ARECA CAPITAL

# flash

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## BRIGHTENING OUTLOOK

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Dear Investors,

2018 was a challenging year as investors were faced with a multitude of uncertainties on the external and local front. But what would 2019 bring? We think it is more crucial than ever to stick to the fundamentals. We have a positive outlook on the market, at least until the 1st half of this year.

Why do we think so? Read on as Edward and I share our thoughts in the equity and fixed income markets. Going forward, we will focus even more on an advisory-based approach. Chaw Chern talks about the value a financial advisor would bring to a hypothetical client.

As we advised our clients to look beyond last year's volatility, we think 2019 could be an optimistic one ahead. Happy investing in a brand new year!

Danny Wong
Chief Executive Officer
Areca Capital Sdn Bhd

# Market review and Outlook for 1H 2019

By Danny Wong

## REVIEW AND OUTLOOK

Investors across the globe received their surprise Christmas present at the final week of 2018 from an unlikely Santa Claus: The Federal Reserve Chairman, Jerome Powell. Global markets rebounded immediately after Powell offered his reassurance that the Fed will be "patient" and that it will listen "sensitively" to the financial markets. Besides that, there were also encouraging signs of progress in the talks on trade between America and China.

Can such events bring about stock market recovery in 2019? We think there are reasons to hope so. At least, equity indices have plummeted broadly last year, particularly in emerging markets, providing markets with a lower base and more attractive valuations. History shows that bear markets and corrections are often short-lived while bull markets tend to last longer. Fear was pervasive across the financial markets in 2018, partly driven by the yield curve heading towards inversion and also the widespread belief that ten-year market boom and bust cycle will likely hold true. With such recessionary fear priced into the stocks, there is more safety for investors. We reckon a recession or economic bust is not imminent yet, as markets' over-optimism is absent. In fact, cautious optimism was the keyword since 2018, underlining the attitude adopted by investors. Another reason to be hopeful of a recovery year is the change in Fed Reserve's stance in becoming dovish.  A dovish Fed is usually beneficial for emerging markets like Malaysia, as global investors are more likely to take a revived interest into emerging markets with the expected pause in strengthening US dollar against emerging markets' currencies.

But threats to market recovery are still abound. One stems from overreacting to Mr. Powell's comments. Now that Mr. Powell seems to be open to the idea of taking a pause in raising the interest rates, the markets have jumped to the conclusion that he will stop hiking altogether. Futures markets have priced in an 86% chance that the federal funds rate will end the year no higher than it is today, according to Chicago Merchantile Exchange. Another one is the potential fallout in trade talks between America and China, even though it may seem like progressing well at the moment. The escalation in trade war between the two largest economies last year is already taking a toll on both nations and dampening economic growth expectation. Leading economic indicators, such as the purchasing managers' indices (PMIs) in China has begun to show sign of contraction in fourth quarter of 2018. If America eventually fails to come to terms with China by the end of the 90-day trade truce, a re-escalation of trade war will ensue. Judging by the sharp recovery seen in the markets early of this year, investors are not prepared for such outcome. However, we opined that the trade war will very likely be contained or resolved as both America and China have sufficient motivations to avoid the pain of a full-blown conflict.

Against such backdrop, we are optimistic about the market outlook this year and will seize the opportunity to invest in stocks deemed as oversold and cheap relative to their fundamental value, while being mindful of the potential rough patches ahead, and adjust portfolio asset allocation level accordingly.

### The case for Malaysia

It is very rare to see a developing country undergo deleveraging and institutional reforms without any trigger event e.g. recession, nor pressure from the creditors, but that is bitter pill our country is taking. Such courage should be commended and will strengthen our nation's economic foundation and vibrancy significantly once it is accomplished. Therefore, we are very optimistic about the prospect of Malaysia's economy and it shall translate into stock market performance over time.

In the near term, investors might have to bear with the heightened volatility as and when new policies are announced, replacing the old ones. We might also have to contend with a slower pace of economic growth (below 5%) during our nation's deleveraging process, in pursuit of the hope that Malaysia will one day regain its Asian Tiger reputation.

