

COVER STORY

The trading floor of the Hong Kong Stock Exchange. For Asian equity plays, Wong says North Asian stocks, particularly those of China, look more attractive in terms of valuations versus Southeast Asian equities.



Top fund PICKS

Investment experts of IFA firms and wealth management companies list their recommendations for investors who seek to add exposure to equities via mutual funds and ETFs in the current market downturn

BY KELVIN TAN |

The past several weeks have been volatile and unnerving for many Singapore fund investors. They saw the value of their investments plummet in late September, before swinging up again in mid-October, on the back of a sudden “risk off” and “risk on” trading pattern in global financial markets.

A confluence of worrying factors such as slower economic growth outlook in the US and China, deflation fears in Europe, escalating military conflicts in the Middle East, plummeting oil prices and the fresh outbreak of the Ebola virus in several countries outside of West Africa caused global equity markets, particularly those in Europe and US, to plunge coming into October.

“The sharp correction in financial markets in recent weeks was mainly due to European concerns. Investors are seeing eurozone growth come down, whereas deflation risks are increasing and policymakers seem to be losing control,” observes Maarten-Jan Bakkum, senior strategist of multi-assets at ING Investment Management International, in a recent note to investors.

European equity and energy sector funds, as well as those invested in Brazilian equities, have been the hardest hit, whereas funds with exposure to safe-haven US government bonds and defensive equities, such as the healthcare and biotech sectors, did well. [See PW8 for the best- and worst-performing groups of funds over the past three months.]

Over the past week, however, investor sentiment seems to have turned for the better as global equities staged a strong rebound. “Equities benefited from bond-buying by the European Central Bank (ECB), expectations of

more equity purchases by Japanese pension funds, and better-than-expected earnings in the US,” notes Russ Koesterich, chief investment strategist at global fund management firm BlackRock in a recent report.

Although many bourses around the world have since bounced back from their recent lows, market volatility is unlikely to go away any time soon, he says. “It appears that the period of unusually low volatility has come to an end,” adds Koesterich, who views the recent stock market downturn as more of “a mid-cycle correction, rather than the start of a bear market. While sentiment has shifted, we believe fundamentals remain stable, suggesting opportunities for long-term investors.”

Bullish views

Investment experts from local independent financial advisory firms and wealth management companies offer similar bullish views. Long-term investors who had missed out on the equity rally of 1H2014 could consider “buying on recent market weakness” and “sit tight” for the next 12 to 24 months, which could see global stock markets moving higher but at a more volatile pace, say market observers from IFAs.

There is no change in the upward trend that equity markets have been experiencing in recent years, insists Victor Wong, director of wealth management at Financial Alliance. “[The recent correction] is a healthy development, given that such a retracement is absolutely necessary before equity markets can move higher in the coming months,” he says.

Looking back over the last few years, Wong points out that equity corrections had occurred at least once every year, but new highs were made in the months after such temporary downturns. Market pullbacks averaged about

10.6% in 2012 and 2013, while the average duration of the corrections in the past two years lasted about seven weeks.

“When taking this into consideration, the present 8.5% retracement over five weeks is not exceptionally sharp. Based on the extent of the corrections in 2012 and 2013, we estimate a bottom could be in place after another 2% to 4% loss over the next one to three weeks. We do not rule out a deeper and more prolonged correction, but it is imperative that investors remember the positive primary trend for equities remains intact,” explains Wong.

For fund investors who are fully invested in equity markets, his recommendation is “to ride through this correction” as the primary trend for equities is still positive. For those who are able to invest more, now is a good time to add on equity exposure or top up their current equity fund holdings, Wong says. “Investors looking to invest more may be perturbed by the volatility. A suggestion would be to break up the amount to be invested into monthly instalments, with the aim of being fully invested by December,” says Wong, who is most bullish on the long-term prospects of emerging-market equities, particularly North Asian and Japanese stocks.

William Cai, vice-president and deputy investment head of IFA firm GYC Financial Advisory, has similar bullish views. “Corrections have always been a feature of all stock market rallies and so long as the market’s preference for risk-taking remains intact, investors should remain buyers of the market. We just increased our equity holdings in the third week of October,” says Cai, who gauges stock market trends using historical data, technical analysis tools and propriety risk indicators.

Investors have reasons to be positive, he

thinks, and points out that US equities tend to do well in the third year of the US presidential tenure. “2015 will be the third year of [Barack] Obama’s [second-term] as president. That is when the market typically does well, according to the presidential election cycle theory,” he says. Obama will do his best to get the US economic engine up and running in order for the Democrats to win in the next election, adds Cai who remains bullish on US stocks.

“According to the Stock Almanac, the sweet spot for a double-digit return [for US stocks] is [to invest during] the fourth quarter of the mid-term year [2014], through the first quarter of the pre-election year [2015]. According to the Best Six Months market cycle theory, the best time to buy stocks is between November and April. Recent market corrections that began in September provide a good opportunity [to take exposure in equities],” Cai tells *Personal Wealth*. The US market euphoria is likely to last and US stocks, which have been leading the global equity market over the past several years, will continue to rally into 2016, when the bull market finally ends, he predicts.

