ARECA CAPITAL

flash

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It's about planting a good seed

and investing for the future.

Areca *e*quityTRUST Fund

From the desk of

Danny Wong

contents

Dear investors,

We ended the year 2014 with not so happy news. Plummeting oil prices and weakening Malaysian Ringgit affected the country's financial markets. This was exacerbated with catastrophic floods in our East Coast and the third aviation tragedy befalling the nation.

So what are our strategies for 2015? Edward and I are sharing our views again on the outlook for the year.

The hottest topic now is GST. With its implementation just round the corner, we have included an article on GST which you may find enlightening. For the health section, this time, our health specialist, Dr. Mohammed Fauzi of Tropicana Medical Centre, is sharing with us the benefits of quitting smoking.

Last but not least, we have included a brief guide on deductions and rates for personal income tax which is due for submission by end April 2015.

Hope you find this issue useful in answering some of the questions that you may have. Happy reading and investing.

Danny Wong

Chief Executive Officer

Areca Capital Sdn Bhd

Market review and outlook

By Danny Wong

2014 was a year of unpredictable events, especially in its latter half. The sharp fall in crude oil prices was a major market shocker. Its plummet from US$105 per barrel in mid-2014 to the US$40 levels this January is due to factors such as rising shale gas production and the decline in global demand for energy, causing concern for oil dependent economies including Malaysia. A slowdown in the Chinese economy to the slowest pace since the global financial crisis in 2007, along with the crisis at the border of Russia and Ukraine made markets more jittery. In response to the ruble's freefall on the foreign exchange market in mid-December, the Russian central bank raised its interest rates by 650 basis points from 10.5% to 17.0% over-night. Japan's Abenomics did little to curb its inflation this year, leading to more stimulus plans for its economy.

For the full year of 2014, the Malaysia was the worst performing market in the region at -5.7%. Shanghai SE on the other hand, flipped from being the biggest decline in the region after Japan in the 1H2014 to become the best performing market for the year, recording 52.9% gain.

MSCI Asia ex Japan	+2.2%
Shanghai SEC	+52.9%
Philippine SE	+22.8%
Jakarta JCI	+22.3%
Thailand SET	+15.3%
Taiwan TWSE	+8.1%
Singapore SIT	+6.2%
Hong Kong HSI	+1.3%
Korea KOSPI	-4.8%
FBMKLCI	-5.7%

The events rounding off 2014 may present a bearish outlook for 2015. However, not all is doom and gloom, as long term fundamentals will stay the same and there are silver linings to be seen. Oil may be throwing the global economy into frenzy now, but it's good to remember the last time it was around this level at US$43 per barrel in February 2009, it nearly doubled up to US$76 in June the same year.

The U.S. dollar has strengthened substantially and is becoming a safe haven once more with the its economy visibly improving. The U.S. Federal Reserve stopped its quantitative easing measures last October and its growth indicators pointed to strong employment growth, improving household balance sheets, favourable financial conditions and a recovering housing market. Overall, a strong U.S. economy will benefit global growth as the U.S. is the largest consumption market in the world.

Meanwhile China's growth is expected to decline to a low 7% in tandem with its economy transitioning to a more sustainable path and Japan's Gross Domestic Product (GDP) is forecasted to contract. A gradual but weak recovery is expected in the Eurozone as the European Central Bank pledges to use further unconventional policy tools to spur European economies, bringing about ample global liquidity in the market.

On the local front, Malaysia's fundamentals are still intact and poised for further growth. Our foreign currency sovereign credit rating of "A-"for long term and "A-2" for short-term by Standard & Poors' Ratings Services affirmed the country's strong external balance sheet and monetary flexibility. Real GDP is expected to grow at 5% for 2015, driven by improved private consumption made possible by rising income and favourable labour market conditions.

Malaysia's fiscal performance has also improved and is anticipated to average at 3% of GDP throughout 2015. The implementation of the Goods and Services Tax (GST) in April 2015 will alleviate some pressure on public finances. Generally, exports are expected to moderate next year but this will be mitigated by lower imports, as nearly two thirds of our imports are related to exports. Net exports and thus current account surplus positions are expected to continue following better global demands. Malaysia, along with other Asian economies, is also likely to benefit from the rebound in the U.S. economy as its current account surplus and ample domestic liquidity serve as "buffers" against potential external financial shocks to Malaysia. Favourable domestic liquidity conditions will also offer opportunities for investors to profit from the Malaysian equity market.