Looking beyond the noise will continue to be investment attitude for 2019. There are several potential catalysts for investors to cheer about this year: (1) GST refund amounted up to RM37bn could act as a stimulus to domestic businesses; (2) Many corporates have done kitchen sinking in 2018, with many impairments of inventories and receivables already reported, thus having a clean slate this year; (3) Possibly stronger than expected improvement in fiscal deficit driven by successful crackdown on leakages in government expenditures might result in positive credit rating outlook; (4) A boost from foreign direct investment. Malaysia recorded a total of RM61.6bn in investment approvals from January to August 2018 (the latest data available), compared to RM40.4bn over the same period in 2017; (5) Foreign funds flow returning to Malaysia. Foreign investors have basically fled from Malaysian market last year with total outflow of RM11.9 billion, more than offsetting the inflow of RM10.6 billion in the prior year. If the confidence in Malaysia in revived, the foreign funds will return. The relatively competitive level of the Malaysian Ringgit at around RM4.10/USD, and its status as an ASEAN nation with current account surplus stands Malaysia in good stead to attract foreign investment flows relative to other developing nations among the region, who are mired in twin deficits.

### Conclusion

The stock market correction last year offers investors with a long-term view a great opportunity to invest at attractive prices.  As the dust settles, fund flows could return to this part of the world – Malaysia could benefit with its current account surplus, still ample foreign reserves and defensive status.

In terms of investment strategy, we are investing into stocks deemed as oversold and cheap relative to their fundamental value, while being mindful of the potential rough patches ahead and adjust portfolio asset allocation level accordingly.

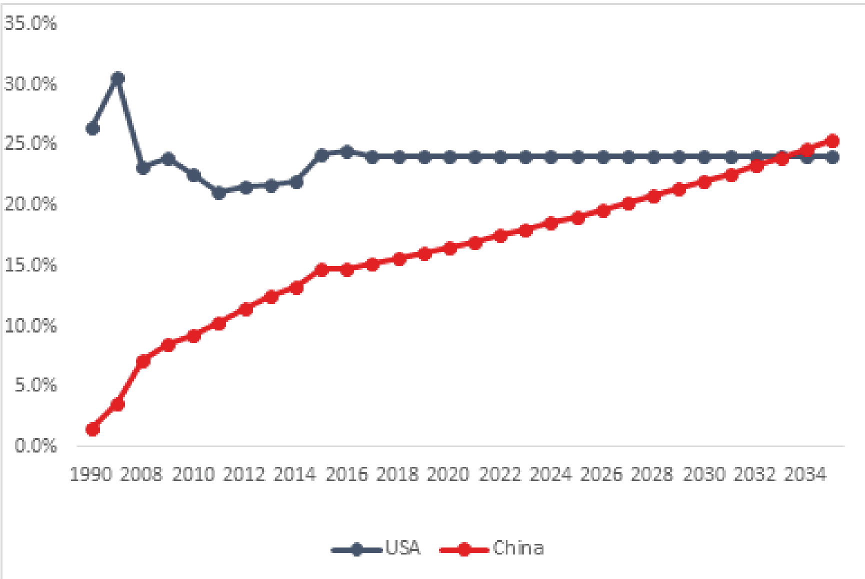
We continue to like exporters in the glove sector, E&E sector, selected companies within the Oil & Gas space or other companies with surplus in their foreign-denominated accounts.

# Market review & outlook

By Edward Iskandar Toh

The continued disruption of world order is none more evident than the last six months of 2018. Trade tariffs were first slapped on China as early as January 2018 for solar panels and washing machines. This was followed by a list of goods worth US$34 bil in July. This Trump initiated trade war with China really took material effect from September. With the imposition of 10% on US$200 bil worth of imported goods strapped on; which is threatened to rise to 25% by year end; neutrals would view this as an attempt to divert or delay the inevitable: China's taking over prime spot in economic dominance. History has this as an effort doomed to fail or lead to exacerbation of misery. Furthermore, data till November show a US-China trade deficit that is 11% higher than the same period a year before despite the tariffs. This antagonistic declaration has now reached a point of no return; a 'roll-back' seems bleak. A last minute '90 day ceasefire' was called at the fringe of G20 summit in Buenos Aires at the start of December, giving the two protagonists some breathing room to scale back and negotiate; after which the promised hike in tariffs is scheduled to occur by end February.

There is no doubt that the US economy has been chugging along strongly. With practically full employment at 3.7% in September, lowest in 49 years; and inflation sustained above the ideal 2%, while wage growth and housing data recovers, it is easy to forget that 10 years ago the US economy was languishing in the doldrums as the 'pariah' of the world for causing the meltdown of global financial markets as a result of the sub-prime financial crisis. At that time, in 2008, the Chinese economy was a mere 31% of the US economy with GDP of US$4.6 trillion; or only 7.2% of global economy. Growing at an average of 8.2% in the last decade, it has doubled to 63% of the US economy or contribute 15.2% of global GDP. In the same timeframe, the US grew at an average of 1.4%. A simple trajectory of conservative 'guesstimates' with US growing at a highly optimistic 3% while China at a downplayed 6%, China's economy will surpass that of the US in about 13 years.




