Kenanga

Kenanga Investors

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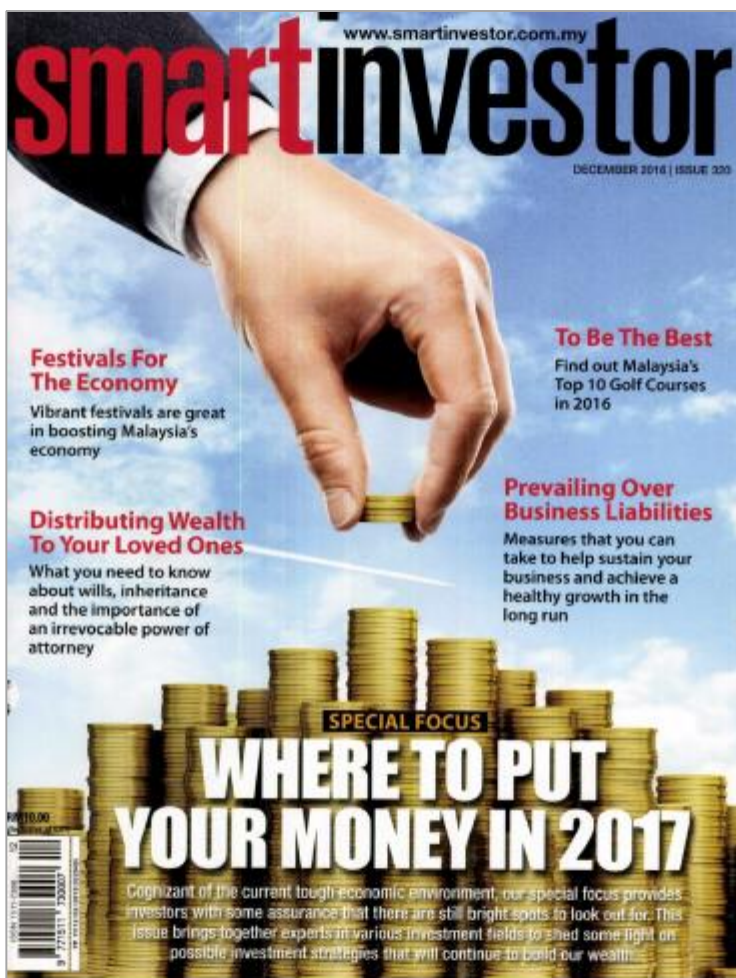
Smart Investor's

'Where To Put Your Money In 2017' Roundtable

Smart Investor – Special Focus Edition (20 December 2016)

By: *Sharmila Ganapathy*



THESE are proving to be uncertain times, what with Brexit and Donald Trump's unexpected presidency. To help retail investors negotiate the risky waters, Smart Investor brought together six top industry experts for their expert opinions on the situation and strategies to take.

They are **Wong Weiyi**, general manager of Fundsupermart.com Malaysia; **Ismitz Matthew De Alwis**, chief executive officer of Kenanga Investors Bhd; **Lee Kerk Lee Kerk**, chief strategist at Philip Mutual Bhd; **Jeffrey Tan**, senior executive vice president at Bursa Malaysia Derivatives Bhd and **Danny Wong**, chief executive officer of Areca Capital. Also present via conference call was **Sani Hamid**, director at FA Advisory Sdn Bhd, who is based in Singapore. Below is a sumary of the roundtable proceedings:

SI: We could start off by perhaps discussing the outcome of the US presidential elections with Trump's win. What have you all observed about how the global markets have behaved?

Weiyi: The markets were pricing in for a Clinton win, so when Trump emerged victorious it seemed like the markets (immediate reaction) were crashing down. But strangely at the end of the day, we saw that the markets recovered.

I guess there are a few reasons why the markets were very swift in getting over this. One thing is that the markets are not so surprised anymore after witnessing what happened during Brexit. During Brexit, we had the markets going down by a couple of percent over three days, and shortly after that in the next 10 days or so, they recovered. Despite whatever policies that Trump had proposed during his election campaign, you may eventually find that what is implemented may be quite different. Trump doesn't have a free hand in managing the whole of the US as he will need support from the US Congress.

Ismitz: I think there was a knee-jerk reaction because everybody was quite uncertain about the policies that Trump will have. Some of his campaign-pledged policies are protectionist policies for the US market, which the US will be excited about. However, in emerging markets, there are a lot of fears. We expect volatility to persist in the near-term driven by increased expectations of a tighter Fed monetary policy and negative implications for Asia's exports outlook. If Trump follows through on his main campaign pledges, large-scale capital outflows from Asia would likely continue, causing further weakness in the financial markets. But, if his policies prove to be more pragmatic than feared, markets will rebound and potentially stay stronger.

***SI:** We all agree that the first 100 days of the Trump administration is crucial. From an emerging markets point of view, how will his win impact the Asian markets?*

Ismitz: Trump's primary economic, policy proposals fall into three areas: large tax cuts and fiscal stimulus, protectionist trade measures and restricting immigration. At face value, all these proposals could affect Asian economies significantly, but exactly how and to what degree they are implemented remains unknown at this juncture.

