therefore leaving them with lesser money to distribute to shareholders in the form of dividends at the end. Furthermore, for REITs that are not backed by a powerful (and cash-rich?) sponsor, could there be a risk that they'll be unable to pay their debts? How many debt repayments are due in the near future? What is management's debt repayment strategy? Could there be a possibility that the REIT might seek to raise funds through the open market by issuing new shares or options, therefore diluting shareholder value? Without an eye on macro-economic trend, a retail investor could potentially miss out on these risks and go into an investment blindly thinking that just because the financial prospect looks good on last year's annual report, it should remain the same for the next few years.
A fellow blogger friend shared this on his Facebook recently, which I have reproduced below with his permission. I thought you guys might find it useful as well.

Note that all rights belong to UOB, as this was a slide taken from one of their recent presentations.



With love,
Budget Babe

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