

Philequity Corner (February 18, 2008)
By Valentino Sy

Words of Wisdom from Taipan Henry Sy

Investment is said to be most prudent when it is businesslike. It is a simple concept, but one that will surely give every investor a head-start in successful investing. To elaborate on this idea, let us turn to some words of wisdom from the taipan, Henry Sy. His SM Group of Companies recently celebrated its 50th anniversary. A musicale titled “I Dream” was presented as a tribute to the life of Henry Sy. Included in the program are quotations from Henry Sy himself which we will discuss in this article to show how these are related to investing in the stock market.

Stick to your area of expertise

“My basic strategy is to stick to my core business, and to my area of expertise. My businesses are all related – retail, shopping centers, banking, real estate and tourism development. Together they create synergy.” – Henry Sy

Sticking to one’s area of expertise applies as much to investing as it does to entrepreneurship. This means that an investor should focus his efforts in businesses that he is familiar with, and avoid those that he does not understand.

Warren Buffet, considered the world’s greatest investor, often discusses a similar concept which he terms as “circle of competence.” According to Buffet, if a business is simple and understandable from the perspective of the investor, then it resides within his circle of competence.

Peter Lynch, one of the most successful money managers in history, was another big proponent of the “invest in what you know” philosophy. In fact many of his most successful investments were a result of following his wife and teenage kids around the shopping mall and driving through town eating Dunkin’ Donuts.

Finding companies that are easier to understand is only the beginning. It should merely be a starting point to generate a list of investment choices based upon an investor’s individual experience and area of expertise. A company must still display excellent fundamentals, an attractive price, and a shareholder-friendly management.

Hard work and self-discipline

“I started with shoes, and with hard work and discipline, the business prospered. I moved to the department store business and again, things went well.” - Henry Sy

Henry Sy traces his roots from Jinjiang, China. At the age of 12, he left for the Philippines to join his father, a proprietor of a small sari-sari store in Manila. The circumstances upon his arrival were nothing short of daunting. He spoke neither English nor Tagalog and his father lived in a less than ideal setting. He worked full-time at his father’s store, often 12 hours a day. He did this while attending school to learn English and selling merchandise at the Quiapo market. At a very young age, Henry understood that with hard work and self-discipline, he could turn things around.

Most first time investors don't realize this, but investing really requires a lot of hard work and research. An investor should look at a company in the same way as a businessperson does. The businessperson wants to buy the entire company while an investor wants to buy a part. The investor would benefit by using the same business purchase criteria as the businessperson. Here are some things to note:

- 1) Read all you can about the business. Check the company website, annual reports, CEO interviews and newspaper articles. This should provide insights into the company that will inform the investor to make intelligent decisions.
- 2) Sample its products and services. Does the company have a strong orientation towards customer satisfaction? Does it continually carry out research and development to produce new products and create new markets?
- 3) Attend annual stockholders meetings and quarterly investor briefings. Get a feel of the quality of management and the firmness of business plans.
- 4) Assess the company's financials. Short-term price fluctuation is not a good measure by which to judge a company's success. Instead, look at return on shareholder's equity, operating margin changes, debt level changes, the company's cash generating ability, etc.

In investing, as in life, there is no such thing as a free meal. "Nothing is more dangerous for the new stock player than early success based on a hot tip" as ARSamson notes in an earlier article (see "Doing Research" in the August 13, 2007 issue of **The Philippine Star**). "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." Oftentimes it is during this period of overconfidence and reliance on baseless tips that an investor suffers an overwhelming loss.

Thus, aside from hard work, an investor should have self-discipline to avoid purchasing mediocre stocks on the strength of a rumor. The ability to say no unless all the facts are in one's favor is a significant advantage for any stock market investor.

Looking at the long-term

"Not many people can do it. You may have the interest but not the resources. You may have the resources and the interest, but not the guts. You have to look long-term. You have to be optimistic." – Henry Sy

More than luck, pure guts and hard work, it was Henry Sy's long-term vision and optimism which set him apart from the rest. Throughout his life, he was able to see opportunities in the midst of uncertainties, turbulence and chaos. He started his own shoe business after World War II ravaged his father's store. He opened the first SM department store in Quiapo just after the declaration of Martial law. He then built the first shopping complex, SM City in North Edsa in 1983 following Ninoy Aquino's assassination. The series of coups from 1987 to 1989 left the taipan unfazed as he started building SM Centerpoint in Sta. Mesa and SM Megamall in Ortigas.

Even after the 1997 Asian crisis, the taipan went against conventional wisdom by fast-tracking mall expansion and building 2 to 3 new malls every year since then. In 2005, when the country was besieged with fiscal problems, political scandals and poor credit ratings, the SM Mall of Asia was opened and SM Investments Corp. was able to conduct a successful IPO.

In the same manner, focusing on the long-term prospects and not on short-term price fluctuations is the key to successful investing. And if one indeed has done his homework and invested in

companies with sound financial prospects, it is easier to be optimistic even in the midst of a challenging environment. In times of extreme market volatility and significant price declines such as what we are experiencing now, investors should learn to be patient and take a healthy long-term view on companies with a track record of profitability & growth.

Words to invest by

With these words of wisdom from the great taipan, one can develop a good framework for successful investing. Simply focus on great businesses that you understand, do your homework, take a long-term view, and then be patient & optimistic. Do what the taipan Henry Sy would do.

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