If Trump carries through all his campaign pledges, the end result to Asia can be quite disruptive. For example, if he does impose a 45% tariff (on imports from China), it will be a major negative

for the export and manufacturing sectors in Asia. However, the implementation of tariffs would be difficult in practice as they would raise the prices of a wide variety of consumer goods that many Americans depend on. There will be a significant backlash.

Lee Kerk: If we look at the brighter side, Trump is smart in a sense. Let's forget about how it will affect the bond market. When he goes on a spending spree on infrastructure, it will start to encourage pumping of oil into the US, and this is the easiest way to create jobs for the US for the time being - infrastructure.

Sani: We've seen the first phase in terms of higher yields, sell-off in bonds, the possible hike in interest rates, and the jump in the US dollar. Now, the question is how far some of his measures would go. I don't think it will be business as usual. Things that we thought were valid pre-election are not, post-election. It is going to be quite an uncerain time both in the US and also in this part of the world. Thus, concerning the impact on the Asian economies, we really can't tell at this point what will happen until he puts down on the table what he is going to do.

SI: Given the uncertainties, what other headwinds and tailwinds can investors expect in the coming year?

Ismitz: The risk of financial imbalances in China - that is one thing that we simply cannot ignore. One of the key risks in their economy now is the level of debt. China's total debt to GDP is more than 250%, which is high for a developing economy. So the risks to watch are capital outflows and a further depreciation of the renminbi. The other thing is the divergence in the global monetary policy. When money starts going back to the US, all the countries are going to be on defensive

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mode. (Trump plans for broad-based taxcuts, increased infrastructure and military spending, which will lead to stronger US growth and hence lending further support to the US dollar. This may potentially cause further divergence in global monetary policy as US tightens while other regions ease to support their economies.) Another issue will be foreign capital flows into emerging markets could reverse as carry trades unwind when EM are deemed unattractive given the rising yields in US. This will cause EM equities to underperform in the short-term. I would basically look at these three points as a start.

Lee Kerk: We've talked about Donald Trump, that's still a very big uncertainty there. If we look at Europe, there are a few timelines that will make every one of us have sleepless nights next year. Of course there's the Italy referendum, then in April is the Netherlands' general election, then May

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we have France, then later Germany, then UK Brexit is on the court again. So, if you talk about the worst case scenario headwinds, is that all these start resulting in isolationism. On top of that China has the Communist Party Congress, which may or may not happen. There have been rumours that Xi Jinping may want to declare himself the president. The power struggle is real in China. These are some of next year's uncertainties and if Trump really goes for isolationism and says "Japan, Korea, you take care of yourselves", the North Asia geopolitical situation will be very, very dangerous. Now, let's talk about the best-case scenario...Trump is a post-truth politician. As a businessman he should not do something that will hurt the economy. Ultimately, the UK Brexit discussion will have to go through the parliament, which may not be a Brexit in the end and will be good for Europe to contain protectionism and isolationism. Hopefully in China, Xi Jinping will be able to control the military side, so that will ease the South China Sea tension. Then it might be a happy world when Trump cuts tax, US corporate earnings increase and so does spending.

Danny: I am more optimistic. I have more tailwinds than headwinds. Given that China is very much into their 'One Belt, One Road' situation and its big influence on this part of the world. In addition, I think that protectionism in the long run may hurt the US. Everyone says that Trump is a

businessman, and the reality is, he is very much pro-business. If he uses those business-minded policies to manage the country, more likely he will negotiate with China to have a good settlement of debt. He also doesn't want China to take this opportunity to influence the rest of the world, while he is trying to protect Americans. On that part I am confident that he will make moves that will benefit corporates and Americans.

Talking about Malaysia, I believe that China will take the opportunity to influence the Asean countries. You can see the capital inflows are already here. This will somehow balance out the headwinds from the US side in terms of capital flows. Malaysia is known as a defensive market and quite a highyielder in terms of investments in equities. The yield is very attractive and the currency is also very attractive now. These two are enough to attract investors to look for bond yields. Elsewhere, you can see yields are very miserable, whether in Japan, Singapore, or even Europe. There is always a big opportunity for Malaysia, and I agree with Lee Kerk that though we may have uncertainties, they are politics-driven and this is currently reflected in the equity prices. In the short-term there remains uncertainties, but as always, opportunities lie with uncertainties. This is the best time for us to look for fundamentals, but it is not an easy job because it is not across the board.

Danny Wong

There are always attractive valuations in some of the yielding stocks; with very good business models...those are not cyclical. This presents a very good time for people to search for dividend yields.

Lee Kerk: We had a meeting with COFCO China Ltd. and they are of the view that the soybean and rapeseed oils' dominance are coming to an end. They believe that just the seed oils and soy alone cannot meet the demand from China. This is positive for Malaysia's palm oil industry.

Jeffrey: If you look at it, palm oil is by far the highest yielding edible oil in the world. It is so much more than secondbest. Hence, palm oil is the one that can feed the world, especially if you are looking at a projected world population of 9 billion population as opposed to the current 7 billion. There are therefore lots of opportunities in palm oil and Bursa offers investors and traders the world's most liquid benchmark palm oil futures and options contracts.

SI: What are the investment bright spots you see in the coming year?