The Malaysian stock market has been the worst performer in the region to-date. However, we believe its recent sell-down has neutralised and will ease the over-stretched stock valuations, with the local market becoming more attractive now from oversold positions. Malaysian equities with attractive valuations will soon attract inflows when the dust settles.

Malaysia's corporate earnings are also expected to grow despite being affected by lackluster performances in the oil and gas, commodities, banking and construction sectors. Corporate earnings are likely to rebound after having stayed at a low base. More importantly, many corporates are expected to continue with their dividend payout policies, which will make Malaysia a defensive yielder.

In terms of sectors to watch in 2015, we are still positive on companies related to Economic Transformation Programme (ETP) as the ETP has generated significant investments since its launch in 2010, garnering total committed investment of RM219.3 billion from 196 projects. We are also optimistic about export oriented sectors, some dividend yielders, and certain small to mid-cap oil and gas service-based players as most of them have contracts for the next two to three years, ensuring earnings stability. In line with an anticipated strong U.S. recovery, electrical and electronics counters and exporters should also benefit from a strong U.S. dollar. As Malaysia begins its GST implementation this year, we are cautious about the consumer sector, based on the experiences of Japan, Singapore and Australia post-GST.

Taking everything into account, we maintain that slow and steady wins the race. The longer you remain invested, the less chance that your original investments will lose their values. Crafting a balance between the two major assets of equities and fixed income is dependent on ones' needs, but staying invested is crucial to ensure asset growth. Investing is a life-long process especially for wealth generation, so don't be nervous about the short term noise.

Fixed income
market review and outlook

By Edward Iskandar Toh

The only thing that is constant is change" said the Greek philosopher Heraclitus. Although reference was made to the state of the universe, I find it an appropriate description of today's ever growing, complex and convoluted financial world. It is no longer a case of "when America sneezes, the world catches a cold" but more of 'when anyone sneezes, bring out the umbrella'.

The 2nd half of 2014 : In review

The **U.S.** continued to plot an upward momentum in economic data in the last six months. Unemployment reached 5.6% in December, lowest since June 2008 while housing data; be it new or existing home sales and prices showed an uptrend. As promised, the Federal Reserve weaned the world from Quantitative Easing (QE), finally halting pump priming in October. However, long term inflation target of 2.0% was way off mark trending down to 0.8% at end of 2014 coinciding with declining energy prices.

Across the Atlantic, **Europe** continued to struggle with high unemployment and negative inflation. While improved slightly, unemployment still stood at 11.4% with youth unemployment doubling that. Inflation fell into negative territory despite deposit rates at -0.2%. Piecing together a QE plan to be announced and launched in January 2015 was far more difficult than financial markets anticipated. Added to the mix were the distractions of Greek elections and tensions at the border of Ukraine and Russia. The anti- austerity program party of Syriza is expected to win in Greece and hence the re-emergence of a Greek exit possibility.

In **China,** two quarters of 7.3% growth and a full year of 7.4% was by any means a feat in itself but below its target of 7.5%. Yet it was the lowest in almost two and a half decades. Coupled with inflation rate for the year at 2.0%, way below its self imposed objective of 3.5%, and declining home prices, interest rates were lowered 40 bps to 5.6% in November. This was the first cut in more than two years and calls for more stimulus have been growing recently.

Malaysia saw the need to raise rates the first time in three years by 25 bps to 3.25% in July, citing the threat of rising inflation rate and household debt. At that time, crude oil futures were trading in a comfortable USD90-110 band, the U.S. economy was picking up, Europe and China plateauing and Japan was fresh with their own pump priming. Inflation in Malaysia settled regularly above 3.0%, even before another round of petrol pump price hike in October and the dreaded Goods and Services Tax (GST) implementation in April 2015. With no imminent threat to exports at that time and a resilient domestic demand, Bank Negara Malaysia's (BNM)'s rate hike seem justified.

Strangely, the U.S. Treasuries were telling a different story. 10 years benchmark trended down from 2.5% to below 2.2%, briefly surpassing 2.6%. Is it saying that despite the U.S. recovering, global economic health may not be that great or is it the hangover of excess liquidity in the system seeking yields which is now added with fresh Japanese funds?

This excesses found its way into emerging markets with Malaysia, a stable nation with fundamentally strong economic numbers and sensible financial policies attracting a handsome pool. Despite raising Overnight Policy Rate in July, 10 years Malaysia Goverment Securities yields eased below 4.0% proving strong offshore presence. Foreign holdings of Malaysian Government Ringgit debts reached ts peak in July/August totalling in excess RM242 bil or 46.3% of total outstanding Government debts.

