As at end-March, Mr Wong's APS China A-share Fund was the best-performing unit trust registered in Singapore, with a whopping return of 39 per cent

'DON'T DO WHAT OTHERS DO'

Fund manager Wong Kok Hoi believes in being a contrarian investor

TEXT _ TEH HOOI LING **PHOTO** _ ARTHUR LEE

IN OCTOBER 2007, when almost everyone in Asia was still high on the multi-year bull market, fund manager Wong Kok Hoi was circumspect. "Asian markets have had five years of very strong performance – the best after the Asian financial crisis," he told *Pulses* then. "Economic growth has been robust, consumers have been spending, investors have been exuberant and as a result, valuations have reached the high end of past ranges."

He added then: "I would concede that there are no signs of a slowdown yet. But markets have a life of their own, they always surprise with something we currently don't know about – the unknown unknown.

"Past experience has taught us that when everybody is still enjoying the booze and the music at the party, you should probably take your leave."

How prescient he has proved to be. What the market went through in the subsequent 18 months was beyond even the worst nightmare of most investors.

In his near 30-year career in the industry, Mr Wong has made a few timely entries and exits. A Japan Mombusho scholar, he began his career with the Government of Singapore Investment Corporation (GIC) in 1981. After five years, he left GIC for Citicorp Investment Management and rose to head the US bank's fund management operations in Japan. At that time, the Tokyo Stock Exchange was seeing a rampaging bull.

The story went that while Mr Wong was on a business trip in Switzerland at that time, a taxi driver started to brag to him about his Japanese stocks. That's when Mr Wong decided things had gone too far. Shortly after, he unloaded most of his Japanese stocks. Just weeks later, in December 1989, the market crashed.

Mr Wong returned to Singapore in 1990. In 1995, he set up APS. Prior to late 2007 when he stood apart from the crowd, Mr Wong said the last time he took a contrarian view was on China in July 2004. APS launched its China A-share Fund when no one had anything good to say about China. "At that time, China had suffered a six-year bear market. Investors were concerned about Chinese company profitability, corporate governance, accounting standards, etc. Our fund suffered another year of sell-down before it took off in an almost 'unknowable' fashion."

As at end-March, APS China A-share Fund was the best-performing unit trust registered in Singapore, with a whopping return of 39 per cent. We caught up with Mr Wong recently to update ourselves on his latest views of the market.

What made you decide to set up your own fund?

While working for large firms has its perks, it also has its frustrations. After working for a decade for large firms I thought I should throw myself in the wild jungle, if you will, to see whether I could survive. Not to sound too immodest, but as I had done well as a salaried fund manager I thought there was at least a 50-50 chance of success running my own firm. But I was naive. I quickly found out that it was difficult to raise money when you were new. The Asian financial crisis made it even more difficult. Who would want to give money to a brand new manager when they had just witnessed the market meltdown in Asia?

What were some of the difficulties you encountered in the initial stages of running your company?

How to persuade institutional investors to entrust their monies to a brand new fund started by an almost unknown fund manager. How to persuade good people to work for you. How to produce your first profit.

In the first five years we worked real hard to produce the performance and practically went into orbit looking for investors. To save money, we flew to as many cities as possible on each trip. I remember we had to transit at airports at odd hours when we were supposed to be in bed. After three years of persuasion and having produced a decent track record, I got a reasonably sized mandate from a European insurance company. A year later, we won a mandate in Singapore. The rest, I suppose, is history.

How have your funds performed since day one?

Our Asia, China and Japan funds have all outperformed their respective market indices since inception. But like all funds, we had our fair share of trying years. For our Asian fund, we started with nine straight years of outperformance, followed by three years of under-performance, and recently one and a half years of strong outperformance again.

"Look at the dotcom stocks in 1999/2000, and recently the CDOs (collateralised debt obligations), property, resource stocks, private equity, hedge funds, etc. When investors all rush in, you had better dash for the exit." – Mr Wong

Our China fund has outperformed in all the five years since we launched it. Our Japan fund has no fixed pattern of performance but it is still ahead of the market index and its peers in the nine years. All in all, we think we have done well as an active manager.