Lee Kerk: On the country basis, currently, we like India because it is a very domestic driven economy, and is relatively shielded from external political noise. Within Southeast Asia, we see that Thailand is in a relatively 'peaceful' period, the market has come down and we think there's an opportunity. On an industry basis, we like some of the semi-conductor companies in China, such as companies manufacturing SIM cards. We also like some security companies for two reasons, one is the threat of terrorism, and the other is those related to healthcare such as monitoring the elderly within the home. We also like some of the tourism-related industries. The tourism industry globally, is quite stable.

Ismitz: For the Malaysian market, we expect a positive rebound for the GDP. I would still propagate a Malaysian-centric portfolio—you should have a 50-50 portfolio at the very least if you want to balance out. If you look at the 4.1 to 4.4% economic growth it may seem small but incremental growth is good because the last few years we have been down. There's improving commodity prices, and we have accommodative monetary and fiscal policies. In terms of sectors, the ones that will benefit from this growth will be the construction sector. The LRT project will also spill over to certain properties. Malaysia has many companies with resilient domestic earnings; mainly the consumer stocks. Exports-based companies stocks can hedge against the weakening ringgit. Don't push the panic button and go global, as all is not lost for the Malaysian market.

Weiyi: For us, we actually like Asia a bit more as a whole. The US may be going on a rate hike, but in this part of the world we remain accommodative in our monetary policies. Commodities prices have stabilised, so that would in a sense help emerging markets' equities. With all these, we've started to see earnings revision to the upside for a lot of Asian and emerging market equities. After all, if we compare the emerging markets equities' performance to the developed market equities, we've lagged behind quite a bit. For the next two years, we foresee that earnings

will be going up and perhaps investors will give emerging market equities a higher valuation which can be as much as a 40% upside potential over the next two years.

Jeffrey: We are currently in a state of what analysts like to call VUCA environment; i.e., volatile, uncertain, complex and ambiguous. In this environment, derivatives offer tremendous opportunities as investors and traders can play the markets both ways, either long or short easily. They can also capitalise on the leverage factor offered by the derivatives market. So, do your homework, continue to stay invested and use derivatives to hedge and leverage up if you need.

Danny: Generally, longterm investors shouldn't change their strategy. Say that you have a 20-year horizon, and your exposure to equities is more than to bonds. You may have to do some rebalancing due to the recent 'Trump Dump'. Maybe you should allocate more money to equities, although you need some bonds too.

The next 6 months to a year will be uncertain, thus stock picks are very challenging. Perhaps you can move a small portion of money to defensive stocks during these uncertainties. I would still advocate dividend-yielding stocks. Look at some of the companies' yields — if for the past three years they've been paying 4 to 5% yields, now they should be paying 5 to 6%. When companies are able to declare dividends, it means that the business is still doing reasonably well. If you have growth stocks then continue to hold them, otherwise, I don't think it is the right time to go into growth stocks.

Do your homework before buying any stocks. But as said, in the long run, don't change your investing strategy, just tweak a bit here and there for short-term tactical play. In terms of sectors and geographical exposure, we used to have 30% offshore but now we are paring that down after the fall in the ringgit. I will reduce the exposure to offshore, maybe to 20% or below, in anticipation that perhaps that Asian currencies may remain volatile.

Unless you can hedge, as a Malaysian you'd better stay invested in Malaysian ringgit to avoid the volatility of the currencies. I still remain positive (even though cautiously) on Malaysia than neighbouring countries. Malaysia has been a laggard for three to four years. Secondly, our ringgit has been lower than that of our neighbouring currencies, therefore, it remains attractive. But

fundamentally, we are not too bad; our growth is still above 4%. Liquidity-wise we are still good, our current account remains in surplus.

People should realise that fundamentals should prevail despite political noise. As a fund manager, we still prefer unit trusts. If you look at the 5 and 10 year trends, unit trusts bring on average 9 and 10 % (returns) per annum despite the many events affecting us over those years. Most of the average returns of unit trust funds have performed higher than inflation. Some actually had double digit returns over the past 5 and 10 years. Don't be too short-sighted; investors should look beyond a year.

Sani: I agree that long-term players should not be moving too much of their portfolios. As asset allocators, we advise the portfolios for our clients. Previously we allocated 90:10, more on equities. Today we're 60:40, 60% equities and the rest, bonds. Even within that, we are kind of defensive. In the bond market, we are situated at the very beginning or early part of the bonds yield curve, and in the markets we like fund managers who are able to go defensive if they need. I believe the ability to go defensive is very important.

SI: What are your thoughts on the multi-asset income strategy and how effective that will be for investors at this point in time?

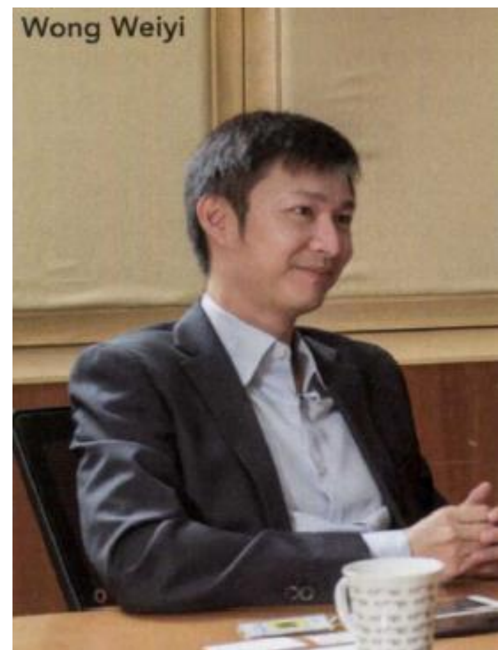
Ismitz: This is the time that you need to diversify. Some of us (panellists) are looking at dividend stocks, some of us at defensive stocks as a whole. However, in this low-yield environment, people are looking for returns that are higher than our fixed deposits. But then the 10-year MGS yields are around 3.68 or 3.7%, but investors are generally looking for 5% returns. But there are not many asset classes that can give you that 5%.

