'Never be fully invested at all times'

BY **LIEW JIA TENG**

Having been in fund management for 41 years, Dr Tan Chong Koay is adept at adjusting to changing landscapes. The 67-year-old veteran fund manager says that in today's complicated world, investors need to take care of themselves by adapting to any environment.

"When there is change, you need to adjust, and it will take some time. We basically go after companies that can adapt to benefit themselves, and hence make better profits," Tan tells *The Edge* in an exclusive interview.

Tan is the founder, chief strategist and executive chairman of Pheim Asset Management Sdn Bhd in Malaysia. He is also CEO and executive director of Pheim Asset Management (Asia) Pte Ltd in Singapore. He oversees assets under management of about US$300 million (RM1.3 billion).

Apart from Brexit, one of the major shocks last year was the election of Donald Trump as the 45th US president. Equity markets seem to have welcomed his presidency as the Dow Jones Industrial Average broke through the 20,000 mark for the first time.

"It [Trump's win] was a shock, but we have to adjust to it. I think there will be volatility this year. If you look at the market as an indication, the Americans think Trump can deliver," he says, adding that he expects stock markets to be volatile this year.

Asked whether Wall Street will continue to hit new highs, Tan says in the best-case scenario, the Dow and S&P 500 will remain flattish.

"If there is a strong correction, psychologically, we will be affected through the stock market, because historically, when the US stock market came down, we went down as well," he warns.

He also points out that American corporations have parked billions of dollars outside the US, including Singapore. Should they repatriate funds to America, the liquidity of financial markets in Asia will be affected.

On Malaysian stocks, Tan says selectively, they are still fairly attractive. "Some of the technology companies, especially semiconductor firms, are quite attractive. We believe the outlook is still bright."

He cites Pentamaster Corp Bhd, Inari Amertron Bhd, Unisem (M) Bhd and Malaysian Pacific Industries Bhd as having potential and are still expected to grow.

Meanwhile, investors may also want to increase their exposure a little bit more to the banking sector, considering that the local banks have yet to perform, says Tan.

He notes that since the global financial crisis in 2008, banks in the US have not been performing. However, for some reasons, just before the Trump win, shares of many American banks have started running until now. Subsequently, banks in South Korea, China, Singapore, Indonesia and Thailand have all gone up. The only two countries that did not see their banking stocks go up in a big way are Malaysia and the Philippines.

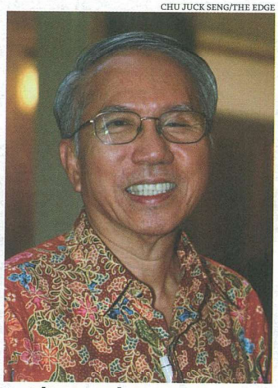
"I think, this [time] round, unless I'm so wrong, our banks will perform. Rising interest rate is in their favour now; they charge you higher interest rate on loans, but the interest rate for deposits won't go up so soon. That's why we see the shares of Bank of America run faster than others, because they have the highest numbers of savings accounts," Tan says.

Similarly, higher crude palm oil prices have yet to drive plantation stocks significantly, he says, as many quarters remain sceptical about the outlook for commodity prices.

"But we should never give up. Sometimes, there is no logic. You can hold shares for three years with zero profit, then suddenly, the shares just fly high," he says.

"The worst thing is that you run around, people talk badly about the stock, and then you sell, you will never make money. You need to have a certain philosophy. You want to put your money in equities, put it in when the market is bad."

CHU JUCK SENG/THE EDGE



Tan: It [Trump's win] was a shock, but we have to adjust to it

As for the oil and gas (O&G) sector, Tan believes that it will take a minimum of two to three years to recover. But generally, the O&G firms should be able to survive at oil prices of between US$55 and US$60 per barrel.

"I don't think oil prices will go up a lot. The minute it goes up to US$60, shale gas will come out because it is ever ready. We also have solar [power], hydropower and coal. Next, there is windmill," he says.

Fortunately, Tan says, Pheim Asset Management had sold most of its O&G stocks in 2014 and 2015, and hence was not badly affected by falling oil prices. "We never went back to average [down] the O&G stocks. If we did that, we might see another 50% decline."

Interestingly, he says plastic manufacturers are among the beneficiaries of relatively weak crude oil prices, which led to lower cost of resin — the main raw material for plastic players.

"Recently, some people expected resin prices to drop, so those plastic and plastic-related companies could be having a good time. Our job is to find these companies," he says.

Thanks to a stronger US dollar, many export-oriented furniture and wood-based products manufacturers, such as Mieco Chipboard Bhd and Evergreen Fibreboard Bhd, have also done reasonably well, he says.

While Tan does not expect glove manufacturers to perform superbly this year, he acknowledges that those that focus primarily on producing nitrile gloves are in a better position as oil prices remain relatively low.

"Latex is not cheap. Many players are increasing their production capacity, but I don't think that's a big issue, because the demand is still there," he says.

Overall, Tan expects the local stock market to perform better this year, with the benchmark index FBM KLCI ending the year higher. "We have been negative three years in a row. I think this year, we are likely to be positive. I am not surprised if small midcap stocks do better."

Tan says his key to investing success is to anticipate investors' behaviour, and his rule of thumb is "never be fully invested at all times".

"Investment is an art. Investment is an ability to read the major trends and mass psychology correctly. It is not just about price-earnings ratio," he says passionately.

"When you buy [a stock], you think it is so cheap, but it can go even cheaper. You must learn the lesson of not going all in. So if it goes lower, at least you still have cash in hand to pick up more shares."

In equities investing, Tan says investors only make two major decisions — picking the right stock at the right time.

"We are value investors. If the shares [we like] go down, we buy more. If you buy an undervalued share, it is difficult not to perform," he says.

Besides, knowing when to sell is another important investing skill that investors must learn.

"When the share price is too high, you must sell. It is very easy to make these mistakes in the stock market," Tan says. E

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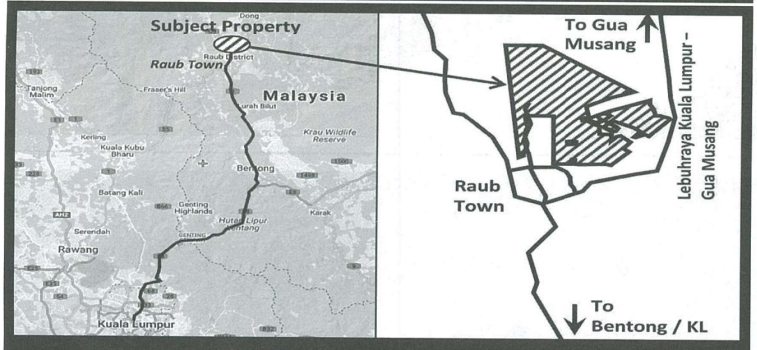

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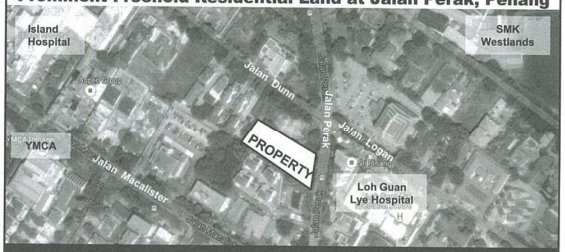

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