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MPF Investing Do's and Don'ts in Extreme Market Condition

The COVID-19 pandemic kick-started a brutal market sell-off which has yet seen in a decade. While investors are confused about how they should respond to the market swing, we summarized a few key principles to guide you along the way on MPF investing.

Do's

Stay Diversified

Do not put all your eggs into one basket. Diversifying your portfolio among different asset classes and regions helps smoothening out unsystematic risk, hence allowing you to stay away from big losses when unfavorable events emerge in a particular market.

Consider Rebalancing Your Portfolio

Know your risk tolerance level and ideal weightings between higher (e.g., equities) and lower (e.g., bonds) risk assets that suit your profile. When there is a market crash, equities will tend to fall whilst bonds will tend to rise, which will drag you away from your original asset weightings. Thus, you should rebalance your portfolio by moving back to your original weightings, and stay aligned with your risk profile.

Maximize Impact of Dollar-cost Averaging by Adding Equity Exposures for Future Contributions

When there is an equity market crash, you will never know where the bottom is. But one thing for sure is that when the crash happens, valuation of the equity market in general will become cheaper. Therefore, adding equity exposures for your future contributions helps you lower the average cost of your investments.

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Don’ts

Sell in Panic

There is always volatility as this is how the market corrects itself. However, the market will be oversold when there is a panicky sell-off. Thus, selling your position in panic means that you are locking in losses without giving it time to recover. Do not let your emotion drive your investment decision.

Make Massive Bets at Lows

Nobody knows when the bottom is. Fishing at the bottom is tempting but big losses will be incurred if you try to time the market with massive bets. Remember that time matters for long-term investment, not timing.

Change Long-term Investment Plan Easily

You should always invest with a goal(s) in mind, such as for retirement, home purchase, educational funds, etc. This helps you achieve your financial goals in long run, and keep your portfolio at an optimal risk tolerance level. While you may need to re-adjust your portfolio due to market changes, you should not change your long term investment plan purely based on that.