THE FICKLENESS OF SENTIMENT

SENTIMENT, at least in the equities market, appears to have turned the corner. In early March, good news was thin on the ground and the outlook for the economy and the stock markets was unremittingly bleak.

But in the past few weeks, tentative shoots of good news – or news that things are not as bad as people expected – have been sprouting. That was sufficient to spark a rally in stock markets globally. At the time of writing, the Dow Jones Industrial Index has risen 23.5 per cent off its low on March 9, 2009, while the Straits Times Index was 28.8 per cent above its recent low, also on March 9.

It takes a lot of conviction and resolve to continue to buy and to try to apply fundamental analysis to arrive at some kind of fair value for stocks, when valuation models appear to have all but broken down. But as proven time and again, committing to a process that works and applying it with a cool head will sooner or later pay off.

When I interviewed him in early March, Yeo Seng Chong of Yeoman Capital was a model of rationality in a panic-stricken market. He has maintained his clarity of thought, and stuck to the investment principles and methodology that he has found to have worked in the past 11 years and five months.

He didn't get disillusioned with value investing even as his fund slumped by nearly 50 per cent last year. "In value investing we are anchored in balance sheets, we are anchored in free cash generation, we are anchored in the assessable merits of an underlying business that's generating cash and with real people working at it," he said. "When you have a business with above-average economics as I have described earlier, if it was undervalued at the point of purchase, and you have the management dedicated to working for your interest, you basically have a dice that is loaded in your favour. And every time you throw a dice, figuratively, it should show 'six'."

Of course it takes time for the rewards to show, and in the instantaneous digital world that we live in today, few have the patience to wait for that outcome. That will ensure that value investing will continue to pay – and yes, over the long term.

While sentiment in the stock market appears to have changed for the better, the property market remains subdued. Forecasts are still very much bearish. But the thing is, the equities market has been shown to lead the property market by about six months. So if equities can maintain their buoyancy until September this year, then all the gloomy forecasts on the property front may not come to pass.

Such is the fickleness and unpredictability of sentiment!

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