LET'S CONTINUE WITH OUR INVESTMENT JOURNEY

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In April last year, I invited you to join me for our investment journey, a journey that would take us to our desired destination notwithstanding some air turbulences every now and then. Not long after that, in June, the British woke up from a restless night to find that their own have voted to break away from the European Union. Of course, we have had at least one other significant event last year in the election of Donald John Trump to the US presidency for the next four years.

In early October, we wrote that our regional equity markets were close to bottoming out and last January, we invited you to look ahead of the Rooster call at the break of dawn. Our customers may ask why we monitor events as diverse as economics and politics. This is because when we assessed that the equity markets were close to bottoming out ahead of the US presidential elections, we put back what we took out on a short-term tactical basis, and more, into equities for our managed account holders. We took the view that investors had over discounted the economic and political events and that there were good stock valuations vis-à-vis the economic cycles.

I thought I will share a couple of quotes from Warren Buffett, Chairman of the Board of US-listed investment company Berkshire Hathaway Inc. but I want to make it clear that I have no intention of quoting him out of context and I make no pretence that I am in any way fully using his investment methodologies or those of his "mentor" Benjamin Graham and David Dodd whose book Security Analysis was a compulsory text when I was reading for my CFA in the late 1980s. In his latest annual letter to shareholders in February, Buffett quoted Meg McConnell of the New York Fed on the reality of panics: "We spend a lot of time looking for systemic risk; in truth, however, it tends to find us." He added: "During such scary periods, you should never forget two things: First, widespread fear is your friend as an investor, because it serves up bargain purchases. Second, personal fear is your enemy. It will also be unwarranted."

We kept faith with our "friend" when our portfolio managers acted for our clients' managed accounts when we took the view in the second half of last year that share prices were overly discounted and were close to bottoming after a period of caution. We promptly and decisively re-invested our clients' funds in good value companies of which we are convinced are well managed and have good business models.

Silver Linings Are Already Here

As we journey together, we can never be too sure what would the weather be like tomorrow or the week after. As we know, from time to time, the airplane pilot would periodically alert us to possible turbulent skies ahead from his experiences and from past records. More often than not, he would only inform us when he is navigating through the clouds. In investments, it is also hard to predict with accuracy, short-term changes which could adversely impact the stock markets. Could anyone claim that from his/her assessment, he or she can confidently expect a change in the political relationship among the likes of the United States, China, Japan or Russia in the next three months? Or a change in the trade flows among these countries and more in the next three months? Or a shift between online sales and brick and mortar sales in the next three months? Not likely. I think that unless you are heavily influenced by historical charts, how a share price (within decent ranges) or a market index such as the Dow Jones Average move yesterday or last week should not overly disrupt your investment planning. With share prices retracing from recent highs, I can appreciate investor's concerns over more corrections. This apply also periodically to slower economic data than previous quarters.

Silver linings are already here, if only we choose not to ignore them. The US economy is growing and the latest 25 basis point increase in the Fed Funds Rate is a welcome move with the US Federal Reserve doing a good job in managing investor's expectations and moderating the rate increases. Although there are concerns that Donald Trump might not be able to implement some of his other economic plans after his failure to repeal Obamacare, we should see it positively that the US Congress - comprising the Senate and the House of Representatives - is functioning well in its checks and balances on the power of the government.

We are likely to see more optimism coming out of Europe in the months ahead with the conclusions of several elections. It is likely that investor concerns over these elections would gradually fade away as the year passes and the outlook is likely to be more positive towards the second half of the year. Meanwhile, the United Kingdom, which has invoked Article 50 of the European Union's Lisbon Treaty to leave the EU within two years, has revised upwards its GDP forecast for 2017. These positive medium-term outlook augurs well for our investment journey ahead.

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