So it is easy for conspiracy theorists to conclude that by US throwing everything from tariffs to arrest of Hua Wei's CFO for espionage to negative media coverage of pollution, poor infrastructure, IP theft and unreliable economic data apart from autocratic unjust and cruel governance at China only goes to symbolize 'a king trying to poison the heir to the throne' in preserving its position. Sure there are truths to high level Intellectual Property Rights high-jacking and outright clandestine thefts, but didn't the West send spies to steal the prized possession of the orient then : their technical knowhow of producing silk some 1500 years ago or breaking the Chinese monopoly of tea exports as recent as almost 200 years ago. The US cannot point the finger towards the East while whitewashing their own dark past. Similarly the counter argument that the world is a better place with tea and silk widely produced must be also applied to Intellectual Property available to all.



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# Fixed Income
## Market review & outlook (cont'd)

It is already widely known that China is catching up very quickly and will compete directly with the US in the next technological wave race. Being the later entrant, it benefits from having the most advanced implementation and application of technology. One can notice the wide usage of Artificial Intelligence (AI), 5G and the Internet of Things in all aspects by the 'Chinese youth', from autonomous transportation, to space race, from medical fields to cashless payment systems. AI has even been introduced to policing in parts of China through facial recognition technology. So are we closer to a Utopian society ruled by AI where policies can be crafted by herd mentality. A despotic leaning leader could further add drone powered crime elimination weapons. Flashes of Logan's Run for those of us old enough to recall the movie in the 80's.

The last six months also showed us the extremes of the current world of instant gratification. Bitcoin, the darling of 2017, saw an 80% drop in value from its peak of US$19 795 in December 2017 to close at US$3 805 at the end of 2018.

To add to concerns, the US Treasuries traded in a manner that was less optimistic of their economy then made out to be. Through 4 one quarter percent rate hikes last year (2 hikes in the second half), benchmark 10-year US Treasury rose only 26 basis points from 2.40% to 2.68% despite hitting a high 3.23% in August. Importantly, the spread between the 2-year and 10-year Treasury yields narrowed to 11 basis points lowest since June 2007. Key to note that the last 3 US recessions were preceded by inverted yield curve or negative spread by a period between 13 and 23 months.


This may in part explain the shift to slightly dovish view on US interest rates recently. Looking forward, the anticipated global economic slowdown suggests that interest rates are unlikely to rise aggressively, giving room for the patient build up in value through fixed income investments, a virtue rarely appreciated in this era of instant gratification.

# How can a Financial Advisor help

Written by:

WONG CHAW CHERN Manager, Private Investment

Let's take the example of Sam and Amy, both in their 40s with two teenage kids. Both husband and wife work as architects and are constantly busy with work – which leaves little time for everything else.

They have several bank and investment accounts, and have bought into stocks based on tips and recommendations. They do make the occasional profits but the losses far outweigh whatever gains they make. There are even times when they are so busy they forget about the investments. Sounds familiar? Thankfully however, they already have good insurance protection. Now with kids growing up fast, reality soon sets in. Although they will not admit it, it's clear they need professional help with their money.

Now generally, a complete financial plan would cover areas such as investments, insurance, estate planning, cash flow management, taxation planning and others. However, instead of going straight for a comprehensive plan, you can also opt for a modular plan. This means that your Financial Advisor will centre on specific areas of engagement only.

In the case of Sam and his family's circumstances, here's how a Financial Advisor can help.

**Work towards Sam's objectives**

The Advisor would go straight to work on Sam's financial objectives and these would be prioritised accordingly – short term and longer term goals. If the goal is to achieved in 5 years' time, it can be considered a long term goal. Anything less, goes into the short term basket.

So the short term goal in this case, would likely be to create an investment portfolio to help fund the kids' education. While on the long term, they start building up Sam and Amy's retirement funds. Working alongside Sam and Amy, the Advisor would take into account numerous factors; the couple's financial literacy levels, their risk appetite or the duration for the eventual use of funds before recommending a suitable portfolio.