BNM records at the end of December 2014 showed a reversal to the tune of RM30 bil of outflow since its peak, which coincided with the decline in crude oil prices.

So let us dwell awhile in this half's wild ride in oil prices which have a significant impact in the fundamentals of many economies including Malaysia's.

Crude Oil Price (Last 10 years)

The illustration above shows events that influence crude oil prices. We can broadly categorise them into five broad areas.

1. Demand and supply – They increase generally with population growth and affluence of societies/ nations. Their impact is usually gradual, transparent and quantifiable.

2. Alternatives – Technology has been a driving force in earth's insatiable quest for alternatives energy sources. Solar, wind, geothermal, biomass, hydrogen and nuclear did little to displace fossil oil as the primary source. Also, other extraction methods like shale have minimal impact on overall supply.

3. Currencies – Price discovery is transparent and quickly neutralised in open markets. Removing currency impact alters price by ±5% only.

4. Geopolitics – Disruptions to supply routes and sources affects prices significantly and unpredictably. Examples are the Arab/Israeli conflict in the '70s and recent instabilities in the Mid-East/North Africa and Ukraine/Russia.

5. Non-Commercial Futures – Prior to 2004, non-commercial futures positions were roughly 50% of total open interest. The advent of sub-prime mortgages then freed liquidity to lower credit borrowers. The ensuing series of Quantitative Easing programs to address the Sub-Prime crisis further flooded systems with ample cash and little areas to invest. The oil futures market offered an avenue for these yield seekers an opportunity to make profits. Today non-commercial trades outweigh commercial ones 2:1.

In summary, the present unpredictable path oil price takes is the aggregate influence of multitude of factors. Their pull and push only reinforces Heraclitus' quote of change being the only constant.

Outlook - The road ahead is as uncertain as the weather these days. Some forecast may have greater likelihood than others.

In the **U.S.,** rates are expected to rise with its improving economy. However, the bond market suggest that the U.S. cannot grow on its own and its dependence on other economies may be as crucial. In all likelihood, Federal Reserve Chairperson, Janet Yellen's espoused virtue of patience may even see through the year with rates unchanged.

Europe may finally find common ground and voices to agree on broad based QE policies. This can only mean, cheap money, low interest rates (or even negative rates) to befall their struggling economies. China may just surprise on the upside as they take a proactive stance to regenerate their economy through freeing up cash into the system and lowering interest rates. Easy monetary policy to prevail.

Japan's re-election of Prime Minister Shinzo Abe cements his preferred policy of weak currency through pump priming and low interest rates to help jolt Japan out of it 2 decades of recession.

In **Malaysia**, global recovery, sustained domestic growth and anticipated elevated inflationary pressures from high oil price and GST implementation were supposed to increase rate hike pressures. These are now confined to history as oil price lost more than 50% from its peak. Malaysia's need to "re-budget" demonstrates our reliance on oil revenue. Its retracement and our desire to reign in fiscal debt to protect our credit standing can only mean a supportive monetary policy in order to maintain a healthy growth path. Low interest rates is also needed to cushion the impact of the imminent GST implementation which directly affects households' disposable income. In fact, I venture to guess that one might speculate the possibility of even a cut in interest rates.

Benefits of

Quitting Smoking

and its methods

Quit smoking can be tough but with a good quit plan personalized to your needs, you can be successful.

Dr. Mohammed Fauzi Abdul Rani
Consultant Chest Physician
Tropicana Medical Centre

MBCHB (Sheffield), AMM (Mal)
MRCP (UK), FRCP (Glasgow), FCCP

There are 4,000 chemical components in cigarettes and at least 250 of them are harmful to human health. It is therefore the most preventable cause of death in the world. Smoking causes 90 percent of lung cancer in men and 80 percent of lung cancer in women and it is related to more than 50 serious illness of which some are fatal or cause serious long term damage.

Non-smokers are affected by tobacco smoke called secondhand smoke, especially children. Non-smokers who have high blood pressure or high blood cholesterol for example have an even greater risk of developing heart diseases when they're exposed to secondhand smoke. Studies show that the risk of developing heart disease is nearly a third higher among people exposed to secondhand tobacco smoke at home or work. Children of smokers have many more respiratory infections than do children of non-smokers. Non-smoking women exposed to tobacco smoke are also more likely to have low-birth weight babies.

