

Headline	Investing dilemma
MediaTitle	Focus Malaysia
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# Growing wealth in tough times

It is increasingly difficult to obtain good returns on your investments. But with the right strategy, you can see your money grow. **10-12**

The image features a stylized tree with a dark trunk and branches. The leaves are green and contain white dollar signs (\$). The branches are labeled with various investment categories in white text on dark circular backgrounds: 'stocks' (with a bar chart icon), 'currencies' (with a money bag icon), 'bitcoins' (with a Bitcoin symbol icon), 'bonds' (with a stack of bonds icon), 'property' (with a building icon), 'commodities' (with a palm tree and oil drop icon), and 'gold' (with a stack of gold bars icon). The background is a grayscale city skyline under a dark, stormy sky with a bright light source and lightning bolts.

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LEAD

# Investing dilemma

**I**NVESTING in tough times is risky and difficult. No matter in what and where you put your hard-earned money, the risk of suffering losses is greater than enjoying gains.

These are indeed tough times. The ringgit is sliding, the property market is subdued, it is difficult finding good investable stocks and the prospects for gold and bonds aren't all that great. Commodity futures such as palm oil have hit recent highs, leaving little room for upside. Even bitcoin, a cryptocurrency that is gaining popularity, hit an all-time high recently.

So do you play safe by placing your money in fixed deposits and reap interests? But even this may not be the best option as rising inflation may erode the value of your savings.

So what should investors do? If you're thinking of diversifying your investments to hedge against the falling ringgit, you've missed the boat, says **Alvin Vong**, director of independent equities research portal EquitiesTracker International.

He believes the ringgit is undervalued, saying picking good assets to preserve wealth should be the key focus. "Whether



by Lim Siew May

stocks or properties, you should buy good quality assets. We are in an inflationary environment as opposed to Japan's deflationary situation. The value of good assets will always move up over time," he says.

Investors face two major risks investing in an asset class – capital risk and timing risk. "Everyone is talking about timing risk now, but it doesn't really matter. It could be a good or bad time, but more importantly, it is about the quality of your asset. There is no point timing a bad asset. With a good asset, even if you time it wrongly, it will correct itself over time," he adds.

Rather than setting his sights on foreign assets, Vong believes in capitalising on homeground advantage. "I focus on Malaysia as I know the economy well and I am sensitive to the developments here, versus the UK or Europe. It's about the circle of competence. You can't know everything," he explains.

An investment manager who declines to be named agrees it is too late to salvage

one's underdiversified portfolio. "If the central bank suddenly decides to peg the ringgit to a much lower level against the US dollar, just like what it did in 1998, what will happen?" he questions.

## Portfolio diversification

**Kevin Neoh**, a licensed and independent financial adviser from VKA Wealth Planners Sdn Bhd, believes bitcoins, gold, foreign currencies and commodity futures should not take up more than 10% of your portfolio. "These assets are not generating any income for you, so you don't want to have most of your money tied to them. You're only buying them and hoping you will benefit from capital gain. What if it does not happen?" he asks.

Portfolio diversification aside, all the uncertainties make it difficult to make an investment decision at this point, an investment manager points out. He recommends sitting tight and paying attention to the central bank's next move. "The most important question is how to

Uncertainties make it difficult to make investment decisions

stabilise the ringgit, but it's not within our control, it's Bank Negara's," he says.

Apex Investment Services Bhd CEO/MD **Clement Chew** says the central bank's recent measures will help stabilise the ringgit in the near term. "After the initial uncertainty, the rules are now clearer. At the same time, we should realise that the driver for our currency in the long term is our country's fundamentals. The value of our currency is determined by factors such as investor confidence, export competitiveness, indebtedness and inflation trends. We must not miss the forest for the trees," says Chew.

His view is echoed by **Chang Wei-Liang**, a forex strategist at Mizuho Bank, who expects Bank Negara's recent measures to stabilise the ringgit effectively in the short term.

However, these measures should be viewed only as a temporary salve to buy time for structural reforms, which are essential to rebuild the confidence of foreign investors in holding ringgit-denominated assets, he emphasises.

"Reforms could include further efforts to reduce the budget deficit, divesting state-owned assets to private investors as well as attracting more foreign investment into the economy."

