financialobserver

Back to basics key to equities investment

03 Jul 2014
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Investors must be reminded of the fundamentals of equities investing, as well as advisers who can still be susceptible to favouring big winners, according to Prime Value Asset Management.

In particular, investors had forgotten it was possible to make big mistakes in a rising market, such as over-speculating and over-leveraging, Prime Value joint chief investment officer Leanne Pan said yesterday.

"This market is very much a strange one; it's liquidity-driven and sometimes it's running too hot and sometimes it's not, so it's important to always come back to the basics and fundamentals," Pan told *financialobserver*.

"Try to understand the business rather than be caught up in the hype, because it's only after the market turns that we have the benefit of hindsight.

"Advisers can be [prone] too because it's pretty seductive, so to speak, but again, it should come back to the basics of know your client and understand the products."

In addition, finding good-quality stocks at the right value had become harder this year, she said.

"The market has favoured stock pickers, which suits Prime Value's style, but we are concerned that valuations are being stretched," she said.

"We think the focus must come back to quality.

"It's dangerous to buy an overvalued stock and hope that it will keep rising on market momentum – we must be convinced in the quality of the management, the strength of the balance sheet and the company's long-term prospects."

Despite the strong appetite for equities, particularly domestic stocks, most investors were not financially astute and did not understood the market well enough to avoid becoming comfortable, she said.

"There's such a huge product range now, so some investors are really sophisticated and invest in all sorts of things," she said.

"But a lot of people were burned during the global financial crisis, so either they are still scared and giving up on equities by keeping money in cash or they are hearing stories about people getting multiple returns so they become tempted.

“It also depends on the individual investor – some have a very high risk appetite so they understand what they’re getting into and they can take the losses and that’s fine, but you’ve got to be aware of their expectations.”

With assets inflating around the globe, it was important to be able to see through the hype, she said.

“Being able to recognise a well-run company and look for long-term potential is central to wise investment,” she said.

“Also, if it’s too complicated and you can’t explain it to somebody else, it’s best to avoid it.”