Areas of deep value

In May, famous value investor Warren Buffett said in his annual shareholder meeting that despite his company's record cash holdings, he had not found anything attractive to buy. This surprised investors as he is well known for buying stocks when markets are down.

So, are there still opportunities for value investors in this uncertain market? Devan Linus, co-founder and CEO of MTC Asset Management, thinks so.

"Every investor has his own speciality. For instance, we have found a few good opportunities in the travel and leisure sector, which we know very well. So, we are going to take a risk on those companies. We are not going all in, but we cannot do nothing either because we do not want to miss the opportunity if things become better," he says.

"It may be harder for Buffett to do so because he has a huge fund to deploy and he will move share prices with his purchases. We are a smaller company, so we can do so."

Devan is interested in selected casino companies, airlines and tourism-related businesses. He is also heavily invested in the tech sector, which is still considered a viable one for value investors.

"We are not invested in companies like Uber or Amazon, but we have invested in companies like Intel and Microsoft. These stocks are not the cheapest, but we feel their prices are justified, given the growth of their products and services," says Devan.

"There is still an argument about whether to invest in tech companies now. But you just need to do more research than you had to do two or three years ago, when you could blindly buy a tech stock and the price would go up."

Low Chern Hong, head of operations at 8VIC Malaysia Sdn Bhd, also sees value in US tech companies as well as some banks, manufacturers and 5G-related companies in Malaysia.

"Investors think that US companies will start terminating their contracts with Malaysian manufacturers because of the pandemic, so investors are selling their shares. One example of a Malaysian company that faced this was Magni-Tech Industries Bhd, which saw its share price halve at one point. But that should not have happened because these manufacturers already have signed contracts," he says.

Alvin Vong, CEO of EquitiesTracker Holdings Bhd, also sees value in tech companies such as semiconductor firms in Malaysia. The long-term prospects of these counters are good due to the digitalisation trend. "A lot of tech companies have become investment-grade, with a strong economic moat and sustainable, recurring revenue," he says.

"Compared with traditional bricks-and-mortar businesses, tech stocks can have higher price-earnings ratios because their marginal cost of revenue is lower. For instance, tech companies that generate revenue from subscriptions or advertising can spend less to generate more revenue."

STILL REAPING THE RETURNS

According to Devan, MTC's fund suffered a loss of 24% in March, but it recovered by 20% in April. "Since inception nine years ago, we have had a return of 69% in US dollar terms and 129% in ringgit terms. I think we will be down 20% at the end of the year, but we will still be in positive territory since the fund's inception. That is the benefit of long-term thinking and having a value strategy," he says.

"We do not mind having a loss this year because we know that if we wait five years, there will be a positive gain. We just need to be patient, invest for the long term and be brave enough to buy more now.

"Of course, we are not using all our cash and liquidity. I would not put everything in today, but I would put more in the market today than I would last year."

Meanwhile, Vong's portfolio of Malaysian equities has posted an absolute return of 27% since 2011, compared with the 17% decline of the benchmark index.

Low's total portfolio in Malaysia and the US rose 25% this year because he managed to buy many stocks when the markets were at a low point. "If more opportunities to buy come up, I estimate that my portfolio should see a profit of 30% to 40% this year," he says.

more research on whatever they are looking to buy and ensure that those companies can survive the crisis."

Investors should still use the value strategy at this time to look for quality companies, says Devan. These stocks are less likely to lose their market value during a downturn.

Meanwhile, Chandra suggests that investors take a diversified multi-factor approach as it has provided the best risk-adjusted returns during a downturn and recovery. This is especially important now because it is difficult to time the downturn or recovery.

"Based on our research, we have observed that the multi-factor approach has had the highest total return and Sharpe ratio (which measures the performance of an investment compared with a risk-free asset), significantly better information ratio, lower tracking error and lowest maximum drawdown than any of the single factor outcomes," he says.

Multi-factor strategies allocate different weightage to quality, value, momentum and low-volatility factors in a portfolio, depending on the investor's philosophy. ■

Gold prices could climb further if real interest rates turn negative

BY **KUEK SER KWANG ZHE**

Gold was trading at US$1,720 per troy oz on June 16, but it still has room to rise further when real interest rates — that is, the interest rate minus the inflation rate — drift into negative territory in many parts of the world. The precious metal reached a high of US$1,742 in April.

Ahmad Najib Nazlan, executive director and CEO of Maybank Asset Management Sdn Bhd, says interest rates globally are expected to stay low or fall even further in the years to come as the world economy is expected to recover slowly from the Covid-19 pandemic.

Investors who put their money in fixed deposits and bonds will suffer if the inflation rate starts climbing. "Even modest inflationary pressure could [drive real interest rates into negative territory and] prove painful for savers and bondholders," he adds.

Gold, a commodity that has proved to be a good hedge against inflation over the long term, would appear to be more attractive to investors in such an environment, says Ahmad Najib. He adds that investors could be in favour of gold because the opportunity cost of investing in the precious metal has slowly diminished.

"A drawback of investing in gold is that it does not provide investors with any yield. However, the opportunity cost of investing in gold [compared with dividend-yielding stocks and bonds] has been heavily reduced following the recent round of monetary policy easing around the world," says Ahmad Najib.

"The large increase in debt pile in the global economy will likely force major central banks to remain accommodative in the years to come. Interest rates are expected to remain at very low levels for an extended period."

He adds that the ongoing US-China trade conflict, which can hamper global growth and increase market volatility, is another factor that would drive investors to buy gold. "There are also growing concerns about fiat currencies. The flood of liquidity [on the back of monetary policy easing] is likely to lead to an erosion in their value. Gold should benefit from a global depreciation of fiat currencies."

These are the reasons Maybank Asset Management has introduced the MAMG Gold Fund. It is a feeder fund that invests in the Pictet CH Precious Metal Fund. The target fund is domiciled in Switzerland and managed by Pictet Asset Management SA.

The MAMG Gold Fund is a wholesale fund eligible to investors whose net assets exceed RM3 million or have a gross annual income of more than RM300,000. The minimum investment amount is RM5,000 or US$5,000, with a minimum additional investment amount of RM1,000 or US$1,000. There is a sales charge of up to 3% and an annual management fee of up to 0.62%.

It is noteworthy that the target fund invests mainly in physical gold rather than stocks of gold-mining companies. Ahmad Najib says such a "pure play" is a better way of investing in the precious metal.

He points out that investing in gold mining companies could entail additional risk, including operational risk such as where a company spends millions of dollars to finance new mines only to find them uneconomical as they contain too little of the yellow metal.

Investors would also be exposed to credit risk when mining companies incur huge capital expenditure and take on large borrowings that can exacerbate the harmful effect of mismanagement, says Ahmad Najib.

"The past decade has shown that gold mining stocks have been far more volatile than gold prices. From 2011 to 2018, these stocks fell twice as much as gold on a percentage basis," he points out.

"Also, when gold industry assets are sold at low prices, these companies may not be able to secure financing [to take advantage of the situation] as they must continually replenish their resources by finding new mineral deposits." ■

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> > ***Ahmad Najib***