**FocusM** looks at various investment options and what industry players have to say about them.

## 15 stock picks

	Stocks	52-week high (RM)	Price (Jan 19) (RM)	Reasons
1	3A Resources	1.44	1.31	Demand is robust and the company's margins have improved. Together with the opening of a new maltodextrin plant recently, the company is expected to show one of the strongest earnings growth in the food and beverage sector.
2	AirAsia	3.25	2.58	Aggressive fuel hedges, high passenger load factor and marginal but continuing improvement in yields should enable [AirAsia] to report improvements in Ebitda.
3	Genting Malaysia	4.91	4.83	The impact of its US\$10 bill spending on its integrated tourism plan at Genting Highlands will start to kick in from this year. It is also a beneficiary of an expected pick-up in tourist arrivals, including those from China.
4	Ikhtmas Jaya	0.8	0.605	Bored piling and fundamental works are expected to remain vibrant. The group will resume its growth trajectory in FY17 given more construction works in the pipeline, especially under the government's initiatives.
5	Inari Amertron	1.82	1.82	Stable growth alongside its partnership with semiconductor giant Broadcom, in addition to new forays, present an attractive investment case for Inari.
6	Malaysia Airports	6.97	6.25	The aviation sector has recovered and recorded double-digit year-on-year passenger growth rate since September last year. Passenger demand is buoyant and airlines are committed to deploy more capacity.
7	MMC Corp	2.42	2.30	MMC is looking to grow and list its port businesses. A turnaround is happening in Northport and Port of Tanjung Pelepas, and Penang Port may soon contribute to earnings too.
8	Pestech	1.725	1.58	It has been expanding beyond Malaysia and Southeast Asia to Central Asia and beyond. With demand for infrastructure development likely to ramp up further over the next few years, contract flows should be decent.
9	Petronas Chemicals	7.23	7.19	Higher crude oil price ought to also generate higher revenue as petrochemical product prices have a high correlation to the crude oil price movement.
10	Press Metal	1.95	1.95	There is room for further earnings improvement. Its phase 3 smelter in Samalaju, Sarawak was fully commissioned in late May, while phase 2 of its Samalaju smelter also returned to normal operations in November 2015.
11	Public Bank	20.10	20.10	Investors prefer banks that offer solid asset quality and better earnings predictability. Public Bank is one such bank that would provide stronger book value growth for continued creation of shareholder value.
12	RCE Capital Bhd	1.46	1.42	With an estimated market share of the civil servant financing market of just about 1% currently, there is room to grow for RCE Capital, especially amid sustained demand for personal loans.
13	Spritzer	2.7	2.33	Its brand continues to improve, and it sits on a valuable 330-acre mineral water source in Taiping, Perak. The company has a low net gearing of 3% and valuations are reasonable.
14	Tenaga Nasional	14.9	13.88	The stock has the ability to gradually regain lost ground in the more lucrative power-generation business, having emerged as the biggest winner of new power plant projects in Malaysia in recent years.
15	YTL REIT	1.24	1.19	YTL Group pays a fixed lease payment to YTL REIT for its hotels in Malaysia and Japan, with a step-up every five years. The outlook is positive due to strong occupancies for its Marriott hotels in Sydney and Melbourne.

Sources: Apex Investment Services, Bloomberg, Etiqa Insurance and Takaful, Maybank, RHB Research



## Stocks

**FOREIGN** stock buyers face a dilemma – if they buy Malaysian stocks at a bargain, the depreciating ringgit could wipe out any capital gain.

This common predicament, says MIDF Amanah Investment Bank Bhd's corporate investment banking director **Sherilyn Foong**, underscores the importance of diversification across asset classes as well as geographical broadening.

Etiqa Insurance and Takaful head of research, products and alternative investments, investment management division **Chris Eng** points out that the dilemma applies only to foreign investors where revenue or asset generation is in the US dollar. "For local investors, the choice is between investing in local assets and suffering a currency loss if they wish to eventually transfer their assets abroad, or invest in foreign assets which they are less familiar with and be exposed to currency movements," he says.

