

Contrarian view: KL bear season ended last month

**Capital Dynamics
sees clearer picture
emerging after
Umno polls in Dec**

By **PAULINE NG**
in Kuala Lumpur

ECONOMIC and political uncertainties may be clouding the Malaysian stock market, but a market bull contends the end of its bearish cycle was probably reached last month.

Capital Dynamics Asset Management managing director Tan Teng Boo sees a clearer picture emerging by year-end after Umno, the country's biggest political party, completes its party elections. To him, the current political problems are a "temporary distraction", which should subside rather than be magnified after Umno's elections.

At a press briefing yesterday, Mr Tan said Capital Dynamics' icapital.biz has been net buyers on Bursa Malaysia.

As long as there is no

major political calamity – he remains positive there is unlikely to be any – the long-term outlook for the local bourse remains good.

In December, Umno will elect its president and vice-president, the current incumbents being Prime Minister Abdullah Ahmad Badawi and his deputy Najib Razak, who have agreed to a transition plan whereby Mr Badawi would hand over the president's post to his deputy in mid-2010.

Politics aside, Mr Tan pointed to Malaysia's diversified economy and robust private consumption which has helped boost growth over the past few years. "Private consumption has been the real driver, and very resilient because the banks after the Asian financial crisis have recapitalised and are strong. So the credit creation process is functioning very well."

Private consumption in the first quarter was about 12 per cent and although it was expected to contract in the second quarter, it was still looking healthy.

Because local banks have no exposure to the US sub-prime woes, inflation – which hit a 27-month high of 7.7 per cent – is the biggest concern. But with global oil prices sliding from a peak of US\$147 to about US\$125 per barrel currently, inflation is expected to moderate in the coming months.

Mr Tan has long maintained the global economy has decoupled from the US economy and argues the exponential growth in what he terms the "China-led economic bloc or CLEB" more than compensates for the marginal expansion in the US, EU and Japanese economies.

"The rest of the world has contributed 75 per cent of world economic growth in the past 5-6 years," he observed, adding that, post-Olympics, China's engineered soft landing was not likely to turn hard.

His reading of US economic data has also led him to conclude that the American economy is closer to



Upbeat: Mr Tan says barring any major political calamity – and he remains positive there is unlikely to be any – the long-term outlook for Bursa Malaysia remains good

the recovery phase than recession and that its housing problems are nearer to the end rather than the beginning.

"When in a bear market, be prepared for a bull – it will catch people by surprise," the contrarian added.

The 54-year-old does have his followers. Since icapital listed on the main board of Bursa in October 2005, its net asset value

has made a compounded gain of nearly 23 per cent a year, compared with the KL Composite Index gain of 8.36 per cent over the same period.

The fund manages RM250 million (S\$105 million). As at July 25, it had invested in 18 listed firms, with Parkson Holdings, VADS, Petronas Dagangan and Fraser & Neave topping its list in terms of the size of unrealised profits. Its total unrealised gain

was nearly RM51 million on investments totalling some RM138 million.

Its latest buy was shares of budget airline AirAsia, which the closed-end fund acquired at less than RM1 per share. Mr Tan said many local companies had delivered, but agreed that political wrangling had overshadowed their performance.

In Singapore, Capital Dynamics manages the iCapital Global Fund.