We believe bond is one asset class that is often overlooked by Malaysian investors. Despite the hoo-ha about bonds, during volatile periods, they may be able to outperform the market in the long-term. Locally, there's a lot of effort to promote retail bonds and later, unrated bonds. There're lot of companies coming out with medium-term notes, it's a different asset class, beyond the

traditional bonds offering. Retail bonds in Malaysia have not picked up, vis-a-vis Singapore and Hong Kong.

We see companies coming out with unrated bonds, but the thing is the word 'unrated' may not be suitable for retail investors, but eventually if they are asset-backed and properly structured for the retail investor, they will bring more liquidity to the market. It's just like any new instruments coming into the market, beyond the plain vanilla equities, with futures and others, there are more new products to give investors more choices.

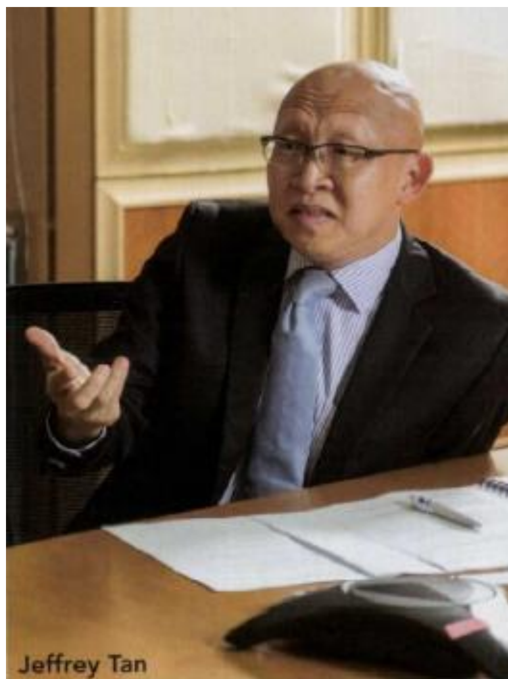
Weiyi: Many people have been chasing yields for a long time now, so you really have to reassess next year against the backdrop of US increasing interest rates. Will you still want to go after yield assets? When people start to go for the income approach, there are some risks you have to take note of. Many of our investors have invested in high-yield bonds, giving them quite a lot of returns. This is because the yield-to-maturities were high, giving them high returns due to the exposure to US dollars. But now we have a situation where the ringgit is so weak, I don't think the investors investing in high-yield bonds can look at the same kind of returns that they have received over the past few years. Furthermore, when we build a diversified portfolio, investors need to think about what it really means. It's not just pulling in a few different unit trust funds and that forms a portfolio. For us, we have a three-step approach of building a portfolio. Firstly, after deciding your risk profile you need to look at your inter-asset allocation...equities versus bonds. If you think equities are going to do better next year (which we think are), so perhaps you should go overweight on equities. A balanced investor is 50:50, and if you are overweight on equities you will go 60:40. Within equities, you have to decide how to allocate that i.e. how much in US, Asia, Europe. When we say we like Asia, it does not mean that you don't have US and Europe, it's just a smaller allocation. We use GDP as a


Wong Weiyi

benchmark to decide how much of your equities money should go to US, Europe, Asia, etc. We do the same for bonds.

Lastly, after you have decided to go overweight on equities versus bonds, or to go overweight on Asia equities relative to the developed markets, or go overweight on Malaysia bonds relative to overseas bonds, then you have to decide on who is the most appropriate fund manager. With that, you build a diversified portfolio but doing it systematically. You can assess on a quarterly basis whether your yields are right or wrong.

Jeffrey: I suppose the usual asset classes are like fixed income, equities, real estate. From the derivatives side, they can help your investment portfolio. But you have to bear in mind that it is highly leveraged, so it is high risk, high return....you've got to use derivatives judiciously. It can help, because leverage can give you a lot of bang for your buck. Also, you can invest in crude palm oil (CPO) derivatives...you can go short sometimes and if you ride it well, you can do well. Derivatives can help complement your investment portfolio, but you need to do your homework and bear in mind the margin costs as well. Used carefully, they can increase your returns, there's CPO, there's the stock index as well, which allows you to trade, in a way, the market in its entirety.


Jeffrey Tan

Next year we're coming out with single-stock options, so if you already have an investment portfolio of good stocks, you can write covered calls and get extra yields...there will always be a lot of investment opportunities.

SI: What is your number one tip for investors in 2017?

Lee Kerk: At the end of the day. different investors should know what they are looking for. Next year is going to be very interesting, but if you're an investor who is worried about downside risks, it's difficult to ask you to be very aggressive. In fact, what we can share is that for a moderate

portfolio, in the second half of this year, we raised our cash holdings to 50%. The remainder is divided between local and overseas markets, such as US, India and even China.