Investors who are comfortable with foreign exchange (forex) can look at investing in equities or exchange traded funds (ETFs)

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## Ringgit and foreign currencies

**THE** ringgit has been depreciating against the US dollar after bouncing back in April last year when it traded at 3.86 to the greenback. But it has since weakened and was 4.46 on Jan 19.

Apex Investment Services' Chew points out that the local note is oversold in the near term. "In the last 24 months, the ringgit had depreciated twice the rate of the next weakest currency in Asia, the renminbi," he notes.

However, he believes any rebound in the ringgit may be limited since US interest rates are expected to rise again this year.

Etiqa Insurance and Takaful's Eng believes the ringgit should appreciate over the longer term to below 4.30 to the greenback.

However, he acknowledges the timing of this is quite uncertain, given the uncertainty of the rate hike moves by the US Federal Reserve this year.

Overall, Eng does not advocate investing in currencies given their volatile nature and how trade requires substantial leverage.

Property consulting firm FAR Capital Sdn Bhd CEO **Faizul Ridzuan** says the ringgit's depreciation against the US dollar is also happening to most currencies. Besides, Malaysia does not rely on the US solely for export revenue.

"The US is only one of our four largest trading partners. China is our largest trading partner. Why are we panicking that the ringgit is dropping against the US dollar when China is intentionally devaluing its currency?"



Chew favours the Indonesian rupiah, citing the country's sound fundamentals

Faizul is still bullish on the prospects for Malaysia, partly because prices of some key exports like palm oil, crude oil and natural gas had rallied in the past two to three months.

Mizuho Bank's Chang envisions the ringgit's volatility to ease significantly given Bank Negara's measures. But he believes a weaker ringgit trend should remain, given the threat of higher US rates and broad-based strength of the greenback.

"We do not see the oil price rebound boosting the ringgit much this time despite the boost it provides the current account and fiscal balance," says Chang, who forecasts the US dollar to trade towards the 4.55 level by Q1.

"This is largely because foreign portfolio inflows have turned more circumspect with the reduced availability of forex hedging instruments, alongside the curb in the non-deliverable forward market participation," he explains.

As for foreign currencies worth investing in, Chang believes the US dollar remains attractive. The Trump administration, he explains, looks likely to use tax policy to incentivise a return of offshore capital as well as encourage onshoring of production back to the US.

"Another attractive currency is the Australian dollar, which looks to benefit from Trumponomics via increased demand for iron ore amidst more infrastructure spending in the US," he says.

Trumponomics refers to Trump's economic policies as he pledges to cut personal and corporate taxes, restructure US trade deals and introduce large fiscal stimulus measures emphasising infrastructure and defence.

Chew favours the Indonesian rupiah, citing the country's sound fundamentals and how it has benefited from President Joko Widodo's strong leadership.

offshore, Eng advises. He believes in focusing on ETFs for the US, Europe and Japan, although this is only after they have corrected somewhat from the rally experienced since the US presidential election in November.

Apex Investment Services' Chew says investors may wish to consider investing in ringgit-denominated equity unit trust funds that invest in regional stocks. "If regional currencies strengthen, the fund will benefit from the appreciation. In addition, investors also get to diversify."

On the local front, Apex Investment Services invests in dividend yield plays and consumer staple companies in water and food ingredients, says Chew. "We also like exporters with foreign currency revenues, and which are exposed to a cyclical upturn in the global economy."

EquitiesTracker's Vong sees potential in the electrical and electronics (E&E) sector. According to the Statistics Department's November external trade statistics, E&E



The quality of your assets is more important, says Vong

products were the largest exports, contributing 35.9% or RM26.2 bil of total exports.

"We don't have Tesla, Facebook and Apple, but we have our supporting industries to these brands," Vong says. "If these companies can compete on the global platform and make up a high volume of exports, they must be doing something good since they are competing globally."

"A lot of semiconductor we know is about handheld devices, tablets, mobile TVs, but there's this whole space that just started, for instance, autonomous vehicles, industrial internet of things and mechanisation of industry," he adds.

One of the biggest shifts in the automobile space is driverless cars with billions invested in research and development, adds Vong. "It's not about if it's going to happen, it's when as 99% of our cars are mechanised and only 1% is electronic. Eventually, your car will be like your phone – the percentage will be reversed."