US stocks, measured by the Standard & Poor’s 500 Index, have rebounded more than 6% from their recent lows on Oct 15. In the near term, as long as the index stays above its October trough, Cai is confident that the recent broad-based rally in US stocks will pick up pace.

For sure, global equity markets on the upward trend will encounter turbulence along the way, says Daryl Liew, head of portfolio management at Reyl Singapore, the local subsidiary of Swiss wealth management and asset management company Reyl & Cie. “While we are still positive on equities over the medium

term from an asset allocation perspective, we are advising our clients to be cautious about equities at the moment as equity markets are still quite volatile. [Nonetheless], we are maintaining our current asset allocation positioning, which is to slightly overweight equities and underweight bond," Liew says.

Developed-market picks

Looking ahead to the next few quarters, investment experts such as Wong, Cai and Liew reckon that US, Japanese and German stocks are the best bets in terms of developed-market equity plays.

In Asia, Liew says he is most bullish on Japanese equities because the yen will likely continue to weaken and this will be positive for Japanese exporters' earnings. "Other catalysts include pension reform, when the Japanese national pension fund eventually increases the equity allocation in its asset allocation; and the positive impact of structural reforms on various industries. The recent launch of Japan's Stewardship Code suggests changes are afoot at the corporate level, where shareholder interests will be better represented."

Japanese stocks, measured by the Nikkei 225 Index, were down more than 4% for the year as at Oct 29. The index is trading at a forward average price to earnings ratio (PER) of 17.5 times and price to book ratio (PB) of 1.57 times. "The Japanese stock market's underperformance so far in 2014 is merely a consolidation after a stellar 2013," says Wong of Financial Alliance, who is also bullish on Japanese equities over a 12-month time frame.

For local investors who are keen to take exposure to Japanese stocks via unit trusts, he recommends the **Eastspring Investments – Japan Dynamic Fund (SGD)**. This fund, which delivered gains of nearly 30% in Singapore dollar terms over the past three years, was down 3.65% this year as at Oct 24, according to data from fund research firm Lipper. Over a 12-month time frame, the performance of the Eastspring Investment – Japan Dynamic Fund should get better, says Wong. "This fund has a Singapore dollar-hedged share class, which means it will capture value via stock selection and market appreciation, but will be shielded from the weakening of the Japanese yen versus the Singapore dollar." For his part, Cai of GYC Financial Advisory is most sanguine about US equities in terms of developed market stock plays. He likes US large caps in particular, and points out that the fundamental data out of the country continues to be positive. "This reflects the strength of the US economy. Unemployment numbers, capital expenditure and business loan growth all point to a strengthening economy. US PMI (purchasing managers' index) numbers continue to be expansionary, and consumer sentiment indicates that retail spending will likely continue till the end of the year," says Cai, who recommends the **Fidelity Funds – America** and **Legg Mason ClearBridge US Aggressive Growth Fund** for exposure to US stocks.

Both funds were up more than 10% this year as at Oct 24. Over the past three years, Legg Mason ClearBridge US Aggressive Growth Fund was the best performer among the Singapore-registered US equity funds, after turning in gains of 74.84% in Singapore dollar terms as at Oct 24. Fidelity Funds – America, the third best performer in its category over the past three years, delivered gains of 71.91%.

Cai, who runs discretionary investment accounts for his high-net-worth clients, reveals that he exited his European equity positions recently on the back of weak economic data, which "was a huge disappointment. Down the road, we may revisit the European region, but for now, we favour US equities".

Although European equities remain out of favour with global investors, Liew of Reyl is still willing to bet on German stocks, which were down 5% for the year as at Oct 29, as measured by the DAX Index. "We think the



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selloff in Europe has presented interesting investment opportunities. Within Europe, we like German equities as the DAX has underperformed the Stoxx 600 by 6% on a year-to-date basis. The DAX is trading at a forward earnings multiple of less than 12 times, a significant discount to the broader European index. We think the recent concerns over the poor German PMI are overblown and that German companies will benefit from the continued weakness in the euro," says Liew.

Singapore fund investors could take exposure to German stocks via the **Fidelity Funds – Germany** and **Parvest Equity Germany**, the only Singapore-registered German equity funds available for sale to local retail investors. Liew, who prefers exchange traded funds as investment vehicles for market exposure, recommends the **iShares Core DAX ETF**. This Germany-listed ETF aims to track the performance of the DAX Index.

Emerging-market plays

Fund investors who have an investment horizon of at least three years and are comfortable investing in a riskier group of equities can consider investing part of their money in emerging market equity funds, says Wong.

"We are of the view that over the next three years, emerging-market equities will outperform developed-market equities." Given last year's underperformance of EM stocks — which were down 1% for the year as at Oct 29, according to the MSCI EM Index — their current valuations look cheap compared with US and European stocks, he adds.

