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InsiderAsia's model portfolio

THE local stock market chalked up further gains last week, with the FBM KLCI climbing to new highs for the year. Gains in key blue chips, particularly plantation stocks fuelled the index's rise.

The local bourse started the week strongly, but broader market conditions turned more mixed towards the latter part of the week as investors turned more cautious.

Increasing volatility on Wall Street and mixed US economic data also kept investors sidelined, although they welcomed the string of better-than-expected US corporate earnings.

For the week, the FBM KLCI rose a total of 10.3 points or 0.8% to a new year-high of 1,267.1 points. With this, the index has risen some 61 points in the past three weeks. Although the index rose seven points last Friday, trading was mixed with negative market breadth.

Shares of plantation companies, glove makers and the Hong Leong group saw increased trading interest last week. Some corporate activities also spurred interest in specific stocks, notably Sarawak Energy, which the Sarawak state government proposed to privatise and RHB Capital, which proposed to buy an Indonesian bank.

The Budget 2010 tabled last Friday did not contain many surprises for the corporate sector, except for the introduction of a 5% real property gains tax. Such taxes, which previously ranged from 0%-30%, were exempted in April 2007.

The Dow Jones Industrials Average Index wavered and tried to hold on to the 10,000-level, as optimism over US corporate earnings was dented by some weak economic data. Sentiment on Wall Street was boosted by much better-than-expected corporate earnings. And they were broad-based too — from technology, telcos to food companies and other sectors.

However, the US banking sector remains mixed. Many US banking giants reported strong earnings in the third quarter of 2009 (3Q09), with the notable exception of Citigroup, bolstered by risky trading gains while underlying consumer and business loans continue to struggle. This has raised concerns that the financial system, despite all appearances, is not yet fully out of the woods.

Economic data from the US also were mixed, leading investors to lock in recent gains amid concerns over the strength of the recovery ahead.

Tuesday saw the release of data showing wholesale prices falling 0.6% in September while housing starts and building permits slipped. Construction starts on privately owned homes rose just 0.5% to 590,000, lower than expectations of a rise to 610,000. Permits to build new homes fell 1.2% to 573,000, lower than expectations of 595,000.

Weekly initial jobless applications rose by a more-than-expected 11,000 to 531,000, from a revised 520,000 the prior week. This underscores continued weakness in the labour market.

On the other hand, the Conference Board's gauge of the economic outlook climbed a larger-than-expected 1%, indicating expectations the US economy will expand into early next year.

Meanwhile, China's economy expanded at the fastest pace in a year — at 8.9% in 3Q09 from 7.9% in the preceding quarter. This was sustained by massive government spending and record lending growth.

With global indices at their highest levels of the year after an almost uninterrupted rally since mid-March 2009, intermittent profit-taking activities are to be expected.

Investors have looked towards further signs of recovery and better-than-expected US corporate earnings to justify the rally, which is now largely liquidity driven. However, the recovery ahead may not be smooth sailing.

While the recession is certainly over, the road to recovery will be slow, especially in the US, as evidenced by still high unemployment and a patchy recovery in the housing sector.

On the local front, investors will look towards the upcoming earnings season for further leads.

Portfolio review

After several weeks of very strong gains and outperformance, our portfolio continued to rise last week — but at a slower pace than the FBM KLCI. The benchmark index was largely boosted by plantation stocks, while broader market conditions were more mixed.

Our basket of 17 stocks rose 0.1% for the week, less than the FBM KLCI's 0.8% rise. Including our large cash reserves (for which no interest is imputed), the total portfolio value rose by a smaller margin of 0.07% to RM516,382.

Our model portfolio's total value and returns represent a significant achievement compared with our initial capital of just RM160,000. We started the model portfolio on March 3, 2003.

Our total profits are very substantial at RM356,382. Of this amount, RM222,366 has already been realised from earlier sales and the rest are unrealised.

This represents a hefty return of 222.7% compared with our capital of RM160,000. We continue to outperform the FBM KLCI very significantly, which is up by 95.9% in the same period. This was achieved even though the benchmark index is less representative of the broader market, and our portfolio holds a large amount of interest-free cash at all times for prudence reasons.

Last week, six of our stocks rose, 10 fell and one was unchanged (3A Resources).

CSC Steel was our biggest weekly gainer, rising 11.6%. The stock is yielding us a gain of 29% for a two-month investment, which we are very happy with. We acquired it more for its dividends rather than for capital appreciation, since our portfolio does not assume interest income.

Other notable gainers for the week include Masteel (up 8.3%), Dijaya Corp (up 6.1%) and Ireka Corp (up 5.1%). MyEG Services was our biggest loser for the week, down 12.6%, followed by Notion VTec and Muhibbah Engineering, down 4.8% and 4.6%, respectively.

Last week, shares of Tanjong plc traded ex for dividends totalling 17.5 sen, which we have adjusted accordingly.

We are keeping our portfolio unchanged. We are currently 70% equity invested and still have sizeable cash of RM155,747 for future investments.

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shareholders, directors and employees may have positions in any of the stocks mentioned.

InsiderAsia's Model Portfolio – Week 348

Stock	Shares held	Share prices: Average cost^ (RM)	Share prices: Current	Total cost of shares (RM)	Market value (RM)	Profit/ loss (RM)	Change in value since acquisition (%)
Existing stocks:							
DiGi*	2,000	-	21.60	-	43,200	43,200	>1,000
Tanjung Offshore	15,000	1.065	1.19	15,968	17,850	1,882	11.8
Tanjong plc	3,000	10.51	15.30	31,530	45,900	14,370	45.6
Masteel	20,000	0.71	1.040	14,230	20,800	6,570	46.2
Muhibbah Engineering	20,000	0.242	1.24	4,840	24,800	19,960	412.4
Notion VTec	20,000	0.337	0.495	6,733	9,900	3,167	47.0
Dijaya Corp	8,000	1.33	1.39	10,640	11,120	480	4.5
Dufu Technology Corp	13,000	0.481	0.435	6,256	5,655	(601)	-9.6
Bursa Malaysia	4,000	6.56	8.38	26,254	33,520	7,266	27.7
Ireka Corp	12,000	0.87	0.820	10,440	9,840	(600)	-5.7
Pantech	15,000	0.680	1.00	10,203	15,000	4,797	47.0
HELP International Corp	25,000	1.32	1.56	33,100	39,000	5,900	17.8
Selangor Properties	5,000	2.37	3.33	11,850	16,650	4,800	40.5
3A Resources	10,000	0.315	1.52	3,150	15,200	12,050	382.5
Genting Malaysia	5,000	1.86	2.79	9,300	13,950	4,650	50.0
CSC Steel	20,000	1.05	1.35	21,000	27,000	6,000	28.6
My EG Services	25,000	0.445	0.450	11,125	11,250	125	1.1
Total carried forward				226,620	360,635	134,015	59.1
New purchases:							
Nil							
Share sales:							
Nil							
Stock investments + unrealised gains				226,620	360,635	134,015	59.1
Realised profits						222,366	
Cash balance				155,747	155,747		
Grand total (cash & shares)				**160,000**	**516,382**	**356,382**	**222.7**
FBM KLCI				646.8	1,267.1		95.9

Capital, adjusted for capital repayment = RM160,000 on March 3, 2003, FBM KLCI at 646.8

Prices as of Friday, Oct 23, 2009
^ Adjusted for dividends
* Our effective cost for DiGi is zero after dividends received. All future dividends to be recognised as profits