You've been in the investment business for more than 25 years. What's the most valuable lesson you've learnt?

Don't do what others do. In other words, you have to be a contrarian investor. Look at the dotcom stocks in 1999/2000, and recently the CDOs (collateralised debt obligations), property, resource stocks, private equity, hedge funds, etc. When investors all rush in, you had better dash for the exit.

Do you think fund managers add any value for investors? According to Standard & Poor's Index Versus Active Fund Scorecard (SPIVA) for the year ended December 2008, over the five-year market cycle from 2004 to 2008, the S&P 500 outperformed 71.9 per cent of actively managed large cap funds, the S&P MidCap 400 outperformed 75.9 per cent of mid cap funds, and the S&P SmallCap 600 outperformed 85.5 per cent of small cap funds. These results are similar to that of the previous five-year cycle from 1999 to 2003.

I know we active managers have been belittled for many years now for failing to even outdo dart-throwing monkeys. It is quite shameful, actually. Yes, as a group we have failed to outperform. And hence the numbers don't surprise me. Not to defend my peers, but I think the institutional pressure on us to produce short-term performance is so tremendous that most of us are more obsessed by the next day's, next week's or next month's net asset value for the fund (which is dependent on the market price of the shares in the portfolio). The underlying value of our investments takes a back seat.

Paradoxically, the harder you work to identify the next market darling, the quicker will be your downfall. I think we are smart enough to know this but the urge to be the top manager of the year is just too overwhelming. And sadly this is what many of us do. Why do you think investors sank US$60 billion of real money in Madoff? Isn't it shocking! Perhaps, it shouldn't be.

How big a role do you think luck plays in determining the performance of a fund manager?

Short term 70 per cent, long term zero per cent. In the short term, luck can play a big role. In the long run, luck will average out and skill will be the deciding factor. Think of coin tossing and you will know what I mean.

What is your definition of a good stock?

Getting $1 value stock for 20 cents. That's how Charlie Munger has defined value investing. I can't agree more. If you pay $1.20 for the same stock that's a bad stock. It is as simple as that.

Some of your stock picks in the past year have performed spectacularly. What are some of the stocks that you still like today?

In Singapore, I like Hi-P and Del Monte for their good management and resilient earnings. For deep value stocks, I like Kingboard Copperfoil (the parent has since announced plans to privatise the company – an indication that it deems Kingboard Copperfoil undervalued), UOL Group and IDT Holdings. The problem with these stocks is that at current price levels there are not many sellers.

What is the one valuation metric that you always look at?

The discounted cash flow value is probably the best measure of value but you have to forecast cash flows many years into the future. That is a humongous task. We do it for many stocks that we research, especially in bull market environments. For most investors, I would advise using the price-to-book ratio rather than the price-earnings multiple.

Price-earnings ratio (PER) is probably the most abused metric because it attempts to measure the value of a company using merely a year's earnings. To say that a stock is cheap because the PER is three times or five times is, to my mind, probably the most misleading and incorrect thing to say in our business. Time and again, earnings fluctuate violently from year to year. But I must add that I am merely answering your question. In investing, you will have to look at numerous metrics.

How do you decide when to sell a stock?

When they have become overvalued, when fundamentals change, and when the assumptions we made about the industry and the company are no longer valid.

How do you keep updated on what's happening around the world? Isn't there just too much information out there?

I can't agree more about the information overload in our business. Some would say that there is too much garbage. I don't try to monitor all the news in the world, but I do monitor some key developments which I think will have an impact on my investments. But my focus is on my investee companies. If their fundamentals change, I would like to know it early.

What is the greatest weakness of investors today?

Not knowing what they buy. Recall the capital-guaranteed bonds, muni-bonds, accumulators, CDOs, etc. Even smart and professional investors are guilty of this.

What is the greatest flaw of the financial market today?

Short-termism and greed.

What structural change do you see happening in the global economy/financial markets that you think investors can profitably position their investments in?

The emergence of China as a major economic and military superpower. I think the implications of this have not quite sunk in yet. **P**