What is our allocation next year? I would say that we will probably reduce some of our cash position. If an investor is concerned about the downside to volatility, then he or she will probably be more conservative. For someone who can bear more risks, we advocate increasing equities exposure by about 5-10% in the early part of next year. But again, if you're a long-term investor, 60:40 allocation is good. Essentially, you should diversify and know the downside volatility you can handle or take.

Danny: I concur that diversification works well for uncertain times. But I think that Malaysians are too diversified sometimes and too risk-averse at times, also. Fixed deposits and deposits are huge in the banking system, which is not productive for the country as it is passive money. It's not flowing into the capital markets for the development of the economy.

For long-term portfolios, my advice is to put more money into equities for Malaysia and other emerging markets. In advanced economies like Singapore, Korea and Hong Kong, they moved from developing to advanced economy status and this involved a jump in disposable income and higher cost of living. Malaysia is experiencing this, the pace of that is so much faster than our income.

For a long-term portfolio, if you over-diversify and put too much in low-yield assets, you may not achieve your investment goal. So my advice is for the long-term, put more money in equities and don't worry about markets, I have not seen any market fail to recover after a disaster. If I were a longterm investor, I would buy companies that I believe will be in business for the next 20 years.

Weiyi: I agree with investors being more aggressive on the equities side, especially if they've a very long investment horizon. For me, I'll make a more bold call. After you've decided on your risk profile and how much equities versus bonds, within the equities, we like Asia exJapan quite a lot. We advocate equities from Malaysia, US, Europe and Asia. For Asia, we're confident in the 40% gain over the next two years, so we advocate investors to go overweight on Asian equities, by about 35 to 40% of the equities portion of the portfolio.

Ismitz: We tend to favour Asia as a whole. As much as our portfolio has been defensive, we are slowly picking up equities. Within the next 6 to 12 months, markets will continue to be volatile, but there will be gems. Until there is more clarity from Trump as a whole, the emerging market equities will stay at this low level. China's Internet and ecommerce are growing. Currently, more than 10% of retail purchases in China are made online, higher than 7% in the United States.

Additionally, there are also opportunities in the tech space and clean energy as they are part of the government's policy to move China up the value chain and to ensure sustainable development. Indonesia has infrastructure, which is pretty interesting. We like Indonesia due to decent growth (>5% forecasted) alongside structural reforms such as improving the ease of doing business. A recent tax amnesty programme is also expected to boost government revenue while also improving liquidity in the domestic economy.

Besides, we believe the Chinese FDI and 'One Belt, One Road' theme will become increasingly more discerning in ASEAN and part of our strategy is to identify stocks which are deemed beneficiaries of Chinese investment money. These could include contractors, property developers and commodity players. Within Malaysia, with developed market policy changes and resulting capital reversals, the ringgit could continue to stay weak for a longer period. Hence exposure into exporters will continue to feature in our asset allocation. We also like reform/ restructuring plays that may favour companies with GLC dominance.

Lee Kerk: For those investors who are more active, on the equities side they should leave this to the fund manager. These investors can also hedge using the gold futures.

Jeffrey: Like Lee Kerk said, you can invest in CPO futures, in gold futures, even MGS if you want to and also in the stock index.

Ismitz: Malaysians often overlook these. They should also look at using these as hedging tools and start to understand that they are available in the market. It is essential to diversify your investment to avoid risking everything that is put in one basket. By diversifying your investment portfolio, you decrease the chance that all your investments will experience the same negative market forces at the same time. One way is to blend a variety of different investments with various characteristics so you can reduce their overall risks, while increasing their potential for

greater long-term results. Invest in different classes of investments whose returns are not correlated, in other words, investing in asset classes whose returns do not rise and fall together. When one asset class declines in value, another asset class increases, which minimises portfolio losses and seeks positive overall returns.

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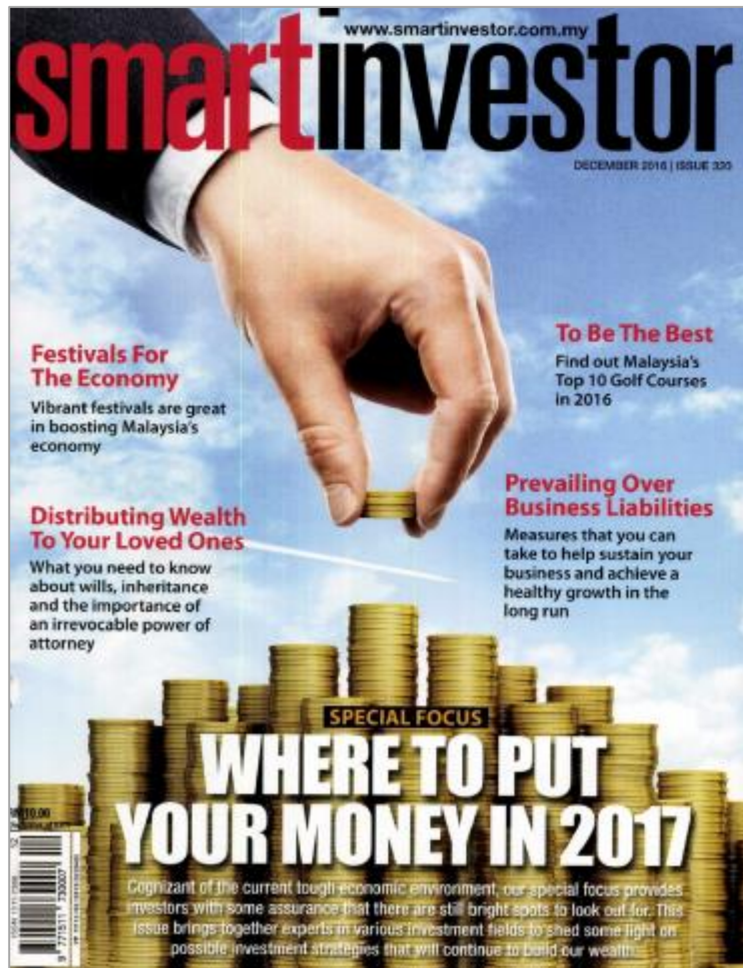