Quit smoking can be tough but with a good quit plan personalized to your needs, you can be successful. It is hard because smoking tobacco is both a physical addiction and a psychological habit. The nicotine from cigarettes provides a temporary, and addictive high. Eliminating that regular fix of nicotine will cause your body to experience physical withdrawal symptoms and cravings. Because of nicotine's "feel good" effect on the brain, you may also have become accustomed to smoking as a way of coping with stress, depression, anxiety or even boredom.

At the same time, the act of smoking is ingrained as a daily ritual. It may be an automatic response for you to smoke a cigarette with your morning coffee, while taking a break from work or school, or during your commute home at the end of a long day. Perhaps friends, family members, and colleagues smoke, and it has become part of the way you relate with them.

To successfully quit smoking, you'll need to address both the addiction and the habits and routines that go along with it.

While some smokers successfully quit by going cold turkey, most people do better with a plan to keep themselves on track. A good plan addresses both the short–term challenge of quitting smoking and the long–term challenge of preventing relapse specific to your needs and smoking habits.

Smoking Cessation Medications Are Most Effective When Used As Part Of A Comprehensive Stop Smoking Program Monitored By Your Doctor.

- **Nicotine replacement therapy**. Involves "replacing" cigarettes with nicotine gum or patch.
- **Non-nicotine medication.** Reduce cravings and withdrawal symptoms with bupropion (Zyban) and varenicline (Chantix).
- Other options available that may work include: **Hypnosis, Acupuncture, Behavioral Therapy, Motivational Therapies**

Weight gain is a common concern but not inevitable when quitting smoking but remember the gain is usually small and won't hurt you as much as smoking will.

A plan can be devised by following these 7 simple steps.

1 **Find out the type of smoker you are.** Knowing what moments and why you light up a cigarette can help you look for tips and techniques that can work for you
- Do you need to smoke at every meal?
- Are you a social smoker?
- Do you smoke more than a pack a day?
- Do cigarettes help when you're stressed or down?
- Do you link smoking with certain activities, places, or people?
- Are you open to hypnotherapy, counselling, acupuncture or other help techniques?

2 **Choose a quit date within the next 2 weeks** to allow you to prepare both physically and mentally.

3 Look for a friend if you can who wants to quit smoking and execute the plan together. **Share your plan with your family members for support.**

4 **Be well acquainted and prepared for the challenges** that will come while you attempt to quit. Knowing what to expect can help you prepared mentally to ride the storms through.

5 Remove all items around you that can remind you of the habit. These include cigarettes, lighters, ashtray, matches or pictures. **Avoid common smoking triggers** such as:
- Alcohol. Many people have a habit of smoking when they drink.
- Other smokers. When friends, family, and co-workers smoke around you, it is more difficult to quit or avoid relapse.
- After a meal. Have something such as a piece of fruit, a (healthy) dessert, a square of chocolate, or a stick of gum.

6 **Consult your doctor if you can** about any help available to help you quit and deal with the cravings from nicotine withdrawals.
- Nicotine withdrawal begins quickly and the symptoms can last for a few days to several weeks and differ from person to person.
- They are only temporary and will get better in a few weeks as the toxins are flushed from your body.

7 Avoid smoking triggers and **have a plan to cope with cravings.**
- ***Distraction.*** Any activity that gets your mind off of smoking.
- ***Refocus.*** Remember all the good reasons for quitting.
- ***Stay off a tricky situation.*** Where or what that may trigger the craving.
- ***Reinforce success.*** Reward yourself when you triumph over a craving.

COUNTING DOWN TO
GST

GST is the current hottest topic for the Malaysia. It will be implemented nationwide on 1 April 2015, replacing the existing sales and service tax. The standard rate for GST is fixed at 6%. Currently, sales tax rate is 10% and service tax rate is 6%.

GST is a consumption tax based on the value-added concept and is imposed on goods and services at every production and distribution stage in the supply chain including importation of goods and services. It is known worldwide as either VAT (value added tax) or GST. [1] More than 160 nations worldwide have implemented VAT or GST. Roughly 90% of the world's population live in countries with VAT or GST.

In principle, GST is imposed on all goods and services produced in the country including imports. However, certain essentials such as basic foodstuff, domestic utilities, residential accommodation and essential services are not subject to GST. Such exemption is to ensure that the lower income group is not burdened by GST.

