

LEAD STORY

# Is the US-led equity rally sustainable?

BY Cindy Yeap

After a surprise rally during what is known as Black October, the Dow Jones Industrial Average is now the world's eighth best performing primary index. With a YTD return of 2.23% as at Nov 2, the Dow has edged ahead of even the Jakarta Composite Index's return of 1.84%.

Having tumbled 15.3% for the year as at Oct 3, the Dow's gains in the past month spurred similar gains in the Jakarta bellwether, which was down over 18% before. The US's broader Standard & Poor's 500 was still about 1.6% lower YTD, but given its 18% loss just a month earlier, it was a remarkable recovery.

Instead of widespread jubilation though, there is scepticism about the sustainability of the US-led equity rally last month against the backdrop of the eurozone bailout plan for Greece.

Melvyn Boey, head of Asean equity research at Bank of America-Merrill Lynch's (BAML) unit in Singapore, for instance, still has reservations about the state of the US market. "I wouldn't say the worst is over, but there is definitely an increase in confidence that the situation in the US has stabilised. However, there are still issues that need to be addressed as we move into presidential election period next year. Unemployment [rates] and [consumer] confidence seem to have stabilised," he says, adding that while the US's corporate reporting season is ongoing, numbers "have been decent, not disappointing".

To be sure, for people whose job is to constantly deliver above-market returns, it can be as painful to be on the wrong side of a rally as being caught by a sell-off.

For the rest of us, can the rally in the US be sustained and which are the best stock bets here? Has enough value emerged from the recent market rout that MF Global Holdings Ltd's collapse and the ongoing eurozone woes do not matter?

The biggest monthly gains almost always occur in bear markets, says Robert Levitt, founder and managing member of Levitt Capital Management LLC, who shrugged off the US-led surprise



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rally. Listed among Barron's top 100 independent financial advisers in the US, he is choosing to sit pretty.

"The world is not ending. But it's still best to sit back and enjoy my favourite white coffee or take a week off to hike in Taman Negara now," says Levitt, whose fund has been stopped out of most of its trading positions.

"We might see a year-end rally. But the markets are really fragile and the economies of so many countries are weak. This is not the stuff on which bull markets are built. Since fundamentals are not in favour at the moment, I would not own any fundamental positions in Europe and the US," says Levitt, who frequently travels between Europe and Southeast Asia,

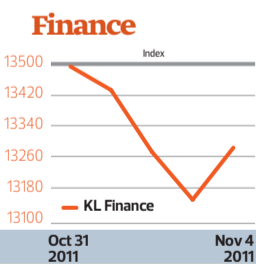
That said, he reckons that markets should rally on hopes of more stimulus support or suggestions of another round of quantitative easing by the US Federal Reserve. And for investors with a three-year time horizon, the valuations of many companies in the region are "extremely attractive", Levitt adds. Fundamentally, companies in Indonesia with strong branding and distribution capabilities would be well positioned for growth in the medium to long term, he says. He also likes thermal coal players in the archipelago.