**Analyse, consolidate and invest**

The Advisor would prepare an investment plan which incorporates factors such as the estimated education fees, the inflation rate, portfolio's rate of return and in the process, identify what are the underlying investments or potential shortcomings.

Good portfolio analysis is not made up of top flavours of the month nor the hot tip that every stock-broker in town is talking about.

It comes from objectively and independently assessing Unit Trust Funds, against their benchmarks and other similar funds or a like-for-like comparison. If it's a stock, how well are its fundamentals and how does it stack up against competitors in the industry. The Advisor must have done his homework before proposing his investment plan.

In Sam's case, there are also several bank and investment accounts as well as other investments the family holds. The Advisor should be able to help identify which are the ones worth holding on to and help to consolidate the investment so it is more manageable.

There could be a few back and forth discussions and proposals before the plan is eventually executed. Both Sam and Advisor need to mutually agree on the implementation.

**Track progress**

Progress towards the goals will be tracked, either on a half yearly or yearly basis. Investment performance will be reviewed and rebalanced if necessary. For example, as Sam and Amy grows older and nears their retirement age, the portfolio's aggressiveness levels should be dialled down a notch as well.

Furthermore, as the family's circumstances change over the years – the kids could decide to stay abroad during their university education or Amy could have stopped working – inevitable, their goals will also be altered. It is important then, that these changes, if any, be reflected in the financial plan.

**Conclusion**

A competent Advisor would also likely alert Sam to any foreseeable or potential issues arising along the way. For instance, he would notice that neither Sam nor Amy has addressed their estate planning.

At times of adverse market conditions, he would be there to hand-hold Sam and Amy, offering professional know-how so that no rash or abrupt decisions are being made at the worst possible time. When markets are going well, he could tamper their expectations and remind Sam not to expect a bull market every year. In short, a Financial Advisor acts as the family's financial coach, helping to guide them through any financial decisions being made.

# 如何設定財務規劃？

As published in SinChew Jit Poh on 28th January 2019

●什么是财务规划？

对许多人来说，财务规划通常与保险产品、或单位信托基金有关连，在现实生活，财务规划其实有更广的范围。

一个全方位的财务规划，概括投资、保险、遗产规划、现金流量管理、税务规划等领域，简单说，就是开发策略迎合人生目标的程序。

你可委托执照财务顾问，协助你进行财务规划，或尝试自己订做，财务规划如何发挥作用？就如前面所说，这是个全方位的程序，以下是几个所需的步伐：

●搜集数据：

我们列下质化与量化数据，用途在于大略掌握财务的情况，与此同时，资讯的搜集为财务规划的起点。

量化数据主要是实际资料，包括收入、开销、资产、债务、保险和个人的年龄、婚姻状况、孩子人数等等，你发现在拟定个人资产负债和现金流量相当有用。

质化数据主要关于个人的风险承受度，或是否愿意面对短期性的起落，举个例子，你是否希望充分掌握投资回酬，包括资本成长，或你是否满意每年获得5%的回酬？你是否重视组合投资短期性的起落，假如不是，你的多数投资可架构为长期性投资。

●设定目标：

鉴定你的优先目标，可能是购买房屋、融资孩子的大学教育费或累积退休基金，可以将它们分为短期或长期目标，在这方面，优先处理的短期目标可能是购买房屋，然后为孩子的教育费进行储蓄，累积退休基金则是长远目标。

重要的是，你鉴定的目标是实际、可以达成的，你的童年梦想可能是在意大利的海边拥有度假屋，可是，每月薪金只有7000令吉，除了现有的财务目标，实现意大利度假屋的梦想，纳入实际目标可能过于理想化。

●分析与制定策略：

根据你的财务状况，以及量化和质化数据，可以对资料进行评估，你是否拥有足够的保险，是否已选定受益人？你为退休储蓄了多少资金？你是否立了遗嘱？这些都是一些你在进行财务规划不同阶段时面对的问题。

我们可以计算财务比率，以便可以更加了解，以下是几个例子：

●游资比率：

流动资产除以每月开销，意即万一面对紧急情况，可以应付多少个月的开销，比率越高越好。

●储蓄比率：

每月储蓄除以毛收入，那是储蓄起来的收入部分，比率越高越好。

●偿债比率：

每月贷款分期除以净收入，显示用来偿还债务占赚取的收入，比率越低越好。

如果要有一个比较好的整体概念，重要的是，同时掌握这些比率，而不是个别看待，即使是某些比率可能低于属意的水平，可能有其他解释，例如一个人购买了两个产业单位，他的储蓄比率可能偏低，而且面对较高的偿债比率，未必闪现红色警讯，因为产业可视为他的投资。

