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BOOK REVIEW

Asian guru reveals value-investment secrets

By Lai Kwok Kin



Rising Above Financial Storms

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Rising Above Financial Storms

by Dr Tan Chong Koay

Book rating : **A**

IN the annals of value investing, the gurus of world renown are Warren Buffett, Benjamin Graham (co-author of the 1934 tome, Security Analysis, and who taught Mr Buffett) and Peter Lynch who wrote the 1989 classic, One Up On Wall Street. Almost all found their investment ideas - from which they derived their investing philosophies - largely in the highly liquid US stock market.

But Asian equity markets are much more volatile, and follow rather than lead US and European trends. The inherent volatility and diverse investing environment has left few fund managers with performance records that have withstood the test of time. The few who defy the odds seem to follow the ancient Chinese adage that a good kung fu master does not teach everything to his students: he keeps some secret moves, just in case.

In Rising Above Financial Storms, Tan Chong Koay, one of Asia's best value investors, has revealed his secrets, sparing nothing.

The founder and chief strategist of Pheim Asset Management (which has separate operations in Malaysia and Singapore) has unveiled his investment techniques in a simple and engaging style which even investment novices will find interesting.

This is no Johnny-come-lately to the Asian investment scene. From a humble background in a kampung with no piped water in Malaysia's Kedah state, Dr Tan has gone on to win numerous accolades in some 40 years in the investment industry.

Under his leadership, Pheim has weathered the Asian financial crisis (1998/1999), the tech bubble of 2000, and market shocks from the Sept 11, 2001, the Sars epidemic and the global financial crisis of 2008/2009, and emerged not only unscathed but well ahead of its competitors.

He first came to prominence in the 1980s and 1990s when the media dubbed him "King of the Second Board" (of the then-Kuala Lumpur Stock Exchange, since renamed Bursa Malaysia).

The Pheim Asean Fund has the unprecedented accolade of topping all the one- to 20-year periods among Asean equity funds ranked by Lipper earlier this year. Such a record requires outperformance in good years and bad years, a feat of longevity no peer in the region has achieved.

He details his successes and mistakes, chronicling "multiple baggers" uncovered before others started chasing the same stocks, as well as how he missed out on certain markets altogether.

Remarkably, he also recounts with candour the 2008 civil court action by the Monetary Authority of Singapore against Pheim Malaysia and himself. The latter two lost the case in a Singapore court and had to pay a civil penalty. He was also prohibited from carrying out in Singapore fund management activity for three years and involvement in the fund management business for four years. After appealing to the Minister of Finance in Singapore, all prohibition orders were reduced to two years and expired in November 2014. Pheim Malaysia and Dr Tan remain licensed to operate in Malaysia since inception in 1994.

"The case broke my heart and left me with perhaps my greatest challenge: to rebuild the Pheim Group's AUM (assets under management) and good name ... With a proven investment philosophy and process, and with tenacity perseverance and loyal clients' support, I am hopeful that I will succeed," Dr Tan says.

Clearly, the book is a cathartic release from this setback as well as a personal promise to rebuild Pheim. In doing so, Dr Tan has ploughed through over two decades of records to distil the essence of his investment philosophy.

While many other investment experts cite "intrinsic value" and "long-term investing" without trying to time the markets, Dr Tan believes that timing is important. Shares should be sold if the investor thinks they are grossly overvalued. In his words, market timing is key to superior performance.

Conversely, he notes that "many investors do not want to buy during a declining market because they do not like to buy and temporarily underperform even though the market is grossly undervalued". This thinking is flawed, in his opinion.

Unlike Mr Lynch, Dr Tan believes a fund should not be fully invested at all times. Volatility in Asia means a fund manager can miss out on opportunities if he or she is already fully invested.

In terms of stock selection, Dr Tan emphasises criteria most other fund managers also look into, including management quality, earnings growth potential, profit margins, strong balance sheet, competitive advantage and market leadership, and how reasonable the valuations are.

Where he differs is that he believes that small to mid-cap companies do not pose unnecessarily high risks and, with the right factors in place, can contribute to outperformance.

The insight from his contrarian investment philosophy is that understanding the psychology of investment is as important as, if not more important than, empirical data and fundamental research.

In short, investing is more an art than a science.

For those who believe that Asian stocks, in particular Asean markets, still offer great investment opportunities, this is a must-read about the art of making money.

- **The writer, a former financial journalist and equity analyst, is the founder and managing director of Asian investor relations firm WeR1 Consultants Pte Ltd**