In the US market, where buying and selling

## Dow Jones Industrial Average components

COMPANY NAME	NOV 3 CLOSE (US\$)	BLOOMBERG CONSENSUS TARGET PRICE (US\$)	52-WEEK HIGH (US\$)	52-WEEK LOW (US\$)	CHANGE YTD (%)
IBM	187.3	193.39	190.53	141.18	27.62
3M	79.64	90.53	98.19	68.65	-7.72
CHEVRON	106.13	121.41	110	80.41	16.31
CATERPILLAR	96	113.7	116.42	67.55	2.5
MCDONALD'S	93	100.15	93.84	72.14	21.16
UNITECH	78.44	90.38	91.83	66.88	-0.36
BOEING	66.19	80.37	80.65	56.01	1.43
EXXON MOBIL	78.86	89.53	88.23	67.03	7.85
JOHNSON & JOHNSON	64.34	71.3	68.05	57.5	4.03
PROCTER & GAMBLE	63.21	71.44	67.71	57.56	-1.74
COCA-COLA	68.65	76.38	71.77	61.28	4.38
WAL-MART	57.42	60.37	57.96	48.31	6.47
TRAVELERS	58.58	61.38	64.16	45.98	5.15
DUPONT	48.85	56.42	57	37.11	-2.06
HEWLETT-PACKARD	26.84	30.07	49.38	21.5	-36.25
JP MORGAN	34.38	46.41	48.35	27.85	-18.95
AMERICAN EXPRESS	51.68	55.48	53.8	41.25	20.41
MERCK & CO	34.53	39.33	37.65	29.47	-4.19
WALT DISNEY	35.03	40.96	44.34	28.2	-6.61
VERIZON	37.45	38.95	38.95	31.6	4.67
HOME DEPOT	36.45	39.56	39.38	28.13	3.96
KRAFT	35.78	39.19	36.3	29.8	13.55
AT&T	29.44	31.22	31.93	27.2	0.2
MICROSOFT	26.53	32.14	29.46	23.65	-4.98
CISCO	18.18	19.7	24.6	13.3	-10.13
INTEL	24.2	27.05	25.2	19.16	15.07
PFIZER	19.88	23.48	21.45	16.26	13.54
GENERAL ELECTRIC	16.67	20.93	21.65	14.03	-8.86
BANK OF AMERICA CORP	6.91	9.75	15.31	5.13	-48.2
ALCOA INC	10.87	13.1	18.47	8.45	-29.37
AIG	24.63	28.45	52.67	19.18	-48.97
BP PLC	44.02	51.9	49.5	33.62	-0.34
CITIGROUP	30.78	43.43	51.2	21.4	-34.93
LAS VEGAS SANDS CORP	48.5	58.89	55.47	36.05	5.55
MORGAN STANLEY	16.95	23.33	31.04	11.58	-37.71
WELLS FARGO & CO	25.81	32.25	34.17	22.58	-16.53

## signposts



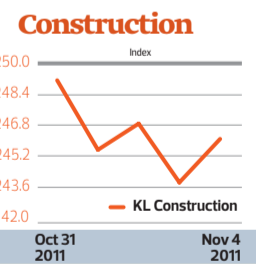
**THE KL FINANCE INDEX** fell 1.5% to 13,284.84 points last Friday. Laggards were AMMB Holdings Bhd, RHB Capital Bhd, Allianz Malaysia Bhd and BIMB Holdings Bhd. Leading movers during the week included Pan Malaysia Capital Bhd, Jerneh Asia Bhd, K&N Kenanga Holdings Bhd and Kurnia Asia Bhd.



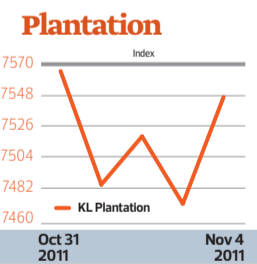
**THE KL INDUSTRIAL INDEX** ended the week 0.48% lower at 2,701.7 points last Friday. The losers were WTK Holdings Bhd, MISC Bhd, Proton Holdings Bhd and Hap Seng Consolidated Bhd while the leaders were Wing Tai Malaysia Bhd, Chemical Company of Malaysia Bhd, Yeo Hap Seng (Malaysia) Bhd and Guinness Anchor Bhd.



**THE KL PROPERTY INDEX** saw a weekly loss of 1.4% to close at 952.63 points last Friday. Among the losing counters were Euro Corp Bhd, Metro Kajang Holdings Bhd, Land & General Bhd and UEM Holdings Bhd while gainers included Karambunai Corp Bhd, Grand Hoover Bhd, Nilai Resources Group Bhd and Petaling Tin Bhd.