Examples of EXEMPT items[1]

- Public transportation
- Tolled highway or bridge
- Land for residential, agriculture or general use
- Funeral packages
- Private healthcare and education
- Selected financial services
- Childcare services
- Residential properties

Examples of ZERO-RATED items[1]

- Agricultural products (fruits and vegetables)
- Beef, mutton, swine
- Seafood
- Rice, sugar, salt, flour, cooking oil
- Selected poultry and eggs
- Water for domestic use
- Electricity (first 300 units)
- Exported goods and services

The Royal Malaysian Customs Department (RMCD) has on 15 January 2015 released the list[2] of taxable goods and non taxable goods which ran to more than 70 pages covering more than 1,800 specific items from various categories, from groceries, food and beverages, beauty and health products to household, stationery and toys and games.

It is interesting to note some zero-rated items apply to 'unprocessed' or 'raw' products but not the 'value-added' products. For example:-

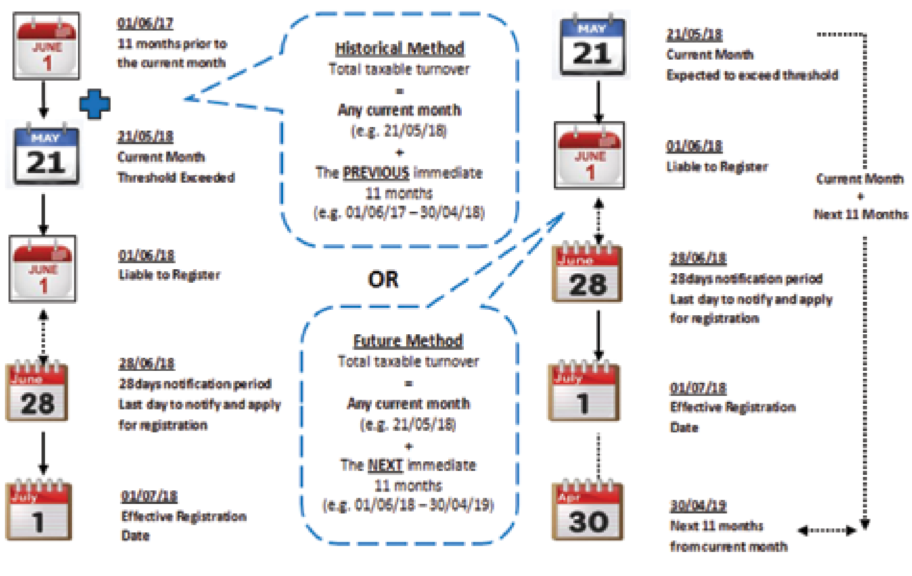
ZERO-RATE	STANDARD RATE @ 6%
Seafood	Fish ball, tinned sardines and tunas
Sugar	Rock sugar, castor sugar, icing sugar, gula melaka
Coffee and Nescafe (powder or satchet)	2-in-1, 3-in-1 coffee and Nescafe
Flour	Self-raising flour, corn flour, cake flour
Fruits and vegetables	Dried and canned fruits, preserved and frozen vegetables

ESSENTIALS OF GST REGISTRATION[1]

Any person who is in business that has exceeded the prescribed annual turnover threshold of RM500,000 on making taxable supply of goods and services is liable to register.

How to determine your **GST Turnover Threshold**

There are 2 methods to determine the taxable turnover:-



Residential properties to cost more **in GST regime**[1]

Under the new tax ruling, property developers can neither charge GST on residential properties nor claim GST Input Tax from the costs of construction.

Property developers can thus be expected to seek to offset their GST charges by increasing residential property prices.

In the case of commercial property, both developer as well as property purchasers, are entitled to claim the GST embedded in the price of a property. On-going projects will be largely affected when the new system is in place while new development projects require advance planning to avoid negative effects on profit margin under the GST system.

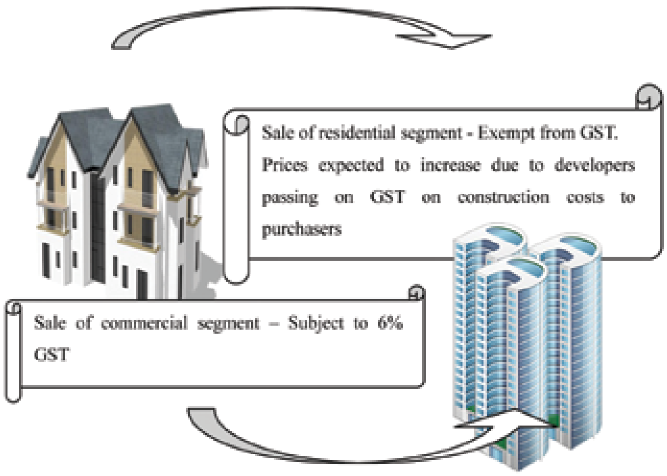


Diagram 1 - GST treatment for residential and commercial segments

GST treatment on **government services**[2]

Supplies made by the Government are generally treated as out of scope supplies. No GST will be imposed on the supply made by the Federal Government and State Governments such as healthcare services provided by hospital and clinic, education services by primary and secondary schools including tertiary education, issuance of passport by the Immigration Department, issuance of licences and permits by the Road Transport Department.

