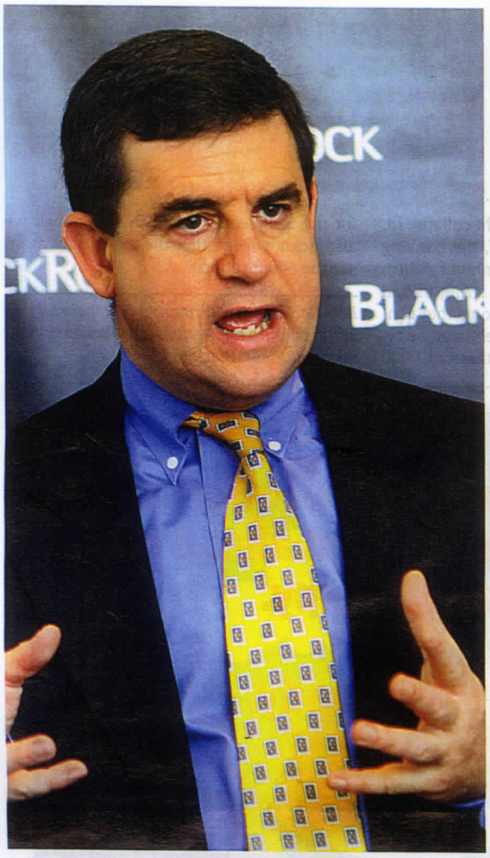
COVER STORY



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Dare to buy on dips

Short-term corrections in the red-hot equity markets offer opportunities to add some long-term money to the asset class. Get some strategic tips from Bob Doll of BlackRock, Christian Nolting of Deutsche Bank's Private Wealth Management and Tan Teng Boo of Capital Dynamics.

| BY KELVIN TAN |

The powerful liquidity led rally in global stock markets, which started in early March, seems to be indefatigable. Notwithstanding a bout of profit-taking in mid-May, equities around the world started soaring again last week, which saw the MSCI World Index hitting new highs for the year.

While an increasing number of investment strategists and money managers are calling for a long-term "buy" on equities in the belief that stocks had seen a bottom on March 6 to 9, they also warn that the uptrend for stocks isn't going to be smooth ride. There will be short-term pullbacks and sizable corrections along the way.

"Given the magnitude of the recent rally, we think equities could go south again. Hopefully, markets will not fall as steeply as they did in early March but they will fall back again," says Christian Nolting, regional head of portfolio management and lead Asia-Pacific strategist at Deutsche Bank's Private Wealth Management.

New York-based Bob Doll, who is vice-chairman and global chief investment officer of equities at global fund management firm BlackRock, offers similar views. "We have bounced very significantly off the bottom. But stock prices will not be trading in a straight line... we will give some gains back before markets move higher," said Doll during a press conference last Monday when he was in Singapore. He reckons that the S&P 500 — currently trading near the 900 levels — could correct to 800 before moving higher to 1,000 towards the year-end.

Investors, especially those holding large amounts of cash, could take advantage of the lower stock prices during a market correction to increase their exposure to equities and ride the next wave, say the investment experts.

"Investors have to be very disciplined to take some gains or to hedge their equity positions at current levels and have the courage to invest in the market when they fall again," says Nolting, who has taken some profits off equities in the discretionary portfolios he manages on behalf of clients.

Alternatively, investors who are uncomfortable with such tactical moves, could "average" their investments into equities. "Investors should be dollar cost averaging out of safe assets, meaning cash and treasuries, into risky assets such as stocks and corporate bonds," says Doll.

During a pullback, **emerging-market equities**, especially those of **Asia** and **Latin America**, as well as **US stocks** look to be the best areas to put fresh money in, according to the experts. "We are overweighting emerging-market equities. If everything were to be over, markets in Asia and Latin America would have very nice growth momentums," Nolting points out. In terms of individual markets, Doll of BlackRock recommends **Brazil** and **China** as the best emerging-market bets.

Worst could be over for stocks

Bullish fund managers like Tan Teng Boo, founder and managing director of boutique fund management firm Capital Dynamics, have been calling a "buy" on equities since the end of last year. He feels that the recent strong rally in global equities is signalling the end of the bear market and the start of a new bull cycle.