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SPECIAL FOCUS

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I guess there are a few reasons why the markets were very swift in getting over this. One thing is that the markets are not so surprised anymore after witnessing what happened during Brexit. During Brexit, we had the markets going down by a couple of percent over three days, and shortly after that in the next 10 days or so, they recovered. Despite whatever policies that Trump had proposed during his election campaign, you may eventually find that what is implemented may be quite different. Trump doesn't have a free hand in managing the whole of the US as he will need support from the US Congress.

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However, in emerging markets, there are a lot of fears. We expect volatility to persist in the near-term driven by increased expectations of a tighter Fed monetary policy and negative implications for Asia's exports outlook. If Trump follows through on his main campaign pledges, large-scale capital outflows from Asia would likely continue, causing further weakness in the financial markets. But, if his policies prove to be more pragmatic than feared, markets will rebound and potentially stay stronger.

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The other thing is the divergence in the global monetary policy. When money starts going back to the US, all the countries are going to be on defensive mode. (Trump plans for broad-based taxcuts, increased infrastructure and military spending, which will lead to stronger US growth and hence lending further support to the US dollar. This may potentially cause further divergence in global monetary policy as US tightens while other regions ease to support their economies.)

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In the short-term there remain uncertainties, but as always, opportunities lie with uncertainties. This is the best time for us to look for fundamentals, but it is not an easy job because it is not across the board. There are always attractive valuations in some of the yielding stocks, with very good business models...these are not cyclical. This presents a very good time for people to search for dividend yields.

Lee Kerk: We had a meeting with COFCO China Ltd. and they are of the view that the soybean and rapeseed oils' dominance are coming to an end. They believe that just the seed oils and soy alone cannot meet the demand from China. This is positive for Malaysia's palm oil industry.

Jeffrey: If you look at it, palm oil is by far the highest yielding edible oil in the world. It is so much more than second-best. Hence, palm oil is the one that can feed the world, especially if you are looking at a projected world population of 9 billion population as opposed to the current 7 billion. There are therefore lots of opportunities in palm oil and Bursa offers investors and traders the world's most liquid benchmark palm oil futures and options contracts.

SI: What are the investment bright spots you see in the coming year?

Lee Kerk: On the country basis, currently, we like India because it is a very domestic-driven economy, and is relatively shielded from external political noise. Within Southeast Asia, we see that Thailand is in a relatively 'peaceful' period, the market has come down and we think there's an opportunity.

On an industry basis, we like some of the semiconductor companies in China, such as companies manufacturing SIM cards. We also like some security companies for two reasons, one is the threat of terrorism, and the other is those related to healthcare such as monitoring the elderly within the home. We also like some of the tourism-related industries. The tourism industry globally, is quite stable.

Ismitz: For the Malaysian market, we expect a positive rebound for the GDP. I would still propagate a Malaysian-centric portfolio—you should have a 50-50 portfolio at the very least if you want to balance out. If you look at the 4.1 to 4.4% economic growth it may seem small but incremental growth is good because the last few years we have been down. There's improving commodity prices, and we have accommodative monetary and fiscal policies.

In terms of sectors, the ones that will benefit from this growth will be the construction sector. The LRT project will also spill over to certain properties. Malaysia has many companies with resilient domestic earnings; mainly the consumer stocks. Exports-based companies stocks can hedge against the weakening ringgit. Don't push the panic button and go global, as all is not lost for the Malaysian market.

Weiyi: For us, we actually like Asia a bit more as a whole. The US may be going on a rate hike, but in this part of the world we remain accommodative in our monetary policies. Commodities prices have stabilised, so that would in a sense help emerging markets' equities. With all these, we've started to see earnings revision to the upside for a lot of Asian and emerging market equities. After all, if we compare the emerging markets equities' performance to the developed market equities, we've lagged behind quite a bit.

For the next two years, we foresee that earnings will be going up and perhaps investors will give emerging market equities a higher valuation which can be as much as a 40 % upside potential over the next two years.

Jeffrey: We are currently in a state of what analysts like to call VUCA environment; i.e., volatile, uncertain, complex and ambiguous. In this environment, derivatives offer tremendous opportunities as investors and traders can play the markets both ways, either long or short easily. They can also capitalise on the leverage factor offered by the derivatives market. So, do your homework continue to stay invested and use derivatives to hedge and leverage up if you need.

