Economic Analysis and Investment Strategy

Speaker Profile: Chua I-Min, CFA

- Instructor and Speaker for in Shares and REITs Investments
- Provide Real Estate Investment Consultancy and Training
Investment Experience

- PhillipCapital

1. NishiAzabu Isle (Minato-ku)
2. L’Elysee (Shibuya-ku)
3. La Piazza (Setagaya-ku)
4. Maison De Ville (Minato-ku)

Asset Under Mgt: SGD 100 Mil (approx)
Investment Experience

- **Capitaland China Holdings** (based in China)

  Total land investment: SGD 200 Mil (approx)

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**Agenda**

1. Mock Up of an Economy
2. Key factors to assess an Economy
3. Investment Strategy under such Economic Condition
Mock Up of an Economy

What is Economics?

The science that deals with production, distribution and consumption of goods and services

Dictionary.com
Fundamental Economic Factors

The Very Basic Structure!

Economy is healthy when:
- Unemployment rate is low
- Healthy production and consumer spending

Mock Up of an Economy

Government

Economy is healthy when:
- Government is able to produce desired public goods with available resources
Financial Markets

Economy is healthy when:
- Stable source of funding with reasonably low price

Import / Export

Economy is healthy when:
- Healthy balance of trade. Export more or less same as import
Putting all together

Companies

Other Countries

Financial Institutions

Lending / Inv Interest / Rtn

Import

Export

Spending

Tax

Labour

Gds and Svcs

People

Public Gds and Svcs

Suggested website to capture the data: e.g.

Source: www.tradingeconomics.com
Banks can lend out more than what they have based on Capital Adequacy Ratio ("CAR")

At CAR of 10%, for every $1 bank gets in Savings, they can lend out $10! Money Created!

Gross domestic product (GDP) refers to the market value of all final goods and services produced within a country in a given period.

\[ GDP = C + I + G + X - M \]

C = Consumer Expenditure
I = Total Investment
G = Government Expenditure
X – M = Total Export – Total Import
Using this Mock Up to analyze Economic Policies

Cyclical Effect in the System

- Export
- Demand for Gds and Svcs
- Demand for Labour
- Companies’ Production
- Employed People
- People
- Gds and Svcs
- Labour
- Companies
Demand for Gds and Svcs
Companies’ Production
Employed People
Demand for Labour
Money Supply + Govt Expenditure

Ideally, reduce unemployment and government deficit!

Tax Increase

And the reverse works too!

Use Interest Rate to Control

Borrowings
Interest Rate

Demand for Gds and Svcs
Companies’ Production
Employed People
Demand for Labour

Use Interest Rate to Control

Borrowings
Interest Rate

Demand for Gds and Svcs
Companies’ Production
Employed People
Demand for Labour

And the reverse works too!
Investment Strategy

General Principles - Buying

- Buy and Hold Long Term!
  - Investing in Share and Business is the same!

- Watch the Economic Climate
  - Aggressive Investment
  - Cautious Investment
  - Divestment

- Diversify
  - Over Stocks (30 counters) and Time!
Cautious Investment!
• Buy in phases
• Cap total investment at about 50% of Investible Assets
• Buy only when undervalued

Aggressive Investment!
• Invest 100% of Investible Assets
**General Principles - Selling**

- **When you need the money!**
  - Remember to plan at least 6 months to 1 year ahead!

- **When the company / business turns bad!**
  - Stay interested in the businesses you have invested in
  - Watch the economic environment!

- **When the valuation is unreasonable!**

- **When you need to rebalance portfolio**

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**Fund Allocation**

**Phased Divestment**

- Sell in phases
- Achieve total investment at about 50% of Investible Assets

![Graph](finance.yahoo.com)
Fund Allocation

Aggressive Divestment
- Sell in phases
- Sell at least 70% of Portfolio

Source: finance.yahoo.com

My Current Course of Action
**My Investment Strategy**

- Believe there are upside as +ve of the economy
  - Will turn more cautious when PE > 18x

- As results of stimulus may not be forthcoming, Expect volatility amid upward trend

- **50% invested at current level**
  - Below 1,700 – 70%
  - Below 1,650 – 80%
  - Below 1,500 – 90%
Game Plan

As long term investors, we believe that the next peak will be higher.

Choose the Right Company

Spread out your investment, ideally more when market is low.

Source: finance.yahoo.com

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Chua I-Min, CFA

Thank You! 😊

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