"We do not subscribe to the 'dead cat bounce' view. Stock markets are already on a reversal and a new bull market is unfolding," says Tan, who is launching an Australian-domiciled global equity fund to ride the long-term upside of the new bull market. He adds that there are enough economic indicators to suggest that the worst is over for the world economy and stock markets are now factoring in a global economic recovery.

"The current global recession will end over the next few months," he predicts. "Stocks in China, Brazil, Russia and India have all gone up much higher than those of the US. If you take the view that stock markets are forward looking, the signs are clear that these economies have started the road to recovery."

Doll of BlackRock agrees with Tan that the current stock market uptrend isn't a bear market rally. He points out that there have been five rallies since the bear market took hold in late 2007 and four of them had been false rallies. The current one is different from the other four, says Doll.

"First, this is the first of the five [rallies] where stock prices have gone up as [the leading economic] indicators have gone up." Second, the "technicals of this rally" are different, he points out, adding that there have been expanding volumes on days when the markets were up, and "receding volumes on down days". Third, he observes that during the current rally, "earnings estimates are either stabilising or moving slightly higher" whereas for the other four rallies, the estimates were down. "Put all those together, we think that the probability [of a sustainable rally] is much higher," says Doll. He adds that there is only a 20% chance of global equities correcting below the March lows in the months ahead.

But Nolting of Deutsche Private Wealth Management still has lingering doubts about the sustainability of the current market runup. "We still think it is a bear market rally," he says. The strategist points out that big market rallies during a bear cycle are not uncommon. "If you look at bear market periods of 1929 to 1933, the S&P 500 had two rallies of over 100%. In this rally, no one is really looking at earnings, it is really momentum driven," he cautions. "Many people [including institutional investors] are still not strongly convinced that the bull market is here. If there is some bad news, the market will slide again," adds Nolting, who is still taking an underweight position to the equity asset class.

Tan argues that it is precisely such cautiousness that makes him "so bullish". He observes that many large institutional investors, which he describes as "institutional lemmings fully loaded with cash bullets", are waiting for pullbacks to enter the equity markets. "But if they find out that the pullbacks aren't coming, they are going to jump straight in." That would further sustain the bull rally, he reasons.

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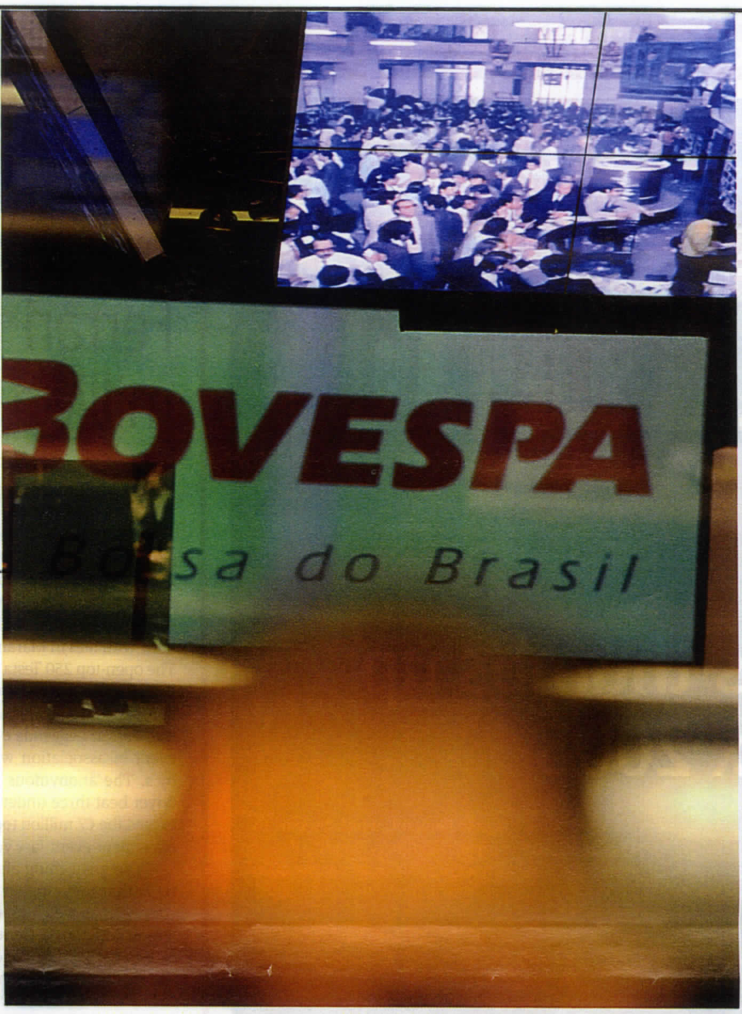