The rationales for government services to be out of scope are to meet social obligations and economic objective of the Government and to maintain status quo on the provision of government services.

However, certain government supplies are subject to GST. Specific supplies such as commercial water supply by the State Governments and advertising services by RTM will be subjected to GST due to the commercial nature of these services.

On the other hand, supplies by statutory bodies and local authorities will be subject to GST, except for supplies in respect of their regulatory and enforcement functions, such as issuance of licenses and permits, assessment rates, etc.

Areca and GST

Areca has registered with the RMCD as a GST registered person. As such, we will be charging GST on supply of all our services to our investors with effect from 1 April 2015.

Pursuant to the draft Guide on Fund Management issued by RMCD on 27 October 2013, the following services (directly and indirectly) which are provided to investors of a fund management company, including unit trust funds, are subject to GST at a standard rate:-

- Sales commission, entry and exit fees
- Management fees, performance fees, switching and transfer fees
- Fees and charges involved in the transaction of securities such as brokerage and clearing fees
- Trustee fees and custodian fees charged by registered persons

Acknowledgement and resources:-

1 Extracted from the newsletters published by UHY GST Consulting Sdn Bhd and re-produced with their kind permission.

2 Source: http://gst.customs.gov.my

Tea Talk

Strategies for the equity and fixed income markets at Bukit Kiara Equestrian & Country Resort

Mr Danny Wong & Mr Edward Toh shared their thoughts on the current economic situation and gave their review and outlook on the equity and fixed income markets. In additional, Mr Edward Ooi presented our new financial planning platform tool for practicing financial planners.

Personal reliefs for resident individuals

Types of relief	YA 2014 (RM)
Self	9,000
Disabled individual – additional relief for self	6,000
Special relief for middle income taxpayer (annual aggregate income up to RM96,000) (only for YA 2013)	2,000
Spouse	3,000
Disabled spouse – additional spouse relief	3,500
Child	
• per child (below 18 years old)	1,000
• per child (over 18 years old) receiving full-time instruction of higher education in respect of: - diploma level and above in Malaysia; or - degree level and above outside Malaysia	6,000
• per child (over 18 years old) serving under article of indentures in a trade or profession	6,000
• per physically / mentally disabled child	5,000
• physically / mentally disabled child (over 18 years of age) receiving full-time instruction at institution of higher education or serving under articles or indentures in a trade or profession	11,000
Life insurance premiums and EPF contributions	6,000*
Private Retirement Scheme contributions and Deferred annuity scheme premium (YA 2012 to YA 2021)	3,000*
Insurance premiums for education or medical benefits	3,000*
Expenses on medical treatment, special needs or carer expenses for parents (evidenced by medical certification)	5,000*
Medical expenses for self, spouse or child suffering from a serious disease (including fees of up to RM500 incurred by self, spouse or child for complete medical examination)	5,000*
Purchase of sports equipment	300*
Fee expended for any course of study up to tertiary level other than a degree at Masters or Doctorate level, undertaken for the purpose of acquiring law, accounting, Islamic financing, technical, vocational, industrial, scientific or technological skills or qualifications or any course of study for a degree at Masters or Doctorate level undertaken for the purpose of acquiring any skill or qualification	5,000*
Purchase of supporting equipment for self (if a disabled person) or for disabled spouse, child or parent	5,000*
Cost incurred for the purchase of books, journals, magazines and other similar publications for the purpose of enhancing knowledge	1,000*
Relief for purchase of personal computer (once every 3 years)	3,000*
Deposit for child into the Skim Simpanan Pendidikan Nasional account established under Perbadanan Tabung Pendidikan Tinggi Nasional Act 1997 (until YA 2017)	6,000*
Relief on housing loan interest for the purchase of one unit residential property where the Sale and Purchase Agreement is executed between 10 March 2009 and 31 December 2010 (given for 3 consecutive years)	10,000*

PricewaterhouseCoopers, *2013/2014 Malaysian Tax & Business Booklet*. *Maximum relief

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