**THE KL CONSTRUCTION INDEX** fell 2.1% to close at 246.12 points last week from 251.56 points previously. The laggards were Gadang Holdings Bhd, Eversendai Corp Bhd, Ahmad Zaki Resources Bhd and Bina Puri Holdings Bhd while the leaders were Ark Resources Bhd, Benalec Holdings Bhd, Ho Hup Construction Company Bhd and Zelan Bhd.



**THE KL PLANTATION INDEX** saw a weekly gain of 0.7% to 7,546.89 points last Friday. The leaders for the week included Unico-Desa Plantations Bhd, Rimbunan Sawit Bhd, Genting Plantations Bhd and Kretam Holdings Bhd, while the laggards included Kim Loong Resources Bhd, IJM Plantations Bhd, TH Plantations Bhd and Astral Asia Bhd. — Complied by Sheikh Al-Zaqan

## FBM KLCI may breach 1,500 points this week

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"Considering that the ECB has a reputation as the most stringent inflation-policing central bank in the world, there was a lot of pressure on the new ECB chief to prove his hawkishness. Despite that, he went ahead with the rate cut and signalled that there was another in the pipeline," says the research house.

Pong Teng Siew, Jupiter Securities' head of research, says ECB's move and Greece's decision to abandon the referendum have lifted the dark cloud hanging over the global market.

"The market is also expecting positive employment data from the US and there has been increased talk of QE in the offing. These have boosted market sentiment. On Bursa, investors are still cautious given its volatility."

Nonetheless, he says there is a possibility that the FBM KLCI will breach the 1,500 mark at the end of this week if the positive sentiment persists. Jupiter sees the FBM KLCI's support and resistance levels at 1,420 and 1,504 points respectively.

Hong Leong Investment Bank, however, remains cautious given the holiday-shortened week. "Although sentiment will likely improve following the Dow's gain and Greece backing down on a national referendum, the near-term outlook for the FBM KLCI is cloudy given the long weekend," it says. — By Max Koh



**Young:** Our Asian equity funds did not have a good October, although they have so far had a good year

is still largely driven by fundamentals rather than fear, Levitt says he would consider next-generation technology companies like Google, Informatica, Netsuite, Accenture and Salesforce.com once things return to normal. "These are companies involved in new devices, cloud computing, social networking. They will drive productivity improvement."

In Singapore, Hugh Young, the well-regarded managing director and founder of Aberdeen Asset Management (Asia) Ltd, still does not think much of the ability of US and European leaders to set things right. "They're pretty hopeless and rather powerless."

He is not bothered by blips like MF Global either, having already expected casualties from the eurozone debt crisis. "It's just further realisation of the enormity of the problems and further condemnation of financiers," he says, adding that he would not be surprised to see more of them.

Still, any price weakness caused by these so-called blips and fear in the market is welcomed by the likes of Young, who prefer to be good at identifying long-term winners rather than catching the short-term spurt.

"Equity valuations are attractive in Asia and elsewhere, although of course that's very company specific," he tells *The Edge*. "Our Asian equity funds did not have a good October, although they have so far had a relatively good year."

Young, who has lived and invested in this region for two decades, continues to like Singapore banks Oversea-Chinese Banking Corp Ltd (OCBC) and United Overseas Bank Ltd (UOB). Both stocks are among his more than £2 billion Aberdeen Asia Pacific Fund's top 10 holdings.

In the property sector, Young likes Ayala Land Inc, City Development Ltd (CDL) and Hang Lung Ltd. Other companies he constantly tracks include PT Unilever Indonesia Tbk, Samsung Electronics Co Ltd and Taiwan Semiconductor Manufacturing Co Ltd (TSMC) in the manufacturing-technology sector; Rio Tinto plc and BHP Billiton plc in the resources sector; and Jardine Strategic Holdings Ltd and Swire Pacific Ltd.

Stephen Soo, senior technical analyst at TA Investment Research in Kuala Lumpur, is a fan of the recent upswing sparked by gains in the US and sees trading opportunities from his reading of technical charts.

