

Unpredictable market provides good buying opportunity: Expert

■ By KANG SIEW LI

THE stock market downturn is an opportunity to pick cheap but fundamentally sound stocks.

Pheim Asset Management Sdn Bhd founder and chief strategist Dr Tan Chong Koay said while the market remains unpredictable, it does provide investors with a good buying opportunity.

"If the stock market continues to drop, it is advisable to pick companies with improving earnings and low price-to-earnings ratio (PER)," he told *Business Times*.

He encouraged longer-term investors to increase their exposure in the depressed stock market as the potential for higher returns compared to fixed deposits is better now.

The prevailing situation is similar to the October 19 1987 stock market crash where external factors had affected the then-Kuala Lumpur Stock Exchange although the local economy remained strong.

"The stock market improved considerably by year-end (of 1987)," he added.

Tan said Malaysia's stock market is now adversely and unreasonably affected by external factors in the US, China and Thailand.

"While the local economy continues to be up, the stock market trend is down," he said.

The benchmark Kuala Lumpur Composite Index (KLCEI) ended at a near five-month low of 781.05 on May 17 this year, dragged down by external concerns about a rise in US interest rates,



TAN: 'Pick stocks with improving earnings and low PER'

a slowdown in China's economic growth and the effects of soaring oil prices on the global economy. The index closed up 4.24 points at 802.82 last Friday.

For Pheim Asset Management, Tan said he does not believe in being fully invested at all times due to the volatility of Asian markets.

"Rather, we seek to trim our equity exposure

when we believe that the market is near its peak in order to preserve capital. Conversely, we seek to increase equity exposure when we believe that the market is near its bottom," said Tan.

He said with the low interest rates worldwide, companies that meet its investment criteria and are willing to pay high dividends will be preferred.

In 1987, Tan was rated Top Manager for Retirement and Pension Funds by William Mercer Zainal Fraser, an independent actuarial company.

A report by Watson Wyatt Malaysia Sdn Bhd last year concluded that Pheim Asset Management has outperformed the Bursa Malaysia benchmark for all Malaysian mandate accounts combined every year for 10 consecutive years — 1994 to 2003 — since inception.

It won the highest number of awards (three) in the Edge-Lipper, The Star and Standard & Poor's Malaysia Investment Awards for the One-Year Performance in 2003.

Its Singapore counterpart, Pheim Asset Management (Asia) Pte Ltd, too obtained the same results, outperforming its respective benchmarks every year for all accounts for eight consecutive years from 1995 to 2002. It is in the process of verification for 2003 and is confident of outperforming the market for the ninth year.

Tan noted that Malaysia's private sector listed companies tend to have low gearing, thanks in part to their culture of debt-free living.

He said Malaysia's economic diversity, which ranges from the petroleum, rubber, tin and palm oil sectors to the electronics industry, also makes it attractive.

As at end March 2004, total assets managed by the Pheim Group had increased to US\$540.85 million (US\$1 = RM3.80) compared with US\$505.02 million in February.

Of the US\$540.85 million, the total volume of funds managed out of Malaysia was US\$322.97 million and Singapore US\$217.88 million.

"People are beginning to believe that Asia's economy will grow at a faster rate than those of the US or Europe and thus are beginning to take a look at it again. I guess they are more comfortable after the financial crisis of 1997," said Tan.

Pheim Asset Management began operations in Malaysia in 1994, and in Singapore in 1995 with Pheim Asset Management (Asia).

"Ninety-six per cent of our clients are institutions. We specialise in investing in the Association of South-East Asian Nations and Far East excluding Japan. Our market coverage also includes India, Australia and New Zealand and we would invest in these markets when attractive investment opportunities arise," said Tan.

Aizawa Securities Co Ltd in Japan recently raised some US\$50 million through its unit trust network to invest in Asia excluding Japan and has appointed Pheim to manage the fund. It expects to increase the fund size to US\$100 million by year-end. Last year, New Private Bank in Switzerland had also raised more than US\$10 million to invest in Asia. Malaysia represents 5 per cent in the MSCI Far East Ex Japan Index.

Pheim is 50 per cent owned by Tan, 20 per cent by Multi-Purpose Capital Holdings Bhd, 15 per cent by its director Datuk Malek Merican and 15 per cent by Omar Merican.