


 A photograph of Dr Tan Chong Koay, an elderly man with glasses, wearing a red patterned traditional Chinese jacket over a dark shirt. He is smiling and gesturing with his hands while holding a small black device in his right hand. He is wearing a red lanyard with a badge. The background is dark with blurred lights.
 

# INVESTING WISDOM OF ASIA'S 'WARREN BUFFETT'

Award-winning fund manager Dr Tan Chong Koay shares how investors can successfully navigate through financial storms and benefit from it

When asked how he got the moniker “Warren Buffett of Asia”, Pheim Asset Management founder and chief strategist Dr Tan Chong Koay appears a tad embarrassed by it.

He tells *Smart Investor* that it was given him by the organiser of the World Wealth Creation Conference who invited him to be a speaker at the investment event held in Singapore some years ago.

The organiser subsequently placed a full-page advertisement on the event in *The Singapore*

*Straits Times*, listing Tan as Asia’s Warren Buffett. “I guess you can’t stop them. I said to him that I don’t have the wealth that Warren Buffett has. However, he told me ‘It’s because you have been practicing value investing for so long”.

You probably can’t fault the conference organiser for taking the liberty to bestow Tan the “Warren Buffett” title given that the 70-year-old veteran has been successfully managing investment funds since the mid-1970s, winning

a host of awards in the process.

In fact, Tan, who authored the best-selling book *Rising Above Financial Storms*, was previously named as “Southeast Asia’s small-cap King” by Bloomberg.

### The big break

After working for various fund management companies in Malaysia and Singapore, Tan got his break when Bank Negara Malaysia (BNM) issued him a licence to set up Pheim Asset Management Sdn Bhd in 1994.

Revealing how he founded the company, Tan says that in 1993, BNM had contacted him and offered to issue him a license if he were to return from Singapore where he was then working.

"That was a dream come true. So I told them 'If you give me a licence, I'll come back tomorrow!'"

That's what he did, and the rest, as they say, is history. The next year, he founded Pheim Asset Management (Asia) Pte Ltd

### Navigating through crises

The Kedah-born Tan also shares Warren Buffett's value investing philosophy, which looks for securities whose prices are unjustifiably low based on their intrinsic worth. It is also an investing strategy adopted by many individual investors around the world with varying degrees of success.

However, what distinguishes Tan from most other fund

▼ DURING A CRISIS, INVESTORS SHOULD LOOK TO BUY STOCKS THAT ARE NOT ONLY UNDERVALUED BUT ALSO WITH LOW GEARING, STRONG EARNINGS GROWTH POTENTIAL AND GOOD MANAGEMENT. THESE ARE THE STOCKS THAT WILL TURN AROUND ONCE THE MARKET TURNS AND LEAD TO OUTPERFORMANCE.



in Singapore. The Pheim Group specialises in investing in the Asean region and Asia ex-Japan. Over the years, Tan has split his time managing the two businesses in Kuala Lumpur and Singapore.

managers and investors is that he has a track record of not only navigating past multiple market crashes over the past 40 years but also coming out smiling like a Cheshire cat.

Starting from the Black Monday US stock market crash of 1987, the 1997-98 Asian financial crisis, the Dotcom crash of 2000 to the 2008 global financial crisis, Tan had successfully anticipated the impending downturns by selling his shares near the market peak and swooping to snap up badly bashed down but good stocks at the market trough.

His first major success was in 1987 when the funds he was managing raised their cash to more than 65% before the Black Monday crash. Tan was then head of investment at Arab-Malaysian Merchant Bank in Kuala Lumpur.

Black Monday occurred on Oct 19, 1987, when the Dow Jones Industrial Average lost almost 22% in a single day. The seismic event marked the beginning of a global



stock market decline. By the end of the month, most of the major exchanges around the globe had dropped more than 20% including the then Kuala Lumpur Stock Exchange.

“We sold the shares four to five months ahead of the crash, and [our funds] under performed during those months. Many people are not willing to underperform but I was willing to underperform as I knew that it’ll crash,” he says.

However, Tan’s bold decision was eventually vindicated. “So after the market crash, with the cash that we had, we bought many shares at a very cheap price.”

### Dealing with intense pressure

However, Tan admits that making calls to sell when markets are riding

high can be very difficult. “If I’d gotten it wrong, I think my boss would have sacked me!”

