MINORITY SHAREHOLDERS WATCH GROUP
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RETAIL SHAREHOLDERS

SIX INVESTING RULES

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THE number "6", pronounced *liu* (in Mandarin), is considered lucky as the word sounds like "to flow" and can indicate smooth progress in life. It also means well-off. With the Chinese New Year just over, it is hoped that the following six investing rules will ensure that investors are well-off.

Intrinsic value

Look at the intrinsic value of a company. Look at what that company will be worth according to your evaluation and assessment. The higher the intrinsic value compared to the current market price, the greater the opportunity to make money. Warren Buffet calls this difference the margin of safety.

Capitalise on fear

There are two primary emotions in the market — fear and greed. The fear can work in your favour as it will create buying opportunities. Typical of the maxim of being greedy when others are fearful, the fearful will sell at bargain basement prices, well below the company's intrinsic value.

As an investor who knows the intrinsic value of a company, you should be able to pick up such shares at basement bargain prices. When investors are fearful and share prices decline, it can offer good value investing opportunities.

The trick is not to succumb to the pervading doom and gloom from the fear.

The idea is to buy quality companies at fair prices. Although you can make money buying average companies at a big discount, it is better to buy wonderful businesses at a fair price.

Buy shares at less than what they are worth. Look at the company's intrinsic value and only buy the stock if it offers value.

> *Do the six rules guarantee success? Unfortunately not, as there are many vagaries to investing in the stock market, but they can be a good start to increasing the odds of successful investing.*

Understand the business

Never invest in businesses that you do not understand. This is fundamental to investing. Again, as basic as this is, people sometimes speculate to make a fast buck, without knowing the business of the investee company. Often, the motivation to do so arises from stories of how others have made money. The fear of missing out kicks in.

Many investors have stayed away from cryptocurrencies simply because they do not understand their mechanics. To invest in a company, you must understand the economics of what the business will look like well into the future.

Do not procrastinate

Carpe diem means seize the opportunity. Sometimes we procrastinate when the opportunity is staring in our faces. Sometimes, procrastination arises because we doubt our methodology. Or we are overwhelmed with the desire for more information before we make the investment decision. Some call this information overload. Simplicity is the ultimate sophistication, according to Leonardo da Vinci.

Do not miss big opportunities. Invest promptly as time and tide waits for no man. In other words, don't sit on it. Likewise, do not hesitate to get rid of a loser.

Sell when the premise changes

Sell when the premise or basis of your investment changes.

Price fluctuations are common due to reasons other than the company's performance. This is often referred to as noise in the market. Be steadfast and hold on and ride the fluctuations. We are advised to not try and time the markets. You should sell only when the premise for your investment changes. This could be internal to the company like problems with management or the surfacing of serious fraud. Or it could be external to the company like lower average selling prices due to a glut in supply or lower demand due to sanctions which could result in lower demand for the company's products.

Investing with borrowed money

Try and avoid investing with borrowed money. The common form of borrowing when it comes to investing is through margin accounts. Margin trading involves borrowing money from a broker and using that money to purchase securities or equity shares. By taking out a loan, investors can buy more shares than they would have otherwise been able to afford using only the cash in their account.

In return, the investor must repay the loan plus the interest that the broker charges. Typically, the securities or stocks held in the margin account act as collateral for the margin loan. Other acceptable forms of collateral include cash, unit trusts and fixed deposits. It is important to note that acceptable types of collateral may vary, subject to requirements imposed by banks and brokerages. The downside risk with margin accounts can be severe.

First, margin financing charges are higher than market interest rates. For instance, a local brokerage charges interest rates of between five and eight per cent on margin financing, depending on the form of collateral pledged. Thus, the share price accretion must outpace the interest charges on the margin accounts to be "in the money".

Secondly, there is the risk of a margin call. Typically, you will be required to maintain a collateral cover of 150 per cent of the outstanding loan. This provides a 150 per cent cover for the lender. The lender is hedged well. When the collateral value drops below 150 per cent, there will be a notice to "top up" the collateral to the 150 per cent level. If the collateral value continues to fall, say below 130 per cent, the margin account agreement normally gives the right to the lender to dispose of your collateral shares and try to regularise the margin account.

Failure to "top up" the account would lead to banks or brokerages "force selling" the share pledges as collateral — you do not have a choice as to whether to sell or not.

Likewise, non-share collateral may also be realised at the discretion of the lender. The margin agreement may very well give the right to the lender to sell your shares in such instances even without notice. Though, as a matter of courtesy, the lender will give you a hurried call to top up within a tight timeline to regularise your account, failing which the lender will proceed to sell the shares.

Conclusion

In the 1930s, economist John Maynard Keynes said: "Markets can stay irrational longer than you can stay solvent."

That bit of wisdom remains true today. Do the six rules guarantee success? Unfortunately not, as there are many vagaries to investing in the stock market, but they can be a good start to increasing the odds of successful investing.

The writer is chief executive officer of Minority Shareholders Watch Group