## Property

**KNIGHT** Frank Malaysia managing director **Sarkunan Subramaniam** expects the property outlook this year to be as subdued as last year's. He envisions developers implementing strategies to improve sales to counteract lower consumer demand due to economic conditions.

In a market characterised by uncertainty, FAR Capital's Faizul has an evergreen advice for property investors – invest in only what you're familiar with.

On types of properties to buy, he believes investors should buy only mass market properties in locations they are familiar with. Such properties appeal to the largest chunk of buyers and renters, making the investment more viable.

The definition of mass market properties differs depending on target locations, Faizul cautions. "A RM400,000-500,000 property may be considered mass market in Puchong, Selangor whereas in Mont Kiara, Kuala Lumpur, this would cost around RM1 mil," he says.

"The average price, plus minus 10%, should be the definition of mass market property in your area. For example, if the average transaction point in Mont Kiara is RM1.1 mil to RM1.2 mil, anything between RM1 mil and RM1.3 mil is considered mass market."

On that note, he doubts that the strategy of investing in overseas properties, like in the US or UK, will suit most people. This is compounded by the fact that the ringgit could be trading at its weakest phase now, making such investment even costlier and riskier.

"You want to invest overseas when

you're in a position of strength, not weakness," says Faizul. "Today, when the ringgit is not doing as well, investing in other countries is not the best idea."

He says many Malaysians panicked and bought properties in the UK in recent years, but suffered currency losses when Brexit (Britons voting to leave the European Union) happened in June, resulting in the pound nosediving. "At its height in September 2015, the pound was at RM6.70, but it's about RM5.50 on average now. Purely from the forex perspective, the pound has lost about 20% to the ringgit. And they haven't taken into consideration the devaluation of UK properties, thanks to Brexit," he explains.

Etiqa Insurance and Takaful's Eng shares similar sentiment. Given the low liquidity nature of properties, he believes it would be better for an investor to pick a fundamentally-strong geography he is fairly familiar with. "Then invest in the asset class for the longer term."



Investing in other countries is not the best idea as the ringgit is not doing well, says Faizul

### Hotspots

State/Region	Location
Klang Valley	Ara Damansara, Bandar Malaysia (Sungai Besi), Bandar Utama, Bangsar, Bangsar South (Kerinci), Bukit Bintang, Bukit Jalil, Damansara Heights, Damansara Uptown, Imbi/Cochrane, Kelana Jaya, KL Sentral, Kota Damansara, Kwasa Damansara (Sungai Buloh), Jalan Tun Razak, KLCC, Mid Valley City, Mont Kiara, Mutiara Damansara, Old Klang Road, Pantai, Puchong, Semenyih, Subang Jaya, Sri Petaling, Tropicana
Johor Bahru	Danga Bay, Bandar Nusajaya
Penang	Batu Ferringhi, Gurney Drive
Negeri Sembilan	Seremban

Sources: Henry Butcher Real Estate, Knight Frank (Malaysia), PPC International, Raine and Home International Zaki and Partners, WMA Property

### Transactions based on sub-sectors

Price range (RM)	Quarter	Residential		Commercial	
		No	%	No	%
200,001 - 250,000	Q3 2015	4,804	8.3	371	5.4
	Q2 2016	4,294	8.2	371	5.9
	Q3 2016	4,031	8.1	309	5.3
250,001 - 300,000		4,487	7.8	345	5.0
		4,099	7.8	420	6.7
		3,862	7.8	282	4.9
300,001 - 400,000		6,475	11.2	820	12.0
		5,996	11.4	630	10.1
		5,921	11.9	562	9.7
400,001 - 500,000		3,558	6.2	741	10.8
		4,098	7.8	680	10.9
		4,047	8.2	596	10.3
500,001 - 1,000,000		6,063	10.5	1,589	23.2
		6,166	11.7	1,558	24.9
		5,566	11.2	1,471	25.4
1,000,001 & above		2,210	3.8	1,151	16.8
		2,014	3.8	1,012	16.2
		1,826	3.7	902	15.5

Source: Valuation and Property Services Department

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### Gold

**POTENTIAL** gold investors are at a crossroads. On one hand, the world is seeing a lot of uncertainties and gold is traditionally seen as a good hedge. On the other hand, the greenback is strengthening, which makes US dollar-quoted gold less attractive. Gold traded at US\$1,204.32 on Jan 19.