Many analysts prefer emerging markets to developed markets. Brazil is the favourite of many.

Market, sector and stock picks

	TOP RECOMMENDATIONS
Christian Nolting of Deutsche Bank's Private Wealth Management	• Emerging market stocks (Asia and Latin America) and US equities
Bob Doll of BlackRock	• Emerging markets such as Brazil, China, India, Taiwan, South Korea, South Africa; and the US for developed market equity play • Sectors such as energy, healthcare and technology
Tan Teng Boo of Capital Dynamics	• China, Vietnam and most other Asian markets excluding Thailand • Stock picks include Singapore's Keppel Corp, Asia Travel, SIA Engineering, Genting International; Australia's Sims Group; and Hong Kong's Beijing Capital Land and CC Land

Pullbacks are 'distractions'

Tan, a Malaysian whose fund management business has expanded to new markets such as Singapore and, recently, Australia, says the bull cycle is still young and investors should not be "distracted" by potential short-term market pullbacks. Global equity markets might have surged nearly 40% from their March lows, but Tan argues that long-term investors shouldn't be afraid to invest in fundamentally sound stocks that are trading at reasonable valuations.

"If the stock is attractive at this point, we will buy as much as we can. There are bound to be pullbacks, but I don't want to be distracted by that," says Tan, who is a long-term oriented, bottom-up value investor. "As a value investor, I don't look at pullbacks, I am more concerned about the share price of a stock versus its long-term [intrinsic value]." If the valuation of a stock is compelling enough, Tan says he would buy into it even if the technical charts show that a pullback is near. "Otherwise, I would not be consistent in my approach."

Tan points out that the current market is ideal for long-term stock pickers and he is considering buying Singapore listed counters such as **Asia Travel**, **SIA Engineering** and **Keppel Corp** for his new global equity fund called the iCapital International Value Fund, which will start trading in July. "We buy stocks that we perceive to have the lowest risk and we let the upside take care of itself," he says.

Looking at Keppel Corp, which is among the holdings of his Singapore-based global equity fund called the iCapital Global Fund launched in February 2007, Tan says this year's earnings for the local conglomerate "won't be exciting". But he is looking beyond its 2009 earnings on expectations that profits will improve further down the road. "In an industry where it is the world's No 1, Keppel Corp is extremely well positioned."

Late last year, the fund manager bought 230,000 shares of Keppel Corp worth slightly over $1 million at an average price of $4.73 a share. Its share price has surged to $6.82 as at May 21. Tan says he will make further purchases of the stock if valuations are still compelling. "Come July, if this stock for some reason is trading at $10, then I don't think I will be buying into it."

Singapore-listed gaming firm **Genting International**, operator of one of the two integrated resorts (IR) in Singapore, is another counter that Tan could buy into. "Who knows, if the global recovery takes hold, then Genting International might be a good pick because it would be opening the IR at the right time."

Besides the locally listed stocks, Tan is also eyeing regional counters such as Hong Kong-listed China property firms **Beijing Capital Land** and **CC Land**, and Australia-listed metal recycler **Sims Group**. "We are looking at some Chinese property companies... their long-term potential to offer housing to millions of Chinese looks very promising," says Tan. As for Sims Group, the fund manager points out that if the "global commodity cycle turns", then this stock has the potential to recover "pretty sharply".