不过，假如他的游资比率偏低，他应该意识到：现金流量风险低的问题，这种情况有可能会发生，特别是假如意想不到的事情发生，好比说他被裁退了。

在更好掌握目前的财务状况后，我们可以转向拟定一些策略：

1)为达到目标启动财务规划程序，例如你发现多数的投资躺在银行，为融资你的退休规划，必须重新分配投资组合，以便可以更好面对风险与实现目标。

2)依序看待财务状况，或更好的奠定基础，例如你本身和妻子拥有足够的保险，不过，你们即将迎来小孩，应该探讨提高保障数额，以及概括小孩的保险。

另外，你可能发现前面叙述的一些 目标无法实现，举个例子，假如你的目标是退休了，每月可以花费5000令吉，可是，目前的预测显示，你无法做到。

因此必须进行一些调整，可能是调整预期目标，例如过比较节俭的生活方式，好比每月花费4000令吉，或对目前的投资做调整，例如你的退休资金每年只带来4%回酬，如果增持股息回酬股，回酬可能接近6-7%，以便可以比较容易达到目标。

不过，假如两项选择对你似乎都不可行，那么你需调整目前的生活方式，现在你可能需要增加储蓄，假如都不行，你应该考虑延迟退休，或是退休后、考虑兼职工作。

●落实与检讨：

一旦你掌握了有关策略，执行与落实所需的投资、保险或遗产规划，每年至少检讨财务规划一次，当然也有目标已改变，或是个人生活出现变化，例如结婚或生小孩，此外，你的薪酬可能大幅增加，影响你的开销形式，以及你的退休预期与规划，也有可能是通货膨胀率持续上扬、或下跌的情况发生。

财务规划的重点不是产品，或“规划与忘记”的一次性结果，而是持续性的程序，因为需优先处理的事项，以及对外情况会不断改变。

# ARECA NEW KUCHING BRANCH

Areca Capital Sdn Bhd ("Company") is a niche private wealth manager. The Company is licensed by the Securities Commission Malaysia to manage and distribute Unit Trust Funds, Private client investment portfolios and provide Financial Planning.

The Company is strengthening its branch footprint in East Malaysia with the opening of its Kuching Branch today, as part of the Company's long-term plan to meet the increasing demand for asset and wealth management solutions, especially from high net worth individuals.

Speaking to Borneo Post after the opening, Mr. Danny Wong, the Chief Executive Officer of Areca Capital; "The Kuching branch is part of our expansion plan to provide the local community an easy access to investment solutions and we are excited to bring our model of cost-effective, efficient, flexible investment and financial advisory to the East Malaysian market".

Areca Capital's Kuching branch is located at 1st Floor, Sublot 3, Lot 7998, Block 16, KCLD, Cha Yi Goldland, Jalan Tun Jugah/Stutong, 93350 Kuching, Sarawak. It is headed by Mr. Lee Khee Chuan, a qualified and experienced financial adviser, who is a Chartered Financal Consultant (ChFC) , Chartered Life Underwriter (CLU) and a Fellow, Life Management Institute (FLMI) with 23 years experience in the financial services industry.




## contact us

Head Office
107, Block B, Pusat Dagangan Phileo Damansara I
No.9, Jalan 16/11 Off Jalan Damansara
46350 Petaling Jaya, Selangor, Malaysia

Phone: 603-7956 3111
Fax: 603-7955 4111
E-mail: invest@arecacapital.com

Penang Branch
368-2-02 Belisa Row
Jalan Burma, Georgetown
10350 Pulau Pinang, Malaysia
Phone : 604-210 2011
Fax : 604-210 2013

Ipoh Branch
11A, (First Floor), Persiaran Greentown 5,
Greentown Business Centre
30450 Ipoh, Perak, Malaysia
Phone : 605-249 6697
Fax : 605-249 6696

Malacca Branch
95-A, Jalan Melaka Raya 24,
Taman Melaka Raya
75000 Melaka, Malaysia
Phone : 606-282 9111
Fax : 606-283 9112

Kuching Branch
1st Floor, Sublot 3, Lot 7998, Block 16,
KCLD, Cha Yi Goldland,
Jalan Tun Jugah / Stutong,
93350 Kuching, Sarawak, Malaysia
Phone : 082-572472