

## MINORITY SHAREHOLDERS WATCH GROUP

BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD

(Incorporated in Malaysia – Registration No.: 200001022382 (524989-M))

The Edge Malaysia – Monday, March 22-28, 2020 (A)

# MSWG: Our role in capital markets is more important than ever

BY LIEW JIA TENG

Since the outbreak of the Covid-19 pandemic and the various forms of Movement Control Orders (MCOs), there has been a significant influx of retail investors into the local stock market. There are several reasons for this phenomenon.

First, the loan repayment moratorium that the government ordered banks to extend to borrowers left many with cash on hand, which was channelled into a stock market on the rise.

Second, working from home gave many employees more free time, which was put to productive use by dabbling in the stock market from the comfort of home.

That gave a tremendous boost to the share prices and trading volumes of some counters, which rocketed to dizzying heights, in turn encouraging even newbies to leap into the stock market.

At the same time, the number of blogs discussing stocks proliferated, with some discussions tending to resemble investment advice — a regulated activity that requires a licence from the Securities Commission Malaysia (SC).

In addition, there was a mushrooming of “investment gurus” giving investment advice without a licence. Not surprisingly, concerns were raised that some of these gurus may have lured naive investors into buying stocks at higher prices while they themselves were unloading their stockholdings at those levels.

As many of the investors are newbies, Minority Shareholders Watch Group (MSWG) CEO Devanesan Evarason stresses the need for informed investment decision-making.

“Most of the investors in Malaysia have many years of experience, with basic fundamental knowledge about investing. But when the newbies came, they were so anxious, they just rushed in because they heard that

someone was making money,” he tells *The Edge* in a phone interview.

With the flood of new investors, Devanesan acknowledges that MSWG’s role in the capital markets has become more important than ever.

“MSWG’s focus was one of highlighting the need for investor education, informed investment decision-making, making investment decisions based on premises and bases, as opposed to fear and greed. These are the two primordial emotions that are rampant in the stock market and they need to be tamed and can be tamed only by self-discipline,” he remarks.

Over the years, MSWG’s role had been attending shareholders’ meetings and asking questions, as well as commenting on the fairness of takeover offers.

“But we have got to morph beyond that. It’s about protecting the minority shareholders, telling them the investment risks, so that they don’t go in blindly. That’s why you would find a lot of our newsletters have been on educating retail investors about making informed investment decisions, risk appetite and all that,” Devanesan says.

Interestingly, he observes, young investors who lose money, “do not scream that much nowadays”, compared with the older generation of investors earlier on.

“I suspect that many investors know that they are taking high risks. They went in with their eyes open, they took the risk, and sometimes, they got their fingers burnt. They don’t blame anyone,” he remarks.

### New threats in stock market

Devanesan’s main concern is pump-and-dump schemes, which could leave many new investors in the lurch.

“In a way, MSWG’s role has changed. Traditionally, shareholder activism was about holding the company’s board accountable. But



SHAHREIN VAIYAL/THE EDGE

**Devanesan: MSWG could teach minority shareholders how to smell a rat and be a smarter investor. But at the end of the day, there is only so much we can do.**

today, our role is more than that. It is also about protecting minority shareholders from being cheated by stock market manipulators in pump-and-dump schemes,” he says, adding that MSWG has been actively commenting on various issues and asking investors to be careful.

“The cheaters are out there. It is so easy to play up the shares nowadays,” he warns.

On the issue of investment gurus, he opines that there is a fine line between robust discussions and providing investment advice.

“I have no problem with people calling themselves investment gurus. But the problem is that they are providing investment advice. You can talk about investing, you can even talk about the company, but there are a few lines you shouldn’t cross. For example, do you get profit or income as a result of your unlicensed activity? Do you run regular classes and courses? Do you charge a fee when you give advice? In any case, it is not okay for an unlicensed individual to give a target price,” he stresses.

Going forward, MSWG wants to take shareholder activism to the

next level, and will continue to represent minority shareholders to ensure company directors are held accountable.

“But today, we seem to have new threats in stock market manipulators and pump-and-dump schemes. Oftentimes, the hidden hand is concealed by many layers,” he says, adding that such schemes come under the purview of the SC, whereas MSWG, being a shareholders protection group, can only persuade and influence.

“MSWG could teach minority shareholders how to smell a rat and be a smarter investor. But at the end of the day, there is only so much we can do. Having said that, sometimes, losing money can be one of the best real-life lessons one could ever learn.”

Currently, MSWG covers about 330 listed companies and raises questions on operations, finance and corporate governance, which are to be answered at a company’s shareholders meeting.

The companies answer MSWG’s questions and about 71% of them publish the questions and answers (Q&A) on their corporate website. The public can access the Q&A by becoming a retail subscriber of MSWG on a free-of-charge basis.

### Problems with virtual AGMs

Devanesan is an outspoken critic of virtual annual general meetings (AGMs) because he believes the risk of shareholders’ rights being infringed is higher. In addition, such meetings allow board members to avoid accountability.

He says virtual AGMs have been abused by a handful of companies. “At a physical AGM, shareholders can articulate their questions better and ask the questions from the floor and the board will be obliged to answer them owing to the very physical nature of the encounter, because the shareholder is literally in its face.”

And, if there is a tendency for the

board to allocate inadequate time for Q&A, shareholders can demand for more time to be allocated for the session.

“At a virtual AGM, questions can only be asked by typing them in chat boxes. What guarantee is there that the board will answer the question? There was one instance when MSWG’s questions were ignored at a virtual AGM even when the questions were retyped in the chat box,” he recalls.

He notes that at a virtual AGM, questions raised are not displayed to the other shareholders, unlike in a physical AGM, where all in attendance can hear the questions raised and answers given.

This, he points out, is an important part of shareholder activism. “Technology should enable all questions raised to be displayed on the screen, at least on a staggered basis if the questions are coming in fast and furious. The idea is to replicate the physical AGM as far as possible and practicable,” he says.

Devanesan also points out that some boards give the assurance that they will answer the shareholders’ questions privately after the AGM.

“Again, this defeats the purpose of a Q&A session at an AGM. Why not then have the Q&A session privately after the AGM? Shareholder activism operates at its best when all shareholders have access to all the questions asked and to all the answers given at the AGM,” he emphasises.

He predicts that when the pandemic is over, some companies may try to adopt fully virtual AGMs. This will not be a boon for shareholder activism, he cautions.

“Physical AGMs should be the order of the day. The companies should leverage technology to conduct hybrid AGMs where there are a large number of shareholders or many of the shareholders are in remote locations,” he says. ■