Doll of BlackRock says his favourite sectors are **energy**, **healthcare** and **technology**. "Oil and commodities have bottomed, in our view, and they will move higher with the economic recovery in emerging markets. As the world recovers, energy and oil look better. We think that a normalised level of oil should be between US$60 and US$80 per barrel," Doll points out. The BlackRock vice-chairman says he likes healthcare in spite of its being a defensive sector because many companies in the industry are benefiting from the ageing population of the developed world and the improving standards of living in the emerging world, which is spending more on healthcare. As for technology, which is his favourite growth sector, Doll says many tech companies are in good shape in the current recession because they have "learnt the hard way" during the tech bubble in 2000.

Conversely, Doll is negative on sectors such as **utilities**, **financials** and **materials**. In his view, utility companies currently look unattractive in terms of valuations while firms in the materials sector, which has too much leverage to global growth, have high earning risks and deteriorating balance sheets. "We are still somewhat cautious about financials although they have bottomed out on an absolute basis," says Doll, who adds that capital raising from banks and financial institutions will increase the risk of "more earnings dilution to come".

Markets to bet on

In terms of equity markets with the best upside over the long term, Tan says his favourite bets are China and Vietnam, whose economies are among the fastest growing in the developing world. He is, however, cautious about investing in Thailand due to the political instability in the country. "Unless the political situation improves dramatically, I am staying away from that market."

Doll's market preferences are Brazil, China and India for the BRIC (Brazil, Russia, India and China) region; Taiwan, South Korea and South Africa in the non-BRIC region; and the US for developed markets.

"Our favourite market is Brazil, a country that is most rapidly diversifying. For China, we have put it in second place because its stock market has run hard [in recent months] but we still like it fundamentally," says Doll. For India, he reckons the recent general elections victory by the Congress Party is good news for the country and its capital markets. With regards to Russia, the BlackRock vice-chairman points out that its market remains a "wild card" for the BRIC region. "Getting Russia right means predicting the politics of that country," he explains.

"Generally, we prefer emerging markets to developed markets. When the world recovers, emerging market stocks will recover the most and the fastest. After all, their recessions were due to large inventory buildups and not the credit bust that affected the Western world," says Doll. If the S&P 500 were to reach the 1,000 level at year-end, translating into an 11% gain from current levels, then the gains from emerging market equities could average close to 20% from the present levels to year-end, he predicts.

Within the developed markets, US equities will continue to outperform due to the country's aggressive stimulus policies. "This market has outperformed Japan and Europe over the past couple of months but global investors are still significantly underweight in the US. We think that the higher quality of the US will outperform Japan and Europe," says Doll.

Nolting of Deutsche Bank concurs. "In developed markets, we favour US equities because the US was the first to go into the recession and we think it will be the first to come out of it because of all the stimulus measures that they have." He remains underweight on Japanese equities because of the country's "awful economic data" and he is also not keen to invest in European equities due to the slow economic progress of the region.

In terms of stock market predictions, Tan reckons the S&P 500 could surge to 1,150 over the short term. Over the longer term, the index could climb to 1,500 or 1,600 "over next couple of years". "For the STI, if you were to ask me for its direction over the next two to three months, I think there may be some form of correction. But that isn't an important horizon to look at. Investors should look at it with a horizon of a couple of years. Would it go over 3,400 in the next couple of years? I think chances are very good," says Tan. He is similarly bullish on Hong Kong's Hang Seng index, which he predicts will trade at a range of 15,000 to 20,000 in the short term and 45,000 to 50,000 over the longer term.

Playing the psychological game

Despite the widespread optimism and ample buying opportunities, investors shouldn't get carried away by taking too much risk in equities, especially at current lofty levels, warns Nolting. While buying into stocks in rising markets at an early stage of the bull cycle is justifiable for long-term investors, the more astute ones may sit back and wait for better opportunities, such as during market pullbacks, to take exposure to equities, Nolting adds.

"That [strategy] won't be easy", says Nolting. "Everybody is saying that when the next downturn comes, I would put money back in the market. But when it comes, everybody would be thinking about the end of the world again. This is a very psychological market environment." To do well in the current "momentum-driven market", equity investors would need to have good psychological fortitude and discipline to take profits and be brave enough to buy during sharp market dips, he adds. E