“This job (of managing funds) is very stressful – if you are mentally not strong, then please don’t take up this job,” he adds.

However, managing investment funds is a job that fits Tan to a T. After some 45 years, it is still something he enjoys doing. “I like the job, and I’ve done well – you generally do well when you like something and are passionate about it. You must also be lucky enough to be given the opportunity,” he adds.

*Smart Investor* met up with Tan on the sidelines of the recent Value Investing Summit 2020, organised by Value Investing College, in Kuala Lumpur where he was a keynote

speaker. Here are excerpts of our interview with him:

### **Smart Investor: Can you share why “Never be fully invested at all times” has been your and Pheim Asset Management’s investing philosophy for the past 25 years?**

**Dr Tan Chong Koay:** We are a value investor and I have been practicing the investment philosophy of “Never fully invest at all times” since I graduated in order to handle the volatility of the market. My first success was in 1987 in which I successfully raised more than 65% of cash just before the Black Monday crash.

As at Dec 31, 1987, the three funds under Arab-Malaysia Merchant Bank showed returns ranging from 27% to 35% as compared with the KLSE Composite Index which registered 3.99% for 1987. This strategy allowed me to buy back shares when the market is undervalued and take a longer term view until the market recovered.

### **Would it be correct to say that you are a contrarian investor?**

At times, we are a contrarian investor as we are willing to sell shares when the market is overvalued and buy shares when the market is undervalued. This will result in temporary underperformance especially when we sell shares when the market is still rising.

### **During a crisis period, what type of stocks should investors be looking to buy?**

There are usually many undervalued stocks during a crisis

period and investors should look to buy stocks that are undervalued but with low gearing, strong earnings growth potential and good management.

**Many investors are reluctant to buy in a falling market even though stocks are grossly undervalued. What would be your advice to such investors?**

During a crisis, investors should look to buy stocks that are not only undervalued but also with low gearing, strong earnings growth potential and good management. These are the stocks that will turn around once the market turns and lead to outperformance.

**Can you enlighten investors on how they can reasonably determine a market's peak and trough?**

A market's peak is when the market is grossly overvalued and everyone is optimistic about the market but the potential earnings growth is not high or sustainable. On the other hand, the market trough is when the market is grossly undervalued but with strong earnings growth potential.

**For an investor, doing nothing can often be very difficult. When should an investor be comfortable not doing any investing?**

As a value investor, we based our stock selection on few key investment criteria such as low gearing, strong earnings growth potential and good management at a discounted price. When the major trend is declining, the best thing is to do nothing.

**What do you think will be the black swan event that will cause a new financial crisis?**

I'm very worried about wars, and I'm very worried about community and social problems.

The other thing that is very crucial is fundamentals. When a stock keeps going up, and when you think the earnings is not sustainable, that's the beginning of a crash. Earnings sustainability is a very key thing. That's why people are very worried about the US [stock markets].

**Would you say that you are able to foretell the direction of the stock market?**

Investment is an art – it's a very interesting art. In the long run, with inflation, etc, equities will outperform fixed deposits in a big way.

Investing is still a logical way to do things. You always centre on value – when the share is overvalued, you want to get out. You know that sometime down the road everyone will want to do that. You always need to run ahead. For example, before the run up of a share, you want to get in first.

**So what's the state of your cash holdings at Pheim Asset Management?**

Our cash is not that high but we will want to increase our cash. The Dow Jones has been going higher and higher. But US President Donald Trump cannot move the [the major US indices] all the way to the Nov 3 US presidential election. At this high price, can they move it further?

Investors need to figure it out.

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But if you don't want the risk, you raise your cash, so you'll have a cushion. You don't know which way the market will go.

**So for 2020, what are some good surprises that we can expect?**

People are very negative about 5G, saying that it will never come. That's not true, 5G will definitely come. 5G will be the new spectrum of growth. You would want to invest in that type of [technology] companies. If you study carefully, there's a tech company – Kronologi Asia Bhd – which has been moving up recently.

**Do you have plans to retire anytime soon?**

It all depends. Maybe if I can get a good partner, someone who is younger. Nobody knows [what will happen]. It can happen tomorrow. Life is quite complex. 