THE BREAK OF DAWN

IT'S THE VALUATION, SIR

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A new year, a new opportunity.

When I wrote in the last Quarterly Newsletter that stock markets were close to bottoming out, I was not looking to a Trump win at the US Presidential Elections. On the contrary, I was looking at a Clinton win which I said would be more favourable to stock markets. Nevertheless, investors seem to have shrugged off their concerns over Trump's threats and feisty words and are looking forward to any reliefs that the new administration could provide for the United States. While there are expectations of a push for the US local economy, which I welcome albeit with concern over higher inflation, I will put it down to valuations. It is almost always when there is fear that attractive investments are made available to the disciplined investor.

Active, nimble investing ahead

One word I would boldly predict for the year ahead: volatility. The socio-political concerns and the current outlook for the global economy and global stock markets do not support a sustained rally in equity and we need to be nimble in our investment decisions and actively manage our portfolios.

Share prices are likely to trade in broad trading ranges in the months ahead. Funds are likely to shift from one focus to another and this is likely to add to the market volatility.

If you are one who is easily on edge, there are plenty to be concerned with this year. Top on my mind would be that socio-political economic discipline would be put to the test for world leaders – spelling potentially tough political statements and actions and overflowing consequences to ASEAN countries. The world is watching over the change of baton in the United States this month. The issue of Brexit does not look like it would be settled soon and we will also have new elections in several European countries, including Germany.

One other area which we are likely to be concerned with is global currencies. Currencies have weakened against the US dollar and with expectations of three more rate hikes by the US Federal Reserve, concerns of a stronger US dollar are understandable. However, Trump's expenditures and a resulting higher US inflation rate would not support a sustained stronger US dollar.

You probably thought we have always been experiencing inflation in Singapore but then, you are probably not renting an accommodation or chasing after the coveted Certificate of Entitlement. Our Consumer Price Index has stopped falling after 24 straight months of declines. For the Singapore currency, on which our managed account holders' portfolios are based, we may see a firmer, instead of an easier, tone from the Monetary Authority of Singapore despite a weak economy. Amidst weaker major, and regional, currencies, further weakening in the Singapore currency against its basket of currencies may have limited advantages and instead, would only import higher inflation.

Opportunities

It is fair to be aware of and to anticipate the risks ahead but one should not be clouded with fear to the extent that we miss the forest for the trees. There will always be fear and greed in the market. We should not unduly harp on one or the other in investing. Instead, we should decouple fear and greed from our investment activity and capitalize on others' weaknesses in their failure to do likewise.

Market bottoms are not necessary U-shapes in making and take time to form. The shape of the bottoming would be in place when fear subsides, just as a cost curve reaches its minimum when the rate of change is zero.

The interest rate hikes by the US Federal Reserve should be seen in the proper perspective – that it is not a popular, but yet welcome change – that the US economy is growing sufficiently for the Fed to make these decisions.

If investors are looking for long-term investment, this is not a time for fear. Fear itself will not do us any good. On the contrary, as I have said, we should turn others' fear to our advantage. There is so much negativity around us on concerns over the global economy and fears that the economy would worsen. Time and time again, we find that stock markets bottomed out ahead of the real economy. There are good valuations for the picking. In a time frame of the months ahead, we would require prudence and active management to take advantage of the prevailing short-term investor mentality.

For our existing clients, topping up an existing account is one opportunity; opening a new account is another avenue. Among our offerings is a Managed Gold & Resources Account which could cater to those still concerned over the prevailing economics and politics around us. Despite our expectations of higher interest rates and some sovereign selling amidst weak currencies, gold is likely to remain as a good hedge against economic and political uncertainties and against a softer US dollar.

Wishing you a good year ahead of the Rooster call at the break of dawn.

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