Most are generally lukewarm on gold prospects this year. Apex Investment Services' Chew says gold typically benefits in times of crises or during periods of monetary easing and fears of debasement of currencies.

"Central banks are cutting back on monetary easing. Also, there are more signs of a global economic recovery and less uncertainty. The US dollar has been strong. These are not



Gan observes some risk aversion in the latter part of last year can still be felt today

ideal conditions for gold prices to perform well," he points out.

His view is echoed by Etiqa Insurance and Takaful's Eng, who maintains that gold is not an ideal investment class, especially when the US is potentially about to embark on a multi-year interest rate hike regime.

OCBC Bank economist **Barnabas Gan** observes that some risk aversion in the latter part of last year can still be felt today.

"We look for key events such as March's triggering of the Brexit's article 50, April's first round of French elections as well as potential growth drags given Trump's proposed trade policies," he says.

Hence, Gan believes risk aversion, especially in H1, may give gold a credible support above US\$1,100/oz. As such, there could be some allocation to safe havens, especially in times of uncertainty, he says.

"Still, our call for the

Federal Open Market Committee to engage two more rate hikes this year should lead to a firmer dollar. Gold is ultimately a quasi-FX-commodity asset and a stronger dollar is a strong indicator to drag gold to our year-end forecast of US\$1,100/oz with downside risk."

However, HSBC Securities (USA) Inc chief precious metals analyst **James Steel** is more bullish on the precious metal. He believes prices will be buoyed by political risks and uncertainties associated with a Trump presidency and disruption in world trade, economic policy misalignment or currency war.

"The political uncertainty in Europe with the rise in populism, upcoming elections and Italian referendum could also be contributing factors. As risks and uncertainties increase globally, gold will be utilised increasingly as a safe haven and flight to quality asset.

"A key that gold has over paper assets, notably currencies, is that it is immune from intervention," he writes in his November report. Hence, he expects gold to rise further to US\$1,550/oz by year-end with an average of US\$1,410/oz.

### Bonds

**BONDS** have traditionally been lauded for their less risky and stable nature compared with stocks. Given the uncertainty plaguing the stock market, some may want to diversify their risks by investing in an asset class that promises fixed income.

Etiqa Insurance and Takaful's Eng, says the large minimum value of investments and generally lower returns mean that bonds are more suitable for investors with lower risk appetite and higher net worth. Maybank and Standard Chartered, for instance, require a minimum investment of RM250,000 for local currency bonds.

"Given the likelihood that the US may raise interest rates for a few years, we would be cautious on global bond investing. That said, the Malaysian bond market was heavily sold down in November. There remains some value in the local bond market at the moment," says Eng.

Rising bond yields globally make Apex Investment Services' Chew more selective in fixed income. "Rising interest rates are normally negative for bonds, as we have seen in the bond market correction recently. Timing is key given this volatility and expected uptrend in global yields."



Eng cautions against global bond investing

### Commodity futures

**IN** late December, crude palm oil (CPO) futures surpassed RM3,100/tonne for the first time in five years when oil prices hit an 18-month high of US\$57.08 per barrel. On Jan 19, CPO was at RM3,242 and oil US\$54.22.

RHB Research equity analyst **Hoe Lee Leng** expects CPO price to remain high for the next few months due to weak output. However, she expects it to moderate after Q1 with output recovery coinciding with the South American soybean harvest, which is likely to pressure vegetable oil prices. "It would be a short-term trade only." She maintains RHB Research's CPO price assumption of RM2,500/tonne this year, and expects it to trade at RM2,300-3,000/tonne during the year.

Etiqa Insurance and Takaful's Eng echoes similar view. He believes there appears to be a window of investment for CPO and oil till April or May. "After that, CPO production should increase while oil supply from the US and Canada could increase to pressure prices down again," he says.

OCBC Bank's Gan also expects CPO price to drop this year, noting that palm oil rallied last year due mainly to weather extremities, leading to poor production yields. "For 2017, weather conditions are likely to turn calm as the La Nina is expected to be mild and shortlived, thus likely benefiting supplies and normalising palm oil prices into this year. Note that palm oil production is likely to pick up in Q1 on seasonal factors," he says.