The MSCI EM Index is currently trading at a forward PER of 11.71 times and PB of 1.42 times. The S&P 500 Index and Euro Stoxx 50 Index currently have forward PERs of 16.54 times and 13.84 times, respectively.

In terms of EM equity fund recommen-



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dations, Wong picks the **Fidelity Funds – Emerging Markets**, a diversified EM equity fund that offers exposure to frontier markets and has good long-term consistent returns, he says. Over the past three years, this EM equity fund was up 24.9% in Singapore dollar terms as at Oct 24, according to data from Lipper.

For Asian equity plays, Wong says North Asian stocks, particularly those of China, look more attractive in terms of valuations versus Southeast Asian equities. "Southeast Asian equities have posted stellar returns over the past three years, led by the Philippines, Vietnam, Indonesia, Malaysia and Thailand. In contrast, North Asian equities have been more or less moving sideways."

Within Asia, he is most cautious about Southeast Asian markets, such as Indonesia. The country's newly elected president, Joko Widodo, "could face considerable headwinds" when his administration tries to implement policies and reforms through a weak coalition government, he says.

Like Wong, Cai likes Chinese equities, which are trading at inexpensive forward PERs of less than 10 times, as measured by the MSCI China Index. "We also like China because Chinese data appears to be stabilising and the central government remains committed to providing stimulus where necessary, to ensure growth remains at a decent level," Cai says.

Of late, EM stocks have been weighed down by the strong US dollar. He adds that the safe-haven greenback could see "a correction" in value in the coming months as risk aversion among global investors abates. "A fall in the US dollar could give Asian and EM equities, commodities and gold a short-term boost."

In terms of Asian equity funds, Cai recommends the **Schroder Asian Growth Fund** for "its non-benchmark-hugging" approach and



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superior bottom-up stock picking process. The fund also has an overweight position in China, a market he likes. Wong, on the other hand, likes the **First State Asian Growth Fund** because of its consistent performance over the past three, five and 10 years (see table).

High-risk contrarian bets

For adventurous investors looking for short-term money-making opportunities in battered and out-of-favour markets and sectors, Cai recommends that they take exposure to Russian and Brazilian equities. For one- to three-month mean reversion trades, he is betting on Russian stocks, which could bounce back from their oversold position.

"Russia now has to be the most hated country in the world, and its stock market is very close to its March 2014 low. Investors shudder when I say Russia, which seems to be the new scary word to use for Halloween," he quips. But with a price to book of 0.53 times, it looks very attractive in terms of valuations; Russian stocks rallied nearly 30% in the months following the March low. The same mean reversion trading pattern could happen for the battered Russian stocks going forward, predicts Cai, who is also bullish on Brazilian stocks over the short term.

Stocks in Brazil slumped following the recent victory of incumbent president Dilma Rousseff, who had disappointed investors in terms of policy-making and the lack of reforms during her first term. Investors, who had been hoping for a more reform-minded leader, sold off their equity holdings in Latin America's biggest nation after Rousseff was re-elected on Oct 26. Brazilian stocks, measured by the Bovespa Index, were down more than 8% over the past three months as at Oct 29. The index was up 1.6% on a year-to-date basis. "The selloff [in Brazilian stocks] could soon reach an exhaustion point... A small allocation to Brazil can be very rewarding if I get it right. If I get it wrong, a stop-loss measure will limit the risk," says Cai.

For contrarian bets, Reyl's Liew favours the downbeat energy equity sector. "This sector has suffered a significant correction in the past few months on the strength of the US dollar and a sector rotation out of energy into other sectors as the price of Brent fell from over US\$100 to US\$86 in less than three months. We think the energy sector is now looking quite attractive," says Liew. He recommends the **Energy Select Sector SPDR Fund**, a US-listed ETF that tracks the performance of the Energy Select Sector Index, an equity index made up of oil and natural gas companies, as well as those that provide drilling and other energy-related services.

Performance of IFAs' fund picks

NAME	RETURN %	RETURN %	RETURN %	RETURN %	RETURN %
	3 MONTHS (JULY 24, 2014 TO OCT 24, 2014)	YTD (DEC 31, 2013 TO OCT 24, 2014)	1 YEAR (OCT 24, 2013 TO OCT 24, 2014)	3 YEARS (OCT 24, 2011 TO OCT 24, 2014)	5 YEARS (OCT 23, 2009 TO OCT 24, 2014)
First State Asian Growth SGD	3.16	14.16	13.15	32.73	45.43
Schroder Asian Growth SGD	-4.2	3.63	6.07	39.39	46.86
Fidelity Funds – Emerging Markets A-USD	-2.69	-0.14	2.47	24.91	20.68
Eastspring Investments-Japan Dynamic A	-4.86	-3.65	-0.64	28.09	NA
Fidelity Funds – America A-USD	1.38	10.16	19.69	71.91	74.78
Legg Mason ClearBridge US Aggr Growth A Dis A USD	0.18	11.15	17.89	74.84	109.48

Return: NAV-to-NAV or bid-to-bid, income re-invested, calculated in SGD