"I wouldn't [buy stocks] in Europe now, but there are opportunities in the US, China and rest of the region," says Soo, who regularly monitors the 30 Dow components — or what he calls "the bluest of US blue chips" — and issues reports on "buy" and "sell" signals based on technical readings to assist clients interested in US stocks.

He likes recognisable consumer names like McDonald's, Pfizer, IBM and Hewlett-Packard in the US and thinks there is still a chance for a year-end Christmas rally. "Corporate earnings [for 3Q] have generally been alright so far" he says, although there were the large disappointments from the likes of Apple Inc and Goldman Sachs.

Relatively speaking, though, there may be better opportunities closer to home. "The Dow has done so well lately, even better than Jakarta, that upside potential may be higher here in markets like Hong Kong, Singapore and even Australia.

Hong Kong has really been clobbered," Soo says.

For investors with risk appetite, he recommends nibbling at the bigger Hong Kong and Singapore banking names whose stock price have taken a beating but remain fundamentally strong, are well capitalised, have good management and proper risk control.

"Banking stocks here are much stronger than the US banks back in 2008 [when liquidity dried up post-Lehman Brothers' collapse], so there are

opportunities," Soo says, pointing out that MF Global's collapse was not like that of Lehman Brothers or even Belgian-French bank Dexia as it is not a tier-one institution.

Soo also does not see China's economy as a wild card. While recognising prevailing concerns over the extent of the republic's "shadow banking" activities, he reckons that the Chinese government has demonstrated an ability to keep things under control. "The Chinese government

is proactive, not reactive. I think it is keeping a close watch on the situation and will not let things get out of hand."

Certainly, there is a chance that stocks could dive again and tomorrow's entry price could be cheaper. But Soo believes he has a good chance of being right. "Of course, it is best if you get stocks with dividend yield and good fundamentals that also give you that big share price gain. I believe there's value in strong names." **E**

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12 Nov	9.30am – 12.30pm	Menara TA, Kuala Lumpur	TA Futures Sdn Bhd	English	1 800 88 1506	tafutures@ta.com.my
12 Nov	2.00pm – 6.00pm	Bursa Malaysia, Kuala Lumpur	Am Futures Sdn Bhd	Mandarin	013-380 4672	andersonkajang@yahoo.com
15 Nov	6.30pm – 8.30pm	OSK Sitiawan Branch	OSK Investment Bank	English	05-692 9225/ 693 1306	daniel.lee@my.oskgroup.com
17 Nov	6.00pm – 8.00pm	OSK Penang Branch, 64, Bishop Street, Georgetown	OSK Investment Bank	Mandarin	04-261 3388	elaine.tan@my.oskgroup.com
18 Nov	6.00pm – 8.00pm	2nd Floor, OSK Kuching Branch	OSK Investment Bank	English	082-413 427	aliassimeon.george@my.oskgroup.com
18 Nov	6.30pm – 8.00pm	No. 24, Jalan SS2/63, 47300 Petaling Jaya	OSK Investment Bank	English	03-7873 8293/ 7875 8846	osk_ss2-futures@my.oskgroup.com
19 Nov	9.30am – 12.30pm	TA Securities, Subang Jaya	TA Futures Sdn Bhd	English	1 800 88 1506	tafutures@ta.com.my
19 Nov	2.00pm – 6.00pm	Bursa Malaysia, Kuala Lumpur	Am Futures Sdn Bhd	Mandarin	013-380 4672	andersonkajang@yahoo.com
19 Nov	9.30am – 11.00am	OSK Pandan Indah Branch	OSK Investment Bank	English	019-313 9372	johnlawcm@gmail.com
19 Nov	9.00am – 1.00pm	OSK HQ, Level 11, Main Auditorium	OSK Investment Bank	English	012-201 2632	osk_usj-futures@my.oskgroup.com

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