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InsiderAsia's model portfolio

Share prices on Bursa Malaysia rose in the holiday-shortened week. However, broader market conditions were more mixed and trading volume stayed thin despite the end of the Chinese New Year holidays. Investors are evidently more cautious due to lingering external uncertainties, mixed economic data and increasing volatility on Wall Street.

Over the week, the FBM KLCI added 13.1 points or 1% to end at 1,270.8 points. Trading volume averaged less than 700 million shares daily, except for last Thursday's 867 million shares.

The week got off to a good start. Stock markets in Asia, including Malaysia, traded higher last Monday as investors decided that the preceding Friday's sell-off was overdone. Recall that the earlier sell-off was precipitated by the US Federal Reserve's move to raise the discount rate, raising fears that the inevitable monetary tightening could come sooner than expected.

However, investors later took that to signal that the economy was recovering instead. Investors also took heart from low US inflation data and comments from Federal Reserve officials that the federal funds rate, the main monetary policy tool, will remain low and within the target of 0%-0.25% for quite some time, until the economic recovery gathers steam.

Indeed, we expect US interest rates to remain low for some time to sustain the still fragile recovery, especially amid very high unemployment. The Federal Reserve conceded last week that the recovery will be slow and protracted. Most US economic data released last week also remain mixed — and veering more towards negative, except for inflation.

The US Conference Board's confidence index fell to a ten-month low of 46 in February 2010 from 56.5 in January 2010, raising concerns that the US economy won't generate enough jobs to sustain the recovery. These concerns are valid as consumer spending accounts for over 70% of the US economy and drives global exports.

US consumers are currently still de-leveraging, rebuilding their balance sheet and unwilling to spend due to weak labour market conditions.

The recovery in the US housing sector, meanwhile, is faltering. Sales of new homes plunged to a new historic low in January 2010, since data collection began in 1963.

In January 2010, sales of new single-family houses fell by 11.2% month-on-month to a seasonally adjusted annual rate of 309,000, from a revised rate of 348,000 in December 2009. It was the third consecutive month of declining sales and much worse than market expectations of 354,000.

Although January is traditionally a very slow month for home sales due to the severe winter weather, this reading was still 6.1% lower than a year ago — which was then the previous record low and was set during the peak of the global financial crisis.

On the other hand, the economic picture in Malaysia was better, as the economy emerged from recession.

Bank Negara Malaysia announced that Malaysia's gross domestic product (GDP) grew by a stronger-than-expected pace of 4.5% in the fourth quarter of 2009 amid improved domestic and external demand, and higher fiscal spending. As a result, GDP for the whole year contracted by a less-than-expected pace of 1.7%, better than the government's earlier official forecast of -3%.

The ongoing corporate earnings season has also been mostly better-than-expected, leading to a selective upward rerating of companies. The positive earnings and good shape of Malaysia's corporate sector has provided some fresh positive leads for domestic investors. But by and large, most investors remain cautious due to the number of lingering external issues.

Global equity investors have been hit by several rough patches lately, with problems ranging from mixed US economic data, fears of monetary tightening, China's credit-tightening measures and sovereign debt problems in Europe, among others.

The ongoing tug-of-war between investor optimism and pessimism will likely continue for some time, as long as US economic data remain mixed and external concerns remain.

Portfolio review

Our basket of 19 stocks rose by 0.8% over the last week, roughly in line with the FBM KLCI's 1% rise. Including our large cash reserves (for which no interest is imputed), the total portfolio value increased by a smaller margin of 0.6% to RM542,015.

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 RM382,015. Of this amount, RM223,866 has already been realised from earlier sales and the rest are unrealised.

Since its inception, our model portfolio has registered a hefty return of 238.8% compared with our capital of RM160,000. By comparison, the FBM KLCI was up by 96.5% over the same period, even though it has been less representative of the broader market's performance. Plus, our portfolio holds a significant amount of non-interest yielding cash at all times for prudence's sake.

Last week, we had 12 gaining stocks and seven losing ones. The major gainers were led by Pantech (up 6.8%), CSC Steel (up 3%), Green Packet (up 2.7%) and Faber Group (up 2.5%). Losing stocks were led by Ireka (down 5.2%) and Tanjung Offshore (down 3.7%).

We are keeping our portfolio unchanged. Our portfolio equity weighting currently stands at 79%, and we have surplus cash of RM115,915 for future investments.

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for your investment decisions. Our shareholders, directors and employees may have positions in any of the stocks mentioned.

InsiderAsia™ Decision-critical analysis

InsiderAsia's Model Portfolio – Week 370

Stock	Shares held	Share prices Average cost^ (RM)	Current	Total cost of shares (RM)	Market value (RM)	Profit/ loss (RM)	Change in value since acquisition (%)
Existing stocks:							
DiGi*	2,000	-	22.74	-	45,480	45,480	>1,000
Tanjung Offshore	15,000	1.065	1.07	15,968	16,050	82	0.5
Tanjong plc	3,000	10.51	18.00	31,530	54,000	22,470	71.3
Masteel	20,000	0.71	1.09	14,230	21,800	7,570	53.2
Muhibbah Engineering	20,000	0.242	1.02	4,840	20,400	15,560	321.5
Notion VTec	4,000	1.63	3.35	6,533	13,400	6,867	105.1
Dijaya Corp	8,000	1.08	0.975	8,630	7,800	(830)	-9.6
Dufu Technology Corp	13,000	0.481	0.635	6,256	8,255	1,999	31.9
Bursa Malaysia	4,000	6.56	7.86	26,254	31,440	5,186	19.8
Ireka Corp	12,000	0.87	0.81	10,440	9,720	(720)	-6.9
Pantech	15,000	0.650	0.925	9,753	13,875	4,122	42.3
HELP International Corp	35,000	1.41	2.01	49,501	70,350	20,850	42.1
Selangor Properties	5,000	2.37	3.46	11,850	17,300	5,450	46.0
3A Resources	10,000	0.315	2.11	3,150	21,100	17,950	569.8
Genting Malaysia	5,000	1.86	2.83	9,300	14,150	4,850	52.2
CSC Steel	20,000	1.05	1.76	21,000	35,200	14,200	67.6
MY EG Services	25,000	0.440	0.440	11,011	11,000	(11)	-0.1
Faber Group	12,000	1.29	2.31	15,480	27,720	12,240	79.1
Green Packet	10,000	1.19	1.17	11,900	11,700	(200)	-1.7
Total carried forward				267,627	450,740	183,113	68.4
New purchases:							
HELP International Corp	15,000	2.01	2.01	30,150	30,150	-	0.0
Share sales:							
Nil							
Stock investments + unrealised gains				297,777	480,890	183,113	61.5
Realised profits						224,946	
Cash balance				87,170	87,170		
Grand total (cash & shares)				**160,000**	**568,060**	**408,060**	**255.0**
FBM KLCI				646.8	1,315.1		103.3
Capital, adjusted for capital repayment = RM160,000 on March 3, 2003, FBM KLCI at 646.8							

Prices as of Friday, Mar 26, 2010
^ Adjusted for dividends
* Our effective cost for DiGi is zero after dividends received. All future dividends to be recognised as profits