Another contributing factor is Malaysia and Indonesia's crude palm oil export growth continued to contract year-on-year by 59.2% and 24.4%, respectively, in November, due to poor demand from India and China. From a technical point of view, CPO price appears to have formed a double-top at RM3,200/tonne, suggesting a resistance at that level, and a possible correction in the coming

months, Gan explains.

So, expect CPO to normalise this year, he says. "The rally in palm oil price should ebb into the year, and eventually loses momentum as supply picks up amid dull demand."

Like bond investment, Apex Investment Services' Chew intends to be selective in investing in CPO. "The price is strong because of the low production season and El Nino weather conditions recently which hampered production," he says.

However, he believes production may normalise by mid-year, which may cause CPO price to ease. "Longer-term production may be constrained by lack of growth in planted hectare in Malaysia and Indonesia. Therefore, investors should focus on planters which have growth in output due to a maturing plantation profile," he says.

### Bitcoins

**IF** you're not too keen on the US dollar, ringgit or other currencies, you might want to consider putting some money in bitcoins. The digital or cryptocurrency outperformed all currencies, stock indexes and commodity contracts last year. It hit an all-time high earlier this year, surging to US\$1,140.64 on Jan 4, according to Bloomberg. It was at US\$889.96 on Jan 19.

There are about 16 million bitcoins in circulation, from a possible 21 million bitcoins that will ever be mined. It is easy to move bitcoins across borders as they are not regulated by any central bank or government. This unique characteristic allows the digital currency to bypass capital control restrictions imposed on sovereign currencies.

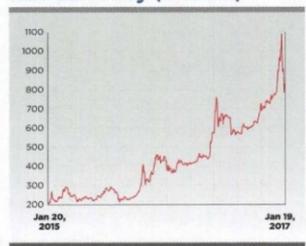
Growing acceptance of bitcoin by consumers could be another contributing factor for its rise. Like any currency, you can pay for goods and services using bitcoin or keep it as investment.

But before you rush in, consider that the stakes can be high. **Lon Wong**, CEO of

Dragonfly Fintech, a company that develops blockchain technology for the financial service and banking industry, calls bitcoin "highly volatile" and "highly manipulative".

Only two or three million people worldwide own or speculate on the digital currency in an unregulated market, he says. "The volatility is typical of a stock market. When there's some bad news, the value goes down, and when there is good news, it goes up. The difference is the value is predicted by people with personal interests. They are influential but not authoritative," he says.

#### XBT currency (bitcoin)



Source: Bloomberg

On Jan 6, bitcoin abruptly fell by up to 12% after the People's Bank of China warned investors to be cautious about the digital currency. The day before, it fell by as much as 20% at one point when the renminbi appreciated.

Wong, however, believes bitcoin's price crash is temporary. "The Chinese central bank said it three years ago [in 2013] and it said it again (on Jan 6), which led to another crash. It's temporary. People are going to realise (the central bank) said the same thing three years ago and then life went on. It's business as usual," says Wong, who believes the price should climb again in the near term.

"One reason that led to the run-up [in November 2016] was the hope that Trump would be more bitcoin-friendly. If he is, we may see another surge."

One threat to bitcoin is that there may be new initiatives that could overtake it in terms of usability. "When this happens, that's when the shift in pricing will show at the end of



Wong doesn't advise anybody to throw his life savings into bitcoin

the day," Wong says. However, he believes this phenomenon will likely take three to six years to materialise. "In the short term, say six months to a year, bitcoin might still have the dominant position in the cryptocurrency world," he says.

EquitiesTracker's **Vong** likens bitcoin to a start-up, and cautions that one should not commit too much money in such investment. "For anything that is new, like a promising start-up company that I don't know a lot about, my rule of thumb is it should take up not more than 5% of my portfolio," he says.

Wong agrees. "I wouldn't advise anybody to throw his life savings into bitcoin," he says. "If a person is well versed with bitcoin, I think it represents a good opportunity for a high-yielding and high-loss type of investment. Should you decide to invest, the classic principles of investment apply – you should be really well versed with the market, and have done a lot of research like how you would do on a stock." FocusM