CRUCIAL INVESTMENT & STOCK SELECTION POINTER

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CRUCIAL INVESTMENT ISSUES

Putting one's money in the stock market is like walking through a financial mine field. To be successful, an investor must ponder over six key investment issues, namely Market Instrument, Market Segment, Market Timing, Stock Selection, Portfolio Evaluation and Investment Principles. These effectively answer the questions: why, where, when, what and how to invest.

WHICH INSTRUMENT?

Instead of parking money in bank deposits, an investor can today place his money in stocks, bonds, unit trusts, insurance and properties. The appropriate market instrument will depend mostly on the investor's risk profile and investment needs. For instance, an investor who is risk averse and needs a certain sum in five years time will find bonds more suitable than equities.

WHICH SEGMENT?

The investor needs to consider which geographical markets offer better investment odds by looking at factors such as price levels and economic conditions in each country.

He may also have to think about the relative attractiveness of various industry segments which will affect not only corporate performance but also market focus.

MARKET TIMING

It has been said that it is better to buy the wrong stocks in the right market than to buy the right stocks in the wrong market. Market timing is important because individual stocks tend to move in line with the general market. Important factors to look out for include market trend, corporate financial performance, overall market valuation and economic variables including interest rate.

STOCK SELECTION

Once an investor has decided to go into the stock market, he has to look for winners from a vast pool. What then should he look for? Firstly, an attractive price. Many retail investors take the simple approach of investing in laggard stocks. But to get a proper perspective on the attractiveness of a stock price, an investor should compare stock prices over different month ago, one quarter ago and one year ago. More importantly, price should be used only as a tool to sieve out prospective candidates for further study, not as the sole basis for stock selection.

A second reason to buy a stock is if it has an attractive price-earnings (PE) valuation. Generally speaking, investors should look for companies with PEs lower than the industry
norm as a stock with low PE indicates the price of the stock is low relative to its earnings potential. Earnings forecast by analysts can be obtained from information providers such as Barra's Global Estimates. Since these forecasts give a reasonably good indication of the earnings prospects of companies, investors should look out for large revisions in earnings forecasts as a result of corporate or economic developments.

There are several classic situations which will indicate good earnings prospects:
Companies in an industry experiencing superior growth. Companies with quality earnings due to long term contracts and high profit margin. Companies with new sources of revenue which contribute directly to earnings.

- Companies which are likely to have an earnings turnaround.

PORTFOLIO EVALUATION

Having built up a portfolio, an investor must keep a close eye on his stocks. Many investors are not fully aware that successful investment requires spending time to track periodically both stock prices and corporate developments. The need to do this has increased over time due to more rapid changes in economic and industry developments as well as greater volatility of stock prices.

INVESTMENT PRINCIPLES

Finally, since no investor has perfect market foresight, it is important to adhere to well-tested investment principles. The key maxims to note include diversifying one's holdings to avoid over concentration in a few stocks or a particular industry. Also, avoid over trading which affect objectivity. Above all, have the discipline to hold on to winners and be unsentimental in discarding those stocks that have ceased to be attractive.