Wong Weiyi

Danny: Generally, long-term investors shouldn't change their strategy. Say that you have a 20-year horizon, and your exposure to equities is more than to bonds. You may have to do some rebalancing due to the recent 'Trump Dump'. Maybe you should allocate more money to equities, although you need some bonds too.

The next 6 months to a year will be uncertain, thus stock picks are very challenging. Perhaps you can move a small portion of money to defensive stocks during these uncertainties. I would still advocate dividend yielding stocks. Look at some of the companies' yields — if for the past three years they've been paying 4 to 5% yields, now they should be paying 5 to 6%. When companies are able to declare dividends, it means that the business is still doing reasonably well.

If you have growth stocks then continue to hold them, otherwise, I don't think it is the right time to go into growth stocks. Do your homework before buying any stocks. But as said, in the long run, don't change your investing strategy, just tweak a bit here and there for short-term tactical play.

In terms of sectors and geographical exposure, we used to have 30% offshore but now we are paring that down after the fall in the ringgit. I will reduce the exposure to offshore, maybe to 20% or below, in anticipation that perhaps that Asian currencies may remain volatile. Unless you can hedge, as a Malaysian you'd better stay invested in Malaysian ringgit to avoid the volatility of the currencies.

I still remain positive (even though cautiously) on Malaysia than neighbouring countries. Malaysia has been a laggard for three to four years. Secondly, our ringgit has been lower than that of our neighbouring currencies, therefore, it remains attractive. But fundamentally, we are not too bad; our growth is still above 4%. Liquidity-wise we are still good, our current account remains in surplus. People should realise that fundamentals should prevail despite political noise.

Sani Hamid

As a fund manager, we still prefer unit trusts. If you look at the 5 and 10 years trends, unit trusts bring on average 9 and 10 % (returns) per annum, despite the many events affecting us over those years. Most of the average returns of unit trust funds have performed higher than inflation. Some actually had double digit returns over the past 5 and 10 years. Don't be too short-sighted; investors should look beyond a year.

Sani: I agree that long-term players should not be moving too much of their portfolios. As asset allocators, we advise the portfolios for our clients. Previously we allocated 90:10, more on equities. Today we're 60:40, 60% equities and the rest, bonds. Even within that, we are kind of defensive. In the bond market, we are situated at the very beginning or early part of the bonds yield curve, and in the markets we like fund managers who are able to go defensive if they need. I believe the ability to go defensive is very important.

SI: What are your thoughts on the multi-asset income strategy and how effective that will be for investors at this point in time?

Ismitz: This is the time that you need to diversify. Some of us (panellists) are looking at dividend stocks, some of us at defensive stocks as a whole. However, in this low-yield environment, people are looking for returns that are higher than our fixed deposits. But then the 10-year MGS yields are around 3.68 or 3.7%, but investors are generally looking for 5% returns. But there are not many asset classes that can give you that 5%.

We believe bond is one asset class that is often overlooked by Malaysian investors. Despite the hoo-ha about bonds, during volatile periods, they may be able to outperform the market in the long-term. Locally, there's a lot of effort to promote retail bonds and later, unrated bonds. There're lot of companies coming out with medium-term notes, it's a different asset class, beyond the traditional bonds offering. Retail bonds in Malaysia have not picked up, vis-a-vis Singapore and Hong Kong.

We see companies coming out with unrated bonds, but the thing is the word 'unrated' may not be suitable for retail investors, but eventually if they are asset-backed and properly structured for the retail investor, they will bring more liquidity to the market. It's just like any new instruments coming into the market, beyond the plain vanilla equities, with futures and others, there are more new products to give investors more choices.

Weiyi: Many people have been chasing yields for a long time now, so you really have to reassess next year against the backdrop of US increasing interest rates. Will you still want to go after yield assets? When people start to go for the income approach, there are some risks you have to take note of.

Many of our investors have invested in high-yield bonds, giving them quite a lot of returns. This is because the yield-to-maturities were high, giving them high returns due to the exposure to US dollars. But now we have a situation where the ringgit is so weak, I don't think the investors investing in high-yield bonds can look at the same kind of returns that they have received over the past few years.

Furthermore, when we build a diversified portfolio, investors need to think about what it really means. It's not just pulling in a few different unit trust funds and that forms a portfolio. For us, we have a three-step approach of building a portfolio.

Firstly, after deciding your risk profile you need to look at your inter-asset allocation...equities versus bonds. If you think equities are going to do better next year (which we think are), so perhaps you should go overweight on equities.

A balanced investor is 50:50, and if you are overweight on equities you will go 60:40. Within equities, you have to decide how to allocate that i.e. how much in US, Asia, Europe. When we say we like Asia, it does not mean that you don't have US and Europe, it's just a smaller allocation. We use GDP as a benchmark to decide how much of your equities money should go to US, Europe, Asia, etc. We do the

Ismitz Matthew

same for bonds.

Lastly, after you have decided to go overweight on equities versus bonds, or to go overweight on Asia equities relative to the developed markets, or go overweight on Malaysia bonds relative to overseas bonds, then you have to decide on who is the most appropriate fund manager.

With that, you build a diversified portfolio but doing it systematically. You can assess on a quarterly basis whether your yields are right or wrong.

