

Philequity Corner (August 13, 2007)

By Antonio R. Samson

Doing Research

When checking to buy a new car, the wise buyer does his research. He asks others who have the car their experience with it, fuel efficiency, maintenance, and such. He himself does a physical evaluation, and at the very least kicks the tires and takes it for a test drive to see how it handles curves and how fast it accelerates.

How come when an investor puts money on a stock (usually a lot of money) sometimes all he relies on is a “hot tip” from an insider?

First time investors, often dismissed as desperate housewives, *like* hot tips. They even insist that their brokers give them some. On the basis of unconfirmed plans of pending acquisition, stock buy back or a follow-on offering, a newly discovered mine site, the newbie jumps in and buys a particular stock.

Insider trading is a variation of insider information which drives hot tips. Here, those acting on insider knowledge work directly for the subject company, using unpublished information to gain undue advantage over the uninformed public. They pass on their private info to relatives and friends (after they’ve bought the stock, of course). This illegal practice is seldom even commented on in the local market but is a serious offense in the United States. Think Martha Stewart, even if that one evolved later into a cover-up.

Taking stock picking seriously

The way people pick stocks or companies to invest on seems even more casual than the way they choose shampoos. At least for what they put on their head, they check the label. One only has to hear about yet another scam that has taken in supposedly wealthy (and presumably financially savvy) investors to appreciate the need for personal research.

With the rise of “private banking” units in local banks where high net worth individuals, perhaps with investible funds of ten to fifteen million pesos are accorded a portfolio adviser offering services beyond CASA (Checking Account/Savings Account) expert advice is available. A report (complete with pie charts) on how the client’s placement with the bank is doing is periodically submitted. Even here, the client is asked about his investment goals, whether growth, high risk, or a conservative fixed income stream. But is it also enough to leave everything to the expert? (Read on.)

The danger with hot tips

Nothing is more dangerous for the new stock player than early success based on a hot tip. Quick profits from an IPO or a tipped stock with business plans but no cash flow prospects for the next 8 years endows the inexperienced investor with beginner’s luck and a dependence on unconfirmed tips. The danger increases when he outperforms research-based investors...in the short term. He is lulled into thinking that he needs

neither expert advice nor any research at all, until the market corrects as it has been doing these last two weeks.

Doing away with basic financial information is a sure recipe for buyer's remorse. Why did I get into that stock? What was I thinking? The company has no assets, only business plans which consist of a wish list of favorable events taking place.

Here are some things to note.

Leave it to the experts? While this seems to be sound advice, it begs the question of which experts do you leave your money with. Experts managing funds have track records and these have to be examined. How well did this fund do against the Phisix? What about against other funds? This simple test of performance is available and can even be requested from the fund being considered. Especially in a bearish market, performance indicators are critical. After all, in a bull market, every investor can look like a financial whiz, since everything is moving up.

How is a company doing in its industry? For individual stock picks, it is good to go with a company outperforming its market. This can be in terms of market share or profitability, an undervalued price/earnings ratio or revenue growth. Just as an example, the newly listed GMA network can be compared to its rival ABS-CBN. Both are listed stocks and moving forward, they can have comparable numbers. If available, comparator companies in the region can also be evaluated to check if current price still has an upside.

2007 PER of Selected Media Companies

Company	Price	P/E (x)
TVB (HK)	52.15	17.6
ASTRO (Malaysia)	3.78	41.1
Media Prima (Malaysia)	2.87	20.9
Surya Citra (Indonesia)	970.00	19.5
ABS-CBN	33.50	27.0
GMA	10.00	20.0
Average		24.4

Source: Bloomberg, Philequity Research. Prices as of Aug. 10, 2007

Attend investor briefings. Most listed companies have a full-time Investor Relations (IR) unit which deals with researchers and provide statistics on earnings, major challenges, market share, and changes in management. While only investment banks attend these, stockholders are often invited for a quarterly briefing. It is not necessary to ask questions directly. Attending these sessions give a feel of the quality of management and the firmness of business plans. These stats are also found in the web site of most listed companies.

Read up on the Company. News items in the business papers, interviews of the CEO, and company reports of the stockbrokers provide many insights into the company that can inform the investor to make intelligent decisions. In fact, the absence of information, or the frequent postponement of stockholders meetings, delayed releases of financial performance are all warning signs and signal a sell for such a company.

There is no such thing as having too much information on a stock that one wants to buy. Even if the information is negative, at least, the investor knows when to sell and cut losses.

Because of low returns from bank deposits (low single digits), many savers have moved in a big way to the stock market. This is healthy for developing capital formation. But is a casino mentality without research the way to go?

It should be back to investment basics and taking a healthy long-term view on good companies with a record of profitability and growth. The excitement still lies in discovering a company with a small market cap and a good story for the future. In stocks as in anything worthwhile, it is always good to look (at the numbers) before you leap.

For comments and inquiries, you can email us at info@philequity.net. You can also visit our website www.philequity.net for more information about Philequity mutual funds. Philequity Corner articles are archived in www.philequity.net and www.yehey.com/finance/opinions