

# Lessons from a kachang puteh stall

SMU accountancy student and investor Loh Wei talks to **JAMIE LEE** about the nuts and bolts of investing

IF LIFE were a box of chocolates, then investment would be a *kachang puteh* stall.

That's according to Loh Wei, a second-year Singapore Management University (SMU) accountancy student and investor who reaped 15 per cent returns in the 12-month period from April 2006.

If a *kachang puteh* uncle earned \$100,000 in a year, investors would pay him \$300,000 to "sit there and own the stall", says Mr Loh, 22, who has been punting for two years.

"It's the same concept when it comes to looking at companies. I want the management company to be the *kachang puteh* uncle who can sell well and people trust him," the fundamentals trader adds with the air and confidence of a seasoned player.

"I pay a price for him to own the business. And the cash that he earns will be mine."

The *kachang puteh* uncle is just like Benjamin Graham's imaginary character "Mr Market", who could decide to sell his stall at \$50,000 one day, and buy back the stall at \$3 million the next.

"The *kachang puteh* uncle is just like Mr Market. Price fluctuates a lot, but the underlying business doesn't fluctuate that much," Mr Loh muses. "So, only people who can really see the underlying value of the business can actually profit from the market."

"But that comes with experience from being in the market to know whether the *kachang puteh* uncle is crazy, and to really know how much the stall is worth."

For Mr Loh, who peppers the interview with analogies, value investing simply means "you don't buy premium toilet paper when there is no sale".

"I just buy great companies at discounts. The hard part is, what is a great company and what is a discount," says Mr Loh, who uses price-to-book ratios and return on equity as key indicators to derive the intrinsic value of a company.

A firm believer in diversification, Mr Loh has pumped 60 per cent of his capital – which runs into "tens of thousands" of dollars – in the MSCI World Index Infinity Series. He has about 10-15 per cent in real estate investment trusts (Reits), with the rest of his capital in US stocks.

One of his best calls was to get out of the Asian market before August last year, when regional bourses were hit by a major correction and as news of the US sub-prime crisis struck. He made about 30 per cent from investing in an Asian exchange-traded fund (ETF) for a year.

"I see the (Asian) market getting really



JOHN HENG

**Gutsy:** Loh Wei has put some of his earnings in the US market. The move is one of calculated risks, as he sees opportunity in the panic selling

heated, and I don't see where the real value lies in the price increase," says Mr Loh. "In five years' time I'll know if I'm smart or not."

But his next move does raise an eyebrow – he took some of his earnings to the US markets, even as the world frets over fears of a recession, on top of the credit crunch.

Mr Loh's US portfolio includes stocks of financial institutions such as Countrywide Financial, JPMorgan, Johnson & Johnson and Moody's.

The gutsy move was certainly one of calculated risks, as he saw opportunity in the panic selling.

But Mr Loh – the vice-president of SMU's E.y.E Investment Interactive Club – admits that he is still contemplating whether to hold on. "People are saying: 'Move your money out of the US this year.' Am I being the only stupid guy in the US?" he asks with a chuckle, adding that his American portfolio has "tanked spectacularly" and was likely to lower his annualised returns to 8 per cent at most for the 2007/2008 financial period.

Mr Loh names Benjamin Graham, Peter Lynch and Bill Miller as his influences. The latter, a Legg Mason value trust manager, taught Mr Loh the concept of "munch down".

"Say you want to establish \$5,000 total investment in this stock. Instead of buying at one shot, you buy at a range," Mr Loh explains. "So you think that \$10 is a safe price to buy, you start buying at \$10. If it goes down to \$8, you continue to buy. Then if it goes up to \$12, you continue to buy. But once it shoots up to a certain valuation, you stop buying. So it actually protects your own capital."

One of his biggest mistakes was losing US\$400 from investing in Countrywide Financial. "It was trading at about US\$40 at the beginning of last year. Then, with the sub-prime, it fell to US\$18. I thought, wow, great value there." But the stock is now trading just below US\$7 per share.

"I bought my whole position at one shot. So I don't have extra cash to average down or up," says Mr Loh. "I realised my biggest mistake was not establishing a big enough margin of safety."

But he is not letting go of the company – which Bank of America (BoA) plans to buy – because although he is not happy with the purchase price, he is also a shareowner of BoA and wants to enlarge his holdings in the latter.

The self-professed foodie – who regularly troops to Purvis Street for toast – says it's important to understand the business operations before putting your money into the stock. "It's just like a *kachang puteh* stall. You need to sit next to the *kachang puteh* uncle and see why people keep buying from him," he says. "Or Bedok 88 *bak chor mee* – why do people keep going back to that stall? There must be something in the ingredients that makes you want to go back."

And his investment philosophy stems from his personality, which he describes as "a little bit anti-social".

"I like to observe people. But I rarely get affected by people," says Mr Loh, who considered studying psychology. "I like value investing because I realise that if you are able to stand away when everyone goes crazy, you can stay sane. You can actually get an edge."