Jeffrey: I suppose the usual asset classes are like fixed income, equities, real estate. From the derivatives side, they can help your investment portfolio. But you have to bear in mind that it is highly leveraged, so it is high risk, high return....you've got to use derivatives judiciously. It can help, because leverage can give you a lot of bang for your buck. Also, you can invest in crude palm oil (CPO) derivatives...you can go short sometimes and if you ride it well, you can do well. Derivatives can help complement your investment portfolio, but you need to do your homework and bear in mind the margin costs as well. Used carefully, they can increase your returns, there's CPO, there's the stock index as well, which allows you to trade, in a way, the market in its entirety. Next year we're coming out with single-stock options, so if you already have an investment portfolio of good stocks, you can write covered calls and get extra yields...there will always be a lot of investment opportunities.

Jeffrey Tan

SI: What is your number one tip for investors in 2017?

Lee Kerk: At the end of the day, different investors should know what they are looking for. Next year is going to be very interesting, but if you're an investor who is worried about downside risks, it's difficult to ask you to be very aggressive. In fact, what we can share is that for a moderate portfolio, in the second half of this year, we raised our cash holdings to 50%. The remainder is divided between local and overseas markets, such as US, India and even China.

What is our allocation next year? I would say that we will probably reduce some of our cash position. If an investor is concerned about the downside to volatility, then he or she will probably be more conservative. For someone who can bear more risks, we advocate increasing equities exposure by about 5-10% in the early part of next year. But again, if you're a long-term investor, 60:40 allocation is good. Essentially, you should diversify and know the downside volatility you can handle or take.

Danny: I concur that diversification works well for uncertain times. But I think that Malaysians are too diversified sometimes and too risk-averse at times, also. Fixed deposits and deposits are huge in the banking system, which is not productive for the country as it is passive money. It's not flowing into the capital markets for the development of the economy.

For long-term portfolios, my advice is to put more money into equities for Malaysia and other emerging markets. In advanced economies like Singapore, Korea and Hong Kong, they moved from developing to advanced economy status and this involved a jump in disposable income and higher cost of living. Malaysia is experiencing this, the pace of that is so much faster than our income. For a long-term portfolio, if you over-diversify and put too much in low-yield assets, you may not achieve your investment goal. So my advice is for the long-term, put more money in equities and don't worry about markets, I have not seen any market fail to recover after a disaster.

If I were a long-term investor, I would buy companies that I believe will be in business for the next 20 years.

Weiyi: I agree with investors being more aggressive on the equities side, especially if they've a very long investment horizon. For me, I'll make a more bold call. After you've decided on your risk profile and how much equities versus bonds, within the equities, we like Asia ex-Japan quite a lot. We advocate equities from Malaysia, US, Europe and Asia. For Asia, we're confident in the 40% gain over the next two years, so we advocate investors to go overweight on Asian equities, by about 35 to 40% of the equities portion of the portfolio.

Ismitz: We tend to favour Asia as a whole. As much as our portfolio has been defensive, we are slowly picking up equities. Within the next 6 to 12 months, markets will continue to be volatile, but there will be gems. Until there is more clarity from Trump as a whole, the emerging market equities will stay at this low level.

China's Internet and e-commerce are growing. Currently, more than 10% of retail purchases in China are made online, higher than 7% in the United States. Additionally, there are also opportunities in the tech space and clean energy as they are part of the government's policy to move China up the value chain and to ensure sustainable development.

Indonesia has infrastructure, which is pretty interesting. We like Indonesia due to decent growth (>5% forecasted) alongside structural reforms such as improving the ease of doing business. A recent tax amnesty programme is also expected to boost government revenue while also improving liquidity in the domestic economy.

Besides, we believe the Chinese FDI and 'One Belt, One Road' theme will become increasingly more discerning in ASEAN and part of our strategy is to identify stocks which are deemed beneficiaries of Chinese investment money. These could include contractors, property developers and commodity players.

Within Malaysia, with developed market policy changes and resulting capital reversals, the ringgit could continue to stay weak for a longer period. Hence exposure into exporters will continue to feature in our asset allocation. We also like reform/restructuring plays that may favour companies with GLC dominance.

(L-R) Danny Wong, chief executive officer of Areca Capital; Phua Lee Kerk, chief strategist at Phillip Mutual Berhad; Ismitz Matthew De Alwis, chief executive officer of Kenanga Investors Bhd; Jeffrey Tan, senior executive vice president at Bursa Malaysia Derivatives Bhd and Wong Weiyi, general manager of Fundsupermart.com Malaysia.

Lee Kerk: For those investors who are more active, on the equities side they should leave this to the fund manager. These investors can also hedge using the gold futures.

Jeffrey: Like Lee Kerk said, you can invest in CPO futures, in gold futures, even MGS if you want to and also in the stock index.

Ismitz: Malaysians often overlook these. They should also look at using these as hedging tools and start to understand that they are available in the market.

It is essential to diversify your investment to avoid risking everything that is put in one basket. By diversifying your investment portfolio, you decrease the chance that all your investments will experience the same negative market forces at the same time.

One way is to blend a variety of different investments with various characteristics so you can reduce their overall risks, while increasing their potential for greater long-term results. Invest in different classes of investments whose returns are not correlated – in other words, investing in asset classes whose returns do not rise and fall together. When one asset class declines in value, another asset class increases, which minimises portfolio losses and seeks positive overall returns.