

The Entrepreneur's Approach To Stock Investing

By Chiang Kian Seng

Recently, I met up with some of my ex-colleagues and invariably the topic of our conversation would finally come around to something like “So, what stocks can I buy now?”. Recalling back to the bull-run days of 2006 to 2007, it was quite easy then, to simply do a little technical analysis and pick any stock that was showing some signs of momentum build up and you wouldn't be too far off from making a handsome profit at the end of the day.

Those days are now somewhat a blurred and distant memory, only good as a conversation topic amongst old friends when we meet up. Throughout this whole year, the Singapore Stock Market has been stuck in a range bound mode, with relative low volumes and somewhat unpredictable in nature. Buying stocks based on momentum breakouts and other trending market strategies would have caused some heart ache for quite a few traders.

This year I have taken the entrepreneur's approach to accumulating stocks. The definition of entrepreneur in most dictionaries goes something like “A person who organizes and manages a business undertaking, assuming risks for the sake of profit”. Or simply put, an entrepreneur is a business owner. Owning stock of a company makes you a business owner! Taking this “business owner” approach to stock investing, I use three criteria to select the stock that I want to buy.

I KNOW THE BUSINESS AND/OR I'M INTERESTED IN THE PRODUCT.

When looking for a stock to invest in, it is best to look for a business or industry that you understand easily or have an interest in. This gives you an advantage in understanding for example, how management decisions will affect the business, what kinds of improvements to goods or services will be appreciated by their customers and will improve sales, the economic climate of the industry that the business is in and thus, will be able to judge when bad times are around the corner.

Taking a Real Estate Investment Trust (REIT) that runs shopping malls as an example, you could ask the following questions when you next visit them.

- Are they crowded?
- What is the tenant mix like?
- From what age group do the people who visit these malls fall

into and what kinds of amenities, like restaurants, cafes, cinemas, amusement centers, etc, are available to cater to this age group?

- What extra services does the mall provide, for example - do they provide a shuttle bus service to bring people to the mall from outlying areas?
- You could even visit the toilets there and judge if the management is putting in effort to keep the customers happy.

All the answers to these questions can be easily understood and will make you a better judge as to whether this business is being run properly or not. After all, the ultimate goal of a shopping mall business is to attract as many people as possible to visit and shop there. At the very least, an interest in the business or product will make it less of a chore when you are doing your due diligence research on the company.

THE COMPANY IS A LEADER IN THE INDUSTRY AND HAS STRONG INVESTOR SUPPORT

The second important factor to consider when looking for a stock to buy is that the company must preferably be a leader in its industry or business sector. Being a leader means that the company would have a strong brand name. Their products and services are first choice in the minds of the consumers of the products or services. The company would also have a large, if not overwhelming market share and thus have superior sales numbers over its competitors. They have the financial muscle to invest capital into research and development of new products and services. They tend to take a more innovative approach towards product design and marketing. And, last but not least, they will be better poised to expand their businesses into other countries around our region, if not around the world. Going back to the REIT example mentioned above, some questions that you could ask are:

- Are the shopping malls in the REIT well-known names? Is the name of the REIT, itself, well-known?
- Does the mall management frequently upgrade their facilities, like building a new wing, re-designing frontages of their shops, etc?
- How many shopping malls does the REIT manage?

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- Do they manage other malls outside of Singapore or do they have any plans to run other malls in other countries?
- Are they part of the portfolios of some of the well-known funds? Are they commonly covered by brokerages and analysts?
- Are they one of the component stocks in the Straits Times Index (STI) or a.k.a a "Blue Chip" stock?

All these factors will attract support from financial institutions, in terms of recommendations to their clients and thus, enjoy strong investor support. This leads to the stock of the company being among the first to rise when the economy starts to improve. Furthermore, they tend to hold up longer when crisis again grips our economy in the future.

WAIT FOR A DISCOUNT BEFORE BUYING

So, what is the current state of affairs of our stock market? Will it go any higher? Are stocks now overpriced? Will there be a double-dip? These are some of the more common questions I get from our students and friends. Honestly, I cannot give a 100%, accurate answer as to where the stock market is headed, no one can. I can only tell you what the current situation is. As at time of writing, the STI is hovering around the 3000 mark, which is about 60% up to where it was at its highest level of 3906 points in October of 2007. Some sectors and industries have recovered quickly, while others are still lagging behind. So, it is still possible to find some good stocks, which are now still selling at good valuations and are providing good yields, in terms of dividends or Distributions Per Unit (DPU). Our job is to find them.

Having short-listed some stocks that we are interested in buying based on the criteria mentioned above, what do we do next? We will now wait for a discount before we decide to buy them. The stock market from time to time, will discount some of these companies with strong leadership and great products or services that are selling like hot cakes. But, how is this possible, you may ask. Well, the answer is that not everyone who has bought the stock of the company is interested in its long term value and they could be selling for

other reasons. And this gives us the opportunity to buy at a lower, discounted price.

In the meantime, while waiting for the discount, you could continue to monitor the performance of the companies by simply, reading the newspapers, reading analyst reports, use Google News to search for news reports about the company or setup Google Alerts for news of the companies. As you do all these things, you will get a better feel of the state of affairs of not only the company but also the industry or business sector that it is in.

Finally, when you do get a discount, it would be prudent not to use up all the capital set aside for this stock all in one go. It would be wiser to invest in stages. As we are at a stage in our stock market where the direction is not very predictable, it is quite likely that there will be dips along the way, which will give us more opportunities to get in at even lower prices, thus lowering our overall investment cost. The selection criteria mentioned above will arm you with the confidence to buy into these companies when their stock prices are getting lower. It will allow you to invest without fear, knowing that when the economy does eventually recover, the value of these companies will again shine through in terms of higher and higher stock prices. ■

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